

AFC VIETNAM FUND UPDATE

Fund Category	Vietnam Public Equities
Country Focus	Vietnam
Subscriptions	Monthly at NAV (five business days before month end)
Redemptions	Monthly at NAV 60 days notice
Benchmark	VN Index
Fund Manager	Vicente Nguyen
Investment Manager	Asia Frontier Capital (Vietnam) Ltd., Cayman Islands
Investment Advisor	Asia Frontier Investments Ltd., Hong Kong
Fund Base Currency	USD
Minimum Investment	USD 10,000
Subsequent Investments	USD 1,000
Management Fee	1.8% p.a. of NAV
Performance Fee	12.5% p.a. of AV appreciation with high watermark
Fund Domicile	Cayman Islands
Launch Date	23 December 2013
Custodian Bank	Viet Capital Securities, Ho Chi Minh City
Auditor	Ernst & Young, Hong Kong
Administrator	Custom House, Singapore
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

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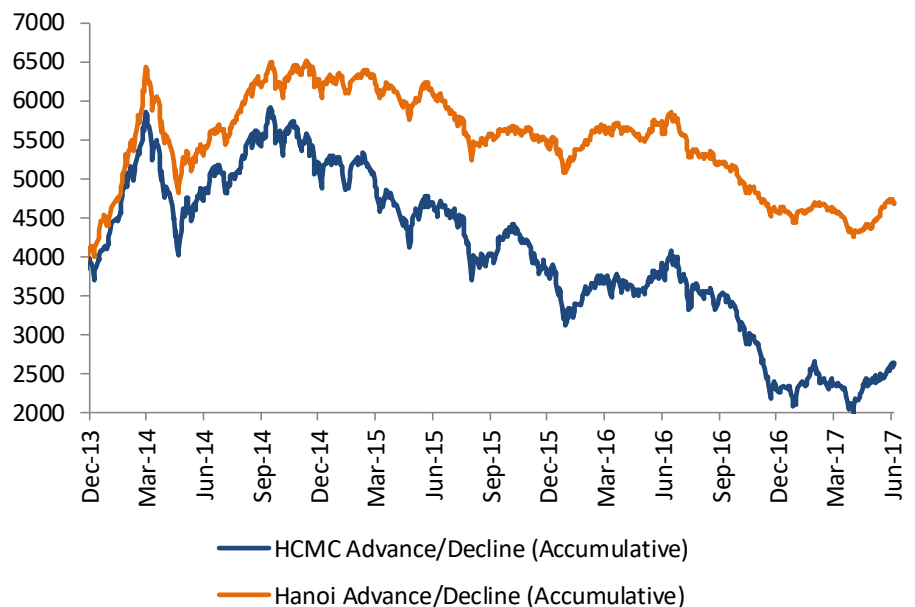


June was another strong month and stocks across the board continued to move up, bringing the main index in HCMC to a new multi-year high. The financial sector in particular was strong and both indices, HCMC and Hanoi gained 5.2% and 5.6% respectively, in local currency. Mid- and small-cap stocks were catching up later during this rally, therefore our NAV increased by +4.5% to USD 1,868, according to internal calculations.

Market developments

The market continued its strong upward move over the month of June. However, looking longer term, in order to better understand the future potential of Vietnamese stocks we need to dig deeper and look into recent developments of various sectors and market trends.

Over the past few weeks we refrained from investing in some stocks which performed quite nicely, even though they are loved by analysts and foreign investors. In our view, they are simply overrated and expensive, and hence have vastly underperformed the market over the past several years. On the other hand, we identified a large number of extremely undervalued small cap stocks a few years ago which were performing extremely well between 2012 and 2014, but then “only” went up in line with the general market. Of late it has been interesting to note that quite a few of these stocks have traded limit up on certain days, over the past few weeks, which is a rather rare event since this hasn’t happened for a very long time. If we look at the market breadth of the past three months we finally see a strong recovery in the net number of advancing stocks. Looking further back, we see that this is hopefully only the beginning of a longer-term trend of a broad market rally.



Source: Bloomberg



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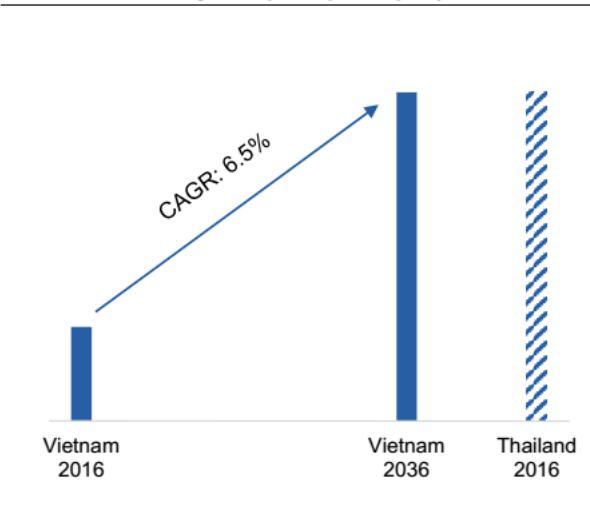
With strong gains seen in recent months some people are concerned that the markets got ahead of themselves and could offer only limited upside potential in the near future. In reality, we were expecting Hanoi to finally break out of its long-term consolidation phase, having written about it on several occasions. Despite the recent index gains, we are now only 10% above the highs of 2014, while are still trading more than 70% below the market peak of 2007! It is true that the headline valuation of the market has almost caught up with other markets in the region, but that has mainly to do with a rally in a few expensive and heavy weighted index stocks. With our portfolio still valued around 10 times earnings and with quite a few newly added and inexpensive stocks, we see plenty of upside for both the near and long-term.

Vietnam is now seen as one of the growth engines of South East Asia and we can only agree. Over the next 10-20 years the country will simply catch up with other economies in the region as Vietnam opened up much later. Some of the drivers of this will certainly be Vietnam's much better educated, motivated and younger workforce. Another example is the growing tourism sector which was not considered as important in the past.

The tourism boom is just getting started

Vietnam is seeing a sustained boom in domestic tourism driven by rising discretionary income. With GDP per capital of around USD 2,100, Vietnamese people are willing to pay for travel and leisure. Domestic tourist arrivals grew by 8.7% to touch 62 million in 2016 and are expected to keep growing strongly this year. We expect that Vietnam can reach the current level of Thailand by 2036.

Figure 4: Forecast income per capita from tourism in Vietnam over 20 years (USD per capita)

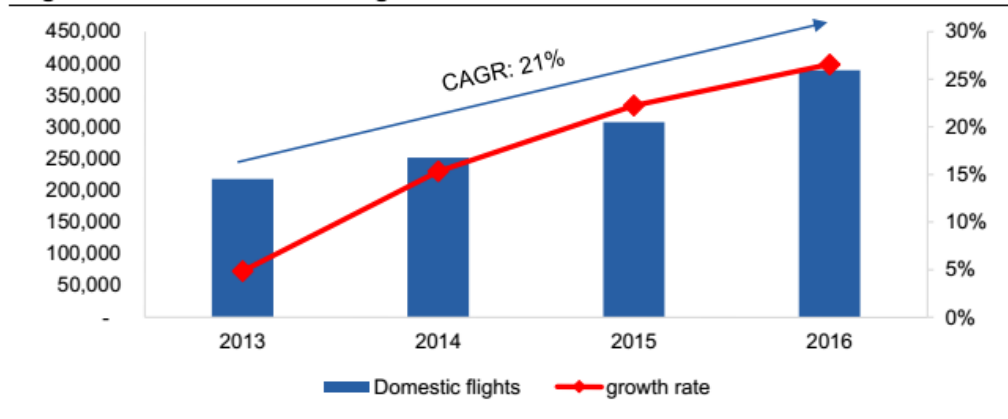


Source: VCSC

The entry of low cost airlines is providing massive stimulus to domestic tourism. Vietjet is a major enabler of the domestic tourism boom as its aggressive pricing is attracting a new class of "first time flyers" who are trading up from traditional surface transportation mediums. Geographically, Vietnam is a long and narrow country where it takes 1.5 days to move from Ho Chi Minh City to Hanoi by bus compared to 2 hours by air. Before the arrival of Vietjet the airfare to fly from Ho Chi Minh City to Hanoi was nearly USD 270, but since then prices have dropped to as low as USD 110 per round trip.

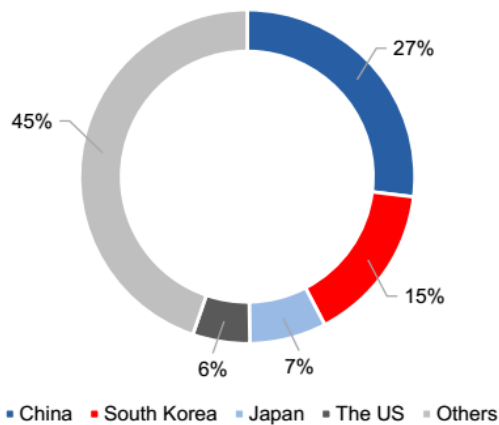
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Figure 7: Number of domestic flights from 2013 to 2016



Vietnam is also a big beneficiary of the surge in outbound Chinese tourism. Vietnamese beach resorts including Da Nang and Nha Trang have become very popular destinations for Chinese tourists. China accounted for nearly one third of all international tourist arrivals into Vietnam in 2016, growing by more than 50% Y-o-Y.

Figure 19: Origin of Vietnam international tourist in 2016



However, a huge number of Chinese tourists also travel by bus to Vietnam. For example, there are thousands of Chinese tourists crossing the border daily at Mong Cai in Quang Ninh province. These Chinese tourists are mainly attracted by Vietnam's 3,000km long coastline and its affordable pricing.

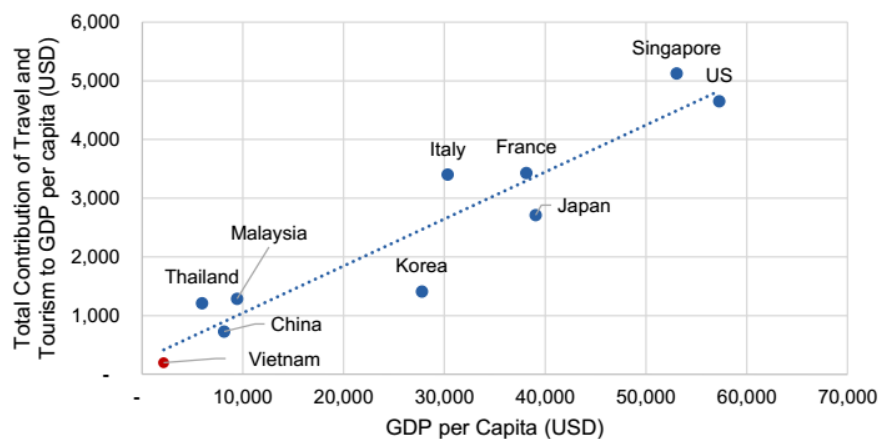
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Thousands of tourists queue up daily at Dong Hung – Mong Cai border gate; Source: www.anninhthudo.vn

Due to this impressive growth in tourism, quite a few sectors are benefitting nicely, such as hospitality and consumer. The overall contribution of these sectors to GDP is still relatively low, especially in comparison to other countries in the region, but they are expected to grow rapidly over the coming years.

Figure 6: Tourism's contribution to GDP per capita vs GDP per capita



Source: World Travel and Tourism Council, Euromonitor, VCSC

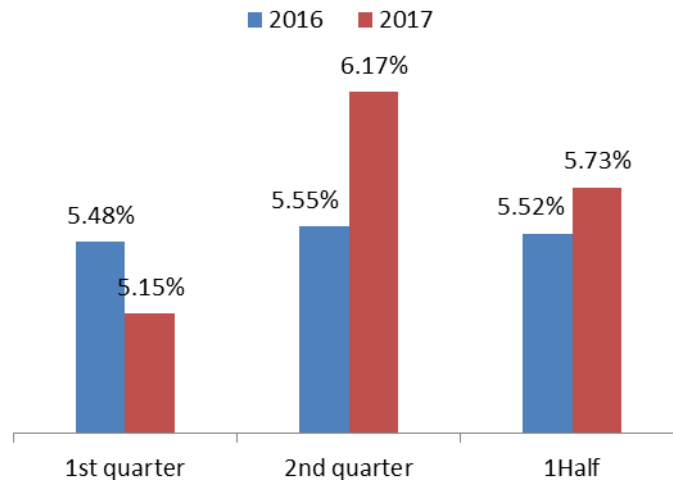
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Economy

Macroeconomic Indicators					
	2013	2014	2015	2016	Jun-17
GDP	5.42%	5.98%	6.68%	6.21%	5.73%
Industrial production (YoY)	5.90%	7.60%	9.80%	7.50%	6.20%
FDI disbursement (USD bn)	11.5	12.4	14.5	15.8	7.7
Exports (USD bn)	132.2	150	162.4	176.6	97.8
Imports (USD bn)	131.3	148	165.6	174.1	100.5
Trade balance (USD bn)	0.9	2	-3.2	2.52	-2.70
Retail sales (YoY)	12.60%	10.60%	9.50%	10.20%	10.10%
CPI (YoY)	6.03%	1.86%	1.34%	4.74%	2.54%
VND	21,125	21,405	22,540	22,600	22,775
Credit growth (YoY)	12.50%	14.00%	17.30%	16.50%	7.54%
Foreign reserves (USD bn)	32	36	36	41	41

Source: AFC research, SSI, GSO, SBV, VCB

The Vietnam economy saw a strong recovery in the second quarter of this year, with a GDP growth of 6.17% compared to 5.15% in the first quarter. The GDP expanded more rapidly in the first half of 2017 with 5.73% compared to 5.52% in the same period last year.

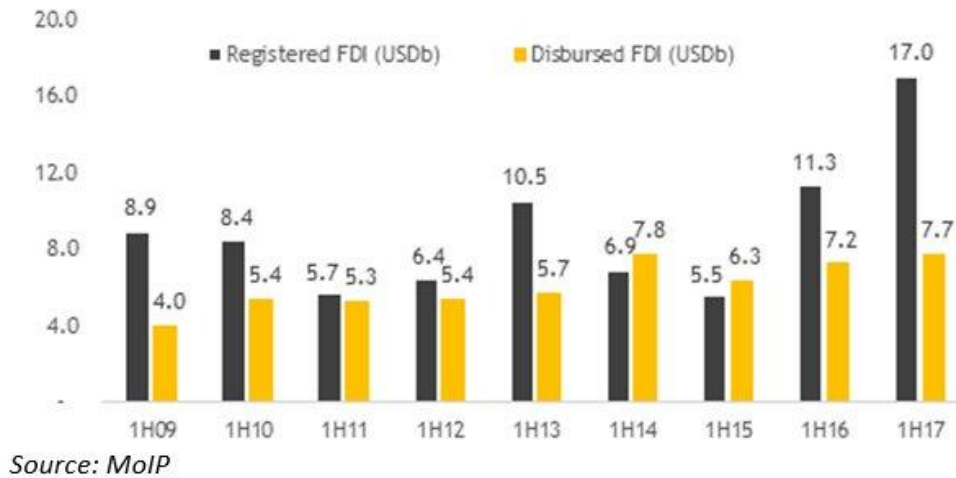


Source: VCSC, GSO, AFC Research

The biggest surprise of all macro-economic numbers was the announcement of the sharp increase of total FDI registration, which reached USD 17 billion, surging 50.44% against 1H 2016! Japan is now the leading foreign investor with USD 5.08 billion, accounting for 26.54% of total FDI. The major project is Nghi Son 2 Thermal Power with an investment capital of USD 2.79 billion. FDI disbursement increased to USD 7.7 billion, gaining by 6.5%.

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Figure: FDI into Vietnam in 1H since 2009 (USD\$b)

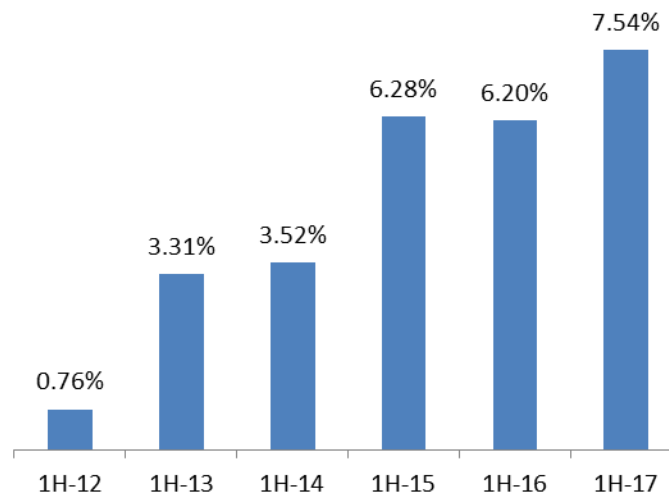


Source: Maybank Kim Eng

CPI in June decreased slightly by 0.17% to 2.54% and seems to be well under control.

Credit growth in the first six months of 2017 reached 7.54%, the highest in 6 years, which shows that enterprises are willing to borrow from banks to expand their business and banks are also ready to lend them.

Credit growth in first 6 months (%)



Source: SBV, GSO, AFC Research

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Subscription

The subscription deadline for this month will be the 25th July and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

Estimated NAV as of 30th June 2017

NAV	USD 1,868*
Since Inception	+86.8%*
Inception Date	23/12/2013

Monthly Performances AFC Vietnam Fund

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013	USD												+2.37%	+2.37%
2014	USD	+8.75%	+4.50%	+2.18%	-4.65%	-0.32%	+1.45%	+1.86%	+5.49%	+3.87%	+2.83%	+2.50%	+0.60%	+32.50%
2015	USD	+0.44%	+1.76%	-0.96%	+1.93%	-0.48%	+0.06%	+0.22%	-4.57%	+1.18%	+6.90%	-1.82%	+0.25%	+4.62%
2016	USD	-0.10%	+3.30%	+1.28%	+3.17%	+1.40%	+4.97%	+3.0%	+0.13%	+0.11%	-1.83%	+0.88%	-1.76%	+15.29%
2017	USD	+1.90%	+1.10%	+1.94%	+1.03%	+2.96%	+4.5%*							+14.2%*

*According to internal calculations

**The representative of the Fund in Switzerland is Hugo Fund Services SA, 6 Cours de Rive, 1204 Geneva. The distribution of Shares in Switzerland must exclusively be made to qualified investors. The place of performance and jurisdiction for Shares in the Fund distributed in Switzerland are at the registered office of the Representative. The fund is authorized for distribution to professional investors in Hong Kong, Japan, Singapore and the UK. By accessing information contained herein, users are deemed to be representing and warranting that they are either a Hong Kong Professional Investor or are observing the applicable laws and regulations of their relevant jurisdictions.*

DISCLAIMER

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