

## AFC VIETNAM FUND UPDATE

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

### Contact Information

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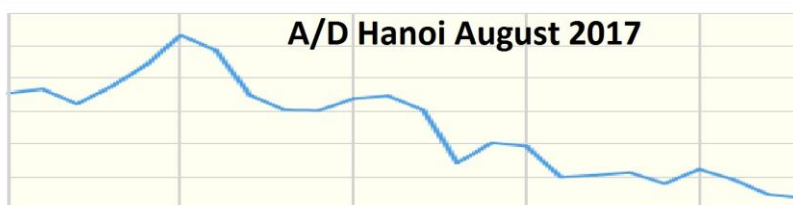
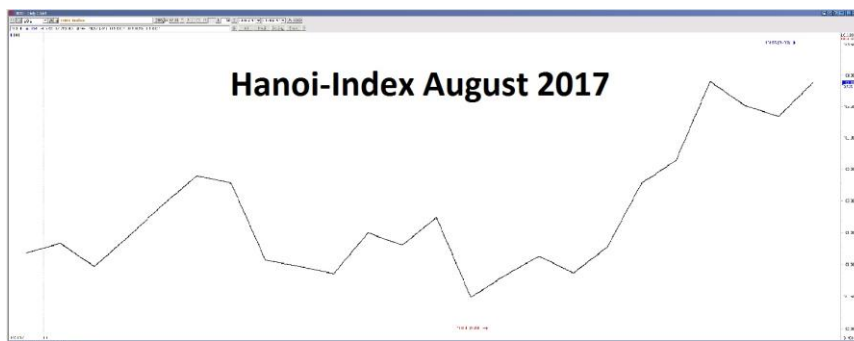
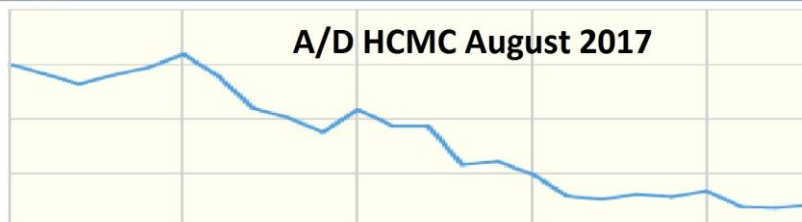
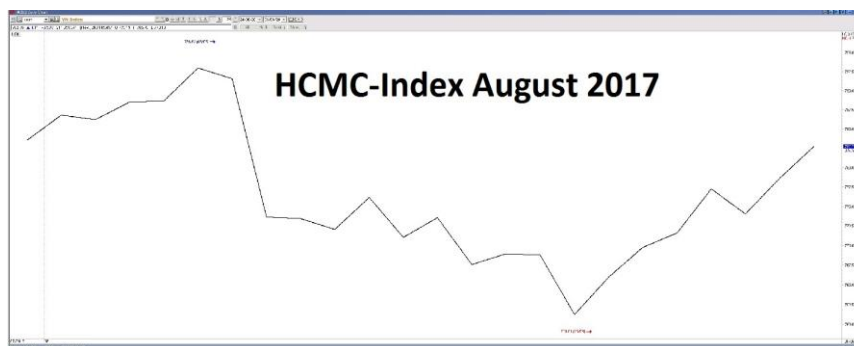
Winner Relative Value: AFC Vietnam Fund



Similar to July, the market showed a strong comeback towards month end, but unlike in July, the August rally was very thin and left the broader market far behind. The indices in HCMC and Hanoi are -0.1% and +2.7% respectively, while the NAV of our fund declined by 4.4% and stands now at USD 1,820, according to internal calculations.

### Market developments

In August, we saw a broad correction early in the month. While blue chips, led by banks, recovered strongly and small- and mid-caps underperformed with their indices declining by about 3% in August, many of our stocks also corrected strongly over the month which provided us with a nice opportunity to reduce our cash position and to invest in the most attractively valued companies in our portfolio. We also decided to exit a small-cap position which we had since the beginning of the launch of our fund, at an attractive price level.



Hanoi & HCMC Indices & Advance/Decline Ratios;  
Source: Viet Capital Securities, stockbiz.vn



## AFC VIETNAM FUND UPDATE

As in previous years, during periods of extremely weak market breadth (advance / decline ratio), it is next to impossible to escape losses with a broadly diversified portfolio, as we are running. The real astonishing and disappointing development was the divergence of the majority of stocks and index heavyweights like for example Asia Commercial Bank, which rose by more than 10% in August, and which cannot be bought by foreigners since the foreign ownership limit has been reached for years. On the positive side, such sharp corrections without any negative economic news, offer great bargain buying opportunities, and hence we used some of our cash to increase the position size in all of our most attractively valued stocks.

Meanwhile, the weakness in the USD has taken pressure off of any meaningful depreciation in the Vietnamese Dong, although seasonal weakness towards year end is quite likely. We rightly pointed out a top in the USD index in early 2017 and the following weakness in the greenback helped emerging market stock markets immensely this year. It now looks like the USD is oversold on a medium-term basis and is testing important support levels, and it therefore will be interesting to see where currencies are heading in the coming weeks.



Source: Finviz.com

Whatever the future direction of the USD holds, the volatility in the USD is certainly much higher than in the Vietnamese Dong, which has moved less than 10% over the past 5 years. Other major currencies including the Euro and Japanese Yen have been even more volatile with fluctuations of between 30-40% over the past five years.



Source: Bloomberg

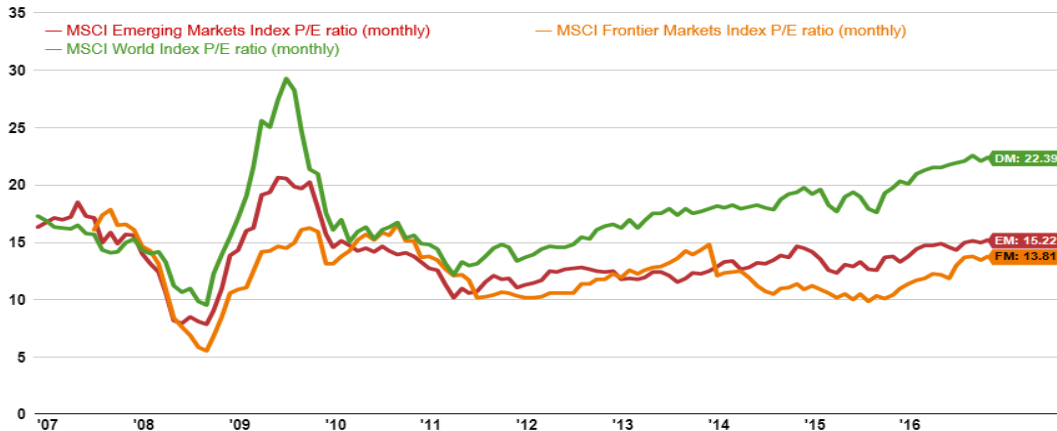
# AFC VIETNAM FUND UPDATE

Although Emerging Markets performed well in 2017, they are still undervalued versus developed markets, which are trading at pre-crisis valuations and most indices are already higher than 10 years ago. Both Frontier and Emerging Markets would have to rise about 50% to match those valuations, not to mention the current valuation of our portfolio, which would have to rise another 50%, just to catch up with the current valuation level of Vietnamese large caps.

## Frontier Markets: Price-to-Earnings (P/E) Still Looking Undervalued



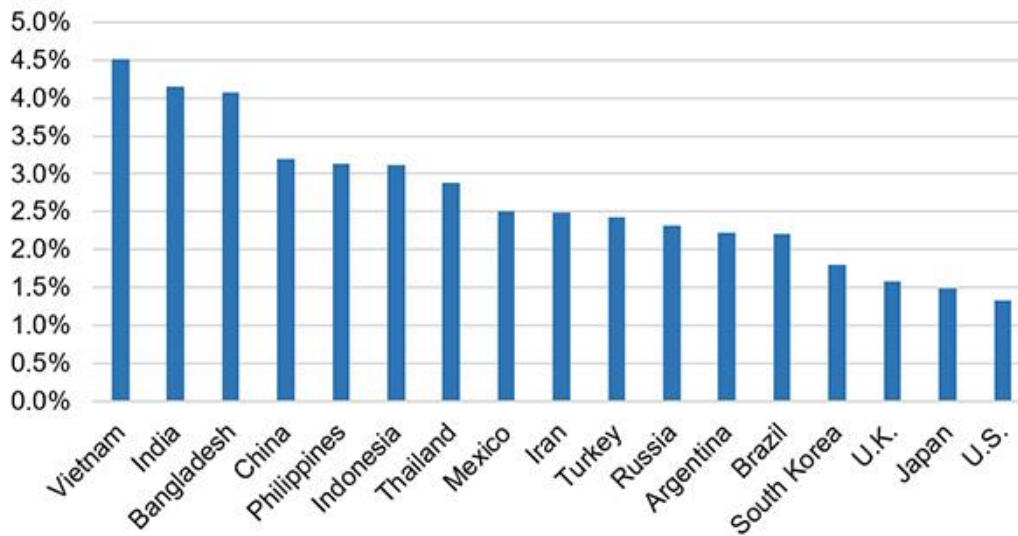
4/30/2007–4/28/2017 Trailing (Last 12 Months)



Sources: FactSet, MSCI, as of 4/28/2017. The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 emerging-market countries. The MSCI Frontier Markets Index captures large- and mid-cap representation across 30 frontier-market countries. The MSCI World Index captures large- and mid-cap performance across 23 developed markets. Indexes are unmanaged and one cannot directly invest in them. Past performance is not an indicator or guarantee of future performance. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information.

The price-to-earnings (P/E) ratio is an equity valuation multiple defined as market price per share divided by annual earnings per share.

## Projected Real Average GDP Growth per capita, 2016 - 2050



Source: PwC analysis

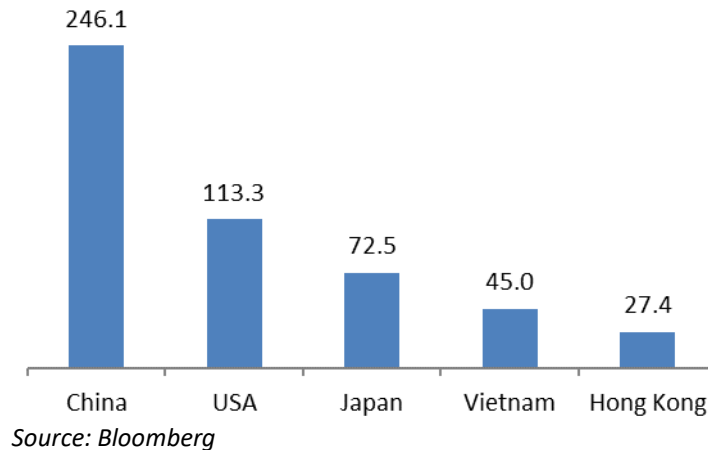
[www.stansberrychurchouse.com](http://www.stansberrychurchouse.com)

## AFC VIETNAM FUND UPDATE

Despite many uncertainties, one can clearly see the optimism in the long term for Vietnam, which is also the reason why we launched the AFC Vietnam Fund a few years ago.

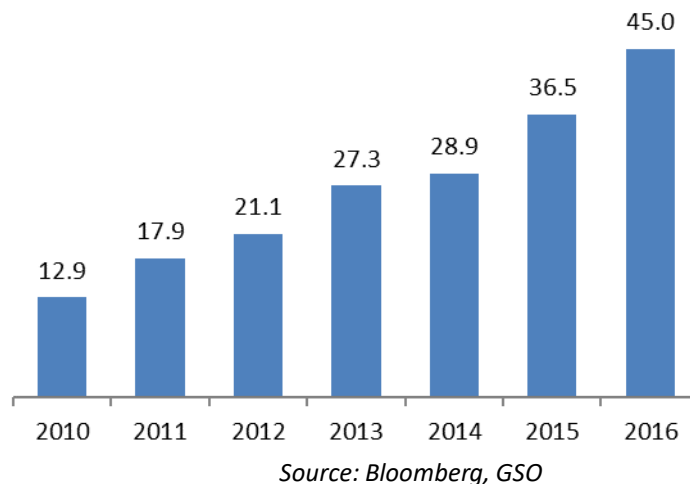
In 2016, Vietnam became the fourth largest trading partner of South Korea with a total value of USD 45 billion, trailing China, USA and Japan.

**South Korean trading partners (USD billion)**



The trade partnership between Vietnam and South Korea has continued to improve over the last decade. In 2010 the total trade value was only USD 12.9 billion, but increased 2.5-fold through 2016 to USD 45 billion.

**Vietnam trading volume with South Korea (USD billion)**



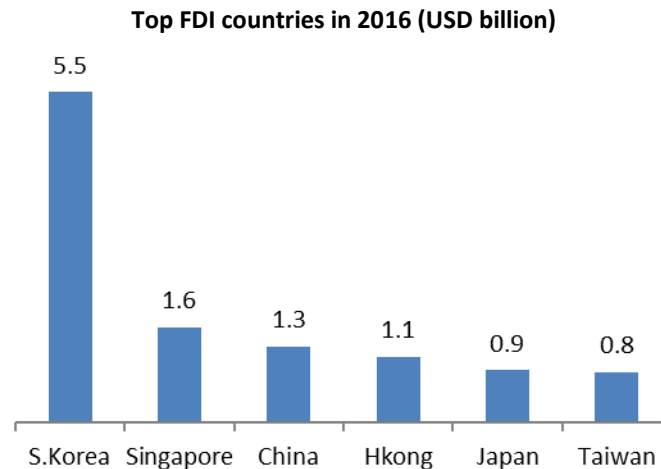
In 2016, total exports to South Korea were USD 12.2 billion, meanwhile total imports reached USD 32.8 billion, creating a trade deficit of USD 20.6 billion. In the first half of 2017 the trade deficit with South Korea reached USD 16.0 billion which was the first time it exceeded the trade deficit with China (USD 13.8 billion). It is also worth mentioning, that exports from

## AFC VIETNAM FUND UPDATE

South Korea to Vietnam exceeded the export value from South Korea to Japan, a traditional and long-term export market of South Korea, in 2016.

From 1998 through 2016 South Korean enterprises invested USD 50.5 billion into Vietnam, equivalent to 30.8% of total FDI into Vietnam. This was mainly due to sizable investments from the Samsung Group and LG Electronics.

Total FDI from South Korea in 2016 was USD 5.5 billion, contributing 36.3% of total FDI, followed by Singapore, China, Hong Kong, Japan and Taiwan.



*Source: GSO*

In the first 8 months of 2017, South Korea continued to lead FDI into Vietnam with a volume of USD 6 billion, equivalent to 25.7% of total FDI. This is despite the ongoing tensions with its northern neighbor and the recent arrest of Samsung's vice chairman. It seems that South Korean export related companies are keen to shift manufacturing capacity into Vietnam in order to be better prepared for the worst-case scenario and to increase output capacity in Vietnam, should tensions between North Korea and the rest of the world escalate.

### Economy

In August 2017, industrial production reached 8.4% compared to 7.3% in Aug 2016. Total industrial production in the first 8 months of 2017 grew at 6.7% YoY which shows an ongoing improvement in Vietnam's economy.

FDI continues to be the most important topic in August. Total FDI disbursement reached USD 10.3 billion, increasing 5.1% YoY. Through 20 August 2017 pledged FDI reached USD 23.4 billion, expanding by 45.1% YoY.

Export values continued to grow impressively, by 17.9% in August, one of the fastest export growing countries in the world, to USD 133.5 billion. Value of imports was USD 135.6 billion, leading to a slightly smaller trade deficit of USD 2.1 billion in comparison to 1H2017.

The headline CPI in August increased to 3.35%, meanwhile the core CPI stood at 1.31%. The low CPI helps to stimulate domestic consumption. Furthermore, loose monetary policy and credit stimulation policy has significantly encouraged consumption. Total retail sales for the first eight months of 2017 grew 10.3% compared to 9.3% YoY.

## AFC VIETNAM FUND UPDATE

Macroeconomic Indicators					
	2013	2014	2015	2016	Aug-17
GDP	5.42%	5.98%	6.68%	6.21%	5.73%
Industrial production (YoY)	5.90%	7.60%	9.80%	7.50%	6.70%
FDI disbursement (USD bn)	11.5	12.4	14.5	15.8	10.3
Exports (USD bn)	132.2	150	162.4	176.6	133.5
Imports (USD bn)	131.3	148	165.6	174.1	135.6
Trade balance (USD bn)	0.9	2	-3.2	2.52	-2.13
Retail sales (YoY)	12.60%	10.60%	9.50%	10.20%	10.3%
CPI (YoY)	6.03%	1.86%	1.34%	4.74%	3.35%
VND	21,125	21,405	22,540	22,600	22,765
Credit growth (YoY)	12.50%	14.00%	17.30%	16.50%	9.06%
Foreign reserves (USD bn)	32	36	36	41	42

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

### Subscription

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

Best regards,

AFC Vietnam Fund

# AFC VIETNAM FUND UPDATE

## Estimated NAV as of 31<sup>st</sup> August 2017

<b>NAV</b>	1,820*
<b>Since Inception</b>	+82.0%*
<b>Inception Date</b>	23/12/2013

## Monthly Performances AFC Vietnam Fund

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2013</b>	<b>USD</b>												+2.37%	<b>+2.37%</b>
<b>2014</b>	<b>USD</b>	+8.75%	+4.50%	+2.18%	-4.65%	-0.32%	+1.45%	+1.86%	+5.49%	+3.87%	+2.83%	+2.50%	+0.60%	<b>+32.50%</b>
<b>2015</b>	<b>USD</b>	+0.44%	+1.76%	-0.96%	+1.93%	-0.48%	+0.06%	+0.22%	-4.57%	+1.18%	+6.90%	-1.82%	+0.25%	<b>+4.62%</b>
<b>2016</b>	<b>USD</b>	-0.10%	+3.30%	+1.28%	+3.17%	+1.40%	+4.97%	+3.0%	+0.13%	+0.11%	-1.83%	+0.88%	-1.76%	<b>+15.29%</b>
<b>2017</b>	<b>USD</b>	+1.90%	+1.10%	+1.94%	+1.03%	+2.96%	+4.52%	+1.94%	-4.4%*					<b>+11.3%*</b>

\*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.*

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