

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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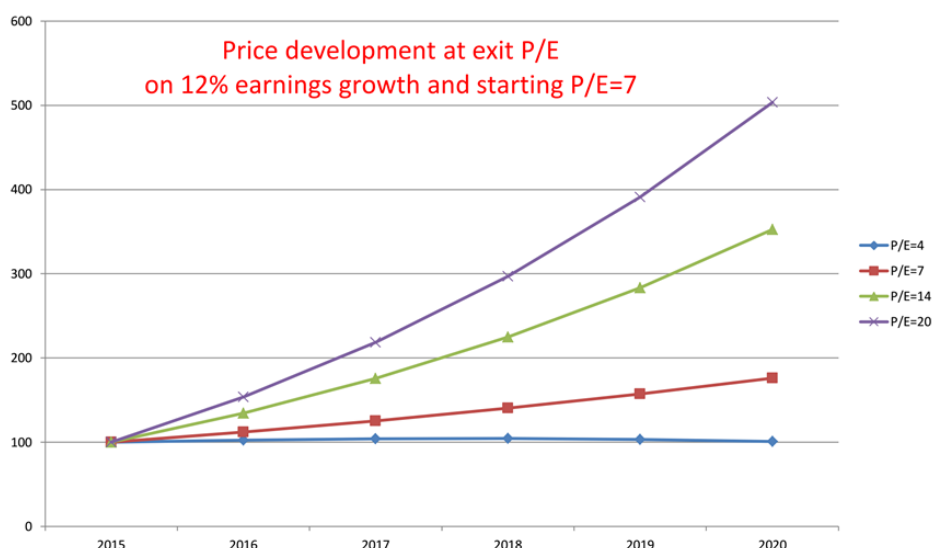
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The indices continued to move higher, but on lower volume than in previous months and with little participation of the broader market. Expectations of good third quarter results pushed the HCMC Index up +2,1% and Hanoi by +1.3%, mainly due to the 6% rise of the index heavyweight Asia Commercial Bank. An otherwise unusually quiet market brought the NAV of our fund to USD 1,848 (+0.4%), according to internal calculations.

Market developments

The start of the final quarter of 2017 was much quieter than most market participants had expected. Blue chips added a bit to previous gains, but in the process, we saw turnover decline. It seems that foreign buying into blue chips is fading, which is neither a positive nor a negative for our portfolio. Like most investors, we are waiting now for the announcements of third quarter results which will be published from now through November. First preannouncements were positive - but more important, with recent corrections in smaller names and continuing earnings growth, valuations from many of our companies are getting more attractive than at any time over the last two years. While the NAV was very much stable in recent weeks we saw a lot of movement within our portfolio of more than 70 stocks. For example, last week we mostly exited one position in a paperboard company which rallied 25% over the past few weeks and saw an increase in its market capitalization of more than 5x since we bought it at the launch of our fund almost 4 years ago. This is a very good example of a typical value play where a revaluation has run its course along with earnings growth. Although the stock is still not very expensive with a P/E of 14x, we see more potential in many of our stocks trading currently at 5-8x earnings. The following graph shows an explanation we provided to investors two years ago. It not only demonstrates the tremendous potential when buying at attractive valuations, but one can also see that our average P/E did not move that much over the past two years, while the NAV of our fund is up more than 30% since. Or in other words: the potential for future revaluations have not changed much and the potential still has to be unlocked when small and mid-caps are again en-vogue.



Source: AFC

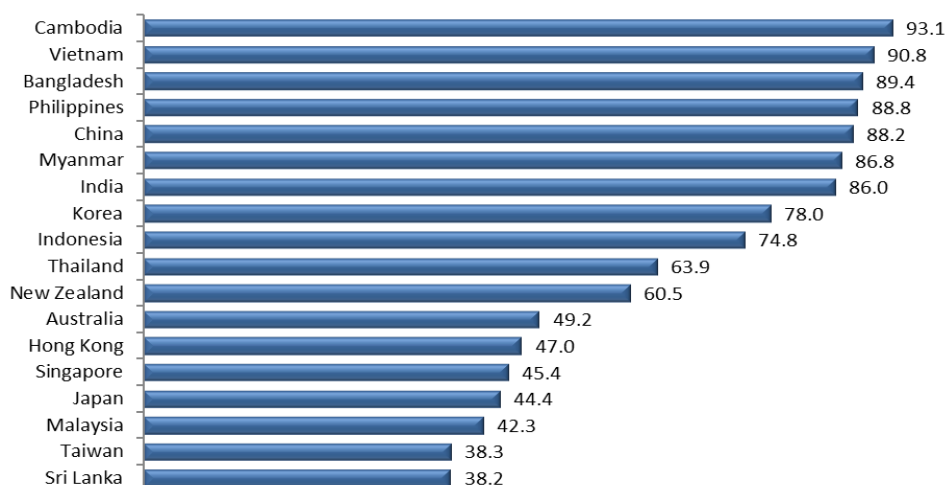
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While we are trying to focus on the long-term big picture with high growth and low valuations for many Vietnamese companies, most analysts and the media are discussing the latest GDP-numbers which came in very positive. It is very interesting to note that we have read about small downgrades from economic analysts of major brokers and banks in recent months – from 6.7% or 6.8% down to around 6.5%, while the government target was 6.7% for 2017 as announced at the beginning of the year. Just after the announcement of 3rd quarter GDP growth of 7.46% we have seen upward revisions back to around 6.7%. This is a perfect example, not only for Vietnam, of how useless these analyst forecasts mostly are and how much time is wasted in writing and reading those often lengthy reports. The more important and worrisome part in those minor changes can be found in the over-motivated action of the government to reach their set goals. In most parts of the world no politician or central bank would initiate steps to improve growth by 0.1%-0.2% while risking financial instability. Vietnam is setting up mostly the right framework for continuous long-term growth, but sometimes it is too focused on short-term targets with dangerous decisions, such as allowing credit growth back to levels which could backfire over the long-term and with increased credit risk or inflation being unintended byproducts. With all other risks well under control for the moment we do not see any imminent macro-economic problems, but hope that Vietnam has learned its lessons from past mistakes.



An economic policy which ensures a stable long-term growth is much more important for a country like Vietnam than “optimizing” short term growth. Even a difference of 1% does not change the big picture a lot over more than a decade.

The Vietnamese Consumer Confidence index is among the most optimistic among the surveyed Asian-Pacific countries.



Source: Mastercard

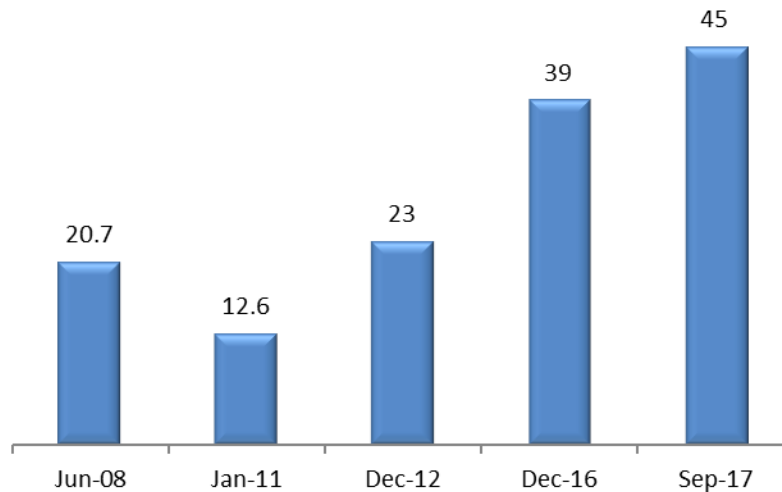
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Between April and June of this year Mastercard asked over 9,000 consumers between the ages of 18 and 64 in 18 Asia-Pacific countries to give a six-month outlook on five financial factors the economy, employment prospects, regular income prospects, the stock market and quality of life.

Hereby the regional average consumer confidence stands at 66.9 points, a modest increase from 62.7 points from 6 months ago. Only 2 countries rank as “extremely optimistic” - Vietnam and Cambodia. Vietnam has a high rank because of increasing income and accelerating job creation, while FDI keeps increasing sharply. Furthermore, Vietnam has a young population with more than 60% under 35 years old, a demographic which is more commonly optimistic. With this high consumer confidence rate Vietnam is expected to grow fast over the coming years.

Total foreign reserves for Vietnam increased to a record high of USD 45 billion in September, up from USD 41 billion at the end of 2016. The reserves expanded due to high disbursed FDI and foreign remittances. This is a very positive sign and should further boost confidence in the Vietnamese Dong.

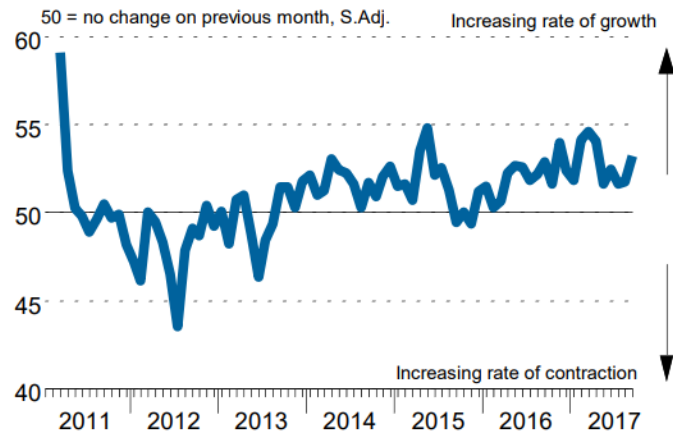
Vietnam Foreign Reserves (USD billion)



Source: State Bank of Vietnam

Strong increases in output and new orders pushed the PMI to 53.5 points in September, up from 51.8 points in August.

Nikkei Vietnam Manufacturing PMI



Sources: Nikkei, IHS Markit

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The index shows a strong improvement in client demand which boosted business confidence. In detail, more than 8,600 new businesses were incorporated bringing the total number in Vietnam to 1.95 million in September, surging 21.2% versus August. Furthermore, exports also accelerated in September to USD 154 billion over nine months, soaring 19.8% YoY. In September, industrial production also grew sharply, by 13.2% YoY.

Higher new orders contributed to capacity pressures which will require capacity expansion in the near future. Purchasing activities also rose as a response to meet increasing demand and inventory reserves. Finally, manufacturers are pretty optimistic about their outlook for the coming years.

Subscription

The subscription deadline for this month will be the 25th October 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 15th October 2017

NAV	1,848*
Since Inception	+84.8%*
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%	+4.52%	+1.94%	-4.38%	+1.09%	+0.4%*			+13.0%*

*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.*

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