28th February 2018

ASIA FRONTIER CAPITAL

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 30 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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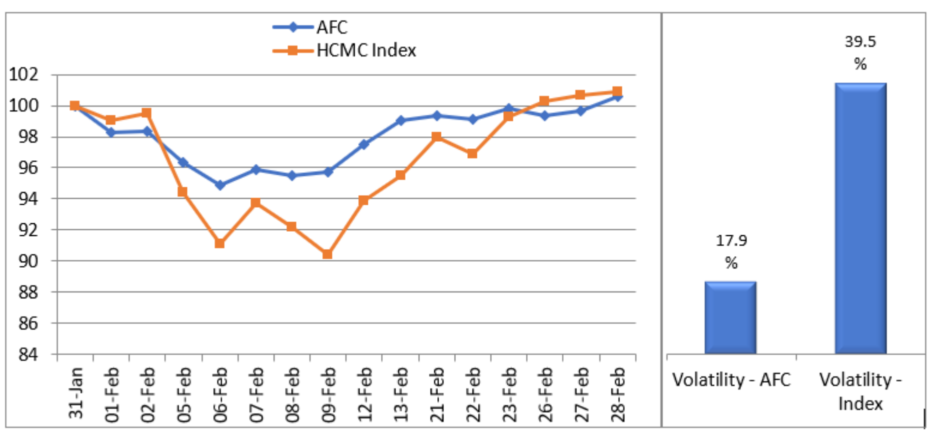
HFM AWARDS ASIA 2016 — HEDGE FUND PERFORMANCE AWARDS
Monday 19 September
Conrad, Hong Kong
Winner Relative Value: AFC Vietnam Fund

February was a very good example of why investors should not consider knee-jerk reactions when having a long-term investment view. Blue chips recovered all of their heavy losses from the first part of the month and the indices in HCMC and Hanoi ended the short Lunar New Year month with gains of 1.0% and 1.7% in local currency terms (the Dong ended approximately 0.25% weaker), while small- and mid-caps recorded their biggest losses since October. As usual our fund was less affected by those high volatility index movements, and according to internal calculations our portfolio also recovered from earlier losses and closed the month with a gain of 0.6% in local terms, with an NAV of USD 1,867.

Market Developments

After the long Lunar New Year holiday, the Vietnamese stock market bounced back along with others around the world. It seems that the once low correlation between Vietnam and leading markets in the US and Europe is history, at least for now. Financials and other index heavyweights are bought and sold by both index tracking funds and local investors at the same time. The rising risks for investors, described by elevated volatility over the past few weeks, is concentrated in the index stocks, while most mid and small caps remain neglected by investors as weak market breadth and low volume prevails.

Our fund has always been much more stable in terms of price movements than the general market and this was especially so in February as it became obvious how short-term movements from global investors can affect so-called “safe” blue chip stocks in Vietnam. In the two days sell-off where the market fell 8.5%, many investors were not able to sell when prices were limit down (7% for HCMC Index, 10% for Hanoi Index).



Source: AFC Research, Bloomberg

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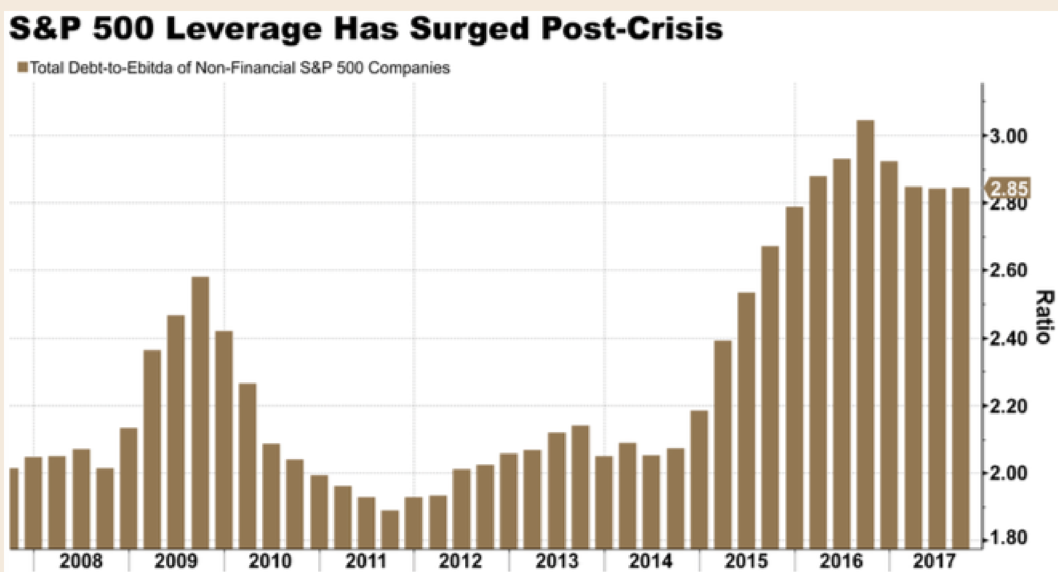
On a mid- to longer term view, the structure of our fund aims to reduce the risks which we are currently seeing in Vietnamese blue chips, those being increased volatility and high valuations. We are therefore investing in attractively valued stocks with low volatilities. This results in a very high Sharpe ratio of around 1.8, despite the spike of the index in recent months. (The Sharpe ratio is a way to examine the performance of an investment by compensating for its risk. The ratio measures the excess return over the risk-free rate, divided by its volatility).

Throughout history investors have always looked for the highest possible gain in the shortest period of time. If that would not be the case, then there would never be any bubbles or overvaluation in the marketplace. Investor's memories tend to be short lived. Not a very long time ago people were afraid of holding cash in their bank accounts, not to mention investing in stocks or new financial instruments they hardly understood. Now, many people – once again - are back and looking for ideas that will generate 10% a month or more.

We have been a bit anxious about the developments over the past 6-12 months as the ultra-low interest rate environment around the world was a drug for investors over the past few years and which is now at risk of being taken away by central bankers. Maybe even worse, it seems that not only investors have a bad memory about recent financial history, but also corporate managers, as they were very eager to add risk in return for higher profits in the short term by raising debt levels over the past three years to levels not seen since the outbreak of the global financial crisis less than 10 years ago.



Source: Bloomberg

While we do not make any forecasts about the stock markets in the USA or in Vietnam, we certainly feel safe with our portfolio valuation of around 10x earnings and no net debt at all in many of our invested companies, compared to the more liquid index heavyweights which are trading at 20-40x earnings with mostly higher debt levels.

One good example of how investors are neglecting small caps is a local logistics company we own, where its stock market turnover has shrunk, along with many other stocks, over the past 18 months during a period where prices and turnover of only a few stocks were rose strongly. While many investors interpret liquidity as safety, we think that at some point it is purely speculation from short term investors (aka "investors with weak hands"). Located close to the industrial hub of Ho Chi Minh City the companies' stock is trading below book value at only 6x earnings with no net debt on its balance sheet. While we are waiting for a continuation of a rerating of the stock we are enjoying a safe dividend yield of more than 5%.

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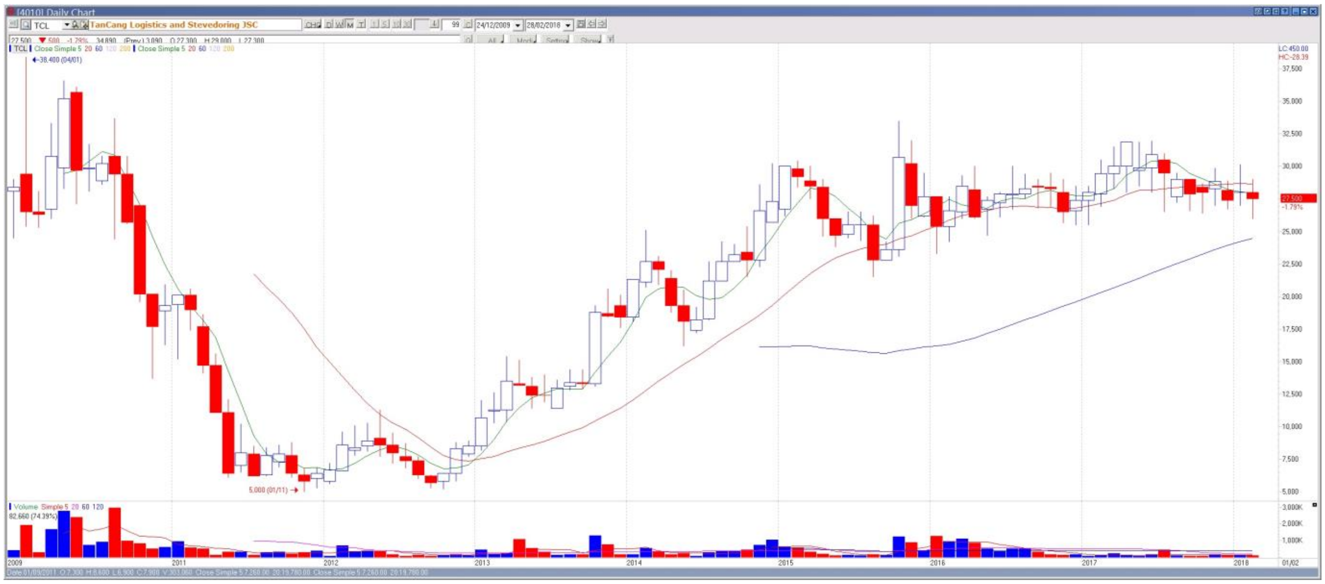


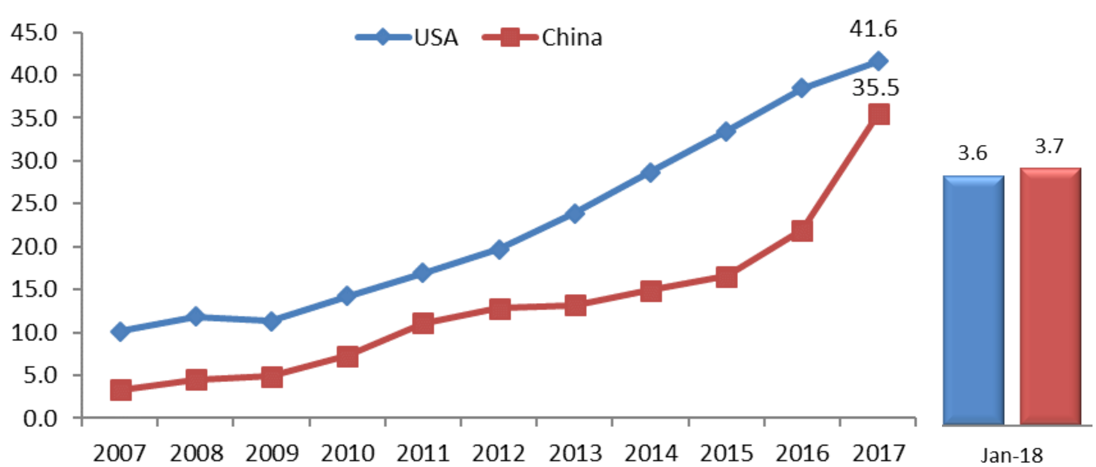
8y chart TCL; Source: Viet Capital Securities

Given the fact that it is almost impossible to accurately forecast stock prices in a fast-growing economy such as Vietnam, investors would be well advised to simply sit back and forget about short term swings, while focusing on the macroeconomic picture. Actions of the Vietnamese government on how to secure long term economic growth are in our eyes much more important.

China to become the largest export market of Vietnam

In the last ten years the USA has always been the largest export market for Vietnam with around 20% of total exports. In 2017 exports to the USA accounted for USD 41.6 billion, followed by China with USD 35.5 billion.

Export to USA vs China (USD billion)



Source: GSO, AFC Research

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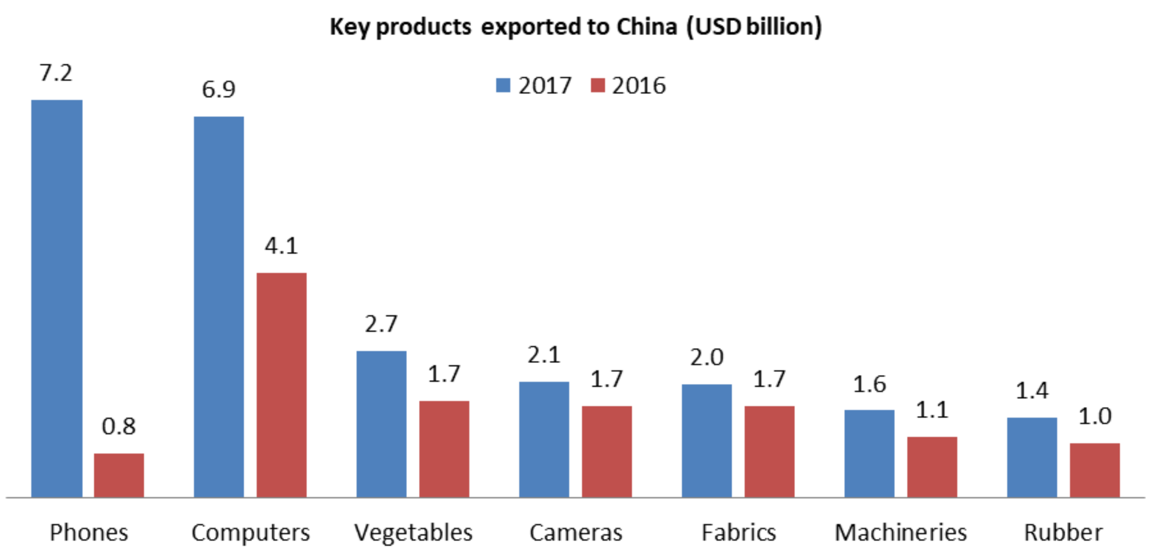
While export growth to the USA has been stable over the last decade, exports to China started to accelerate in 2017 narrowing the gap between the two countries. In 2017 exports to China grew by 61.4%, more than double the growth of the previous 9 years. In January of this year China became the largest export market for Vietnam with exports of USD 3.7 billion (doubling from 2017) compared to USD 3.6 billion to the USA.

Accelerating exports to China were mainly driven by mobile phone sales which skyrocketed 9x to USD 7.2 billion in 2017 compared to USD 0.8 billion in 2016, a trend expected to continue.



Source: GSO, AFC Research

The proximity of Vietnam to China, with the latter's population of over 1.3 billion people, is a big advantage. The rapidly growing consumer market in China will most likely drive continued export growth of Vietnamese products to China over the next few decades.

Thriving convenience store market in Vietnam

South Korea's GS25 together with Son Kim Group, a Vietnamese retailer, launched its first convenient store in Ho Chi Minh City in January 2018. The two companies are keen to invest in one of the fastest-growing retail markets in the Southeast Asian region and expect to open more than 2,000 outlets across Vietnam within a decade.

Vietnam is one of the most attractive retail markets in the world with most international retailers already expanding rapidly, such as 7-Eleven, Family Mart, Ministop and Circle K. According to A.T. Kearney, Vietnam ranks among the top six most-attractive retail markets globally. However, local retailers still comprise the majority of the market with the two big local players being Vinmart+ (804 stores) and Bachhoaxanh (323 stores).

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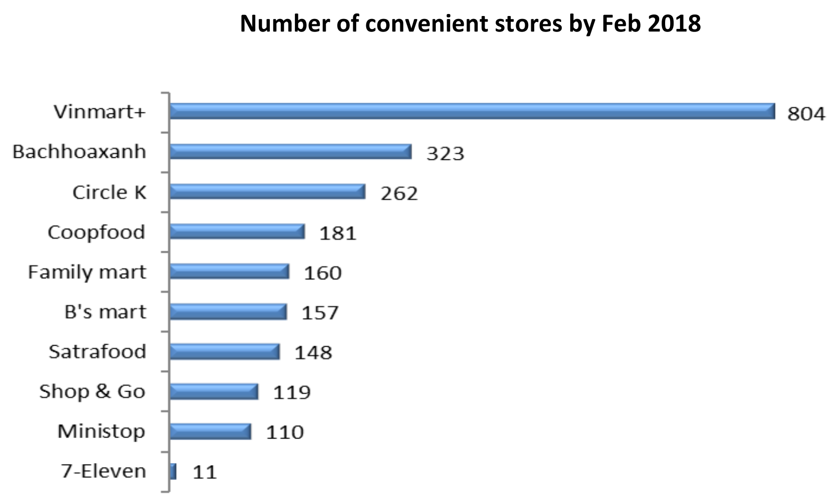
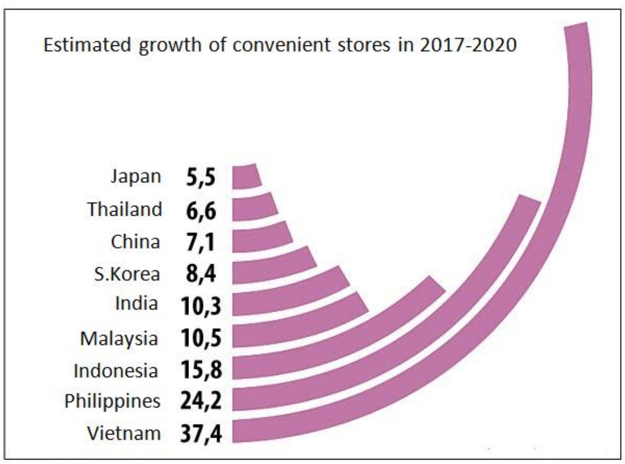


Source: AFC research

Vietnam still has room for investment in modern retail channels including convenience stores, especially in second-tier cities and rural areas. The convenience segment is expected to account for 45% of total retail sales by 2020, up from 25% currently, according to analysts. Statistics show the country's retail sales were USD 129.5 billion in 2017, an increase of 10.9% year-on-year, indicating an attractive area of potential investment for foreign investors.



Source: IGD Retail Analysis

AFC VIETNAM FUND UPDATE

Economy

Macroeconomic Indicators	2014	2015	2016	2017	Feb-18
GDP	5.98%	6.68%	6.21%	6.81%	6.81%
Industrial production (YoY)	7.60%	9.80%	7.50%	9.40%	15.20%
FDI disbursement (USD bn)	12.4	14.5	15.8	17.5	1.7
Exports (USD bn)	150	162.4	176.6	213.8	33.6
Imports (USD bn)	148	165.6	174.1	211.1	32.5
Trade balance (USD bn)	2	-3.2	2.52	2.67	1.08
Retail sales (YoY)	10.60%	9.50%	10.20%	10.7%	13.2%
CPI (YoY)	1.86%	1.34%	4.74%	2.62%	3.15%
VND	21,405	22,540	22,600	22,755	22,755
Credit growth (YoY)	14.00%	17.30%	16.50%	16.96%	
Foreign reserves (USD bn)	36	36	41	51	60

Source: Viet Capital Securities, AFC Research

FDI disbursement was USD 1.7 billion, increasing by 9.7% compared to the same period last year.

Exports increased by 22.9% and imports by 15.3% to USD 33.6 billion and USD 32.5 billion, respectively.

Foreign reserves reached a record high of almost USD 60 billion, according to ADB.

Subscription

The subscription deadline for next month will be the 26th March and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 28th February 2018

NAV	1,867*
Since Inception	+86.7%*
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%	-0.75%	+1.47%	+0.01%	**+13.33%**
2018	**USD**	+0.41%	+0.3%*											**+0.7%***

***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.