30th September 2018

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

Contact Information

Asia Frontier Capital Ltd.
www.asiafrontiercapital.com

Mr. Andreas Vogelsanger, CEO
Asia Frontier Capital (Vietnam) Ltd.
Tel: +66 84435 7472, Fax: +852 3904 1017
av@asiafrontiercapital.com

Registered Office:
c/o Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue, George Town
KY1-9007, Cayman Islands

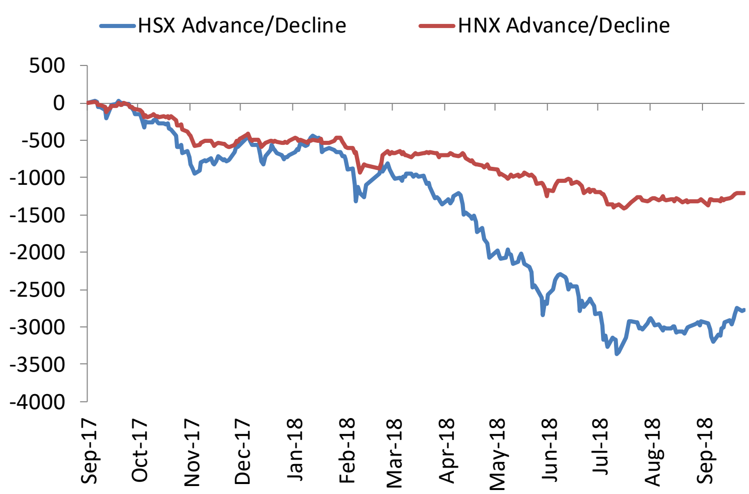
Hong Kong Office:
Asia Frontier Investments Limited
905, 9th Floor, Loon Kee Building
267-275 Des Voeux Road Central
Hong Kong

Continuing good news and confidence drove the market higher in September. The indices ended September up +2.8% (HCMC) and +3.1% (Hanoi) with small- and mid-caps having caught up over the second half of the month. With increasing interest in many of our stocks, our NAV increased to USD 1,848 (+3.2%), according to internal calculations.

Market Developments

The Vietnamese equity market continues to remain resilient against the ongoing negative media coverage on emerging markets. It now seems that domestic and foreign investors are getting increasingly positive about Vietnam, especially with more analyst reports looking at potential losers and beneficiaries, such as ASEAN, specifically Vietnam, in relation to the escalating trade war between China and the US. FTSE announced that Vietnam, which is currently classified as a frontier market, will be added to the watch list for possible reclassification as a secondary emerging market. It will probably not have the same impact as an MSCI reclassification, but it is definitely something worth noting. We should mention that the composition and performance of the FTSE Vietnam Index is very different to other indices as it has a very high concentration of around 70% (!) in the top five weighted companies. But this news should further improve the market sentiment which is also reflected by the advance/decline ratio, as seen below, with more stocks finally advancing than declining, something we have not seen this year.

Market breadth

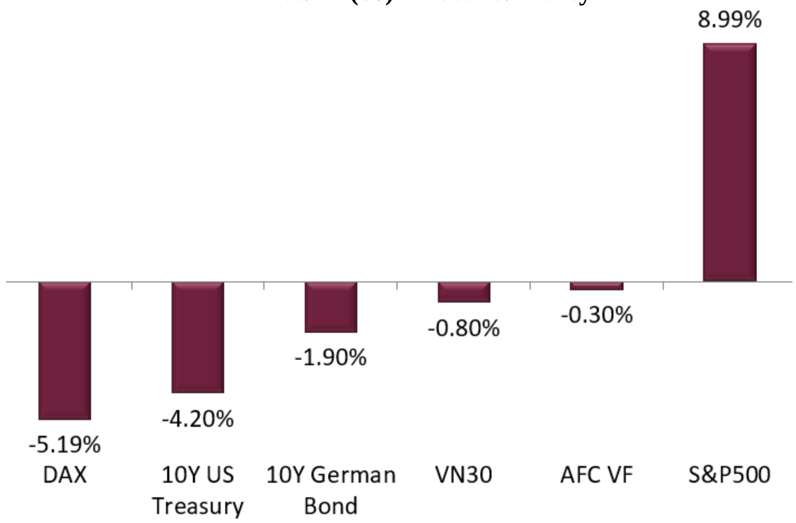


(Source: Bloomberg, AFC Research)

The fear of many investors in relation to emerging markets seems to be due to increased media coverage, specifically on those markets which will be impacted by Trump's trade war. Though, historically there have always been *some* emerging market countries in crisis at almost any given time. In fact, 2018 has not been much of an exciting year for global investors thus far. Bond investors have been given very little yield around the world and US bonds tanked heavily with increasing interest rates. Even the strong Dollar ("strong" at least according to media coverage) is up only 2% this year, based on the USD index. When looking at different main market indices around the world, it is hard to find any particularly strong performance this year, with the exception of US markets. But it is exactly the US where we see some potential bubbles; for example, in overhyped cannabis stocks right now where companies with a few hundred employees and little business are valued at several billion dollars. This is just one of many such cases in the late stage of the US bull market.

AFC VIETNAM FUND UPDATE

YTD return (%) in local currency



(Source: Bloomberg, AFC Research)

On the other hand, Europe (Eurostoxx, Germany, UK, etc.), Japan and Hong Kong are all either hovering around year-end 2017 levels or are down, not considering that most currencies are weaker against the USD as well. The same can be said for Vietnam where the index is little changed this year, also on a slightly weaker currency.

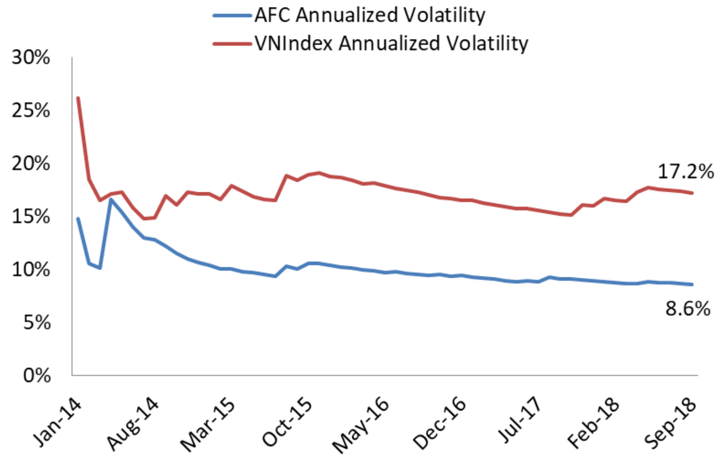
VN30-Index chart

(VN30 Index July 2017 – Sept. 2018; Source: Vietcapital Securities)

We therefore see no particular weakness in Vietnam in contrast to almost every other market. With a combination of strong economic numbers and many undervalued stocks, we feel very confident with our Vietnam exposure. Recently, we saw a growing number of our stocks moving up, despite that the majority of small- and midcaps are still being ignored by the market. Talking about an unexciting year for investors so far, we must keep in mind what people also have to accept in exchange when hoping for returns – risk! Looking back to the beginning of the year, people around the world were positive and markets headed higher without paying too much attention to valuations, before an eventual retracement. Risk is something we carefully monitor and try to mitigate as much as possible in the interest of our investors and of course for ourselves. Our risk, measured by the volatility of the fund price, or simply called "volatility" is far below the market average and other funds, and it has been such since we started the fund in late 2013.

AFC VIETNAM FUND UPDATE

Annualized volatility (%)



(Source: Bloomberg, AFC)

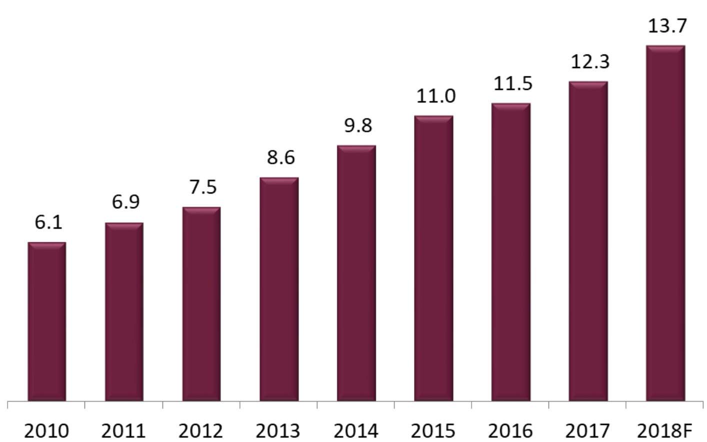
During September we continued to do some minor rebalancing in our portfolio before the results for the third quarter are released next month. As Vietnam is now accepted by most observers as one of the very few beneficiaries of the trade conflict between the USA and China, manufacturing companies are increasingly looking to shift production and trade from China into Vietnam. This can already be seen in the garment sector where some listed companies preannounced good business results and increasing orders. Some of these stocks which were neglected for months – and in some cases years –jumped 20-60% in a matter of just a few weeks.

Vietnam's garment industry benefits from the US China trade war

China is the largest textile and clothing exporter to the USA with USD 41.28 billion in 2016, equivalent to 36.3% of total clothing imports of the USA. Though, on 24th September 2018, the new tariffs on USD 200 billion worth of Chinese goods were set at 10% and will be increased to 25% as of 1st January 2019, something which may impact their future market share.

Vietnam ranks second in clothing exports to the US, with USD 11.45 billion in 2016, equivalent to 10.1% market share. In the last few years these exports have grown strongly from USD 6.1 billion in 2010 to a record of USD 12.3 billion in 2017. In the first 9 months of 2018, clothing exports to the USA reached USD 7.69 billion, +11.3% yoy. The US is now Vietnam's largest client with more than 47% of total clothing exports in 2017.

Vietnam clothing exports to USA (USD billion)



(Source: GSO, AFC Research)

AFC VIETNAM FUND UPDATE

Due to the 10% tariff on China's goods, Vietnam is benefitting from the trade war, at least in the short term. Producers in China are now looking for new OEM's in Vietnam to avoid these tariffs and hence positively impacted new orders of garment companies in Vietnam in the first 9 months of this year.

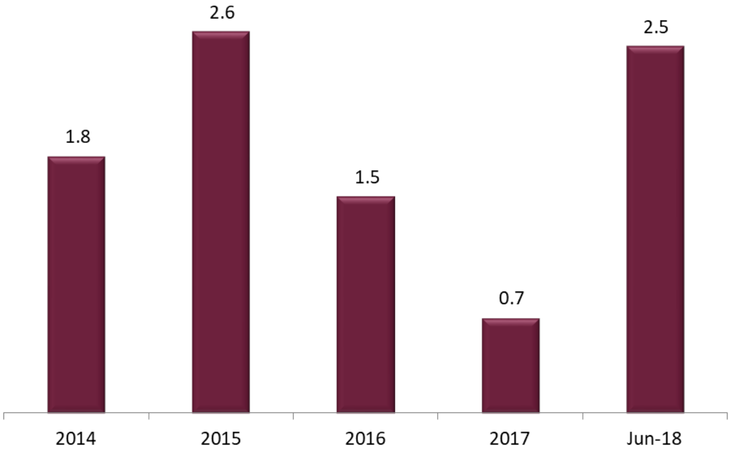
There are two garment companies in our top 10 holdings, one of which is the largest garment factory in Vietnam. Due to higher demand from increasing new orders, net profit in the first half 2018 of these two companies surged by 22% and 63%, respectively. We actually bought one of these two companies not long after inception of our fund. This company was trading at 3.8x (!) earnings at the beginning of the year and we added to our position in late spring and early summer. Now, after a 50% price jump and most likely upside adjustments to our optimistic 2018 growth assumptions of 25%, the company still has a very attractive valuation of only around 5.5x earnings. With several sectors now trading at unusually low valuations, we see huge opportunities across our stock universe, similar to when we launched the fund back in late 2013.

A Vietnamese garment factory

(Source: Bizlive.vn, AFC Research)

It is interesting to note that FDI (Foreign Direct Investments) into the textile and garment industry attracted an astonishing USD 2.5 billion in the first 6 months of 2018, compared to USD 0.7 billion for the whole of 2017.

FDI into textile and garment industry (USD billion)



(Source: VITAS, AFC Research)

AFC VIETNAM FUND UPDATE

Vietnam's garment sector will probably grow faster than other countries in the region mainly due to the following key advantages:

- Vietnam has political stability
- Vietnam has a driven workforce of more than 54 million people
- Attractive labor costs and a skilled work force combined with high productivity
- Electricity costs in Vietnam are very low at around USD 0.07 per kWh, much lower than in Cambodia for example
- Vietnam has competitive infrastructure with a coastline of over 3,000km and several deepwater sea ports which makes it easier to ship goods

Apart from the ongoing manufacturing shift from China into Vietnam, the country will also start benefitting nicely from the European Free Trade Agreement which will come into effect in January 2019 and eventually also the TPP.

Economy

Macroeconomic Indicators				
	2015	**2016**	**2017**	**Sep-18**
GDP	6.68%	6.21%	6.81%	6.98%
Industrial production (YoY)	9.80%	7.50%	9.40%	10.60%
FDI disbursement (USD bn)	14.5	15.8	17.5	13.3
Exports (USD bn)	162.4	176.6	213.8	178.9
Imports (USD bn)	165.6	174.1	211.1	173.5
Trade balance (USD bn)	-3.2	2.52	2.67	5.39
Retail sales (YoY)	9.50%	10.20%	10.7%	11.3%
CPI (YoY)	1.34%	4.74%	2.62%	3.98%
VND	22,540	22,600	22,755	23,315
Credit growth (YoY)	17.30%	16.50%	16.96%	9.52%
Foreign reserves (USD bn)	36	41	51	62

(Source: GSO, AFC Research)

Subscription

The next subscription deadline will be 25th October 2018 and if you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

AFC VIETNAM FUND UPDATE

Estimated NAV as of 30th September 2018

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%	-0.75%	+1.47%	+0.01%	**+13.33%**
2018	**USD**	+0.41%	+0.42%	+0.58%	-0.93%	-3.24%	-0.12%	-1.28%	+0.79%	+3.2*				**-0.3%***

***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.