

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) Limited, Cayman Islands
Investment Advisor	Asia Frontier Investments Limited, 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 NAV 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) Limited
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,
Grand Cayman KY1-9005,
Cayman Islands

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

With most world markets down 5-6% in May, Vietnam unfortunately couldn't escape this trend, especially after President Trump continued his aggressive stance against China. A few large caps helped to support the main indices in HCMC (-2.0%) and Hanoi (-2.9%) to fare better than developed markets. In general, volumes were low with little volatility during this month. According to internal calculations, our portfolio lost in line with the market 2.4% in local currency terms. While the VND versus the USD held up better than the Chinese Yuan, it was still weaker and dragged our NAV down to an estimated USD 1,783 (-3.2%).

Market Developments

It was a quiet month in Vietnam, though not on the streets as they are getting busier by the month and so is the economy. But the stock market took a breather with lower volumes and little movement in all market segments. While most western investors head for their summer holidays soon, Vietnamese will continue to work in order to get a bit closer to their dreams of improving their personal lives. This should help to drive the Vietnamese economy and markets in the second half of this year.

When living in Vietnam it is very easy to notice the changes on the ground. The roads are getting more congested, more buses are carrying a growing number of tourists around and cars are slowly substituting the massive amount of annoying motorbikes with their persistent honking. We also see the ever-increasing number of high-quality roads all over the country. Unlike in some countries in Eastern Europe or Asia, the positive effects of the fast-growing middle class can be seen everywhere.

View from "Thuan Phuoc Bridge" (completed 2009) June 2011 and May 2019



(Source: AFC Research)

When talking to our investors we mainly get the following two questions from them: What will be the effect of the trade war for Vietnam and its stock market? When will we see further gains in stock prices?

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While our crystal ball always lies next to our bed, it is impossible to predict precise numbers for stock markets. What we can observe more and more on a daily basis are reports about Vietnam being one of, if not the main beneficiaries of the trade war between the US and China, with even small European countries such as for example Austria reporting about this topic on TV news https://www.youtube.com/watch?v=P_fkp8HEz5A&feature=youtu.be. As shown below, companies predominantly from Asia, and more recently especially from China / Hong Kong, are shifting their production to Vietnam. The majority of stock investors are known to be short-term minded and fearful, and therefore often take quick and nervous decisions to sell their holdings on rumors and non-fundamental news. However, the more experienced and successful investors often take a longer-term view without revising their decisions as soon as President Trump switches his mind once again; the same as business people won't change their decision once they have decided to set up a factory in Vietnam.

The fact that stock prices, especially in the mostly domestic retail driven small- and mid-cap segment, are still not going up at the moment has, at least partially, something to do with last year's short-term bubble in the biggest stocks, with many investors staying away at the moment because a handful of stocks are still trading at lofty valuations.



(VN30 Index from Aug 2013 – May 2019; Source: Viet Capital Securities)

It seems this mini bubble has already deflated, and many, even larger stocks are now valued at very attractive levels again, and hence we see little downside risk from here, although we are still missing the final trigger for a broader turnaround in the market. As value-oriented fund managers we are investing in Vietnam's long-term prospects, and even if we are always observing the daily market action and opportunities, we are definitely more focused on the long-term economic story of Vietnam which has only just begun. It is interesting to see that currently the real economy is leading the stock market – usually speculation and rumors drive the stock market first and the real economy follows afterwards.

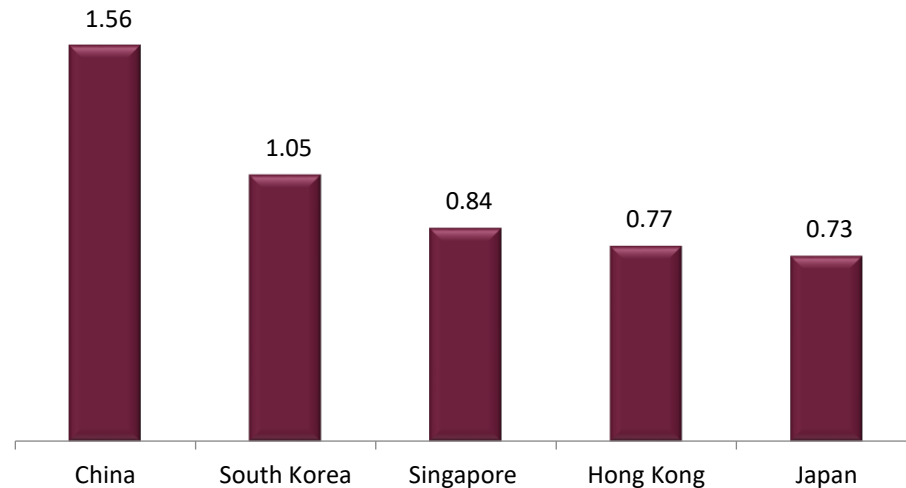
Vietnam – the main beneficiary of US and China trade war

It doesn't seem that the trade war between the US and China will be over soon, especially with the US Government announcing increased tariffs on Chinese goods and President Trump's assault on Huawei. Many countries are worrying that it will also negatively affect their economies, except for Vietnam, which comes out as the main beneficiary from this trade war.

According to the Ministry of Investment and Planning, China has been the largest contributor of FDI (foreign direct investments) in Vietnam during the first 5 months of 2019. FDI from China to Vietnam surged around 450%, reaching USD 1.56 bln. China surpassed for the first time South Korea and Japan. The manufacturing shift from China to Vietnam is definitely accelerating and it is highly unlikely that these companies will leave as soon as the trade war is resolved.

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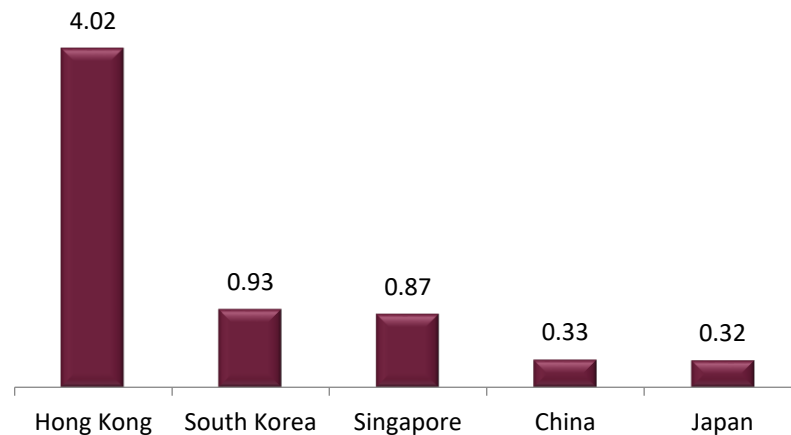
FDI registration in the first 5 months of 2019 (USD bln)



(Source: GSO, Ministry of Investment and Planning, AFC Research)

Besides setting up new factories in Vietnam, the production shift to Vietnam also seems to stimulate FII (foreign indirect investments) such as for example M&A transactions. In the first 5 months of 2019, Hong Kong led with total foreign indirect investment of USD 4.02 bln, followed by South Korea (USD 0.93 bln) and Singapore (USD 0.87 bln).

FII in the first 5 months of 2019 (USD bln)



(Source: GSO, Ministry of Investment and Planning, AFC Research)

With rising FDI and FII in Vietnam, many sectors are benefitting from this trend such as for example industrial parks and warehouse service providers. In a recent interview Mr. Pham Anh Tuan, CEO of Sonadezi Long Thanh (SZL), an industrial park in Dong Nai Province, 30 km outside of Ho Chi Minh City, said that they received huge demand in Q1 2019 from Chinese

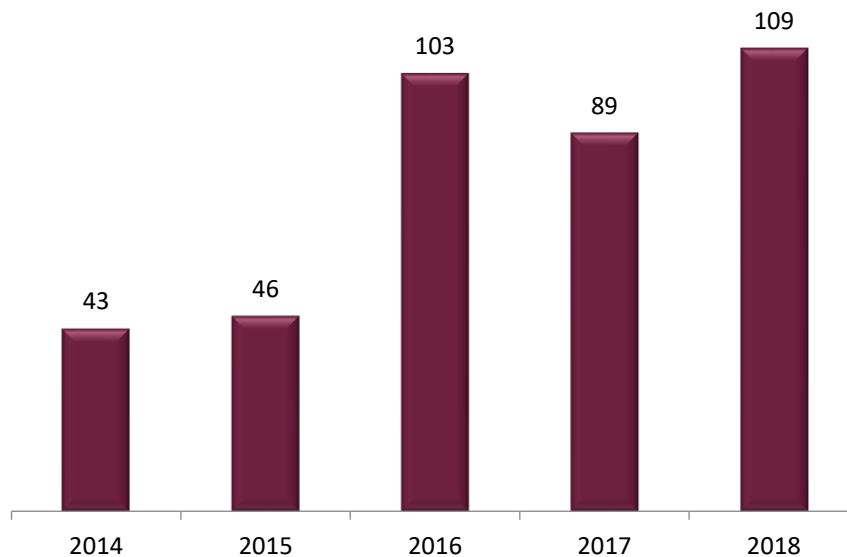
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companies which are looking to lease industrial land or factories. SZL is therefore building additional warehouses in order to satisfy this rising demand and is also enjoying a surge in their stock price, which is of particular interest to us since SZL is currently the fund's 6th largest holding.



(SZL from June 2018 to May 2019; Source: Viet Capital Securities)

SZL profit in past 5 years (VND bln)



(Source: Viet Capital Securities, AFC Research)

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Economy

Macroeconomic Indicators				
	2016	2017	2018	May-19
GDP	6.21%	6.81%	7.08%	6.79%
Industrial production (YoY)	7.5%	9.4%	10.2%	9.4%
FDI disbursement (USD bln)	15.8	17.5	19.1	7.3
Exports (USD bln)	176.6	213.8	244.7	100.7
Imports (USD bln)	174.1	211.1	237.5	101.3
Trade balance (USD bln)	2.5	2.7	7.2	-0.5
Retail sales (YoY)	10.2%	10.7%	11.7%	11.6%
CPI (YoY)	4.74%	2.62%	2.98%	2.88%
VND	22,600	22,755	23,175	23,465
Credit growth (YoY)	16.5%	17.0%	13.9%	3.2%
Foreign reserves (USD bln)	41	51	60	61

(Source: GSO, VCB, SBV, AFC Research)

Subscription

The next subscription deadline will be 24th June 2019. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 31st May 2019

NAV	1,783*
Since Inception	+78.3%*
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%	+3.02	-2.14%	+0.45%	-2.05%	-4.17%
2019	USD	-1.63%	+2.90%	+1.58%	+0.82%	-3.2*								+0.3%*

*According to internal calculations

**The Fund has appointed Hugo Fund Services SA, 6 Cours de Rive, 1204 Geneva, Switzerland, as its Swiss Representative. NPB Neue Privat Bank AG, Limmatquai 1, 8024 Zürich, Switzerland is the Swiss Paying Agent. In Switzerland shares shall be distributed exclusively to qualified investors. The fund offering documents, articles of association and audited financial statements can be obtained free of charge from the Representative. The place of performance with respect to [shares distributed in or from Switzerland is 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

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