

## 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

**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



**Winner Relative Value: AFC Vietnam Fund**



The market went sideways in the last two weeks of the month although the picture was very mixed. Surprisingly strong economic data will hopefully also support earnings when third quarter results will be published in October. The index in HCMC went up 2.8% while Hanoi added another 3.6% thanks to the index heavyweight, Asia Commercial Bank, which increased by 7% last month. While the broader market was still losing momentum in October, our portfolio recovered and ended up 1.1% (NAV USD 1,840), according to internal calculations.

### Market developments

With index heavyweights surging again we would like to take some time to highlight the main drivers of the Vietnamese stock market.

Macroeconomic data remains impressive without any signs of a slowdown in economic activity. The biggest concerns in recent years have always been inflation, the trade deficit and currency devaluation. Both inflation and trade numbers are under control and compare very favorably with other strong and growing economies. Most experts have been expecting a devaluation of the Vietnamese Dong for quite some time now, but the reality shows that this concern was overblown, since the Vietnamese currency is one of the most stable versus the USD in the whole region and beyond.

One of the main arguments for a weaker Dong by currency experts was the bearish view of the Chinese Yuan on concerns about growing risks in the Chinese financial sector and the sustainability of the economic growth model, something we have heard and read about for almost 20 years now. Every fresh burst of Yuan weakness, as seen in 2015 and early 2016, was accompanied by a strong correction in the Vietnamese stock market. Now, those experts calling for a weaker Yuan are back in their caves with the Yuan and other major currencies substantially up versus the USD in 2017. This development has helped the Vietnamese currency immensely and brought foreign investment capital into Vietnam and other frontier and emerging markets around the world.

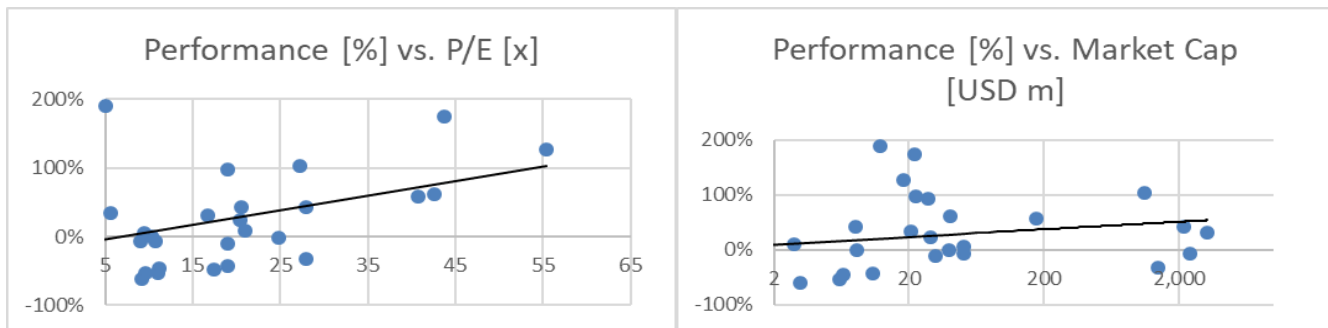


USD/RMB; Source: Bloomberg

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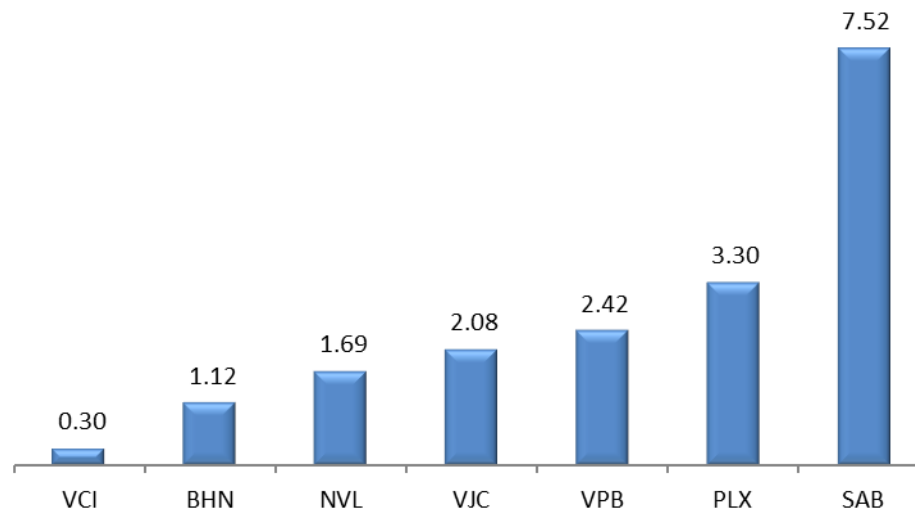
Those kinds of foreign investment inflows are usually channeled into a narrow range of highly liquid and large cap stocks, as we have seen since the start of the year. IPO's were very popular with foreign investors as they offered easy exposure to a market where many stocks have either low liquidity or full FOL.

In the IPO market we have seen a mixed picture so far in 2017, similar to the market in general. Some of the bigger companies which were also added to the indices experienced price jumps after their listing, but the correlation between market cap and performance has been very low. Interesting, and almost worrisome, is the rather strong correlation between valuation and performance after listing. It seems that investors completely ignored cheap stocks in 2017 and jumped into expensive momentum stocks which offered M&A fantasies – the more expensive, the better?



*New listings in 2017 with reasonable market turnover; Source: AFC Research*

### New listings of big caps in 2016/17 (market cap; USD billion)

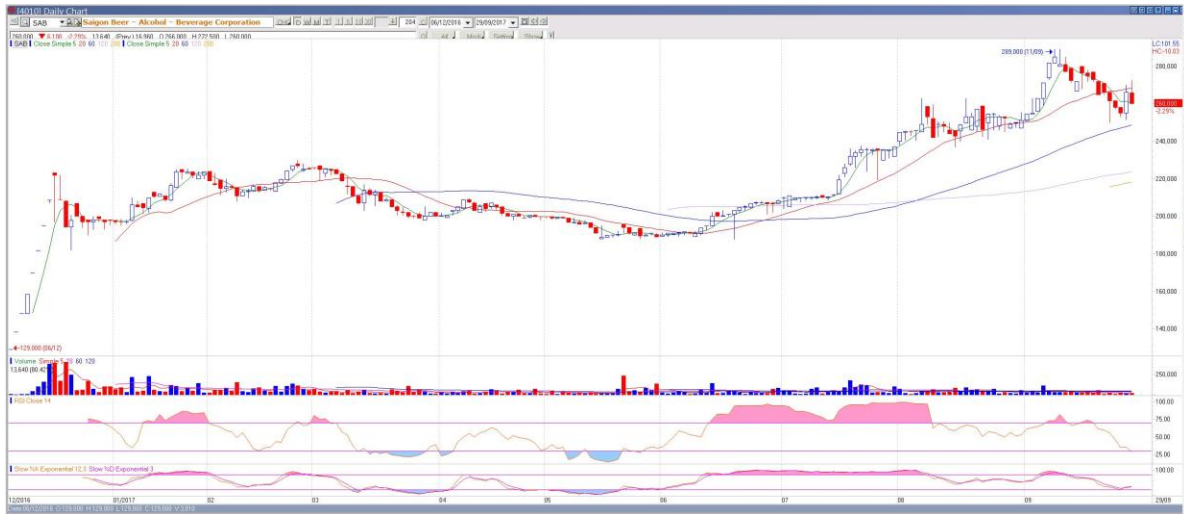


*Source: Viet Capital Securities*

As companies with brand names well known to foreign investors went public their listing valuations were already mostly higher than those of comparable companies. When we take the very successful Saigon Beer listing as an example, it is understandable that foreign brewery giants like Heineken or Carlsberg are interested in expanding into Vietnam via strategic acquisitions. Though, the money they pay for those acquisitions is of less importance for them than having a foothold in this 90m+ market. With these kinds of transactions, usually done off-market, minority shareholders don't have much to gain and should look at basic fundamentals in order to achieve long-term potential returns, such as dividend yield and earnings growth. Saigon Beer's dividend yield of 1.4% is just half of the average yield of the market and compares very poorly to the average dividend yield of around 6% of our portfolio. While the profit margin improved from very low levels a

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couple of years ago, Saigon Beer's top line growth was only 3% p.a. over the past three years. In a beer market such as Vietnam, where consumption is already the highest in SE Asia and with increasingly cutthroat competition, one has to wonder where future growth should come from to justify valuations of 35-40x earnings.



Saigon Beer; Source: Viet Capital Securities

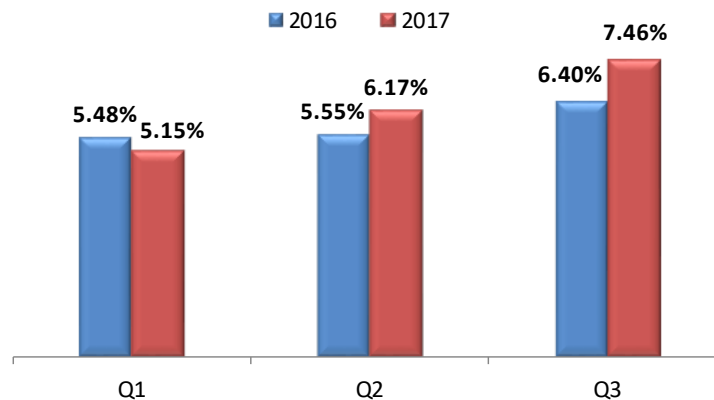
Also, important to see in that example is that public investors were only able to buy at prices from around VND 200,000 or higher, when volume started to set in after it was listed at a price of 110,000 Dong!

Other examples of well-known names with initial stock price jumps before public investors were able to buy include Vietjet Air, with notable turnover at prices of 40% higher than their listing price, and Viet Capital Securities at 25% higher prices.

Knowing from experience, we are patient with our portfolio as we know that those market cycles between favoring value stocks versus momentum stocks can go on for some time but never last forever as many market participants either think or wish.

### Economy

The Vietnamese economy continued to deliver strong numbers, with a Q3 GDP growth of 7.46% compared to 6.4% in Q3 2016. This is the highest Q3 GDP growth number in 10 years. The ytd GDP growth reached now 6.41% compared to 5.93% in the same period last year and it looks more and more likely that we are able to achieve the government target of 6.7% this year.



Source: Viet Capital Securities, GSO

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Also, FDI (Foreign Direct Investments) showed impressive numbers, with ytd FDI registration reaching a record high of USD 25.48 billion, +34.3% compared to same period last year and FDI disbursement increased to USD 12.5 billion, +13.4%.

The petroleum price increase in September had an impact on CPI, which grew from 2.54% in August to 3.4% in September but still well under control and not to worry.

Macroeconomic Indicators					
	2013	2014	2015	2016	Sep-17
GDP	5.42%	5.98%	6.68%	6.21%	6.41%
Industrial production (YoY)	5.90%	7.60%	9.80%	7.50%	7.90%
FDI disbursement (USD bn)	11.5	12.4	14.5	15.8	12.5
Exports (USD bn)	132.2	150	162.4	176.6	154.0
Imports (USD bn)	131.3	148	165.6	174.1	154.5
Trade balance (USD bn)	0.9	2	-3.2	2.52	-0.50
Retail sales (YoY)	12.60%	10.60%	9.50%	10.20%	10.5%
CPI (YoY)	6.03%	1.86%	1.34%	4.74%	3.40%
VND	21,125	21,405	22,540	22,600	22,750
Credit growth (YoY)	12.50%	14.00%	17.30%	16.50%	7.50%
Foreign reserves (USD bn)	32	36	36	41	42

Source: VCSC, GSO, AFC research

### Subscription

The subscription deadline for this month will be the 25<sup>th</sup> October 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 30<sup>th</sup> September 2017

NAV	1,840*
Since Inception	+84%*
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%	+1.1%*				+12.5%*

\*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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