

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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The positive momentum in the largest companies continued throughout January. On the back of many solid earnings reports a lot of index stocks reached new highs. Though, despite those index gains, the market breadth deteriorated considerably again in the second half of the month, as described further below. The indices of HCMC and Hanoi were up 12.8% and 7.7%, while the NAV of our fund increased by 0.2% to USD 1,857, according to internal calculations.

Market Developments

Petrovietnam Gas – 4th biggest stock, avoided for years



Source: Viet Capital Securities

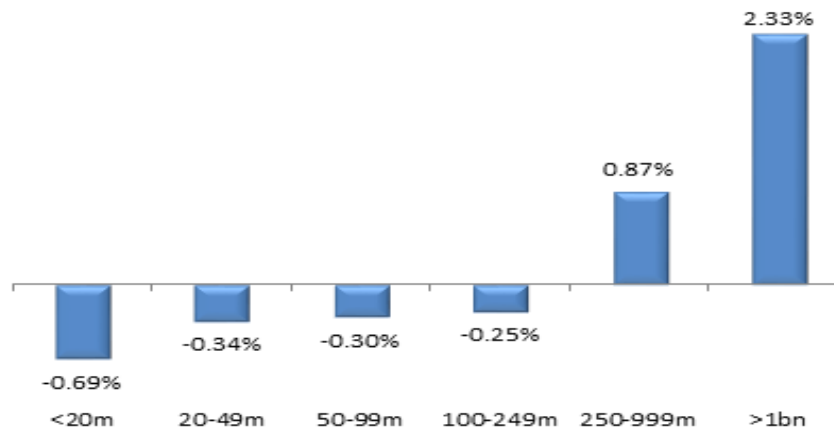
The current market situation can be easily described as follows:

- passive investments are still favored worldwide over value investing
- foreigners continue to invest into Vietnam
- large investment funds have to invest their cash into the big and highly liquid companies
- analysts have called for a correction in many of those stocks for some time now

All of these facts have resulted in a market rally which looks rather unreal for many long-term market observers. Unlike in other broad based, healthy bull markets, where on days with strong index gains the majority of stocks also participate, the current sharp index increase in Vietnam is best described as panic buying, triggered by new overseas money and local retail investors jumping on the bandwagon. The below breakdown of the trading day on 25th January - after a two-day break caused by technical problems on the Ho Chi Minh Stock Exchange - gives an excellent example of how distorted the market currently is.

AFC VIETNAM FUND UPDATE

Performance concentrated in a few large cap stocks – 25th January 2018



Source: Vietstock, AFC Research

Out of more than 350 stocks listed on the HCMC stock exchange the 22 stocks which each have a market capitalization of more than USD 1bn were almost solely responsible for one of the highest one-day index gains we have witnessed so far this year (+1.6%). While we can understand the reasoning behind this action it is very unusual for an emerging market to act in such a manner. Even in bigger and better diversified developed markets in Europe or the USA an index gain of 1-2% would result in many more winners than losers, and not in a negative market breadth like we have repeatedly seen in Vietnam over the past few months. We still see people capitulating and selling undervalued and nicely growing small and mid-caps in order to buy expensive large-caps. When analysts and strategists are now recommending the famous “buying on weakness”, what does that mean when a stock is trading at 30x earnings, while it was trading at 15x just a year ago - waiting for a 50% correction or buying at a still expensive 27x earnings after a 10% correction?

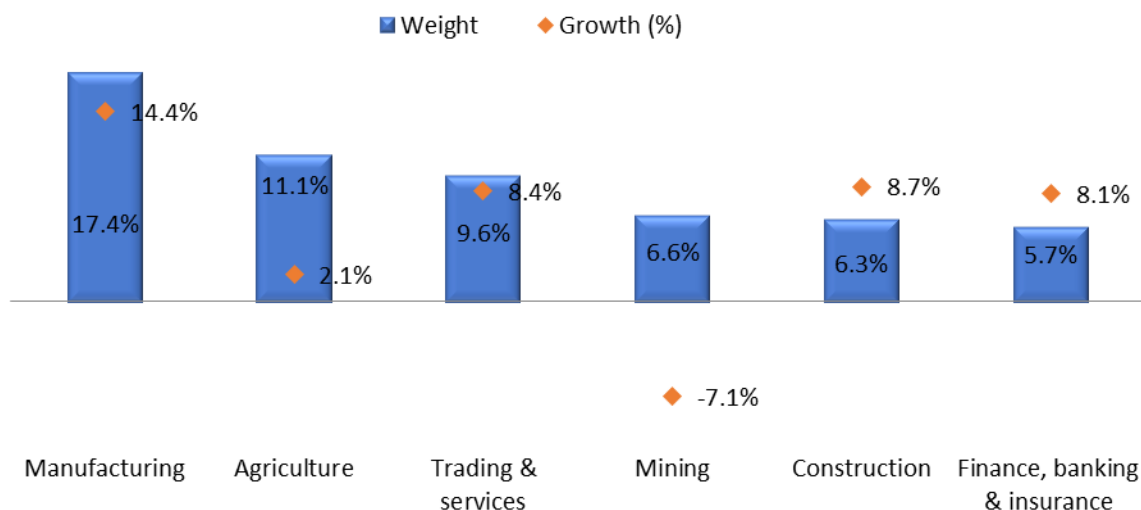
With 2017 earnings announcements slowly coming to an end we can have a look now at our top ten 10 holdings which have already reported. Net of extraordinary income or provisioning, we saw very strong earnings growth in our 10 top holdings, averaging 38% for 2017. These 10 stocks (similar to the rest of our portfolio) are trading on an average valuation of just 9.4x 2017 earnings which puts us in a completely different world than the biggest 22 stocks in HCMC which are trading on a trailing PE of 38x (many of which haven't reported their results yet). Even excluding ROS (which boasts a PE of 197x) the big caps would still be trading at 27x earnings. Investing in those expensive stocks would make us very nervous on any onset of a market correction when investors just don't care about market cap.

The mining sector was a drag on Vietnam's 2017 GDP growth

Vietnam's economy had a strong recovery in 2017 with a GDP growth rate at 6.81%, beating all analyst forecasts, as well as the government target of 6.70%. The only sector which performed quite poorly was mining, which declined by 7.1% yoy.

AFC VIETNAM FUND UPDATE

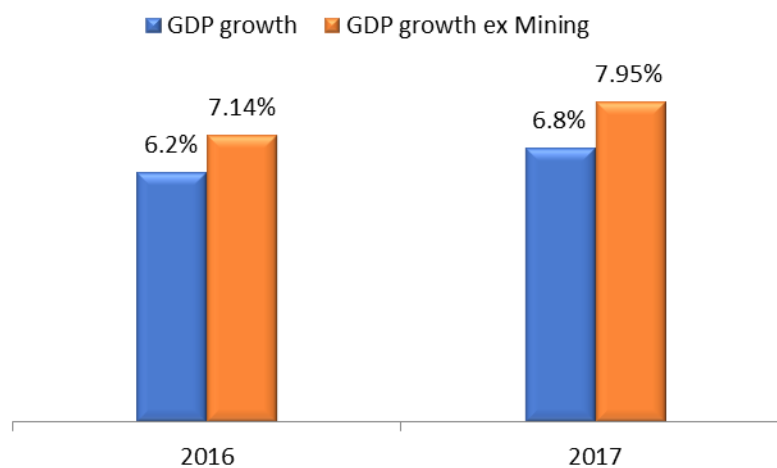
Key sectors of Vietnam economy in 2017



Source: GSO, AFC Research

Among the 23 main sectors of the economy, manufacturing played the most important role with a weight of 17.4% of GDP. The weakest of all industries was mining, which has a weight of 6.6% of GDP, but which had negative growth of -7.1% yoy, dragging down overall GDP growth. According to SSI research center, GDP growth excluding mining would have reached 7.95% in 2017, compared to 7.14% in 2016.

GDP growth and GDP growth ex mining (%)



Source: SSI research, AFC research and GSO

The most important sub-sector of mining is oil & gas, which decreased 10.8% in 2017. Oil prices however started to recover in the second half of 2017 and if this trend continues we can then expect a positive contribution of mining to GDP growth in 2018 which would be in line with forecasts.

AFC VIETNAM FUND UPDATE

Oil price (WTI, spot price FOB, USD/barrel)



Source: EIA, AFC research

Economy

Macroeconomic Indicators					
	2014	2015	2016	2017	Jan-18
GDP	5.98%	6.68%	6.21%	6.81%	6.81%
Industrial production (YoY)	7.60%	9.80%	7.50%	9.40%	20.70%
FDI disbursement (USD bn)	12.4	14.5	15.8	17.5	1.1
Exports (USD bn)	150	162.4	176.6	213.8	19.0
Imports (USD bn)	148	165.6	174.1	211.1	19.3
Trade balance (USD bn)	2	-3.2	2.52	2.67	-0.30
Retail sales (YoY)	10.60%	9.50%	10.20%	10.7%	9.5%
CPI (YoY)	1.86%	1.34%	4.74%	2.62%	2.65%
VND	21,405	22,540	22,600	22,755	22,700
Credit growth (YoY)	14.00%	17.30%	16.50%	16.96%	
Foreign reserves (USD bn)	36	36	41	51	51

Source: Viet Capital Securities, AFC Research

Industrial production surged more than 20% in January compared to the same period last year, mainly due to increased production ahead of the TET holiday (Chinese New Year).

AFC VIETNAM FUND UPDATE

Subscription

The subscription deadline for next month will be the 22nd February 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 31st January 2018

NAV	1,857*
Since Inception	+85.7%*
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	+0.2%*												+0.2%*

*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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