30th April 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

Starting as a consolidation at the beginning of the month, April turned into a full-fledged correction which took many investors by surprise. The so called blue chips got hammered since their top on April 10 and the indices closed with steep losses of -10.6% (HCMC) and –7.4% (Hanoi).

However, we still saw good support in many of our portfolio company share prices, even during the weakness of April, which helped us to outperform the indices by a good margin. As we are also holding several positions in cheaper larger stocks which were affected by the general market downturn, our fund was not completely able to escape this sell-off. According to internal calculations we lost 1.0%, with our NAV at approximately USD 1,862.

Market Developments

We are never happy when we are losing money, but putting things into perspective, a monthly loss of 1% in a frontier market like Vietnam is not an extraordinary event. On the other hand, a more dramatic move of 10%, like we have seen in the index in April and on a few other rare occasions over the past years, is certainly something we hope to avoid now and also in the future with our much less volatile and well diversified portfolio. As we wrote in previous reports, the index gains in 2018 which were driven by only a few stocks were unsustainable. Many of those highflying blue chips lost 20% in April and some are even off 30% or more from their peaks earlier this year. In our view, a recovery rally should be imminent sometime during May, but valuations in most of these companies are still far away from what we would consider as value. Prices in the first three months of the year were driven by ETF inflows multiplied by domestic retail momentum players, and now this source has simply dried up.

Hanoi Index, 2009-2018

Source: VietCapital Securities

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Like in most cases when bubbles burst, the reason is often not clear, but we are happy to see that the markets are correcting their most recent excesses, not only in Vietnam. We could see this correction in blue chips continuing for some time to come, but this is also an opportunity for small- and mid-caps as investors take profits in expensive large caps and possibly switch into attractively valued mid- and small caps. On days like we saw in April when all indices were falling 3% or more per day, of course there was also no hiding in mid-caps, but on other days these stocks where shining and nicely outperforming overpriced index heavyweights. Interestingly, the market breadth was not much weaker in April than during previous months when the index (or better said, some index stocks) were rallying combined with a weak advance decline ratio. It is also worth noting that with ongoing new listings and the current correction, a few of the larger stocks are popping up on our value horizon, while at the same time, we continue to explore exit opportunities for some of our smallest positions in terms of company and position size as they have shown decent performance in recent years.

One of the arguments for the current weakness in emerging markets is the turnaround in global interest rates. The 3% mark in the 10-year US treasury bond was seen by many as a reason to be concerned about emerging markets and also Vietnam with the growing number of index trackers. While there was a closer relationship between interest rates and performance of emerging markets many times in the past, a level of 3% for long term interest rates is rather low in a historical context and can also be seen as normalization, ending the emergency actions initiated by central banks around the world after the financial crisis almost 10 years ago. Therefore, we are not really concerned about any significant impact on Vietnam, unless we would see a fast rise to 5%.

10-year US Treasuries, 1962-2018

Source: Yahoo! Finance

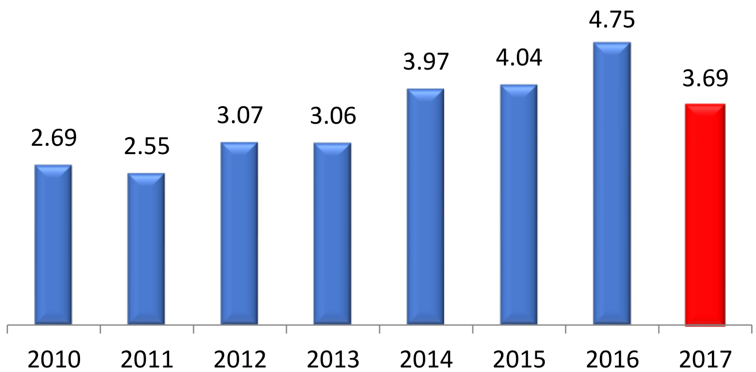
While this argument might always pop up in the media as an issue in the short or medium term, emerging markets around the globe differ largely from country to country and cannot all be "put into one basket". Furthermore, the economic shift from other countries like China to Vietnam will continue and therefore the financial markets will continue to prosper in the long run.

One good example of that development is South Korea, which is leading the move ahead of Japan and other Asian countries, while Europe sadly is late in taking on to these opportunities, similar to the Chinese boom starting 20 years ago when only few European companies invested early.

Is South Korea leaving China for Vietnam?

In 2017, FDI from South Korea into China plunged 22.3% from USD 4.75 billion to USD 3.69 billion after the Chinese THAAD boycott. (THAAD, or Terminal High Altitude Area Defense, is an American missile-defense system designed to guard against North Korea that was installed in South Korea starting in March 2017. Chinese authorities protested that its radar could be used to spy on its territory and this resulted in Chinese newspapers encouraging consumers to boycott South Korean goods. The plan was to "bully" Korea into ditching THAAD). The center of the boycott was Lotte Group, the fifth largest South Korean conglomerate, after this group closed 87 of its 99 hypermarkets in China.

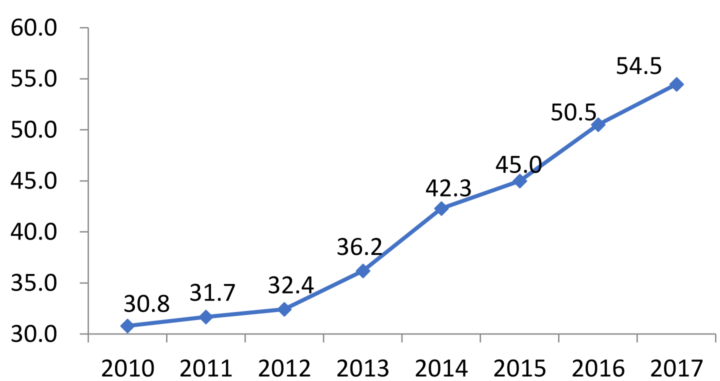
South Korean Direct Investment into China (USD billion)



Source: www.fdi.gov.cn

Furthermore, the trade tensions between China and the U.S are pushing South Korea to increase production capacity in Vietnam rather than China. In order to stimulate and improve the trade relations between Vietnam and South Korea, President Moon Jae-in officially visited Vietnam in March 2018. Many South Korean conglomerates announced expansion into Vietnam such as Samsung, LG and Lotte, among others. Korean banks and financial institutions also came to Vietnam to open branches and expand business activities to support their community. South Korea has been the largest foreign investor in Vietnam during the period 1998 – 2017 with USD 54.5 billion, according to the General Statistic Office of Vietnam.

Accumulated South Korean FDI into Vietnam (USD billion)



Source: GSO Vietnam

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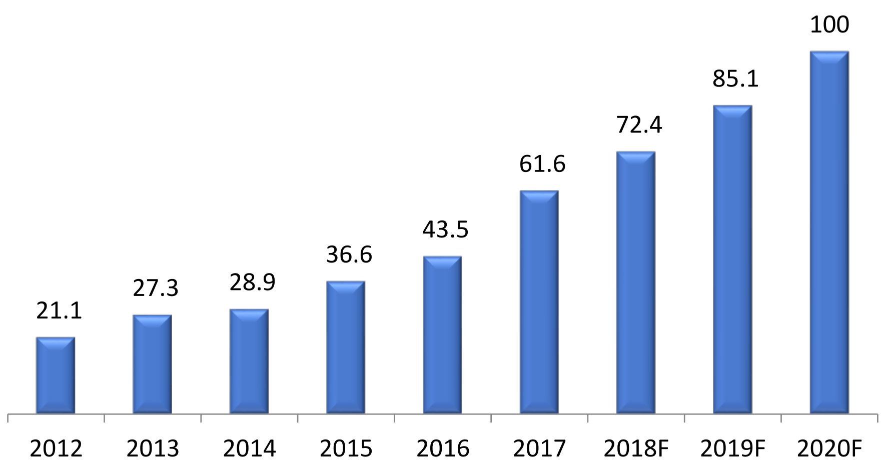
During the South Korean President's visit, the two country leaders also committed to increase their trade value to USD 100 billion by 2020. Hereby, Vietnam is expected to outstrip the United States as South Korea's second-largest export destination.

Trade volume between Vietnam and South Korea (USD billion)

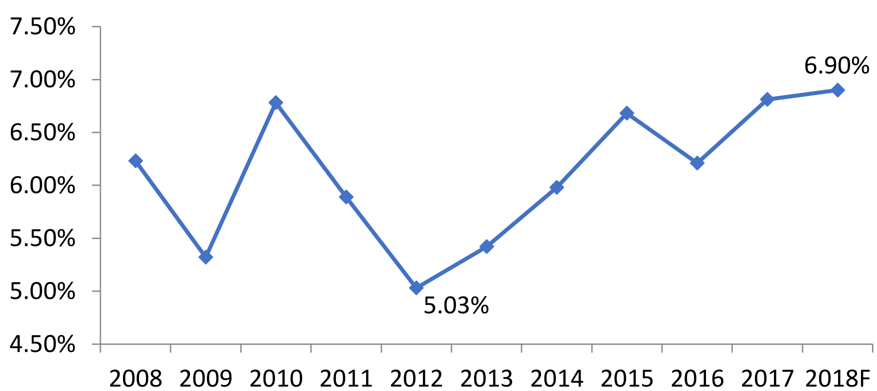


Source: GSO Vietnam, AFC Research

Economy

Positive improvements in Vietnam's economy after ten years

GDP growth starts to recover strongly since 2012 from 5.03% to 6.81% in 2017.



Source: GSO Vietnam

In the past Vietnam's economy was supported by high credit growth. However, this factor does not have as much influence as before. In 2008, credit growth was more than 35% compared to 19.6% in 2017.

Credit growth cooled down from 50% to 17%

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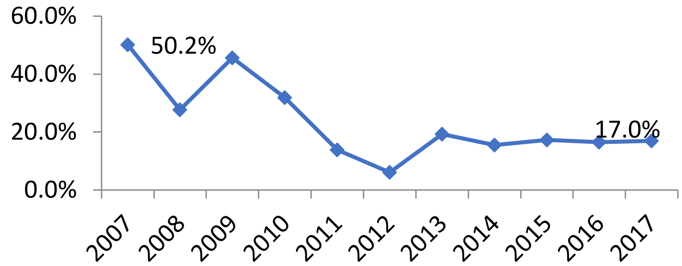
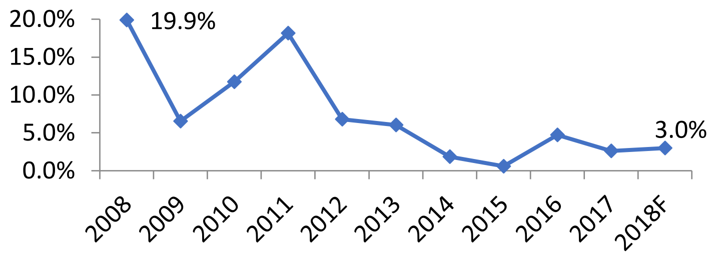


Source: State Bank, Vietstock, AFC Research

Another improvement is inflation. From 2007-2008 inflation in Vietnam reached around 20%, but now stands at around 3%.

CPI is under control



Source: GSO Vietnam

Overall, the Vietnamese economy has built a solid base for future growth, and we therefore strongly believe that the stock market will be supported by economic growth in the mid- to long term.

Macroeconomic Indicators

	2014	2015	2016	2017	Apr-18
GDP	5.98%	6.68%	6.21%	6.81%	7.38%
Industrial production (YoY)	7.60%	9.80%	7.50%	9.40%	11.40%
FDI disbursement (USD bn)	12.4	14.5	15.8	17.5	5.1
Exports (USD bn)	150	162.4	176.6	213.8	73.8
Imports (USD bn)	148	165.6	174.1	211.1	70.4
Trade balance (USD bn)	2	-3.2	2.52	2.67	3.39
Retail sales (YoY)	10.60%	9.50%	10.20%	10.7%	9.8%
CPI (YoY)	1.86%	1.34%	4.74%	2.62%	2.75%
VND	21,405	22,540	22,600	22,755	22,755
Credit growth (YoY)	14.00%	17.30%	16.50%	16.96%	2.23%
Foreign reserves (USD bn)	36	36	41	51	60

Source: GSO, AFC Research

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Subscription

The next subscription deadline will be 25th May 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 30th April 2018

NAV	1,862*
Since Inception	+86.2%*
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%	-1.0%*									**+0.4%***

***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.