15th May 2018

AFC VIETNAM FUND UPDATE

As we expected, Vietnam tried to recover some of its previous losses in the first two weeks of May. This was mainly driven by the stocks which fell the most and therefore, the overall market was again only modestly affected. The indices gained around 5% from their early May lows and are currently up +2.2% (HCMC) and +0.8% (Hanoi). With some larger holdings of our portfolio correcting, our NAV lost approximately -1.6% to USD 1,833, according to internal calculations.

Market Developments

The largest blue chips bounced back from their steep losses in April. Many bank stocks which lost 25-30% in the past few weeks recovered strongly. The market turnover however was pretty low, and hence this recovery was of low quality.

HCMC Index 1st March 2017 to 15th May 2018; Source: VietCapital Securities

Without any fundamentals driving the rebound, we have to expect another round of market weakness before the uptrend in the index will continue. The selling pressure in early May also affected our portfolio a bit, but as mentioned before, we are taking a mid to long term view and hence do not care that much about short term volatility. That said, there will probably be another test of recent lows or a new low which will hopefully bring about a final bottom to the index correction after strong gains since last summer.

With earnings announcements for the first quarter now ending, we can have a closer look at our holdings and possible earnings developments for 2018. We regard ourselves as value investors, but at the same time we choose the companies which have the highest growth potential when we find several stocks with similar valuations in the same sector. While there are always different views on how much higher the valuations of stronger growing companies should be in comparison to slower growing ones, we use an approach to identify companies in both worlds which offer the highest risk/reward ratio.

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

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For the year of 2016
Ranked by Net Return
BarclayHedge

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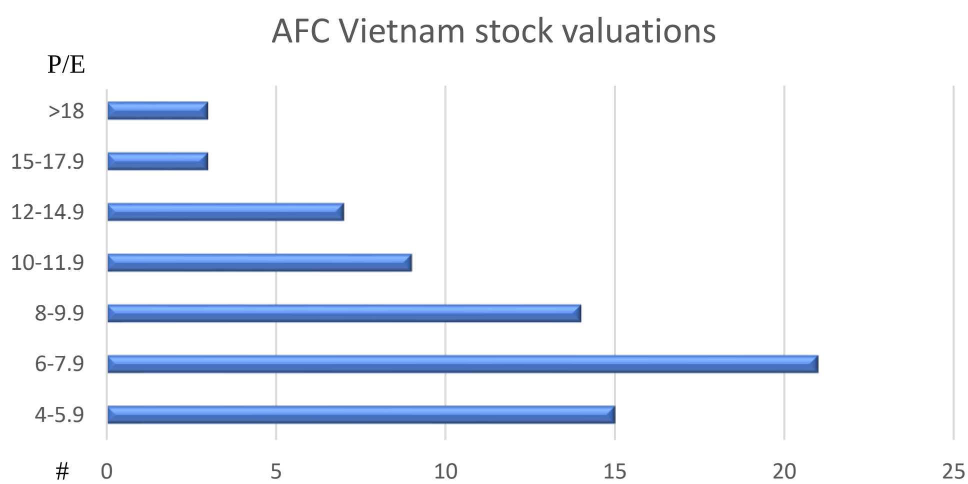
As a simple example, and many different factors aside, we would value a company with 10% growth, trading at 8x earnings as more attractive than a company with 20% growth but trading at 30x earnings, which is the case for many of the stocks which were bought and are now being sold by ETF's and local traders. Although, some of those stocks show little or no growth at all and their only attribute is to be a large cap. For those premium traded stocks there is little room for error and disappointing earnings leave investors usually with devastating losses. After the sell-off in many small- and mid-caps in recent times we also see some stocks which are now not attractive from a growth perspective but are trading at ridiculously low valuations. In other markets this would only be seen when the business of such companies would incur heavy losses and likely soon be headed toward bankruptcy. Even without growth there are not many reasons why stocks should trade at a 50% discount or more to their book value. Any improvements in the business climate or a change in management strategy would drive earnings higher and valuation even lower from already undervalued levels.

We currently own 73 stocks with a weighted arithmetic trailing P/E of around 9.5x. Based on the results of the first quarter of 2018 we did full year earnings forecasts for all our stocks. Based on these assumptions we come up with an interesting distribution of the valuations in our portfolio. The majority of our holdings are trading below 10x, with an astonishing 14 companies trading on just 4-5.9x estimated 2018 earnings.



Source: AFC Research

In sharp contrast, the majority of companies in the VN30 Index trade at a trailing P/E of around 20x and the estimated 2018 valuations is currently 16x.

After the excesses in the market earlier in the year we are happy to see some consolidation and are confident that people will start looking for value again when investing their money.

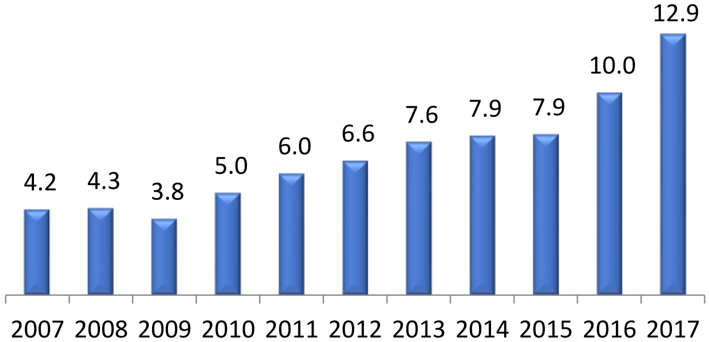
Vietnam is one of the fastest growing tourism markets in the world

Vietnam's tourism market has shown impressive growth rates over the last ten years. The number of international visitors to Vietnam reached 12.9 million in 2017, up from 4.2 million in 2007, equivalent to a compounding average annual growth rate of 12%, a trend that will most likely continue.

Tourism is rapidly becoming one of the most important sectors of the Vietnamese economy with total revenue in 2017 at an estimated USD 23 billion, contributing 7.5% to GDP, according to Vietnam's National Administration of Tourism.

AFC VIETNAM FUND UPDATE

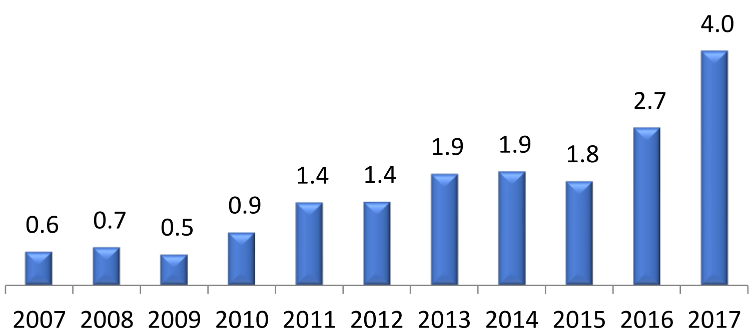
International tourist arrivals in Vietnam (in millions)



Source: GSO, AFC Research

As a neighbor of China, Vietnam enjoys a fast-growing market of Chinese tourists. Visitors from China jumped from 0.6 million in 2007 to 4.0 million in 2017. This equates to a growth rate of 21% per annum.

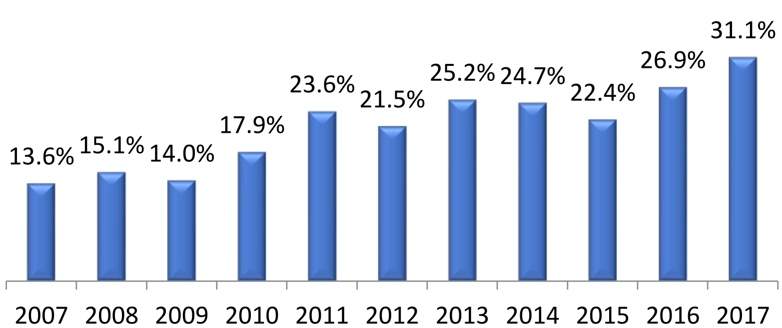
Tourist arrivals from China in Vietnam (in millions)



Source: GSO, AFC Research

China plays a more and more important role in Vietnam's tourist industry, contributing 31% of total foreign visitors to Vietnam in 2017, up from 13.6% in 2007.

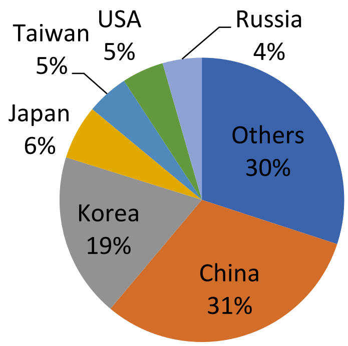
Weight of Chinese visitors (%)



Source: GSO, AFC Research

AFC VIETNAM FUND UPDATE

International visitor breakdown in 2017 (%)



Source: GSO, AFC Research

In the first four months of 2018 foreign tourist arrivals surged 29.5% to 5.5 million, driving revenues of tourism related services up 26.1% YoY. In 2018, Vietnam expects 15-17 million foreign visitors and an expected total revenue from tourism of USD 27.2 billion. Compared to Thailand (tourism revenues reached USD 46 billion in 2016, equivalent to 11.3% GDP), Vietnam has huge potential for growth in the years to come, especially with its proximity to China, which has the highest tourism expenditure in the world, at USD 261 billion in 2016 according to UNWTO (World Tourism Organization).

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

15th May 2018

AFC VIETNAM FUND UPDATE

Estimated NAV as of 15th May 2018

NAV	1,833*
Since Inception	+83.3%*
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%	-1.6%*								**-1.1%***

***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.