

## 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 30 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

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Winner Relative Value: AFC Vietnam Fund



Large cap stocks led to another strong decline in May, despite a 4% rebound in the last three trading days of the month. The HCMC index lost -7.4% and the Hanoi index -6.3%. Both indexes have now erased all of their previous gains for 2018 and are now slightly down for the year. The weak sentiment also dragged down most small- and midcap stocks, but to a much lesser extent. According to internal calculations our NAV is at USD 1,800, down 3.4% for the month.

### Market Developments

As May was another weak month for the index, for reasons we have explained many times before, investors are now finally looking for alternatives to companies trading with high levels of volatility – and also some unrealistic valuations.

Not only do we find that now media and analysts are increasingly reporting about the immense valuation gap between the top ten stocks and the other hundreds of stocks trading at half of their valuation, but also new capital is being raised by large institutions for investing into small- and midcap stocks as investors obviously see potential and value in this space.

Index heavyweights' performance last 12 months and subsequent decline

Ticker	Perf since 31/5/17	Loss since peak	P/E
VIC	188.20%	-15.20%	97.6
MSN	72.50%	-31.40%	28.1
GAS	62.60%	-33.70%	26.6
BID	58.50%	-37.50%	10.1
VCB	49.40%	-29.30%	14.0
CTG	44.10%	-29.20%	10.9
SAB	26.90%	-30.20%	31.1
VNM	9.70%	-23.60%	22.3
VRE (**)	6.00%	-30.10%	53.0
VHM (*)	4.20%	-4.00%	49.8

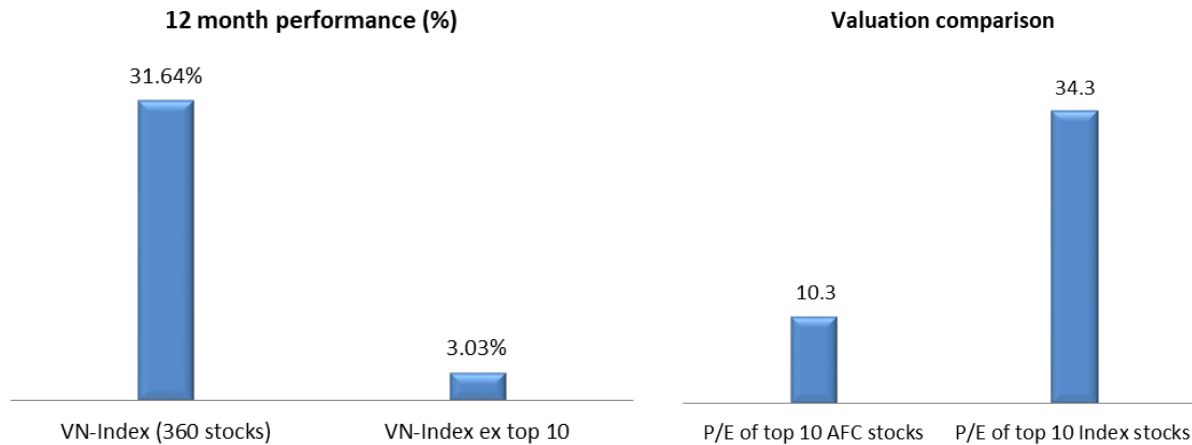
(\*): listed since 17 May 2018

(\*\*): listed since 6 November 2017

After the huge and unrealistic price rise of the largest stocks, a sharp correction was to be expected. We can also see that despite the decline the premium paid for those stocks continues to be too high in a historic context.

Excluding the top 10 stocks, the performance of the stock market would have been similar to our portfolio - more or less flat. Longer term, we are very convinced that like in any other market, only a broad advance will lead to a sustainable bull market, and our stocks will outperform as they did in the past, without the phase of irrational exuberance of a few hyped stocks.

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Source: HSX, Vietstock.vn, AFC Research

As expected, the index recovery was very short lived and weakness was seen all over the board in the second half of the month. Index heavyweights with lofty valuations were hit hardest, similar to April. When speaking of the index, some are already joking about renaming it the “VIN”-Index since the Vincom Group makes up one fourth of the total index after the listing of its subsidiary, Vinhomes. Since many, or most larger funds need to track the index, a listing like Vinhomes means forced buying by many funds, regardless of the fact that all three of Vincom Groups companies are trading at above 40x trailing earnings. Intensifying the influence of those listings is the fact that buying happens on the market right after listing, pushing up the stock and the index, as stocks are usually not offered before the listing, unlike in an IPO in the western world.

To better understand how flawed the index movement in Vietnam has been over the last 12 months, just imagine that the Dow Jones Industrial Average (“Dow Jones Index”) would change its components massively every few weeks and therefore the weightings within the index would also change strongly and would hence have wild money flows as a consequence. Heavy weighted stocks in the HSX index just a few months ago, like Sabeco, Vincom, PetroVietnam Gas or FLC Faros, which gained strongly in the second half of last year, and therefore pushed up the index, lost a good part of this gain over the past few months (Sabeco down 30% since last November , Vincom down 15% since April, PetroVietnam Gas down 34% since April and FLC Faros down 68% since last November), but because other stocks were listed in the meantime, the losses of the former index leaders affected the index to a much lesser extent than an index would have been affected with mostly constant components like the Dow Jones, German DAX, etc.

Another example is VP Bank, one of the most desired banks in the market. Foreign investors rushed to buy when bank stocks surged massively on bullish sentiment. In only two months, March and April 2018, 32 million shares were purchased by foreign investors at an average price of VND 67,000 per share. Since then, the stock has lost 33%, falling to VND 45,000 per share).

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VP Bank, May 2017 to May 2018; Source: VietCapital Securities

Investors of course do not see this arithmetic behind the move of Vietnam's indices, but all funds are strongly affected as they have the choice to either invest into those stocks regardless of their valuation and opinion on their outlook, or to ignore them, as we do, and either out- or underperform the index strongly. Most of the index-heavyweights with ping-pong style price movements as of late simply show neither any correlation with the economy in general nor the majority of stocks. With that in mind it is no wonder that we see more funds and the media looking into "our" stock universe of small- and mid-caps as there are plenty of attractive opportunities around.

### Vietnam-ETF already down sharply for the year



Source: Yahoo.com

Investors in general see Vietnam as a small player within the big group of emerging and frontier markets, which is not at all our view. Strong movements in currency and bond markets around the globe will of course also impact the flow of money into and out of Vietnam, mostly via ETF's or big funds, but we do not think it is necessary to discuss in detail why Vietnam cannot or should not be compared economically to countries like Argentina, Venezuela or Nigeria. Since Vietnam's stock market is still dominated by local retail investors, only a major economic crisis would be able to derail the country's positive path. Unlike in some countries in South America or Africa, we regard the political stability in Vietnam as "high" which provides greater security for both financial and commercial investors in Vietnam.

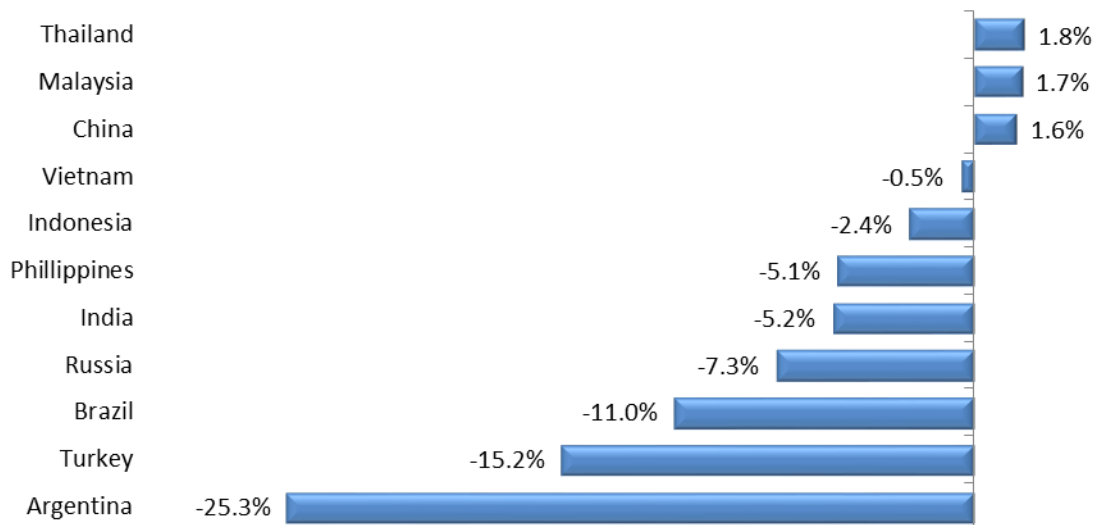
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We believe that a good part of the correction should already be behind us and the market is now in a “floor finding period” which might take some time, but many undervalued stocks will most likely already be able to outperform in that kind of environment.

### The VND is expected to weather the EM currency storm

Despite the FED slowly raising USD interest rates, many Asian currencies held steady and weakening was mostly seen in countries with macroeconomic or political instability.

Emerging currencies against USD (YTD, %)



Source: Bloomberg

With its strong economic fundamentals, the Vietnamese Dong weathered that storm pretty well.

### Economy

Macroeconomic Indicators					
	2014	2015	2016	2017	May-18
GDP	5.98%	6.68%	6.21%	6.81%	7.38%
Industrial production (YoY)	7.60%	9.80%	7.50%	9.40%	9.70%
FDI disbursement (USD bn)	12.4	14.5	15.8	17.5	6.8
Exports (USD bn)	150	162.4	176.6	213.8	93.1
Imports (USD bn)	148	165.6	174.1	211.1	89.7
Trade balance (USD bn)	2	-3.2	2.52	2.67	3.39
Retail sales (YoY)	10.60%	9.50%	10.20%	10.7%	10.4%
CPI (YoY)	1.86%	1.34%	4.74%	2.62%	3.86%
VND	21,405	22,540	22,600	22,755	22,850
Credit growth (YoY)	14.00%	17.30%	16.50%	16.96%	3.50%
Foreign reserves (USD bn)	36	36	41	51	63

Source: GSO, AFC Research

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## Subscription

The next subscription deadline will be 25<sup>th</sup> June 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 31<sup>st</sup> May 2018

NAV	1,800*
Since Inception	+80%*
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%	<b>+2.37%</b>
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%	<b>+32.50%</b>
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%	<b>+4.62%</b>
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%	<b>+15.29%</b>
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%	<b>+13.33%</b>
2018	USD	+0.41%	+0.42%	+0.58%	-0.93%	-3.4%*								<b>-2.91%*</b>

\*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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