

## 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<br>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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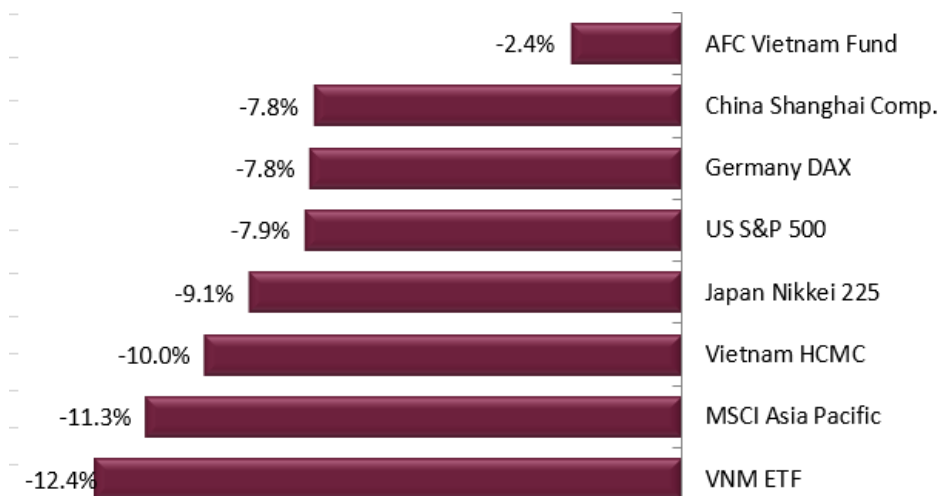
Winner Relative Value: AFC Vietnam Fund



Vietnamese equity prices continued to be hit hard in the second half of October along with the rest of the world. Without any visible domestic reason, stock prices tumbled over 10% something which was last seen in May 2011 and April 2018; the HCMC Index declined by -10.1% and the Hanoi Index by -9.4%. Like in previous sharp declines, our diversified portfolio consisting of companies with mostly very sound balance sheets, was able to hold up much better than the market, with only -2.4% (NAV of USD 1,801), according to internal calculations.

### Market Developments

In Asia alone, USD 5 trillion in net worth has been wiped out since the beginning of the year. While experts are trying to find particular reasons why the market has tanked, the reality is simple: leading stocks in the US were simply too expensive. Funny enough, people are *now* getting nervous and anxious *after* the correction has happened. Some experts looking for value in the market are pointing to the percentage losses in many of the leading stocks, especially investor darlings such as the FANG stocks (Facebook, Amazon, Netflix, Google) which are down around 20-30% from their peak. But does this correction mean these companies are now fairly valued? The only fact we really know is that current buyers are now buying much cheaper than others only a few weeks ago. We believe that it is much more important to own stocks of companies which are able to weather this storm. So far, value stocks are holding up much better than most others and also better than most stocks in the developed world. Once again, our fund is proving effective in its low volatility in difficult markets.



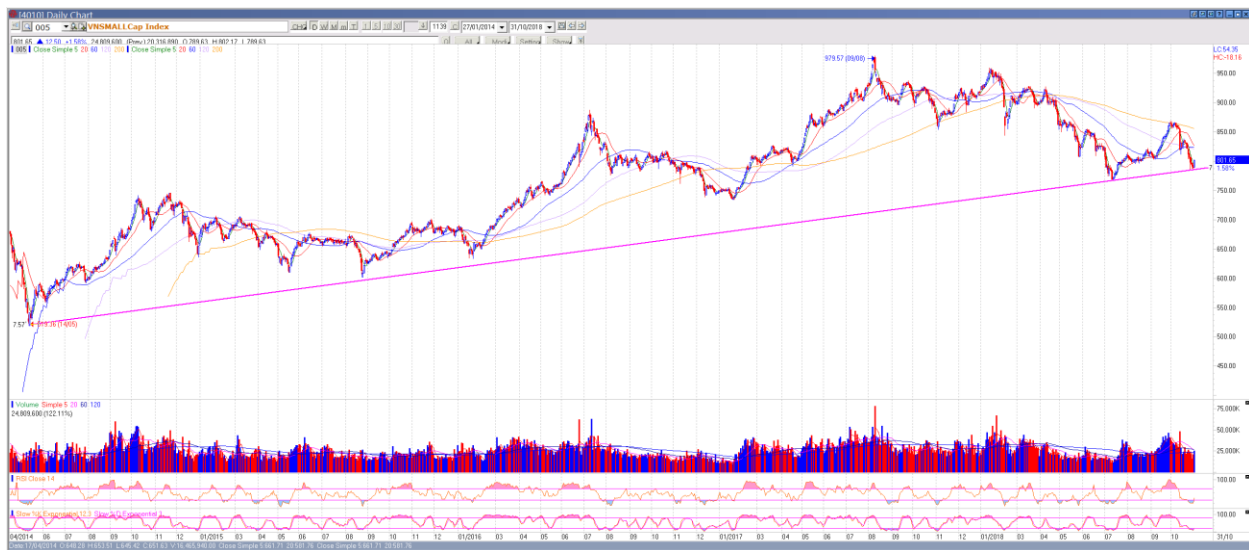
Source: Bloomberg

Every investor should look for investments where he/she can sleep well without worrying too much and hence affecting the quality of their daily life. Like so many times in the past we are now seeing stock markets correcting 10-20% from their peaks and we think it is rather late to think of selling stocks which are trading at fair or cheap valuations. "Fair" or "cheap" are of course expressions which have different meanings to different investors. When a stock like Netflix loses 25% and still has a trailing P/E of around 100x (and a market cap similar to all 1,000+ stocks combined in Vietnam!), we would probably not sleep well owning that stock as it is still up 40% this year alone. Many investors could still cash in with the stock trading at valuations 400% higher than the average listed US stock (or 1,000% higher than our fund!).

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Like many times in the past, the period from October to November is again very volatile, but at the same time it may be a good entry point into the market. It is always easy to listen to super bullish market commentators from “CNBC & Co.” in an uptrend and buy along with everybody else, instead of buying at more attractive valuations after a correction when “blood is on the street” as also Mark Mobius, the Emerging Market veteran, just mentioned in a recent interview. The same as us, Mobius again sees “value” in Emerging Markets, which makes sense, since valuations across Asian Emerging Markets are trading at similar levels as a few years ago. It is interesting to note, when looking back at the leaders in technology stocks 10 years ago, that they have changed almost completely since then. In the future we might see stocks like Netflix still in the top ten, but in reality, it is anyone’s guess. However, if it remains a leading stock in the future it is likely to trade at a significantly lower valuation than today. More likely however is that in 10 years names like those that make up the FANG will not be as significant as they are today, given the fast-changing world of technology. On the other hand, we think Vietnam will grow at an impressive pace over the next 10 years. Whether the growth is at a rate of 5% or 8% on average is of secondary importance in that respect. Again, the total market cap of Vietnam today is equivalent to just one of those mega-caps!

The Vietnam Small Cap Index bottomed out yesterday above its July 2018 lows, which means it outperformed the main index which tested its July 2018 lows yesterday before gaining strongly today. This is a very positive sign as the index hit its high half a year earlier than the blue chip index.



*Small Cap Index, 2014-2018, Source: VietCapital Securities*

One of the many reasons why we are very relaxed or even positive about the Vietnamese stock market adjustments in general is the clear macro success story of Vietnam and the positive long-term outlook for the next 10-20 years (at least). The abrupt stop of continuous money flows into bubble segments around the globe has also created some short-term distortions in value stories which also led to panic selling, but at some point, it is hard for some stocks to fall further, otherwise there would be “stocks for free”.

While this may sound implausible at first, we would like to highlight a few interesting situations in our portfolio. Like everywhere in the world, stock prices in Vietnam are also adjusted for dividends or corporate actions. For example, when a dividend of VND 2,000 is paid, the stock price is adjusted on the so-called “ex-day” by those VND 2,000 and the stock starts trading VND 2,000 lower on that day. While in many western markets average dividend yields often range from 1 to 3%, in Vietnam some of our stocks yield in excess of 10%. In other words, the stock price of a company paying VND 2,000 every year and trading at VND 20,000, is just 18,000 on the ex-day when the dividend is deducted. If the price doesn’t increase in order to adjust for the future dividend payout, then the dividend yield will be 11.1%. If nothing happens over the year, the price would be adjusted to 16,000 after the next dividend and the yield would rise to 12.5%, and so on. If the fundamentals do not change, investors will have to buy at some point otherwise the stock would move towards zero and the dividend yield above 100%!

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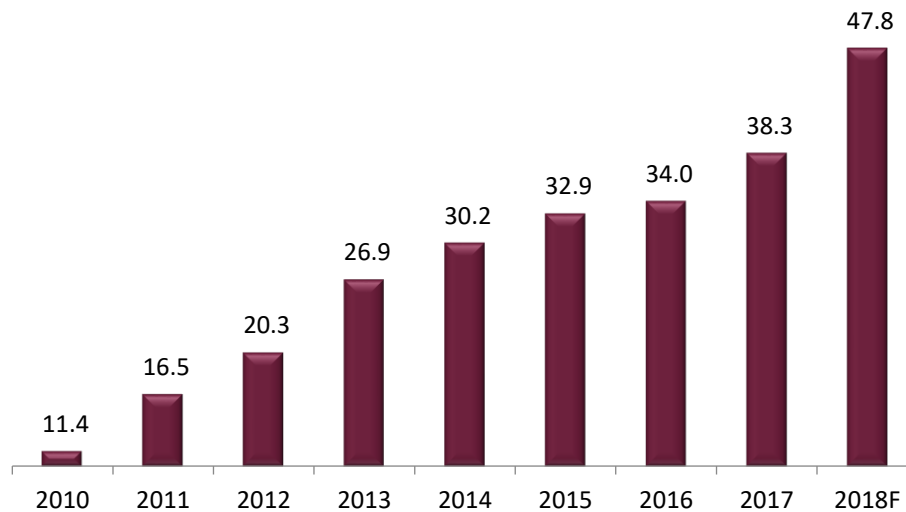
We clearly do not foresee any of our stocks trading close to zero, but we see profitable companies paying dividends resulting in yields of 10-20% and/or trading at 40-60% below their book value. At the end of the day when the dust settles again, investors will pay at least the intrinsic value of those companies and in the meantime, we are getting paid juicy dividends, although it does not automatically mean it increases the NAV of our fund because of the price adjustment calculation explained above. But of course, it makes our stocks cheaper and more attractive for investors for even higher future gains.

### European Commission approves the EU-Vietnam Free Trade Agreement

In October the European Commission adopted the EU-Vietnam FTA in order to promote trade and investment between Vietnam and Eurozone countries. This agreement will come into effect in early 2019 and more than 85% of tariffs on Vietnamese goods exported to the EU will be removed immediately and eventually 99% will be removed by 2026. On the other hand, around 49% of tariffs on EU exported goods to Vietnam will be eliminated and by 2029 all tariffs will be removed.

The EU is one of the most important trading partners of Vietnam. In 2010, total exports to the EU were only USD 11.4 bn, but increased more than 3 times to USD 38.3 bn by 2017, equivalent to a gain of 18.9% per annum.

**Exports from Vietnam to the EU (USD billion)**



(Source: GSO, AFC Research)

This trade agreement is another important milestone for Vietnam's economy and should further boost GDP growth and FDI (Foreign Direct Investments) over the coming years.

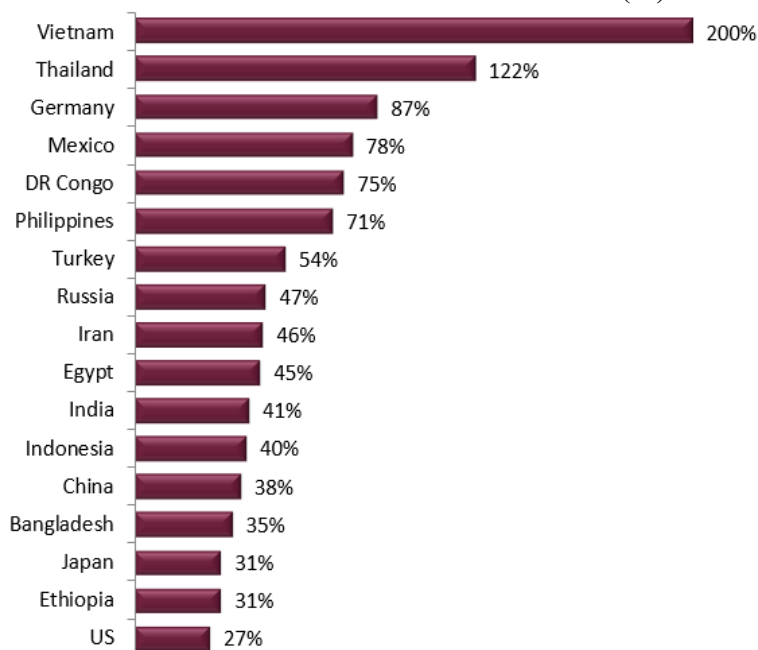
In addition, it is very likely that Vietnam will be one of the major beneficiaries of the current trade war between the USA and China. The trade war positions Vietnam as the second global manufacturing hub after China. In the last few weeks we have seen lot of production shifting from China to Vietnam, such as for example the prominent Apple AirPods Supplier, Goer Tek, which intends to move production of the wireless earphones to Vietnam.

In 2017, mobile phone exports to the EU amounted to USD 11.8 bn, equivalent to 30.7% of total exports to the EU, followed by shoes (USD 4.6 bn), computers (USD 4.1 bn), textiles (USD 3.7 bn), machinery (USD 1.7 bn), seafood (USD 1.42 bn) and coffee (USD 1.36 bn).

This is also reflected in the recently published World Bank globalization report. According to this report, Vietnam's population is the most globalized in modern history. In 2017, Vietnam's trade as a percentage of GDP reached over 200%, which is the highest level for any country with over 50 million people. Countries with high measures are typically rich and small, such as Hong Kong, Singapore and Luxembourg, which all have rates of over 300%, but as a large, poor country, Vietnam is definitely an outlier.

## AFC VIETNAM FUND UPDATE

International trade as a share of GDP in 2017 (%)



(Source: World Bank) Change DRC to “DR Congo” or “Congo”

### Economy

| Macroeconomic Indicators    |        |        |        |        |
|-----------------------------|--------|--------|--------|--------|
|                             | 2015   | 2016   | 2017   | Oct-18 |
| GDP                         | 6.68%  | 6.21%  | 6.81%  | 6.98%  |
| Industrial production (YoY) | 9.80%  | 7.50%  | 9.40%  | 10.40% |
| FDI disbursement (USD bn)   | 14.5   | 15.8   | 17.5   | 15.1   |
| Exports (USD bn)            | 162.4  | 176.6  | 213.8  | 200.3  |
| Imports (USD bn)            | 165.6  | 174.1  | 211.1  | 193.8  |
| Trade balance (USD bn)      | -3.2   | 2.52   | 2.67   | 6.43   |
| Retail sales (YoY)          | 9.50%  | 10.20% | 10.70% | 11.40% |
| CPI (YoY)                   | 1.34%  | 4.74%  | 2.62%  | 3.89%  |
| VND                         | 22,540 | 22,600 | 22,755 | 23,345 |
| Credit growth (YoY)         | 17.30% | 16.50% | 16.96% | 9.52%  |
| Foreign reserves (USD bn)   | 36     | 41     | 51     | 62     |

(Source: GSO, SBV, VCB, Bloomberg, AFC Research)

Exports grew by 14.2% year on year to USD 200.3 bn.

Trade surplus reached a record high of USD 6.43 bn year to date.

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## Subscription

The next subscription deadline will be 26<sup>th</sup> November 2018 and if you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

### Estimated NAV as of 31<sup>st</sup> October 2018

|                 |            |
|-----------------|------------|
| NAV             | 1,801*     |
| Since Inception | +80.1%*    |
| 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% | -3.24% | -0.12% | -1.28% | +0.79% | +3.02  | -2.4%* |        |        | <b>-2.86%*</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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