

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) Limited, Cayman Islands
Investment Advisor	Asia Frontier Investments Limited, 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 start of trading in the new year was very slow in terms of market volume, just the opposite of last January. Most market action was concentrated in companies releasing their annual results. Because of a hiccup in the largest stock on the HSX, Vincom, (limit down on the last trading day in December and strongly up on the first trading day in January), the stock market in HCMC outperformed and ended up with a gain of 2% while the index in Hanoi, with a loss of -1.3%, was more in line with the general market, which weakened, especially in the second half of the month. According to internal calculations, our portfolio showed a similar loss (-1.8%; NAV USD 1,745), which was also negatively affected by one bigger holding after weaker than expected results.

Market Developments

The first month of 2019 saw the slowest trading volume in years at about 50-60% below the 12-month average. If we consider that many large companies were listed over the past 2 years, the average volume for stocks listed before the IPO-wave is even worse than this number. Additionally, both indices in HCMC and Hanoi are still trading at around their summer 2018 lows and about 25% below their peak of April 2018.

Despite the very favorable macro statistics of Vietnam, many people took profits in what we see as an interim correction in a long-term uptrend. The bottoming process can be quite painful as investors throw in the towel and institutional investors have to sell at almost any price in a declining market with low volume. With around 2/3 of our companies having reported their annual results, we were pleased to see that majority of our holdings met our earnings expectations. There are only a few stocks where we need to adjust our position, and given the low market volumes, we will do this rebalancing carefully and less aggressively than during high volume periods.

With many local Vietnamese investors currently on the sidelines, the stock market is showing very little activity and is mainly driven by moves from a few highly capitalized stocks, or the lack thereof, as shown in the chart below. Vingroup, the biggest contributor to most Vietnamese indices, is a good example for that. Hitting an all-time high along with the index in April 2018, the stock has gone mostly sideways on declining volume since then, while most stocks have fallen 20-40% from their peaks. The trading pattern of Vincom over the past two months is even more astonishing during a time of high volatility in all markets, as this high P/E stock (trailing P/E of 85x) is showing very unusual stability – except for the two trading days around New Year's Eve where it shaved off almost 1% of the index's performance for 2018 but helped the index for almost the same amount on the first day of 2019.



Vingroup, 11/2017-01/2019; source: Viet Capital Securities

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We certainly try to reduce the volatility of our portfolio as much as possible through broad diversification, and hence avoid risks such as companies with high valuations and strong concentration. We acknowledge that average valuations came down significantly, but we hardly see much diversification in most index-tracking ETF's or other funds. The main reason lies in the high weighting of a few stocks in the indices which causes those funds to have similarly high exposure due to their aim to track the indices. We see enormous potential ahead for the Vietnamese economy, not only but also because of the ongoing shift from manufacturing production into Vietnam with the support of geopolitics. Picking tomorrow's winners today is a combination of knowledge, research and ultimately a good amount of luck and therefore certainly justifies a broader diversification into different sectors and market segments.

Most investors are probably not aware of the challenges ETF's and other funds in Vietnam are facing when they try to track an index. One of the difficulties is that foreign ownership limits make it very difficult for foreign funds to replicate some indices efficiently, since quite a few of the important index constituents have no more foreign room left. Another hurdle is the way some of these indices are constructed, with a handful of overpriced index heavyweights dominating the index and hence its price movements.

VN30-Index: combines the biggest stocks of both exchanges, and given the stock exchanges of HCMC and Hanoi are strongly rumored to merge soon, this index is becoming more and more important.

Biggest downside risks: Many of the stocks are hard or impossible to buy because they have reached their foreign ownership limit, top 3 holdings index constituents represent 40% of the index

Highest weightings: Vingroup 17.5% (P/E >50), Vinamilk 12.7% (P/E 23), Vietcombank 11% (P/E 14)

<https://www.investing.com/indices/vn-30-components>

FTSE Vietnam: only large cap stocks, but also takes into account that they are investable by foreigners

Biggest downsides: Top 6 stocks account for 74% of the index, Vingroup including subsidiaries alone for 38%

Highest weightings: Vingroup 15% (P/E >50), Vinamilk 15% (P/E 23), Vinhomes 15% (P/E 30)

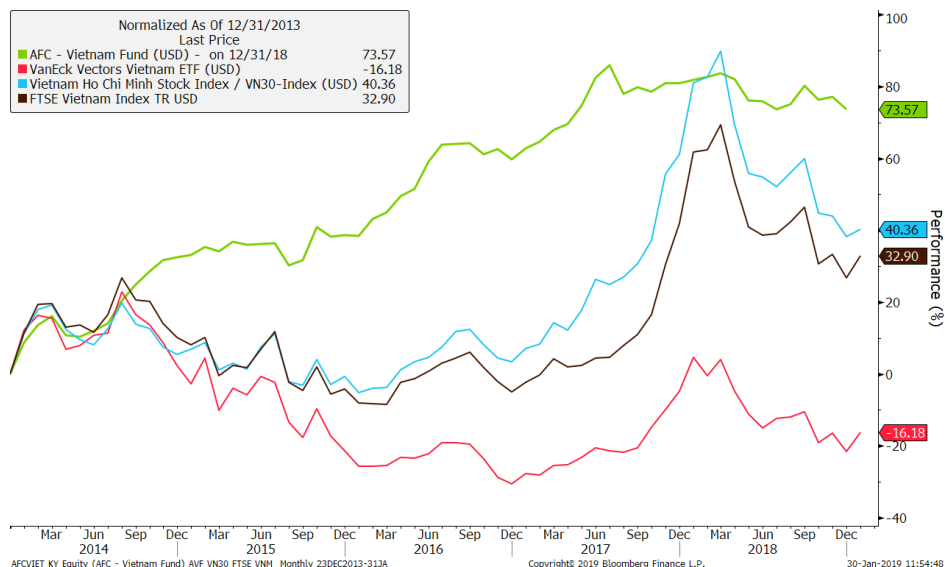
<https://www.ftse.com/products/indices/Vietnam>

VanEck Vietnam ETF (VNM): trying to replicate the index performance but limited to shares which are available for foreigners.

Biggest downsides: Invests in Vietnamese equities outside of Vietnam (latest information shows around 30% of the fund is allocated abroad), local investors always front-run the rebalancing of the fund as it is published in advance.

Highest weightings: Vingroup 8% (P/E >50), Vinamilk 7.6% (P/E 23), Vinhomes 6.6% (P/E 30)

<https://www.vaneck.com/etf/equity/vnm/index/>



AFC Vietnam Fund / VN30 / FTSE Vietnam / VNM (USD base) since 23 Dec. 2013; Source: Bloomberg

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Past performance is never a guarantee of future performance, but the much lower valuation combined with much broader diversification of our fund keeps us confident that we will see a revaluation of our portfolio again as soon as the broader market starts to perform again.

Just one example is our current, and biggest holding, Agriculture Bank Insurance Corporation (ABI), which just released its financial numbers for 2018. It is trading at just 5.2x current earnings. Over the past 3 years this company increased its revenues by 75% and the net profit by 110%. Along with most other mid- and small-caps, the stock price was slightly lower in 2018, but it is a perfect example of the tremendous future potential we see for our portfolio. Different to other listed insurance companies, ABI focuses on retail clients. About 70% of total revenue comes from retail clients. ABI sells its products through the banking system of the parent company, Agriculture Bank, which has one of the largest branch networks in Vietnam at over 2,500 locations.

Based on the unaudited financial statements for 2018, ABI reported a net profit of USD 7.4 million. The cash balance is around USD 72.6 million and liabilities amount to around USD 59.8 million which equates to a net cash position of an astonishing USD 12.8 million, compared to a total market cap of USD 38.7 million. It is interesting to note that around 80% of the liabilities are insurance provisions which will be booked as reserves at the end of the respective insurance policies as long as there are no pay-outs. ABI sold more than 1 million insurance policies to retail clients with an average insurance premium of around USD 40 per contract in 2018. It also has one of the lowest payout ratios on their flagship retail insurance product (we estimate around 25% of total premium income for 2018) in the industry and the average payout amount is around USD 4,200 per client.

Key numbers of ABI in 2018

Key factors	VND billion	USD million
Revenues	1,278	55.0
Net profit	172	7.4
Cash	1,688	72.6
Liabilities	1,391	59.9
Net cash	297	12.7
Market cap	899	38.7
P/E (x)	5.2	5.2

Source: ABI financial report in 2018, AFC Research

Stock Exchanges will close for TET Holidays

The stock markets will be closed from 4th February to 8th February due to TET Holidays in Vietnam. As mentioned in the previous report, TET is the most important family event for Vietnamese people. During TET Holidays there are a lot of outdoor activities such as TET flower festivals around the country and most importantly, people visit their relatives during the first 3 days of the holidays. In all of the streets you will see many women wearing their traditional Ao Dai dresses and they are normally quite happy, posing for photos with many tourists around.



(Source: CUONG ANH DAO PHOTO)

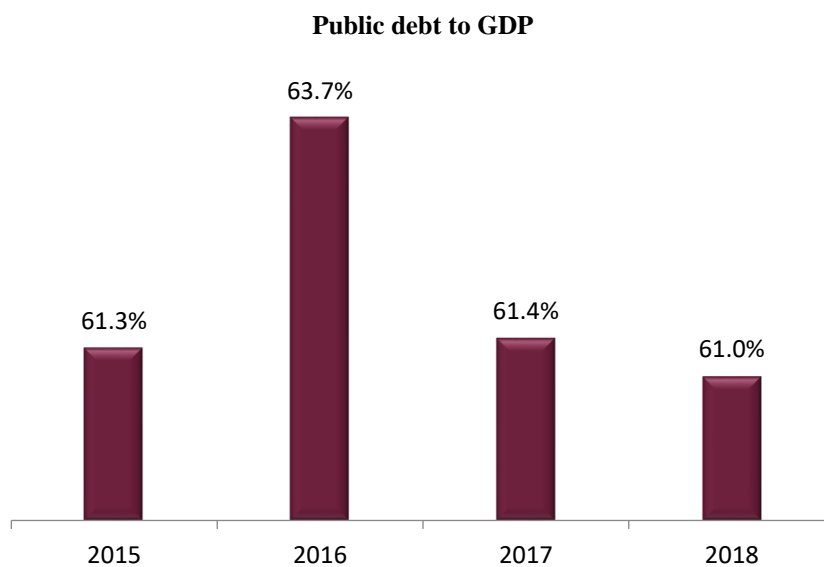
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Economy

Macroeconomic Indicators				
	2016	2017	2018	Jan-19
GDP	6.21%	6.81%	7.08%	7.08%
Industrial production (YoY)	7.5%	9.4%	10.2%	7.9%
FDI disbursement (USD bn)	15.8	17.5	19.1	1.6
Exports (USD bn)	176.6	213.8	244.7	20.0
Imports (USD bn)	174.1	211.1	237.5	20.8
Trade balance (USD bn)	2.5	2.7	7.2	-0.8
Retail sales (YoY)	10.2%	10.7%	11.7%	12.2%
CPI (YoY)	4.74%	2.62%	2.98%	2.56%
VND	22,600	22,755	23,175	23,240
Credit growth (YoY)	16.5%	17.0%	13.9%	
Foreign reserves (USD bn)	41	51	60	60

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

We are quite pleased to report that Vietnam's public debt to GDP has decreased over the past two years to 61% in 2018 from 63.7% in 2016.



(Source: Ministry of Finance)

Subscription

The next subscription deadline will be 22nd February 2019. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards

AFC Vietnam Fund

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Estimated NAV as of 31st January 2019

NAV	1,745*
Since Inception	+74.5%*
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%	-3.24%	-0.12%	-1.28%	+0.79%	+3.02	-2.14%	+0.45%	-2.05%	-4.17%
2019	USD	-1.8%*												-1.8%*

*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.

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