

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 NAV 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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Besides a handful of stocks which pushed up the HCMC Index, most other stocks were little changed or down in July, the same as with the small and mid-cap indices. The index in HCMC gained +4.4% and the Hanoi Index was up +0.9%. With a stronger Vietnamese Dong our NAV gained approximately +0.7% to around USD 1,828, according to internal calculations.

Market Developments

While earnings announcements for the second quarter are ongoing, banks and Vincom Group stocks led to a strong recovery of the Ho Chi Minh Index. Vietcombank, one of the leading banks in Vietnam, will become an insurance-distribution partner for Prudential Plc. and Hong Kong billionaire Richard Li's FWD Group. Based on unofficial sources, it is expected that Vietcombank will receive an initial payment of about USD 400 mln and additional payments depending on business performance.

It is interesting to note, that with the exception of the expensive Vincom-Group-stocks driving the HCMC Index, all other important indices were down over the past 3 months. Our fund, which is relatively uncorrelated, benefitted from some moves in inexpensive stocks which reported excellent earnings, like our biggest holding, the insurer Agriculture Bank Insurance (ABI), which rallied 20% over the past 3 months and is still trading at an unbelievable 4.7x price/earnings ratio, based on our 2019 estimates.



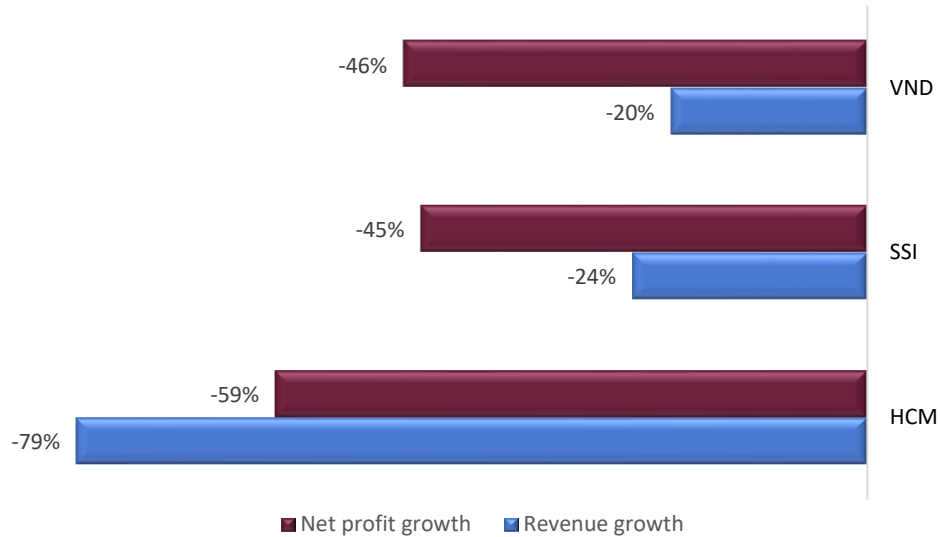
(VN30 Index June 2018 – July 2019 and market breadth HSX 1-month; Source: Viet Capital Securities)

Other sectors, such as construction and brokerage companies reported weaker earnings. One should expect that brokerage income should increase in a rapidly developing financial market like Vietnam, but with declining stock prices since spring 2018 trading volumes also decreased until earlier this year. The second negative factor of weaker earnings of brokerage companies is less activity/speculation from local "investors", who usually trade on rumors and care less about valuations. Since many, if not most Vietnamese retail investors are trading on margin, where they have to pay high interest rates of 10-15%, income from the interest received is often higher than the brokerage commission itself.

AFC VIETNAM FUND UPDATE

Some examples of how severe those shares have been hit can be seen in the stock price and earnings development of the leading brokerage stocks:

Revenue and Net Profit Growth of the 3 largest Brokers in 1H-2019 (%)



(Source: companies, AFC research, Vietstock.vn)



(Ho Chi Minh City Securities Corp, October 2013 – July 2019; Source: Viet Capital Securities)

While we believe that brokerage stocks are a very good high beta investment over the long term, our exposure to brokerage stocks is much lower than in the first few years of the fund. With an improving market environment where we can also see market turnover stabilizing, the sector could get attractive again soon.

AFC VIETNAM FUND UPDATE

Chinese people are buying Vietnamese property aggressively

It is no secret anymore that Vietnam's economy benefits from the trade war between the US and China. Chinese manufacturers and other multinational companies are shifting production from China to Vietnam, in order to avoid tariffs from the US. Some of the key beneficiaries are industrial park operators and warehouses lease companies in Vietnam.

Chinese entrepreneurs are not only buying industrial park land, but also Vietnamese property in general, such as apartments, land, real estate companies etc. Chinese investors have a preference for properties in cities such as Quang Ninh, Hai Phong, Danang, Dalat and Ho Chi Minh City. Quang Ninh and Hai Phong are quite close to the Chinese – Vietnamese border, Danang and Dalat are tourism cities and Ho Chi Minh is the economic capital of Vietnam. With the manufacturing shift from China to Vietnam, there is also an increased demand from new Chinese immigrants, to buy apartments, houses or land in Vietnam. Furthermore, Vietnam is one of the most visited tourist destinations for Chinese travelers due to affordable costs and beautiful landscapes. This is the main reason why property prices in those five cities are increasing at a rapid pace.



(Source: nvietnam-guide.com)

According to Vietnamese law, foreigners are allowed to buy up to 30% of the units in a building, of which Chinese nationals are accounting for about one-half of this. Although foreigners are not allowed to buy land in Vietnam, some Chinese investors still find ways to buy land in Vietnam through Vietnamese proxies. It is interesting to note, that especially in cities like Danang, Quang Ninh, Dalat, Nha Trang and Hai Phong, many restaurants, hotels and tourist attractions are owned and run by Chinese people, such as for example the largest casino in Danang, Crowne Plaza, which is owned by a Chinese citizen. But, also the most famous tourist place in Dalat, Valle d'amour (Love Valley) used to be owned by a Vietnamese company, is now in the hands of a Chinese company.

According to CBRE, a leading real estate brokerage, nearly one-third of their total transactions in 2018 came from Chinese clients. Mr. Thien Nguyen, a broker manager of Mirae Asset Securities Company, the largest Korean broker in Vietnam, said that they host 2-3 meetings and conferences for Chinese investors weekly, in order to introduce them to real estate projects in Ho Chi Minh City. Apparently, Chinese investors are very keen to buy Vietnamese properties and they don't usually bargain much.

AFC VIETNAM FUND UPDATE

Chinese investors visiting a real estate project showroom



(Source: Mirae Asset Securities Company)

According to Mr. Chau Vo, a property broker in Danang, Chinese investors are also aggressively buying land on Danang beach at almost any price, in order to build hotels, restaurants or shopping centers to provide services to Chinese tourists.

A restaurant owned by Chinese in Danang



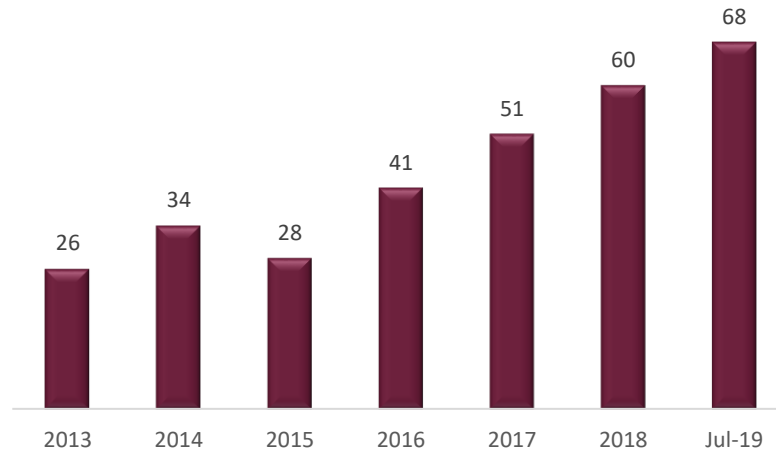
(Source: nld.com.vn)

Vietnam's foreign reserves reach a record high of USD 68 billion

Foreign direct investments and overseas remittances have helped the country to build up its foreign reserves which doubled over the past three years. This is an important factor to help the Vietnamese central bank to continue to stabilize the USD/VND exchange rate.

AFC VIETNAM FUND UPDATE

Vietnam's foreign reserves (USD bln)



(Source: cafef.vn, GSO, SBV, AFC Research)

Economy

Macroeconomic Indicators				
	2016	2017	2018	Jul-19
GDP	6.21%	6.81%	7.08%	6.76%
Industrial production (YoY)	7.5%	9.4%	10.2%	9.4%
FDI disbursement (USD bln)	15.8	17.5	19.1	10.6
Exports (USD bln)	176.6	213.8	244.7	145.1
Imports (USD bln)	174.1	211.1	237.5	143.3
Trade balance (USD bln)	2.5	2.7	7.2	1.8
Retail sales (YoY)	10.2%	10.7%	11.7%	11.6%
CPI (YoY)	4.74%	2.62%	2.98%	2.44%
VND	22,600	22,755	23,175	23,270
Credit growth (YoY)	16.5%	17.0%	13.9%	7.3%
Foreign reserves (USD bln)	41	51	60	68

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

Subscription

The next subscription deadline will be 26th August 2019. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

AFC VIETNAM FUND UPDATE

Estimated NAV as of 31st July 2019

NAV	1,828*
Since Inception	+82.8%*
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	-1.63%	+2.90%	+1.58%	+0.82%	-3.35%	+1.98%	+0.7%*						+2.9%*

*According to internal calculations

**The Fund has appointed ACOLIN Fund Services AG, 6 Cours de Rive, 1204 Geneva, Switzerland, as its Swiss Representative. NPB Neue Privat Bank AG, Limmatquai 1, 8024 Zürich, Switzerland is the Swiss Paying Agent. In Switzerland shares shall be distributed exclusively to qualified investors. The fund offering documents, articles of association and audited financial statements can be obtained free of charge from the Representative. The place of performance with respect to [shares distributed in or from Switzerland is 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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