

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	Trident Fund Services, Hong Kong
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

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The indices lost a good part of last month's recovery. This was mainly due to poor performance of the Vincom-Group-stocks and external factors such as the Chinese Yuan depreciation and subsequent big swings in world stock markets. While most European markets replicate the daily (investor's mood) swings from the US, Vietnam's volatility is comparably low. The Ho Chi Minh City Index declined by -1.2% and the Hanoi Index by -2.7%. Our portfolio was once again better protected from these factors and huge interest in our infrastructure investments compensated for the broader weakness. Our NAV lost only a marginal 0.3% to around USD 1,831, according to internal calculations.

Market Developments

In our discussions with current and prospective investors, we always explain in detail why we do not focus on tracking the index, but rather invest into long term investment stories of companies which should benefit from the fantastic growth prospects of Vietnam. As we reported in the past, we prefer to focus on our broad diversified portfolio investments rather than on just a few individual stocks which are "played" both by local investors and ETF driven index stocks.

The recent move of some of our stocks is a very good example of why we remain patient, even if these stocks don't move for an extended period. These stocks are usually extremely undervalued with high dividend yields and are suddenly bought aggressively as soon as there are some positive fundamental changes in those companies or within the sector. In our monthly May report we wrote about our industrial park investment *Sonadezi Long Thanh*, which started to receive investor attention as there are more and more foreign companies, including now also from China, shifting their production to Vietnam – something, we have already seen and reported for years. The rally in this stock continued and its price has now doubled over the past six months. While the company was one of our most attractive companies in our rating system at the beginning of the year (the P/E was only 5x!), it is now no longer as attractively valued as before and hence we aggressively reduced our holding in this stock during this period of high share turnover volume, which nicely facilitated our exit.



(SZL from June 2018 to Aug 2019; Source Viet Capital Securities)

We currently see a similar start of a move in our port and logistic investments where we currently own 7 stocks in our portfolio. We always saw these companies as logical beneficiaries of the production boom in this export driven economy, since products have to be transported to local ports in order to be shipped internationally. As shipping rates are globally marked in USD, those companies also offer protection to some extent if the Vietnamese Dong should weaken versus the USD one day.

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The whole sector gained sharply late last week on multi-year record volumes (in some companies the daily volume jumped by more than 1,000%) without any rumors in the market. Local investors, with around 70% market share of recent volumes, believe that Chinese investors are starting to invest into the port sector since it will benefit with increased Chinese investments in industrial parks due to the manufacturing shift from China to Vietnam. Just to illustrate some examples of port stock performances; *Dinh Vu Port* (DVP) surged +16.4% within 3 trading days, together with a sharp increase of 400% in trading volume. Another example of a port stock is *Tan Cang Logistic Company* (TCL), which went up 10% last week on a tenfold increase in volume.



(DVP from June 2018 to Aug 2019, source Viet Capital Securities)

Even though these port share prices increased rapidly in a very short time, they are still undervalued with P/E ratios of around 5x - 11x. With some of these port companies sitting on a lot of cash and high dividend payout ratios, we are convinced that this sector should see continued gains in the long run.

Company	Ticker	Debt ratio (*)	P/E	P/B
Vietnam Shipping Container	VSC	22.20%	5.5	0.8
Dinh Vu Port	DVP	12.10%	6.4	1.6
Tan Cang Logistic	TCL	32.70%	7.3	0.9
Doan Xa Port	DXP	5.70%	9.9	0.9
Danang Port	CDN	19.40%	11.6	1.4

(*) Debt ratio = total liabilities/total assets

(August 2019, Source: Vietstock, AFC research)

Ports, in this export driven economy, are an important sector in Vietnam, which has over 3,000 km of coastline. The Vietnamese Government has therefore invested considerable amount of money in various infrastructure projects, related to this sector. There are 44 important seaports along this coastline with a total capacity of around 500 million tons per year. The most well-known ports are in Hai Phong, Da Nang, Qui Nhon and Ho Chi Minh City, but there are numerous smaller ports as well, taking the total number of ports in the country up to around 320.

According to the Asian Development Bank, Vietnam invested much more capital (in relation to GDP) in infrastructure projects than for example Thailand and Indonesia. During the period 2009-2015, Vietnam has invested 5.6% of its GDP into infrastructure compared to 1.64% for Thailand and 2.64% for Indonesia. The Vietnamese Government has recognized the importance of these infrastructure investments (roads, railways, ports, aviation, telecommunication, power, etc.) in order to become an important manufacturing hub and hence to grow its economy at a rapid pace over the years to come.

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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

Estimated NAV as of 15th August 2019

NAV	1,831*
Since Inception	+83.1%*
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%	+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%	+1.18%	-0.3%*					+3.05%*

*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.

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