

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

Contact Information

Asia Frontier Capital Ltd.
www.asiafrontiercapital.com

Mr. Andreas Vogelsanger, CEO
Asia Frontier Capital (Vietnam) Limited
Tel: +66 84435 7472, Fax: +852 3904 1017
av@asiafrontiercapital.com

Registered Office:
c/o Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue, George Town,
Grand Cayman KY1-9005,
Cayman Islands

Hong Kong Office:
Asia Frontier Investments Limited
905, 9th Floor, Loon Kee Building
267-275 Des Voeux Road Central
Hong Kong

September is known as a seasonally weak month for global stock markets, and this year was no exception. The first two weeks were weak except for the last two trading days which erased earlier losses. The Ho Chi Minh City Index gained +0.3% and the Hanoi Index lost -0.1%. Small caps were hit particularly hard and lost 4% in 10 trading days, before a slight rebound set in. Along with that weakness our portfolio was also slightly lower because of profit taking in names which showed strong gains recently. Our NAV currently stands at USD 1,848, a loss of -1.0%, according to internal calculations.

Market Developments

The past few years have been somewhere between difficult and miserable for value and small cap investors, globally. Common thinking is that both are related – ‘small’ must be cheap and ‘big’ should be traded on higher valuations, but after all it is simply a result of supply and demand. History shows that these kinds of premiums which investors are willing to pay have varied significantly over the past decades, with for example blue chips leading the US market in the 70’s and early 90’s, or in the years preceding the global financial crisis of 2008/09; and just recently. US small caps on the other hand rose to extreme valuations in the 60’s, late 90’s and lately in the past few years. While this phenomenon can be seen in all markets, it is not synchronized between different countries. It is more a factor of when and where speculation leads to a bubble in certain sectors with the very understandable synchronized lemming-style behavior of media, analysts and investors – “if I do what everybody else does, nobody – including myself – will criticize my investment decision”. And we all know how this usually ends up...

Russell 2000 performed very similar to S&P 500 for years, but underperformed 20% over the past year



(Source: Bloomberg)

This phenomenon can also be seen in Vietnam when, in the early years of the stock market, small stocks gained dramatically. It is widely argued that small investors were pushing up many of those small caps to unreasonable valuations until the market bust in 2007/2008. It might be true that small investors, together with the first hype in media and by some adventures foreign investors, were pushing up prices to sky high valuations. Just 10 years later, and we saw the very same category of investors, this time with the accompanied power of ETF’s, pushing up blue chips to mostly unreasonable valuations in 2017/18.

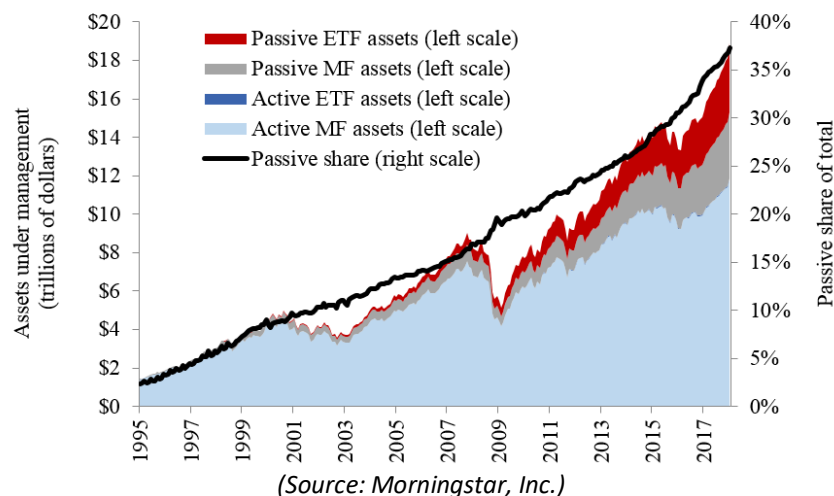
AFC VIETNAM FUND UPDATE



(HNX 2006-2008, HSX 2016-2018; Source: Viet Capital Securities)

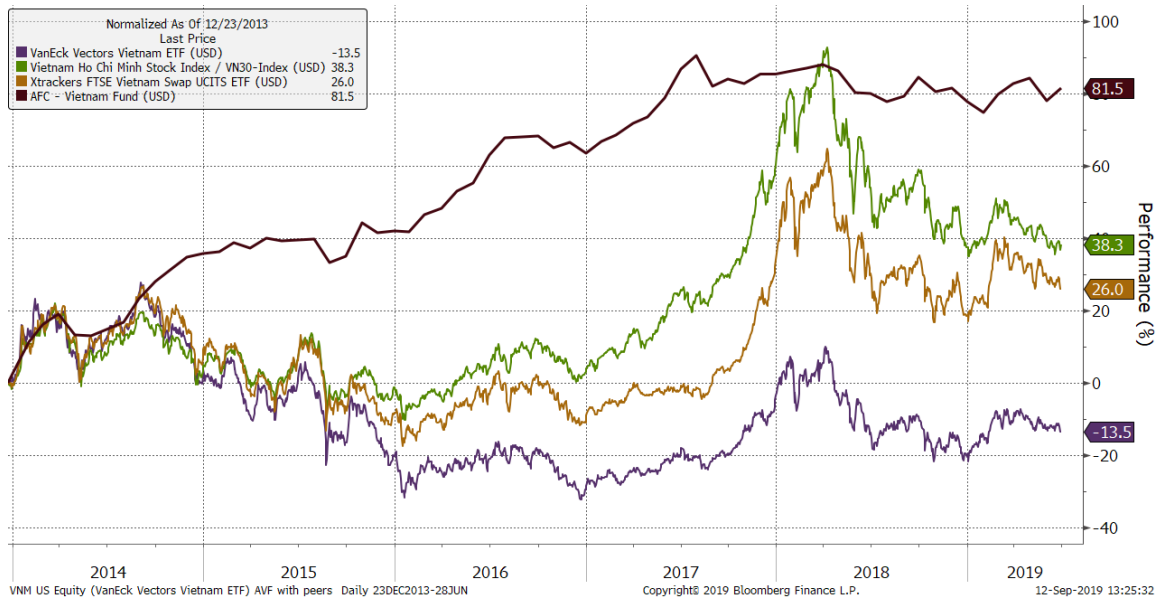
Like in almost every country around the globe, passive investing in Vietnam via ETF's was the main source of inflows into the stock market in recent years. From an investor point of view, it is understandable why ETF's are popular, since one can avoid stock or actively managed fund picking decisions. Reducing the risk of being wrong to the only decision of when to buy or sell a product which tracks the index in the best possible way seems to be logical as the majority of private and institutional investors are doing the same at the moment. In the investment world, as in the real world, it always feels good going with the crowd and staying in the "comfort zone", but with passive investments slowly overtaking actively managed investments, skeptics already speak of a 'passive investment bubble'. A market where nobody cares anymore about valuations and instead only execute buy and sell orders according to their computer models? Somebody will have to pay the bill at some point.

Passive investment share reaching 40% after less than 10% just 20 years ago



Unlike in other markets where ETF's track the index very closely, this is not the case in Vietnam where foreign listed ETF's are simply not able to replicate the index due to foreign ownership limits. Adding the growing number of locally listed ETF's, we see the same market action where a huge amount of money is chasing the same limited number of shares. Currently, local ETF's manage only around USD 50 mln, far less than foreign listed ETF's which are all facing limitations due to the above described reasons.

AFC VIETNAM FUND UPDATE



(Source: Bloomberg)

Like everywhere else, fewer than about 5% of all traded companies in Vietnam are getting most of investor's attention and represent the vast majority of new money flowing into the stock market. This also explains the rising volatility in index stocks in comparison to small- and mid-cap stocks, which is not something we have seen many times in the past.

Mid-Autumn Holiday – Sweet Moon Cake not for everybody

The Mid-Autumn festival is one of the most important events for Vietnamese people and happened on Friday, 13th September this year. On this day, Asian people, and especially Vietnamese people, reunite with their families to celebrate this day. Pre-event activities typically start 2-3 weeks in advance with for example the traditional lion dance, or village competition games in the countryside. Villagers often hang a gift on a tree or a gate for the lion to catch. This gift usually contains a small amount of money for the local kids. Often, parents make lanterns from bamboo or tin cans for their children.

Lion Dance



(Source: vnexpress, FPT Online JSC)

AFC VIETNAM FUND UPDATE

Bamboo and tin lanterns



(Source: Vietnamnet Media JSC)

In the cities, confectionery stores sell the typical Mid-Autumn festival Moon Cakes, which serve as a gift for families and friends.

Moon Cake store of Kinh Do Confectionery Company



(Source: Kinh Do)

Three years ago, Kinh Do was the most popular and most famous brand name in the confectionery business. During Mid-Autumn holidays there are thousands of Kinh Do stores in the streets and moon cakes become one of the sweetest businesses for them. In 2014 Kinh Do sold its confectionery business to Mondelez International, an American confectionery company, for around USD 400 mln. They rebranded their products to Kinh Do Mondelez and put a US management team in charge which restructured the company. It was first widely assumed that the Kinh Do Mondelez brand would become a success story in Vietnam, due to their sound capital base, huge human resources, international experience and an impressive distribution network which they acquired from Kinh Do Group. Unfortunately, after only five years the Kinh Don Mondelez Moon Cakes lost popularity and various competitors gained market share.

Economy

The State Bank of Vietnam (SBV) announced it will cut its policy rates for the first time since October 2017 amid interest rate cuts from the FOMC, ECB and several other central banks due to a weaker global outlook. Accordingly, the SBV will reduce refinancing rate and rediscount rate by 25bps to 6% and 4%, respectively.

AFC VIETNAM FUND UPDATE

Vietnam revised its 8 months trade surplus up to USD 5.4 bln, due to higher-than-estimated export revenues (USD 25.9 bln; +USD 1.39 bln vs the prelim estimates) in August.

Subscription

The next subscription deadline will be 24th September 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 September 2019

NAV	1,848*
Since Inception	+84.8%*
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%	+1.18%	+1.63%	-1.0%*				+4.0%*

*According to internal calculations

**The Fund has appointed ACOLIN Fund Services AG, succursale Genève, 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.

DISCLAIMER

Investments in equities in Vietnam are subject to market risk, idiosyncratic risk, liquidity risk, and currency exchange rate risk. The fund may use financial derivative instruments as a part of the investment process. This document does not constitute an offer to sell, or a solicitation of an offer to buy shares in AFC Vietnam Fund. We will not make such offer or solicitation prior to the delivery of an offering memorandum, the operating agreement or articles of association, a subscription booklet, and other materials relating to the matters herein. Before making an investment decision, we advise potential investors to read these materials carefully and to consult with their tax, legal, and financial advisors. The materials have not been reviewed by the regulatory authority of any jurisdiction. Investment is open only to accredited investors as defined by the relevant legal jurisdiction of residence and/or nationality. We have compiled this information from sources we believe to be reliable, but we cannot guarantee its accuracy. We present our opinions without warranty. Past performance is no guarantee of future results. © 2019 Asia Frontier Capital Limited. All rights reserved.