

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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Earnings announcements for the third quarter dominated October, along with a strong one-day recovery on Wednesday in the Vincom-Tickers that helped the major index out of the red to close almost unchanged for the month. The indices in HCMC and Hanoi were up +0.2% in HCMC and +0.1% Hanoi respectively. Market breadth continued to be very negative on broad based selling which, apart from some blue chips, dragged down the small- and mid-cap indices significantly. Our portfolio was also impacted and lost approximately -2.2% to USD 1,791, according to internal calculations.

Market Developments

Investing sometimes leads to very strange behavior in human beings. When it comes to work, such as planning one's career or family activities, etc. people normally behave in a rational manner, but often act irrationally when it comes to managing their money. People do accept that reaching a certain level in chess or taekwondo for example will take a lot of training, discipline and a good amount of talent. But for whatever reason, when it comes to investing, greed often seems to overtake rational thinking. Not only, but especially in today's zero interest rate environment, people are trying to chase stories promising unrealistic, if not astronomical gains, although those gains are totally unrealistic in 99% of cases. But this one remaining percentage point of fantastic success stories, which they hear or read about is the reason why investors believe in miraculous gains being achievable in the stock market, very similar to why people go to the casino or play the lottery.

The real world however looks different. So, what kind of returns can we expect in a world where "yield" is a word which young investors have only heard from their parents? Bond markets have always been much more straight forward when it comes to risk/return and they now offer, in the developed world, between slightly negative (totally unimaginable 10 years ago) to very low single digit yields, depending on the currency and bond credit quality. Nobody would question the fact that one has to take more risk for a higher yield compared to safer bonds. For stocks, the following study shows the real annual total returns (including dividends and adjusted for inflation) for the US stock market over the past 120 years, shown for every decade.



(Source: ZenInvestor NFP)

AFC VIETNAM FUND UPDATE

Stocks have always shown higher returns in the long run (because of higher risk), but it is interesting to see that inflation adjusted returns were “only” positive during 7 decades, while they were astonishingly negative for 5 decades.

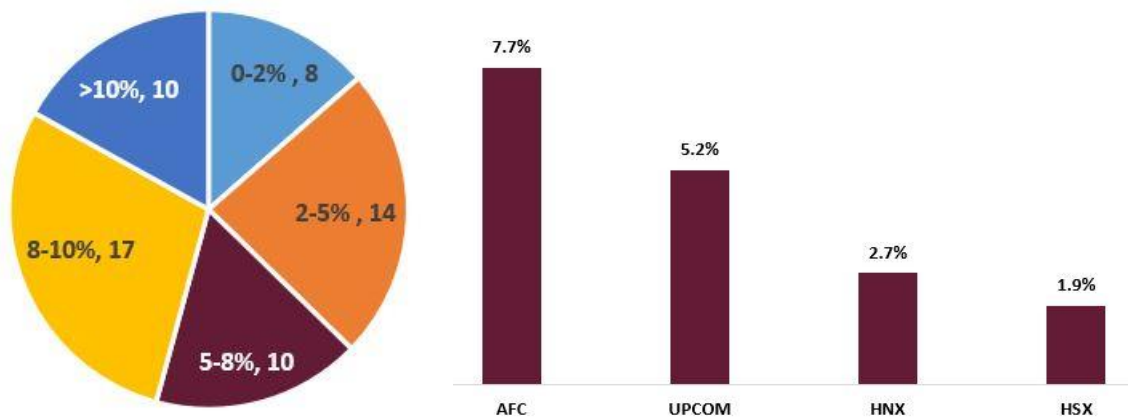
Yield, yield, yield...

Most bond investors already lose money when accounting for inflation. In the past, bond prices and bond funds were able to gain in value because of ever lower interest rates, but the outlook for the next 10-20 years look gloomy in a post-Draghi ECB.

Possible investment alternatives to bonds are gold, which also returns zero interest and is also a speculation on higher prices, while real estate in most places around the world has already risen substantially over the past few years with ever declining borrowing costs and fading fears after the global financial crisis of 2008.

The stunning reality is that quality stocks around the world offer much higher yields than most bonds. This is especially so in emerging market value stocks which seem to be close to the end of their multi-year underperformance cycle and offer extremely attractive dividend yields. In our fund we are not particularly looking for high dividend yield stocks, but we focus on undervalued companies with a clean balance sheet and possible growth in the fast-growing Vietnamese economy. When companies are able to generate a substantial amount of cash flow year over year and have little or no debt to pay back, then they usually offer investors a generous cash dividend, unless they have a strong investment program running for future growth.

Dividend yields of stocks in our portfolio universe, and # of stocks – Dividend yield of indices and AFC Vietnam Fund



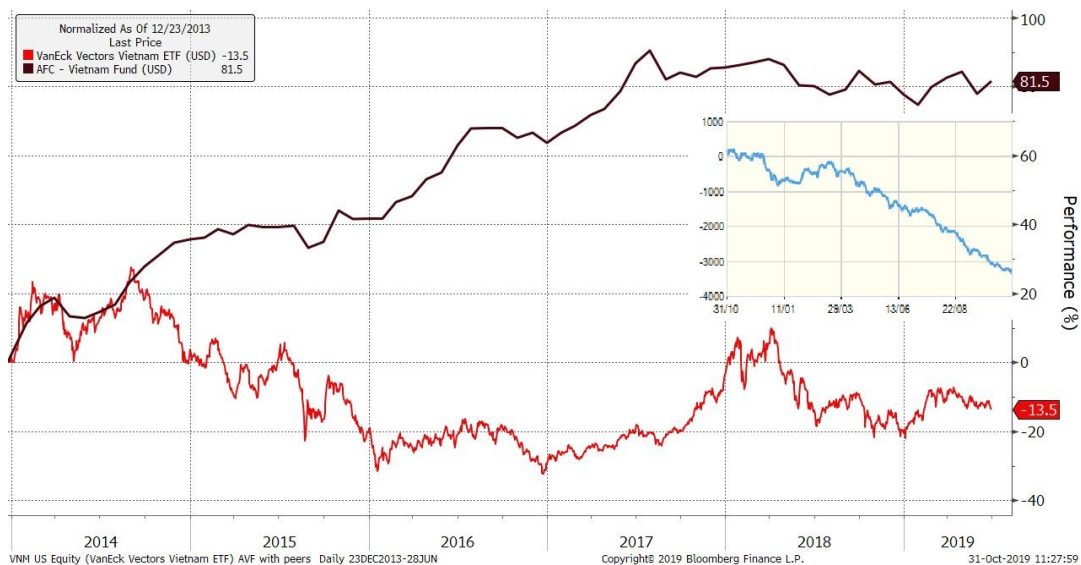
(Source: AFC Vietnam Research)

Our average portfolio yield (cash dividends only) is currently 7.7% with our highest yielding stock being at 12.5%, not seen in many other funds around the world. With our investment process we usually also avoid companies which are not able to sustain their dividend payout ratio - which is important, because sometimes companies look inexpensive with high dividend yields, but cannot continue those high payouts because of declining earnings.

We strongly believe that our investment process which leads to our portfolio of attractive dividend yields is also one of the main reasons that our volatility is much lower than other funds or ETF's, and why we were able to hold our NAV stable during a time where the index and other funds lost ground over the past 18 months.

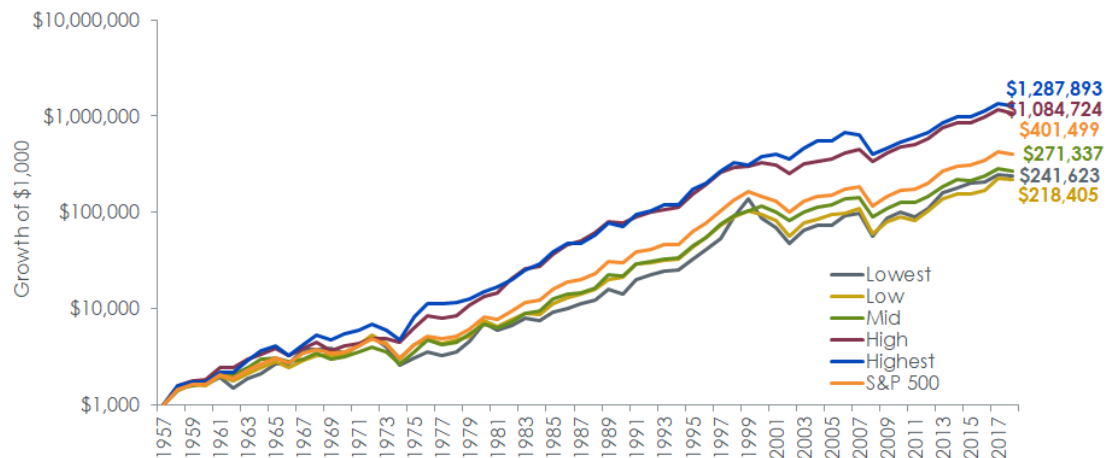
AFC VIETNAM FUND UPDATE

AFC Vietnam Fund vs. Vietnam ETF (VanEck Vectors Vietnam), with market breadth HSX



(Source: Bloomberg, Stockbiz)

Even more important, when the cycle changes again and value stocks start to outperform along with a better market breadth, stocks with high dividend yields should lead the list of gainers as people want to lock in those yields and also see upside potential in stock prices. Many studies have shown that over the long-term, portfolios with high dividend yielding stocks fared better than the average portfolio with lower yielding stocks – an observation we definitely agree with and also foresee this with our fund. Over the past six decades, high dividend yielding stocks were able to generate 5x the profits of low dividend stocks!



(Source: WisdomTree.com, Professor Jeremy Siegel, *The Future for Investors* (2005), source updated for 2018 data)

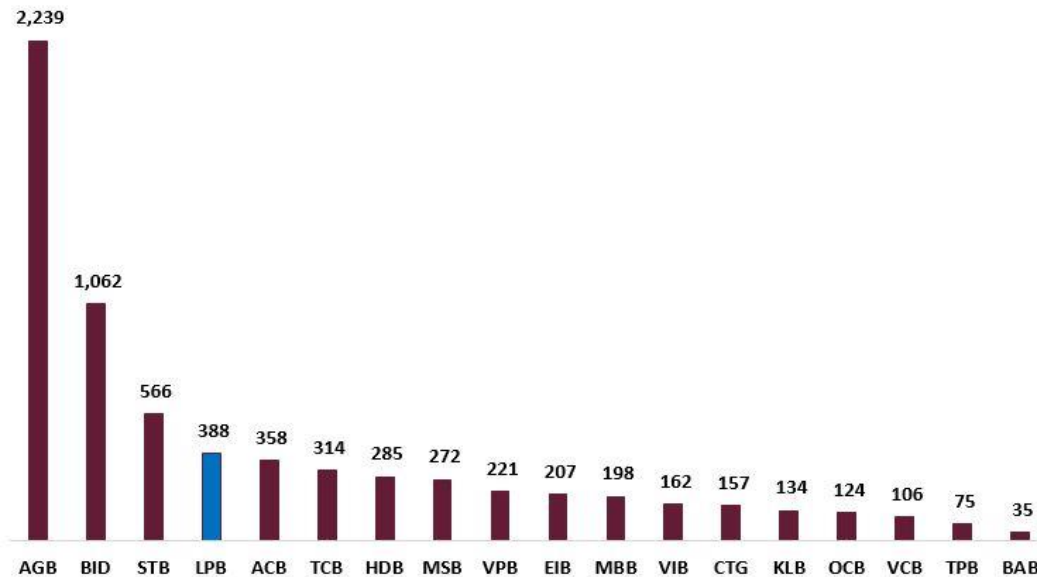
Lien Viet Post Bank – a still undiscovered diamond

This month we met with the Vice CEO and CFO of Lien Viet Post Bank (LPB), one of the largest privately-owned banks in Vietnam, with more than 450 offices in all 63 provinces. LPB was set up during the global financial crisis in 2008 and has since then expanded rapidly. At the AGM in April 2019, Mr. Pham Doan Son, the incumbent CEO, informed shareholders of

AFC VIETNAM FUND UPDATE

their new strategy. Given that LPB is a relatively young bank, it will be difficult to compete with older and bigger well-established banks. He therefore decided to focus on retail banking, especially in second tier cities and rural areas in Vietnam, given that nearly 65% of the total population lives in the countryside. The aim is to leverage from its already impressive branch network and to expand it even further. In the first nine months of 2019, the bank increased their offices from 388 to 450 and they expect to reach 540 offices by the end of 2019. But during our meeting with the Vice CEO of LPB, he explained that their goal is to have a total of 1,000 offices by 2023 all over in Vietnam and hence to overtake BIDV to become the second largest bank in terms of branch network, after Agriculture Bank (100% state owned) with more than 2,500 offices.

Bank branch network by the end of 2018



(Source: Vietstock Finance, AFC Research, SBV)

Of course, a rapid expansion of a branch network comes at a cost, but LPB is confident that it will pay off over time. If we look back at their last 5 years of expansion, they are now in a position where profits are beginning to accelerate, especially in segments such as payments, bancassurance, digital banking and pension services.

Net revenue and profit of Lien Viet Post Bank (VND bln)



(Source: audited financial reports of LPB, AFC Research)

AFC VIETNAM FUND UPDATE

Among the listed banks in Vietnam, LPB is probably the most undervalued bank with a trailing PER of 4.7 and with a PBR of 0.5 (the stock trades far below book value). One of the reasons for this undervaluation is that LPB is listed on UPCOM, which is an electronically traded third market, besides the HCMC and Hanoi stock exchanges, and hence LPB is not covered by most of brokers and research analysts.

Ticker	Total assets (VND bln)	PER	PBR
BID	1,425,398	24.6	2.3
CTG	1,183,796	14.8	1.1
VCB	1,157,490	24.3	4.0
STB	450,200	14.0	0.8
MBB	397,441	8.1	1.5
TCB	367,538	6.3	1.5
VPB	358,236	7.2	1.3
ACB	358,175	5.9	1.5
HDB (*)	210,291	10.1	1.5
LPB	193,536	4.7	0.5
EIB (*)	159,600	30.7	1.3
TPB	153,929	7.7	1.6

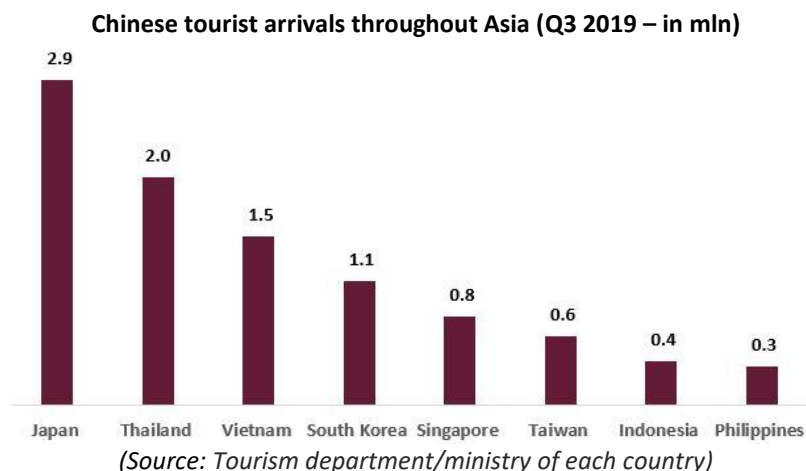
(Source: HSX, HNX, AFC Research, Vietstock)

(*) based on Q2/2019 earnings

Chinese arrivals rebound

The Vietnam National Administration of Tourism released the latest tourism data, showing strong growth in total international arrivals by air, +16% YoY in Q3 2019 to 3.5 mln passengers.

This strong growth was mainly driven by a 20% YoY spike in Chinese arrivals in Q3 2019 to 1.5 mln passengers vs H1 2019's Chinese arrival growth of -3.3% YoY. We note that Chinese passengers made up approximately 31-35% of the total number of international arrivals in Vietnam by all transportation modes from 2017-9M 2019. Notably, Chinese arrivals surged in September 2019 as they achieved 49% YoY growth, which we expect will create growth momentum toward the end of 2019.



AFC VIETNAM FUND UPDATE

Economy

Macroeconomic Indicators				
	2016	2017	2018	Oct-19
GDP	6.21%	6.81%	7.08%	6.98%
Industrial production (YoY)	7.5%	9.4%	10.2%	9.5%
FDI disbursement (USD bln)	15.8	17.5	19.1	16.2
Exports (USD bln)	176.6	213.8	244.7	217.1
Imports (USD bln)	174.1	211.1	237.5	210.0
Trade balance (USD bln)	2.5	2.7	7.2	7.1
Retail sales (YoY)	10.2%	10.7%	11.7%	11.8%
CPI (YoY)	4.74%	2.62%	2.98%	2.24%
VND	22,600	22,755	23,175	23,145
Credit growth (YoY)	16.5%	17.0%	13.9%	8.4%
Foreign reserves (USD bln)	41	51	60	73

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

Subscription

The next subscription deadline will be 25th November 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 October 2019

NAV	1,791*
Since Inception	+79.1%*
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%	+1.63%	-1.89%	-2.2%*			+0.1%*

*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

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