

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 60 days notice |
| Benchmark | VN Index |
| Fund Manager | Vicente Nguyen |
| Investment Manager | Asia Frontier Capital (Vietnam) Ltd., Cayman Islands |
| Investment Advisor | Asia Frontier Investments Ltd., 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 |

Contact Information

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Winner Relative Value: AFC Vietnam Fund



The trend of decoupled big and mid-cap stocks continued in the first few trading days of September. On declining volume, the main index traded above 800 for the first time since 2008 while small- and mid-caps have lagged blue chip stocks. The indices in HCMC and Hanoi are up +2.9 and +0.6% respectively. While our portfolio also recovered a bit from the early September lows, but the NAV of our fund still declined slightly by 0.6% and stands now at USD 1,809, according to internal calculations.

Market developments

The broader market continued to be weak during the first half of September. While the 3rd quarter is historically not the best time for stock markets around the world, blue chips have been outperforming smaller stocks for quite a considerable time now, and not only in Vietnam.

We are value investors and hence look for undervalued stocks - independent from their market caps - and we are currently analyzing around 230 stocks in our earnings model which have an average P/E of approximately 10x, based on estimated 2017 earnings. This coverage represents about 40% of all listed and tradable stocks, excluding mainly tiny, largely untraded or almost bankrupt companies. Even if that universe, consisting of small-, mid- and large-cap shares, are not all "value stocks" per definition, they definitely represent a different group of stocks than ETF's and index orientated investors are looking for. This is in strong contrast with the largest index, HSX – Ho Chi Minh Index, which is trading at 16x earnings and with its top 5 holdings trading at 16-40x earnings! Those five companies alone contributed around 5% of the index gains since the end of June.

Actually, we see global value stocks currently trading at a deeper discount to large caps in terms of P/E multiples than at any point in the last 10 years! According to Morningstar, in the USA investors have redeemed about USD 30bn from U.S. large-cap value funds over the past 10 years. We cannot forecast market developments, but that translates historically either into higher gains for value stocks or smaller losses in the case of a market correction.

Growth stocks trample value share performance S&P 500 growth index versus S&P 500 value index



Source: FT, Bloomberg

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U.S. Equities - S&P Indexes

| ETF or ETN | Today | 3 Mths | 1 Yr▼ | YTD |
|-------------------------|-------|--------|-------|-------|
| Large Cap Growth (SPYG) | 0.9% | 3.3% | 21.1% | 17.4% |
| Small Cap Growth (SLYG) | 1.2% | -2.6% | 14.9% | 2.8% |
| Small Cap Value (SLYV) | 1.1% | -2.8% | 14.2% | -1.0% |

Source: Seeking Alpha

The huge discrepancy between those two investment philosophies – value and growth investing - is indeed also very visible in Vietnam. Since the end of the second quarter we saw strong corrections in the small- and midcap segment while some big cap names pushed the main index to a new 9-year high.



Mid-cap-index and market breadth July - mid September 2017; Source: Viet Capital Securities, stockbiz.com

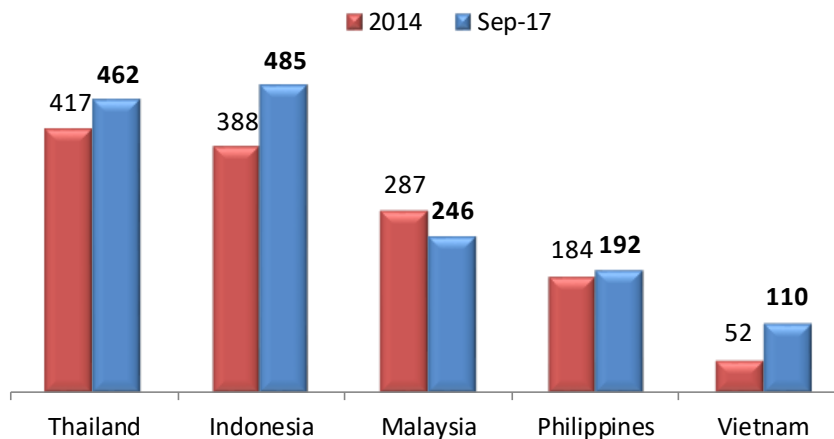
While we are focusing on inexpensive stocks, our model also takes earnings momentum into account, which means that our portfolio should outperform when the general hype towards “story”-stocks, such as IPO’s, change in foreign ownership limits and foreign acquisitions, fade and investors once again start looking at valuations.

Vietnam’s stock market – the fastest growing and highest potential market in the region

Since the beginning of 2017 the Vietnamese government sped up state owned company privatizations and is encouraging private companies to list on one of the stock exchanges. Hence, Vietnam’s stock market has become one of the fastest growing markets in the region, in terms of market capitalization. In 2014 the total market capitalization of the Vietnamese stock market was only around USD 52 billion. Since then it has increased sharply to around USD 110 billion as of YTD 2017, growing by 121% compared to 11% in Thailand, 25% in Indonesia, 4% in the Philippines and -14% in Malaysia. Despite its fast-growing market, Vietnam is still relatively small and hence has ample room to grow further in the coming years, playing “catch up” with its regional peers.

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Market capitalization by country (USD billion)

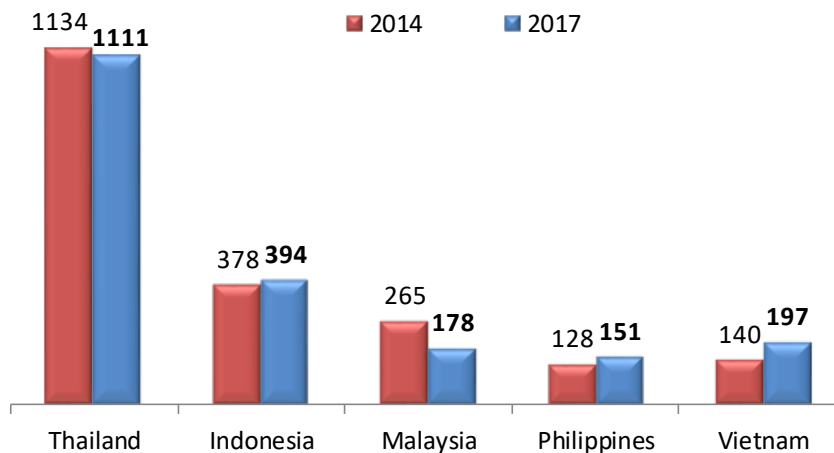


Source: Bloomberg

Vietnam currently has 22 listed companies with a market cap of over USD 1 billion, compared to 92 in Thailand, 81 in Indonesia, 77 in Malaysia and 58 in the Philippines. Only within the last 12 months were there 7 newly listed companies with a combined market cap of around USD 22.8 billion. 4 out of these 7 companies were privatized state-owned enterprises with a total market cap of USD 17.6 billion and the remaining 3 were private companies with a total market cap of USD 5.2 billion. The Vietnamese Government is planning to divest a further 406 companies through 2020 and it is therefore expected that the total market cap of the Vietnamese stock market will grow yet further.

The average daily trading volume (ADTV) of the Vietnamese market surged 41% over the past 3 years from USD 140 million in 2014 to USD 197 million in 2017. The market size is certainly getting bigger and the number of investors (domestic and foreign) is growing strongly. As a comparison, it is interesting to note the ADTV development of Vietnam's regional peers over the same period: Thailand dropped by 2%, Indonesia increased a modest 4%, Malaysia slid by 33% and the Philippines grew by 18%. In absolute value terms, Vietnam's ADTV has already overtaken Malaysia and the Philippines and now ranks 3rd within the region.

Average daily trading value by country (USD million)



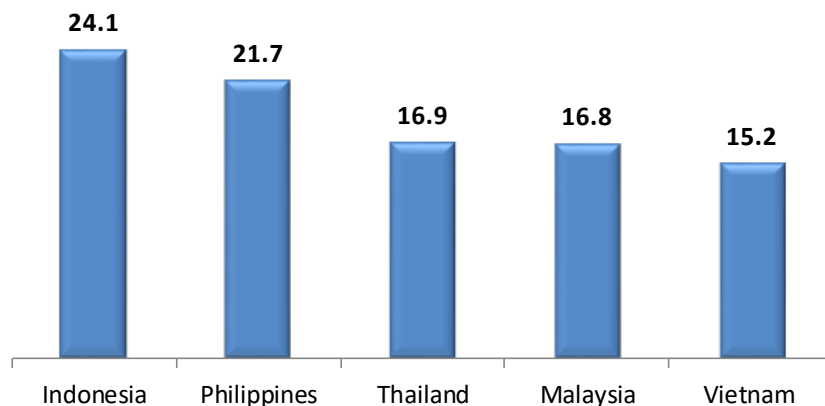
Source: Bloomberg

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Despite being the fastest growing stock market, Vietnam is still comparatively cheap to others. Vietnam is currently trading at an average PER of 15.2, compared to Thailand with 16.9, Malaysia with 16.8, the Philippines with 21.7 and Indonesia with 24.1.

Also in terms of GDP, Vietnam's economy is flourishing with an expected growth rate in 2017 of 6.5%, compared to estimates for Thailand of 3.2%, Malaysia of 5%, the Philippines of 6.5% and Indonesia of 5.1%.

Valuation by country (PER)



Source: Bloomberg

It seems that Vietnam slowly but surely is appearing on the radar of international investors, with foreign stock trading accounts surging by more than 9,000 in 2017, totaling 21,000. This is certainly due to increases in market size and liquidity, combined with attractive valuations and favorable growth outlook. This trend is expected to continue for a considerable time.

Subscription

The subscription deadline for this month will be the 25th September and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 15th September 2017

| | |
|------------------------|------------|
| NAV | 1,809* |
| Since Inception | +80.9%* |
| 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% | -0.6%* | | | | +10.6%* |

*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.*

DISCLAIMER

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