

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) 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

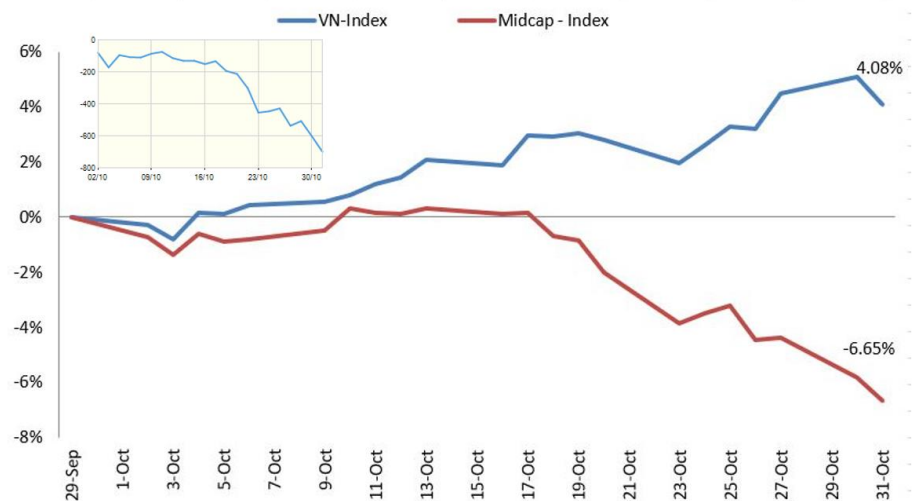


During the month of October, we witnessed an acceleration of the selling pressure from previous months out of small and mid-cap stocks. While the index in HCMC increased sharply by 4.1% due to a single stock, mid-caps lost 6.1% on average, while the index in Hanoi was down 2.3% as well. In this sort of environment, we were content that our portfolio managed to be relatively stable, finishing the month with a small loss of 0.6%, resulting in a NAV of USD 1,830, according to internal calculations.

Given our growing assets under management and investor base, we decided to increase our fund liquidity and hence reduced the redemption notice period from 60 days to 30 days. This change will have no impact on our investment strategy, but is certainly beneficial to our existing clients and will most likely attract additional investors.

Market developments

The discrepancy between different Vietnamese indices was the highest we have seen since the inception of our fund. It is very unusual to see indices in the same market move in opposite directions to such an extent in such a short period of time. Index composition always results in some under- or outperformance of certain sectors or of different indices, but recent market action is worth noting. The only net contributor to the gains in the main index was one index heavyweight, which doubled (!) last month and now has a market cap of USD 4bn. Foreign ownership is less than 2%, so just some local investors are playing this stock. With a valuation of 200x earnings and 20x book value and sales, we are not talking about a fancy high-tech company – no, we are talking about a plain vanilla construction company! Unfortunately, during most trading sessions in the month of October we have seen many more stocks trading down than up which resulted in an extraordinary weak market breadth – once again.



Market Breadth of VN Index / VN Index vs Midcap Index; Source: AFC



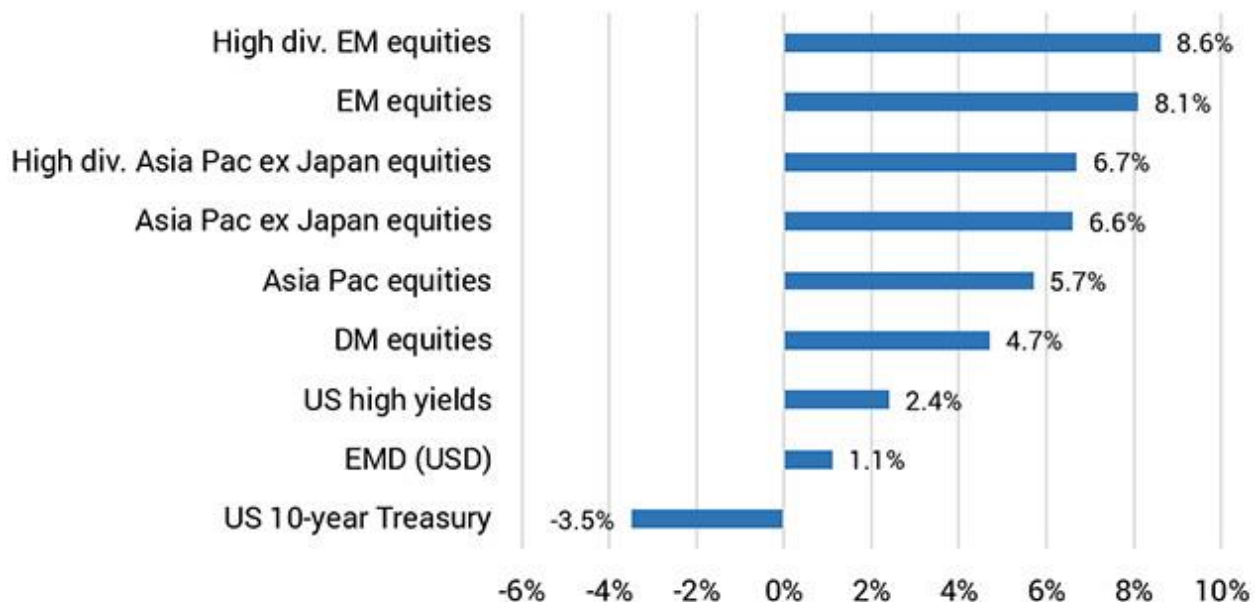
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Meanwhile most of our companies have reported their third quarterly earnings and were able to meet our expectations. Hence there was only a minor portfolio rebalancing this quarter, while our valuations continued to get more attractive; just the opposite of what we see for the main index and many other markets around the world.

While Vietnam's economy has outperformed most other Asian markets for some time now, the recent strength was mainly achieved thanks to a strong acceleration in credit growth, as reported by some banks of around 20%. This trend is of concern to some economists, but bank stocks are in vogue due to increased consumer lending and are now enjoying much higher valuations than most other Asian banks, though this doesn't seem to bother investors. Foreigners however will have to pay a hefty premium in order to buy these banks since the FOL (foreign ownership limit) is already fully used up and only such a hefty premium will tempt some foreign shareholders to sell. As we previously mentioned, given that we are value investors, we wouldn't buy these index-heavy-weight banks and we will not change our stance on this. But with many new banking stocks now recently listed on the stock market we have bought a bank which on one hand still has room for foreigners (but whose FOL seems to be closing rapidly) and on the other hand which has a very attractive valuation of 5.6x estimated 2017 earnings despite strong growth in recent years.

With the world on the verge of rising interest rates, investors worldwide are continuing to discuss the possible effects of rising interest rates for stock markets, especially emerging markets which are usually adversely affected in their opinion. A recent JP Morgan study covering the effects of rising interest rates over the past 20 years shows that in reality emerging markets did pretty well, especially stocks offering high dividend yields. With the average dividend yield of companies in our portfolio at approximately 6% currently, we are very pleased to see this confirmation of our strategy in the current interest rate environment. We are not explicitly looking for high dividend stocks, but with our strategy of searching for undervalued companies with strong balance sheets high dividend yields are a very welcomed side effect.

Total Return in a Rising Yield Environment Annualised Avg of Rolling 3-Month Total Return (1994-2017)



Source: JPMorgan's Guide to the Markets – Asia

Data as of Sep 30 2017

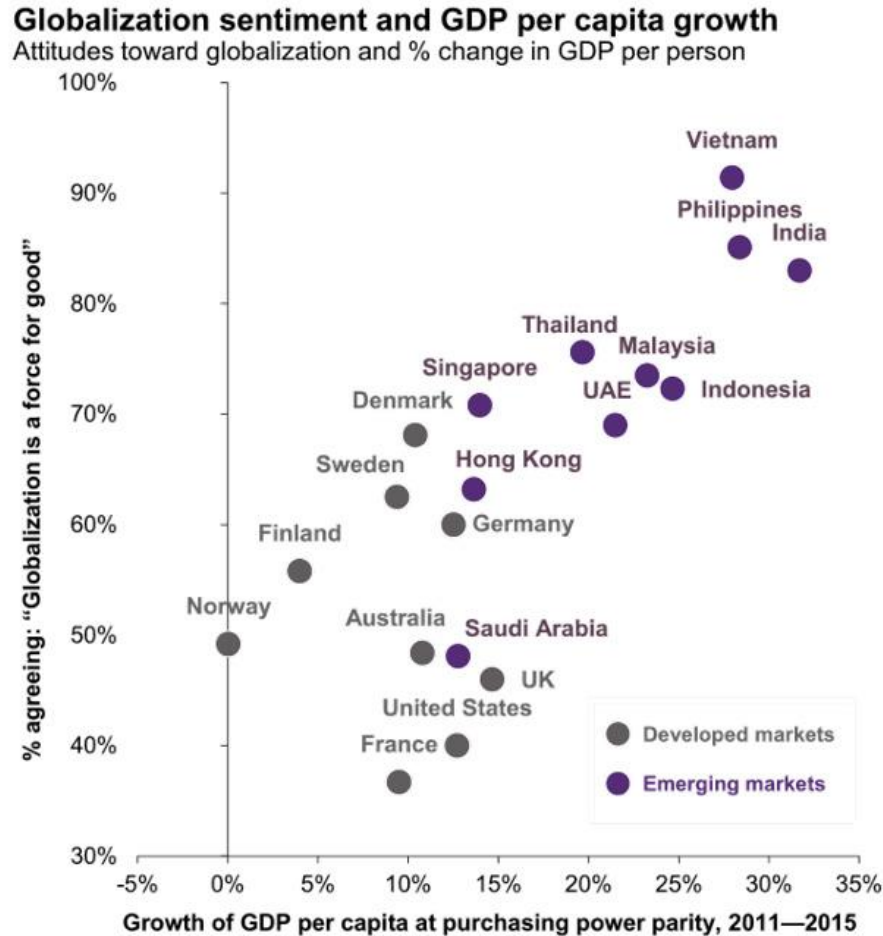
*Trigger to count returns is if the 10-year yield rose more than 25bps in prior 3 months

www.stansberrychurchouse.com

Source: JP Morgan, Stansberry Churchouse

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Vietnam has a lot of competitive advantages and globalization is a great chance for Vietnam to execute those advantages. Moreover, globalization also helps people to know what they should do to improve themselves and to capture a higher living standard.



Source: JP Morgan's Guide to the Markets – Asia

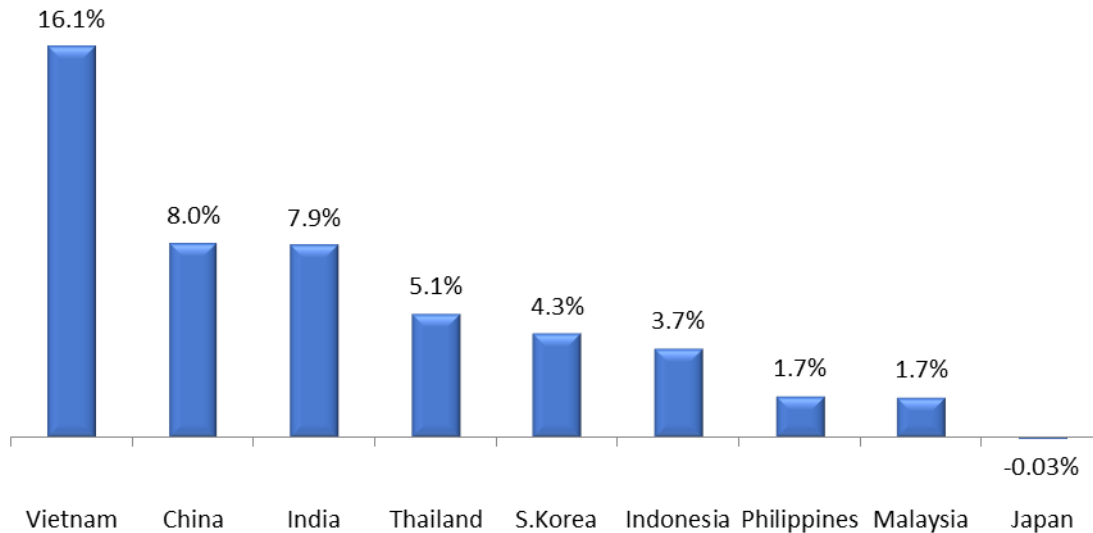
Data reflect most recently available as of Sep 30 2017

Source: JP Morgan, Stansberry Churchouse

Vietnam is the fastest growing export-oriented country in the region - In the last ten years Vietnam's exports grew 16.1% p.a. to become the fastest growing export-oriented country in the region. China is in second place at 8.0%, followed by India (7.9%), Thailand (5.1%), South Korea (4.3%) and Indonesia (3.7%).

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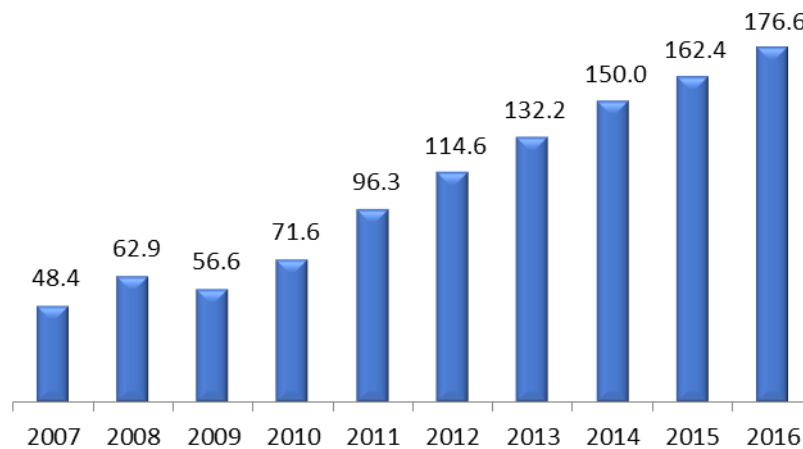
Export growth p.a. during 2006-2016 by country (%)



Source: World Bank, AFC Research

From 2006-2016 Vietnam's export revenue grew from USD 39.6 billion in 2006 to USD 176.6 billion in 2016. Exports continued to increase sharply in the first 10 months of 2017, reaching USD 173.7 billion, an increase of 20.7% YoY. Meanwhile, Chinese exports expanded from USD 968 billion in 2006 to USD 2,097 billion in 2016. India's exports increased from USD 121 billion in 2006 to USD 260 billion in 2016 and Indonesia's exports gained from USD 100 billion in 2006 to USD 145 billion in 2016.

Vietnam's exports over the last 10 years (USD billion)

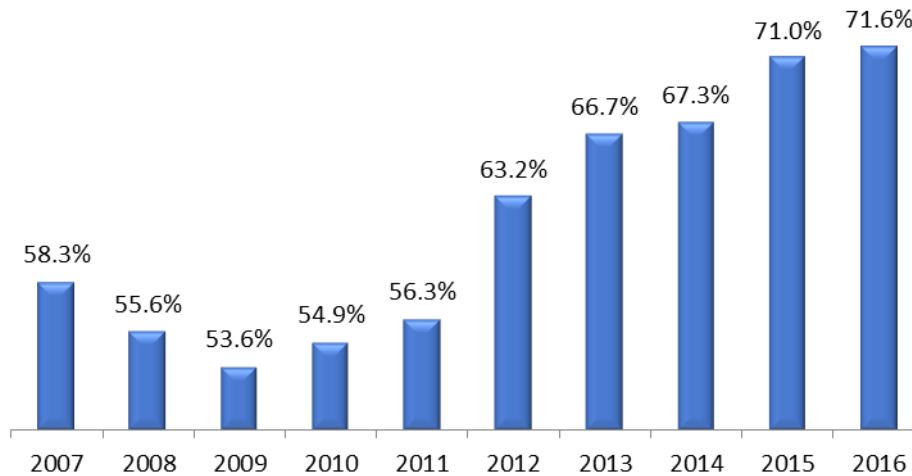


Source: GSO, AFC research

FDI (foreign direct investment) enterprises play an important role in Vietnam's exports since they contribute more than 70% of total export revenue. Over the past decade Vietnam has become one of the most attractive destinations for foreign investors. Many of these companies are in the manufacturing sector and moved their operations to Vietnam mainly due to favorable demographics (half of Vietnam's population is below 30 years of age), impressive education according to the latest PISA study, competitive labor costs and many free trade agreements with e.g. South Korea, Europe, Russia, etc.

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Percentage of FDI enterprises as a percentage of total exports



Source: GSO, AFC research

The Vietnamese government has facilitated and improved the business environment to lure foreign investors through many favorable policies, such as free land-leases, tax exemptions, etc. This is why FDI disbursements into Vietnam have kept increasing over the past decade and will continue to do so into the future. On the other hand, FDI enterprises create millions of jobs and help Vietnam's citizens to increase their standard of living. Therefore, Vietnam has one of the fastest growing middle classes in the Asia Pacific region, according to Boston Consulting Group.

Economy

We were very pleased to see that Vietnamese Government is expecting the public debt/GDP ratio to fall to 62.6% this year, from 63.6% in 2016. Not that long ago the public debt level was approaching the 65% limit, but the Government has put more effort into managing the State budget and to bring the public debt level back under control and for the time being a trend reversal seems to be in sight, which is very good news.

Industrial product expanded by 8.7% in October, higher than 7.3% in the same period last year.

Exports showed impressive growth in October of 20.7%, reaching USD 173.7 billion. Imports also increased 22% to USD 172.5 billion.

FDI (Foreign Direct Investments) showed another impressive month, with YTD FDI registrations reaching a record high of USD 28.2 billion, +37.4% compared to same period last year, while FDI disbursement increased to USD 14.2 billion, +11.8%.

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Macroeconomic Indicators					
	2013	2014	2015	2016	Oct-17
GDP	5.42%	5.98%	6.68%	6.21%	6.41%
Industrial production (YoY)	5.90%	7.60%	9.80%	7.50%	8.70%
FDI disbursement (USD bn)	11.5	12.4	14.5	15.8	14.2
Exports (USD bn)	132.2	150	162.4	176.6	173.7
Imports (USD bn)	131.3	148	165.6	174.1	172.5
Trade balance (USD bn)	0.9	2	-3.2	2.52	1.20
Retail sales (YoY)	12.60%	10.60%	9.50%	10.20%	10.7%
CPI (YoY)	6.03%	1.86%	1.34%	4.74%	2.98%
VND	21,125	21,405	22,540	22,600	22,750
Credit growth (YoY)	12.50%	14.00%	17.30%	16.50%	11.50%
Foreign reserves (USD bn)	32	36	36	41	45

Source: VCSC, GSO, SBV, AFC Research

Subscription

The subscription deadline for this month will be the 24th November 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 31st October 2017

NAV	1,830*
Since Inception	+83.0%*
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%	-0.6%*			+10.9%*

*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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