

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

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After the strong performance in the first quarter of the year, we saw finally some profit taking in the strongest stocks of the recent rally. The HCMC index was down -1.5%, while Hanoi managed to stay slightly in the green with a gain of +0.7%. Despite the weak general market sentiment, we saw positive developments in several of our stocks, which pushed our NAV to a new record high at USD 1,907 (+1.4%), according to internal calculations.

Market Developments

The almost daily erratic moves of most larger stock markets around the globe are still being caused by the ongoing tweets from Donald Trump, who continues to try to extort some economic advantages from America's trading "partner" China. We have been asking ourselves, how much higher would markets be today if Trump's Twitter account would have been blocked half a year ago.

Despite Vietnam's main indices continuing to advance a little bit further in the first few trading days of April, before correcting this past week, the discussions about valuation and alternatives to the expensive blue-chip stocks are getting louder. Many investment and other media portals are catching up with the problems of the handful of ever more expensive stocks in contrast to the cheap valuations of small and mid-caps, both in absolute and relative terms.

Even the comparison to the internet bubble of the late 90's might be applicable as people back then ignored the majority of stocks and concentrated on only one sector which offered growth, but disregarded for that reason any conventional way of justifying overly optimistic valuations. While investors were looking into companies which would likely change the way business is done worldwide forever, like Amazon (along with hundreds of other companies later to be bankrupted or taken over), their Vietnamese counterparts of 2018 which we are talking about are banks, real estate and dairy companies. In the aftermath of the internet bull market, value stocks outperformed growth stocks by a wide margin as those "growth" stocks lost 60% and approximately USD 2,000 billion in market capitalization vanished over the following years, while value stocks were not at all involved in the selloff.

After months of seeing other funds selling some stocks we own, we are now finally seeing the opposite with interest picking up again in several of our investments while the general market breadth still remains negative. Just a few days ago, one of our larger and oldest positions, a listed port company which used to be rather illiquid in the past, was sold at a slight premium within a single day. This sudden interest could also have been something to do with influence-seeking shareholders, as many decisions regarding future business directions or board positions are made at annual shareholder meetings which are taking place these days.

After the wonderful dividend announcement of the brewery company we mentioned in our last report, a wire manufacturing company we have owned since the start of the fund just announced a rise in their dividend payment from 800 Dong to 2,700 Dong per share. This stock already had a nice dividend yield of almost 7% before this announcement, while the P/E was only 5x after very good earnings growth of 60% in 2017. Despite the stock price jump of 30% after the dividend increase announcement, with good business prospects for 2018 the expected P/E for this year is still only 5.5x and the dividend yield is an amazing 17% - something we cannot find in the crowded world of big cap stocks where ETF's and index trackers are living.

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Taya Vietnam Electric Wire and Cable JSC

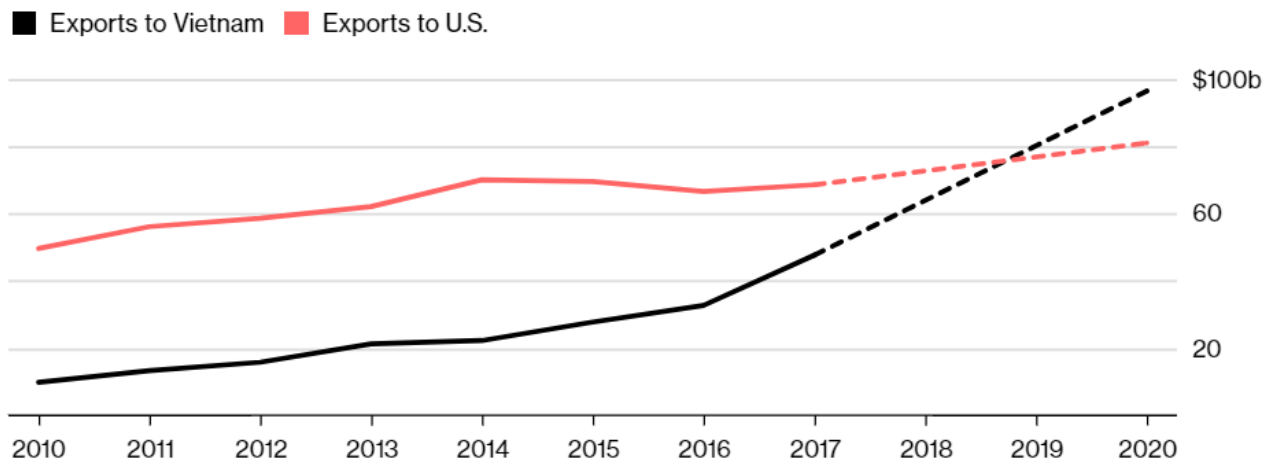


Source: VietCapital Securities

Since nobody knows the outcome of the ongoing calls for higher tariffs on imports by the USA and consequent retaliations by their trading partners around the world, it is rather useless to make any calculations on winners and losers at this point. A worldwide trade war would bring down global economic growth and trade, and would also affect Vietnam as an export country, but this is certainly (or hopefully) not the intention of the American and Chinese leaders. On the other hand, growing uncertainty about Chinese trade is actually helping Vietnam as even more companies are likely to prefer Vietnam over China to expand their businesses in order to avoid higher tariffs on their products.

It is also interesting to note, that South Korea's exports to Vietnam rose by nearly half in 2017 alone, and have more than doubled over the past three years. Vietnam is now expected to become South Korea's No. 2 export market by 2020, according to the trade association.

Vietnam expected to overtake U.S. as destination for South Korean exports



Source: Bloomberg, Korea International Trade Association, 2018

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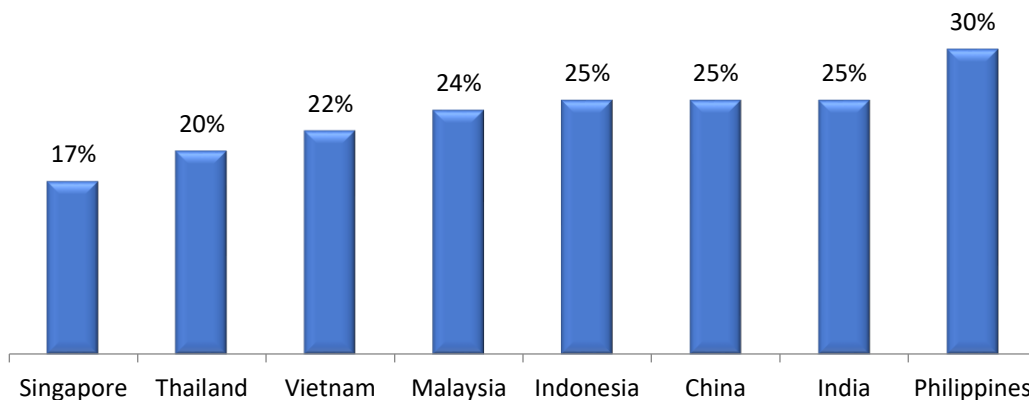
Vietnam to cut corporate tax to 15-17 percent in bid to boost business climate

Vietnam is planning to slash corporate income tax (CIT) rates from the current 20-22 percent to 15-17 percent in an effort to make the country even more competitive within ASEAN, Prime Minister Nguyen Xuan Phuc has revealed.

The Government leader announced the plans in a speech at the GMS Business Summit held in Hanoi last week. He reiterated Vietnam's commitment to an action-oriented government working in the interest of the people and businesses, for which tax reform is one of the crucial undertakings in its efforts to enhance the country's competitiveness.

Currently the flat corporate income tax rate in Vietnam stands at 22% for all income sources. With this tax rate Vietnam is already quite competitive against other countries in the region such as Malaysia, Indonesia, Philippines, China and India.

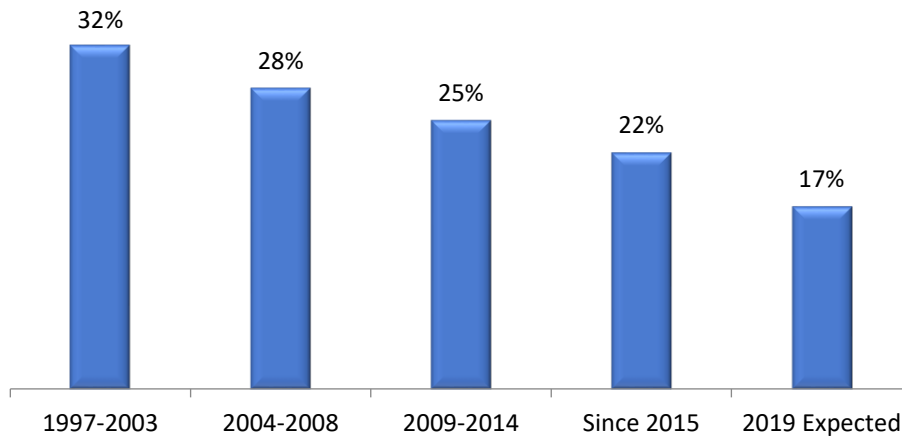
Corporate Income Tax by country (%)



Source: PwC, AFC Research

The Vietnamese Government has kept improving the country's competitiveness and attractiveness by cutting tax rates over the past two decades. During 1997-2003 Vietnam had one of the highest tax rates in ASEAN, at 32%. However, nowadays Vietnam is becoming more and more attractive with a tax rate of 22%, trailing only Singapore and Thailand. If the Vietnamese Government slashes rates to 15-17% in the near future, then it will be a powerful trigger to attract more foreign investors and stimulate the domestic economy

CIT rate in Vietnam by year (%)



Source: AFC Research, Vietnam Tax Office

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Subscription

The next subscription deadline will be the 24th April and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

Estimated NAV as of 15st April 2018

NAV	1,907*
Since Inception	+90.7%*
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%	+1.4%*									+2.9%*

*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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