

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

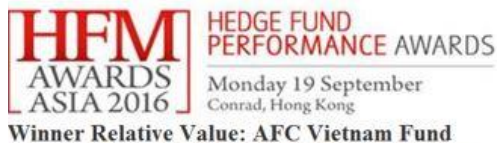
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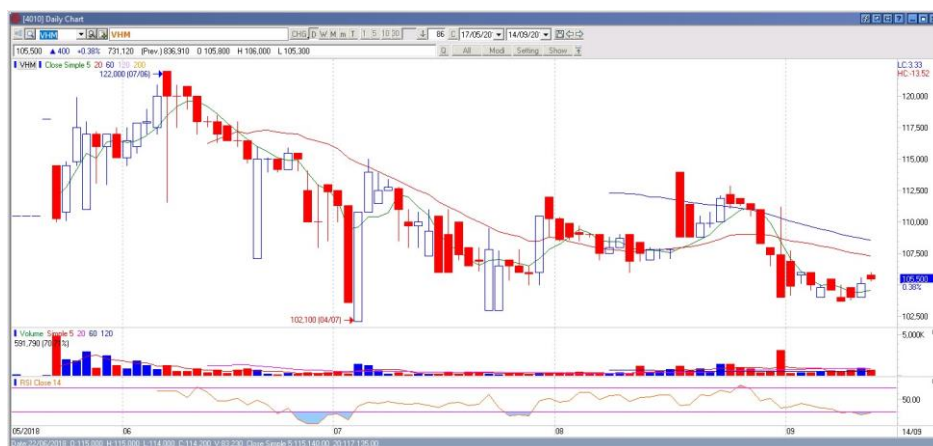


With falling volatility and strong inflows for the first time in months the indices ended the first half of the month slightly up (+0.2% HCMC and +0.5% Hanoi), but small- and mid-caps traded slightly lower. With upbeat revisions for the country's trade numbers, the Vietnamese Dong was able to recover somewhat against the USD. Our NAV is currently slightly down at USD 1,786 (-0.3%), according to internal calculations.

Market Developments

After a weak market in the first three trading days of the month we saw a nice recovery in the following days. Contrary to talk in the media about renewed weakness in emerging markets, most of them have been quite stable. Foreign investors started to buy again in Vietnam, but generally in quite low volumes as the main topic at present is the upcoming rebalancing of ETF's.

The two leading Vietnam ETF's will most likely add VHM – "Vinhomes JSC" this month as it has with 9% the second largest weighting in the index and a high liquidity. But with (in our view) a very high valuation (trailing price/earnings ratio of 44.9x and a price/book ratio of 3.1x) and an unimpressive price development since listing, the company is a good example of how ETF's or large index-oriented funds are subjected to making investments with little or no attention to either value or risk.



VHM - "Vinhomes JSC" May 2018 to Sept 2018; Source: Viet Capital Securities

Market breadth so far has remained stable, so the overall price changes in our portfolio were minor. A few months ago, we mentioned one of our holdings, a small brewery company, which had announced a major dividend payment for 2018 which equated to an incredible 40% of its current share price! The announcement of the payment of the first tranche of that dividend came out just a few days ago and the share price jumped nicely. We took this opportunity to sell the majority of our holding at a handsome profit.

Like many other smaller, formerly illiquid stocks, patience is often rewarded as investors uncover these hidden gems and hence generate liquidity for us to exit at attractive prices. This fits perfectly well within our investment strategy, exiting smaller stocks once their value is unlocked and then switching into larger, similarly attractive companies which better fit into our portfolio given our much bigger fund size of USD 42,2 million in comparison with when we started almost 5 years ago.

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HAD - “Hai Duong Beer JSC” Sept. 2016 to Sept. 2018; Source: Viet Capital Securities

The rationale of why we are so convinced that investments in Vietnam will continue to pay off in the long-run is well laid out in a study conducted by the Pew Research Center in the US. With around 4 million Vietnamese having left Vietnam, due to the Vietnam War, for a better future abroad, 1.8 million ended up in the US. Similar to the optimism expressed among Vietnamese living in their home country who mostly believe in their own and their country’s future, the majority (around 83%) of Vietnamese living in the US think that with hard work they can move up the proverbial ranks to achieve the “American dream”. Unlike other migrant groups which in many cases live underprivileged lives, American-Vietnamese households earn around 10% more than the average US household. Further, half of American-Vietnamese parents are convinced that their children will be far better off than themselves.

Part of this may have to do with the Vietnamese usually being much better at assimilating than immigrants from other countries. In Germany for example, where 150,000 Vietnamese live, in 2014 as many as 64% of Vietnamese adolescents made it to high school, a rate five times higher than those in the Turkish community and 20% higher than naturalized Germans, according to these studies. “Die Zeit”, a German newspaper, wrote in 2009 (probably even more valid today than back in 2009) that “The school success of the Vietnamese questioned a whole series of supposed truths of the integration debate. Anyone who thinks that educational poverty always has social causes, sees itself refuted by the Vietnamese example.” Rolf Dubs, from the University of St. Gallen, who has advised the Vietnamese government on education for many years, noticed that disciplined learning, order, mentoring by parents and teachers and the Confucian-Buddhist culture are the reason for such success.

Similar to the success story of China since the 1990’s, the Vietnamese work ethic and drive for personal success was simply suppressed by politics and war. With higher levels of education and motivation we are noticing a much higher tendency for Vietnamese to move into the hi-tech sector at home, compared to many other countries when they were at a similar stage of development. Therefore, we foresee a prolonged move of international companies into Vietnam in order to leverage the country as a cheap and reliable production base, and see a long-term convergence towards the Taiwanese economic model, rather than that of Thailand or Indonesia which seem to remain stuck in the middle-income trap.

Economy

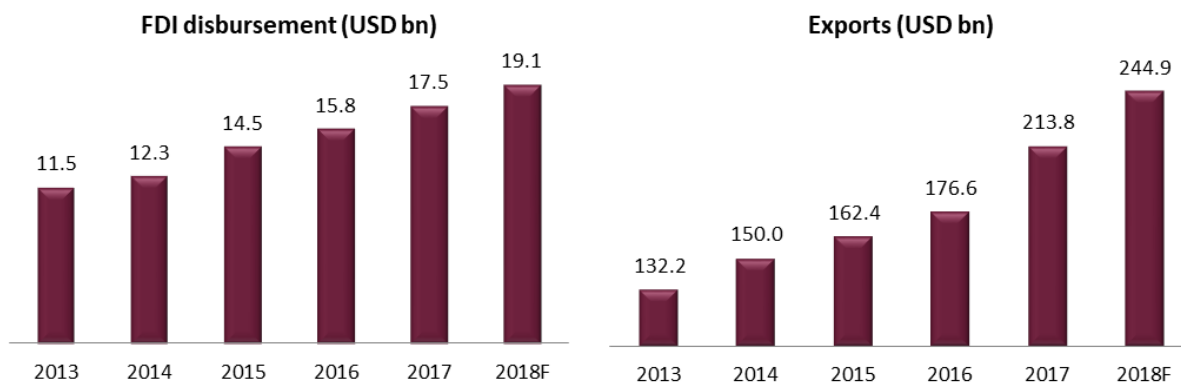
Vietnam is doing well, while some other ASEAN countries are struggling.

Tensions of a global trade war are escalating between the US and China, which has a spillover effect onto ASEAN economies such as Malaysia, Singapore, Philippines and Indonesia. Export-dependent economies such as Malaysia and Singapore will face increasing difficulties and pressure as global tariffs rise, while the Philippines and Indonesia suffer from a stronger US

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dollar, mainly due to their sovereign debt burden. Meanwhile, Vietnam, with its geographical proximity to China, is shining as Chinese manufacturers are shifting production into the country. Countries such as South Korea, Japan and Taiwan have already heavily invested into Vietnam and are better positioned than China.

The economic growth in Vietnam in the first half of 2018 reached 7.08%, a new 8-year high. FDI disbursement has continued to grow, now at 9.2% or an estimated value of USD 11.25 billion in the first eight months of this year. Exports also keep expanding strongly at 14.5% to USD 155.41 billion year-to-date, which positions Vietnam as the second largest exporter in South East Asia. From a sleepy purveyor, Vietnam is continuing its path to become a strong and powerful manufacturing hub for the world.



(Source: GSO, AFC Research)

The opening of the World Economic Forum on ASEAN 2018 in Hanoi was on 12th September and attracted many world leaders, economists and entrepreneurs to discuss business opportunities in ASEAN and how to overcome hurdles to accelerate economic growth in this region.

Subscription

The next subscription deadline will be 24th 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 31st August 2018

NAV	1,786*
Since Inception	+78.6%*
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%	-0.3%*				-3.67%*

*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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