

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

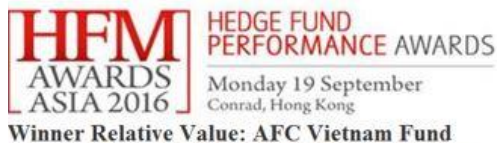
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In the first half of November the Vietnamese stock market was characterized by less volatility and low volume. Despite the good news on trade pacts, investor sentiment was impacted by Trump's comments which lead to unusual volatility in another important market – the oil market, which was hit by a decline of over 30% in recent weeks. Several sectors in the stock market were adjusting to this sharp drop in oil prices, with indices losing -1.9% (HCMC) and -4.1% (Hanoi). Our portfolio was mixed with just a few larger companies declining. Our NAV is currently approximately USD 1,800 (-0.3%), according to internal calculations.

Market Developments

Investor psychology and behavior behind market selloffs and what to expect next.

After the selloff in October, investors in Vietnam are mostly waiting on the sidelines, looking for direction. It is important to note that "waiting on the sidelines" does not mean that fewer people are owning stocks now compared to before the recent sell off. For every seller there was a buyer – and if indeed we see the bottom in the market, then those buyers were clever enough to pick up shares cheaply. Meanwhile, all indices are approaching the lows from July, which should be an important test, as in many other markets around the world.



VN30 Index, May-Nov 2018, Source: VietCapital Securities

If we look at investor psychology and behavior, most likely the type of investors who panicked and sold their shares at almost any price in the recent market downturn will certainly not change their style overnight in order to become more thoughtful and rational. Most of them will also fear that they will miss the next uptrend as soon as the market slowly moves back higher. But for whatever psychological reasons, investors usually avoid buying back the same shares they just sold at a lower price, and hence they will look for other stocks to buy. That way they do not have to admit so clearly to themselves that they made a mistake when they sold before! The initial reaction at a market bottom is always that the stocks which lost the most in the selloff are picked up by traders, unlike our value portfolio which was – thankfully – not much affected. But investors with cash may now also look for less volatile and undervalued stocks that we also own; something we certainly hope.

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Source: Bloomberg

The high volatility of many index heavyweights is mostly a result of the highly concentrated investment of investors' money in a few stocks, both domestic and international. Actually, domestic investors are trying to imitate and sometimes front run international investors (mostly ETF's), as the rebalancing of their funds is known in advance and money flow does not normally turn around within one or two days. The fact that domestic investors are still at least 5 times more active than international investors in terms of market turnover shows that Vietnam is still a case where the tail wags the dog instead of the other way around. This might partially explain why the small and mid-cap universe, which is underinvested in by foreign investors, underperformed when the index was pushed up by foreign inflows, especially during the second half of 2017 and early 2018. Until now, Vietnamese investors are missing out on the opportunity to lead "their" market instead of looking at what others are doing. Besides, this "copycat" behavior might not always be a successful strategy, especially when watching the boom and bust cycles of developed markets over the past decades.

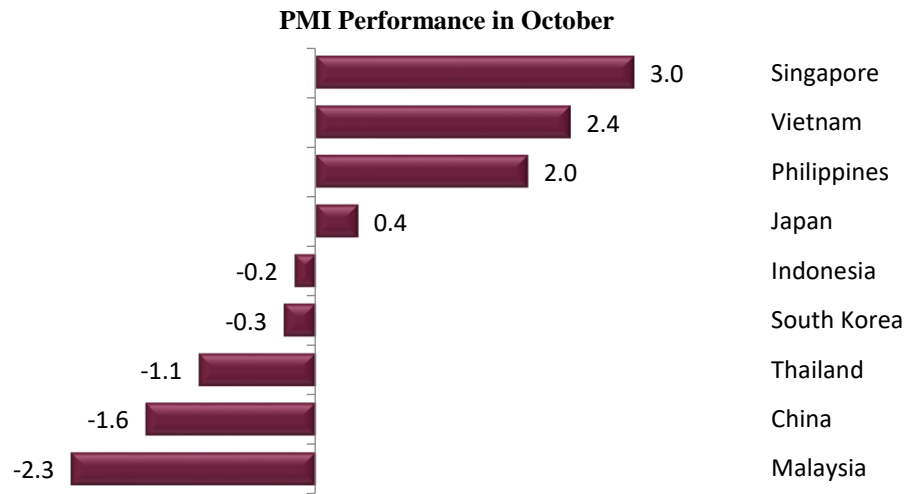
Almost all companies without foreign room left are big caps and most of them are part of one of the major indices. Going beyond the top 5% capitalized companies, we find only a few fully foreign owned companies, out of 95% of all listed stocks! Even if we might argue that many (or at least a better part) of the larger companies are doing a better job interacting with their shareholders, the total number doesn't make much sense to us. Of course, we find many companies which for us are not investable for several reasons, but we also find many companies in the "bottom 95%" which are very transparent in sharing their business strategies and plans and which are also happy to meet with investors to discuss all of this and answer questions, something which is not always the case with some of the top 5% companies.

Economy

A solid Purchasing Managers Index (PMI) increase in October

The trade tension between US and China led to a sharp monthly decline of the Chinese PMI of 1.6 points to 50.5 in October, while Vietnam's PMI saw a sharp monthly increase of 2.4 points to 53.9. Among ASEAN countries, Singapore saw the most impressive PMI performance in October with an increase of 3.0 points to 52.6. Thailand and Malaysia dipped below the 50 mark in October and are now at 48.9 and 49.2, respectively.

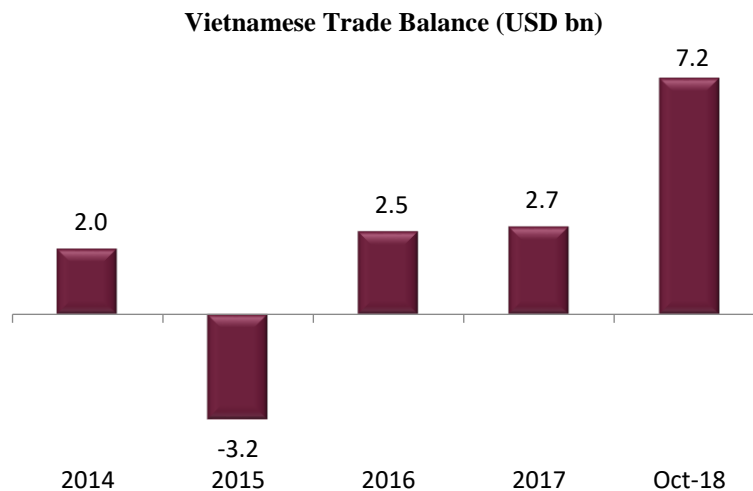
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(Source: Nikkei, AFC Research)

Vietnam's biggest Trade Surplus in History

In October, Vietnam reported a trade surplus of USD 770mn for the month. The total year-to-date surplus now stands at USD 7.2bn, compared to USD 2bn during the same period last year. Year-to-date export numbers reached USD 202bn (+15.2% YoY), and imports USD 194.82bn (+12.4% YoY).



(Source: GSO, Vietnam Custom, AFC Research)

Vietnam will soon benefit from the Transpacific Partnership Agreement

Vietnam is the seventh member to officially pass the Comprehensive and Progressive Agreement for the Trans Pacific Partnership (CPTPP), after Japan, Mexico, Singapore, New Zealand, Canada and Australia. The CPTPP, which is expected to take effect on 30th December this year, includes 11 members, covering 13.5% of global GDP. According to estimates of the Ministry of Planning and Investment, the CPTPP will boost Vietnam's GDP by an additional 1.3%, while exports and imports could increase by an additional 4% and 3.8%, respectively. More importantly, it will help tighten the trade relationships among CPTPP's members, and thus accelerate Vietnam's integration into the global supply chain, especially given rising trade conflict between the US and China.

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Subscription

The next subscription deadline will be 26th November 2018 and if you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

Estimated NAV as of 15th November 2018

NAV	1,800*
Since Inception	+80%*
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%	-0.3%*		-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.*

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