

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) Limited, Cayman Islands
Investment Advisor	Asia Frontier Investments Limited, 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

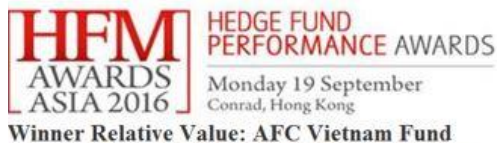
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After the long TET holiday, the stock market jumped on the back of another strong gain in the biggest index component, Vincom, but gains were also seen across the board on much higher volumes compared to the last few weeks. The indices in HCMC and Hanoi were higher by +4.4% and +3.1% respectively. Good results from many companies also helped our portfolio, which gained +2.6% to an estimated NAV of USD 1,793, according to internal calculations.

Market Developments

Due to the TET holiday we only had 6 trading days in the first half of February. Nevertheless, we saw positive signs in the market with improving investor sentiment across all sectors. The small cap index has trended down since its peak in the summer of 2017, which was also the high of our fund, but now looks very interesting from a technical perspective. Once the index manages to recover to its long-term support line, it would trigger a very strong technical buy signal.



Small Cap Index 04/2014-02/2019; source: Viet Capital Securities

Most companies have already released their unaudited results for 2018 and consequently we have seen some sharp movements in certain stocks. We will go into further detail about the valuation and outlook of our holdings in our next report when all the data is available. Overall, the valuation of our portfolio is very attractive in comparison to the results of the index heavyweights which look less compelling. This is exactly the reason why we strictly distance ourselves from trying to compete with or track the main index on a short-term basis. For example, the highest weighted stock in the Ho Chi Minh index, conglomerate Vincom, surprised many people in the market with a sharp decline in profits, as their diversification into new sectors like automotive production redirects their cash flow from their profitable real estate business. At the same time, it also weakens their balance sheet significantly due to ever rising debt levels. So far, the market has not punished the share price – in fact, just the opposite as it was pushed up, and with it the index, as the trailing price/earnings ratio (P/E) is now around 100x! Healthy balance sheets and high dividend yields in our portfolio holdings have already shielded us from high volatility in the past and we also see a much higher chance of a revaluation in stocks with price/earnings ratios of 5-10x compared to a company with a trailing P/E of around 100x (which is 10-20 times higher than the average of our companies!) while starting business “adventures” with an unpredictable chance of success. A 15% index weighting also means that index-oriented funds should invest the same percentage of investors’ money into this single company, which might be an interesting bet for some investors, but most likely not for the majority.

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VINCOM Key Figures (USD millions)

	2017 Audited	2018 Unaudited
Revenues	3,830	5,257
Operating profit	405	580
Net profit	191	143
ROE (%)	8.5%	3.4%
Debt ratio (%)	75.4%	65.7%
P/E (x)	42.6	99.5
P/B (x)	3.1	3.6
(Source: Vincom's financial reports, vietstock.vn)		
EPS (VND)	1,816	1,126
Stock Price (VND) (**)	77,300	112,000
Market cap (**)	7,037	15,321
Liabilities	6,910	8,145
Equity	2,253	4,246
Total assets	9,163	12,391

Note

(*) Debt ratio = total liabilities/total assets

(**): 2017 Price as of 29th Dec 2017; 2018 Price: current price

First "Vinfast" car models shown in shopping malls in HCMC; Source: AFC

Summit with Kim Jong Un expected to be held in Hanoi

Hanoi will most likely be the place where the next summit between US president Donald Trump and North Korean leader Kim Jong Un will take place. The summit is expected to occur on 27th and 28th of February. People from all over the world will watch this event closely and hence provide Vietnam with a platform to promote itself and its economic growth story.

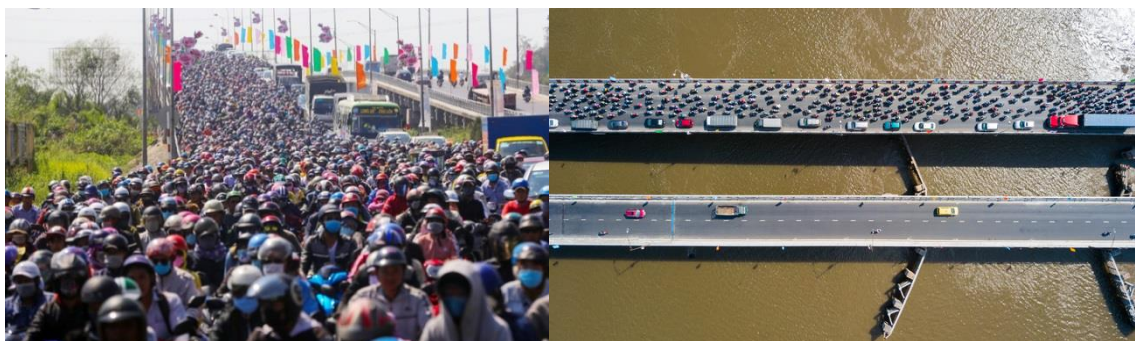


(Source: CNBC)

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Millions of people come back to HCMC after TET

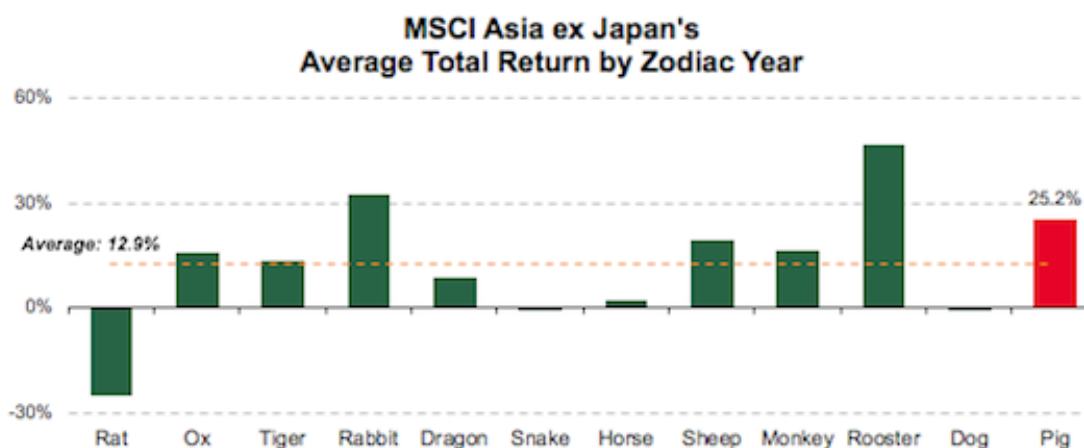
Millions of people returned home to HCMC after the TET holiday which caused serious traffic jams at all entrances to the city. Most people from HCMC travelled to the Mekong Delta and when they returned, they either had to use Highway 50, National Highway 1A or Nguyen Van Linh street. The majority of them traveled home by motorbike, carrying personal belongings and lots of rural specialties.



(Source: vnexpress.net)

The year of the Pig

With the end of the TET holiday the year of the Pig started, which will hopefully be a positive sign for the Vietnamese stock market. If we look back over the past 30 years, during previous years of the Pig Asian stock markets (ex-Japan) returned an average 25.2%! Will this occur again during this year of the Pig? We of course cannot foresee what will happen in the future, but in our view the chances of positive returns in Vietnam are quite high, since many stocks corrected heavily (20% to 40%) since their peak in April 2018 and are now trading at attractive valuations. Also, a lower USD would probably help Emerging and Frontier Markets again. We also see strong inflows of foreign direct investments into Vietnam, especially due to the trade war between China and the US. Apple for example just announced that they are considering building new factories in Vietnam and/or India.



Source: Bloomberg.

Note: Data in US\$ term and includes dividends. Data is from 1988 to 2018.

*Average calculated by averaging all of the zodiac years' mean returns.

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Subscription

The next subscription deadline will be 22nd February 2019. 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 February 2019

NAV	1,793*
Since Inception	+79.3%*
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%	+0.45%	-2.05%	-4.17%
2019	USD	-1.63%	+2.6%*											+0.9%*

*According to internal calculations

**The Fund has appointed Hugo Fund Services SA, 6 Cours de Rive, 1204 Geneva, Switzerland, as its Swiss Representative. NPB Neue Privat Bank AG, Limmatquai 1, 8024 Zürich, Switzerland is the Swiss Paying Agent. In Switzerland shares shall be distributed exclusively to qualified investors. The fund offering documents, articles of association and audited financial statements can be obtained free of charge from the Representative. The place of performance with respect to shares distributed in or from Switzerland is 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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