

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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Winner Relative Value: AFC Vietnam Fund



Three of the top index components were almost solely responsible for the strong performance of the HSX index and the outperformance against everything else (sector- and index wise) in February, especially during the second half of the month. The market breadth was weaker over the past two weeks, but over the full month we saw gains on improving volume across the board. The indices in HCMC and Hanoi were higher by +6.0% and +2.9% respectively. Our NAV gained an estimated +2.9% to USD 1,799, according to internal calculations.

Market Developments

Three big contributors of the index gains are related (the Vingroup family of companies) and were pushed up mostly by domestic investors, despite the biggest company, Vingroup, publishing a declining profit for 2018. Without any (good) news, this advance added USD 3 bn in market capitalization to these three companies and lifted their P/E ratios to 101x (Vingroup), 19x (Vinhomes) and 44x (Vincom Retail). If we exclude these 3 stocks, the market with its approximately 1,500 listed stocks and several indices would have been up by a more modest 3.7% in February.

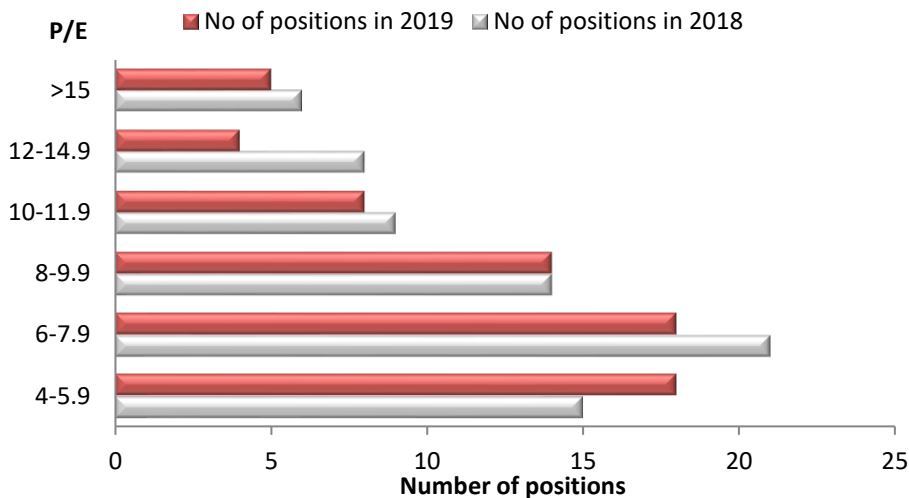
Since most companies have already published their (unaudited) results, we would like to share our observations about the developments of earnings and valuations, especially in relation to our portfolio holdings. Back in our May 2018 interim report we showed the earnings valuation of our portfolio, divided into several groups. We updated the same overview since it provides an interesting comparison over this time frame given that the “market” is now only slightly lower than after the strong correction in April/May of last year. The “market” unfortunately often refers to the most popular index, the HSX index (Ho Chi Minh index), with some of its index constituents not open for foreign investors to invest due to foreign ownership limit restrictions. On the other hand, the Hanoi index with its biggest index component, Asia Commercial Bank (having a 19% weighting and also not available to foreigners) is currently around 15% lower than in May 2018, along with the majority of stocks listed in Vietnam.

When we look at the 2018 earnings of the top 5 index components of the VN30 (an index which combines stocks from both exchanges) and which are weighted at around 60% in the index, we see that 2 out of those 5 companies had declining profits in 2018. That does not mean that the overall picture for earnings was very bad in Vietnam - actually the overall profit growth was estimated at 12-14% for last year - but it shows that “big” does not mean better and profit growth distribution is not homogeneous throughout the market in Vietnam.

The same can be said for the current valuation of the market, as it is far from normal that a country with two stock markets (or three if we count UPCOM as another separate market) has widely different valuations in terms of earnings multiples from 8.7x (Hanoi) to 16.6x (HCMC). It seems both domestic and foreign investors are still racing for the same stocks, echoed by the top 5 VN30 index components which currently have P/E ratios of 101x, 19x, 28x, 15x, and 16x and dividend yields of 0%, 0%, 2.8%, 1.3% and 3.1%.

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On the other hand, our portfolio currently consists of 67 stocks, all of which are profitable and the majority of which are paying attractive cash dividends. All of our top 5 holdings were able to grow their ordinary profits last year and the overall valuation is very attractive as one can see from the graphic below. The comparisons are from May 2018 when we had a few more stocks compared to today, as we exited a few, mostly smaller companies in recent months.



Source: AFC Research

More than 90% of the stocks we own are cheaper than the market average and more than half of them have a trailing P/E of less than 8x! With sentiment towards Emerging Markets finally improving after a year-long correction, we again see more investors looking for value, which can easily be found in the Vietnamese small- and midcap segment.



Source: Bloomberg

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Trump – Kim Summit in Hanoi helped to promote Vietnam

Even though this meeting ended without a joint agreement, the Vietnamese Prime Minister, Nguyen Xuan Phuc, and President, Nguyen Phu Trong, were able to meet with US president Donald J. Trump ahead of the North Korean Summit and signed several commercial trade deals between their two countries, worth around USD 20 bn, such as for example Vietnam's Bamboo Airways and VietJet Aviation JSC's deals to buy 110 aircraft from Boeing Co.



Source: vnexpress.net

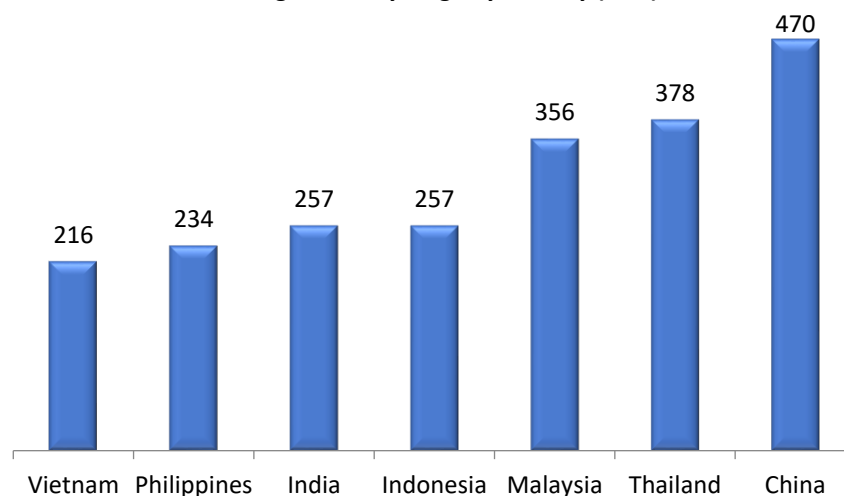
Vietnam - a country with massive growth potential

“Trade war” beneficiaries such as Vietnam are broadly considered as attractive alternatives for the relocation of production from China and we believe this will help to drive continued fast-paced growth for the country in 2019.

Young, educated and competitive workforce

The total workforce of Vietnam is about 60% of the population, or 55 million people. Vietnamese employees are considered to be highly educated and hardworking. According to OECD, Vietnam has one of the highest PISA scores in the world. Furthermore, labor costs in Vietnam are quite competitive compared to other regional countries. According to Natixis, the average monthly wage in Vietnam is around USD 216, compared to USD 257 in Indonesia, USD 378 in Thailand and USD 470 in China.

Average monthly wage by country (USD)



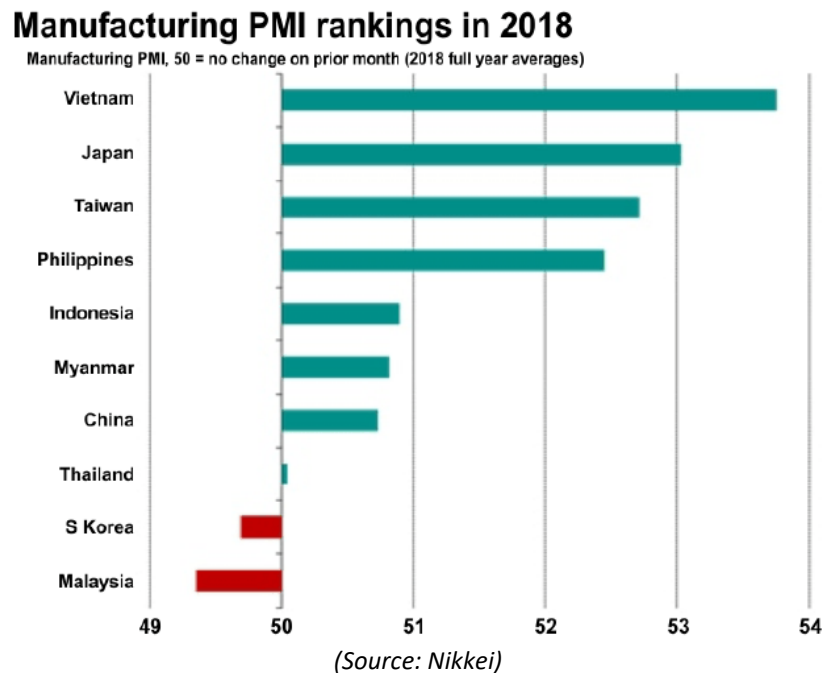
(Source: Natixis)

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Strong international integration

Vietnam has signed 16 bilateral and multilateral trade agreements with the WTO, ASEAN, the U.S., Japan, South Korea and the EU, and is also a member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). These free trade agreements are an important factor helping to boost Vietnam's exports. In addition to European and US companies, there are now also an increasing number of Chinese companies which are considering shifting their production to Vietnam in order to benefit from low labor costs and avoid punitive taxes from the US. In 2018, total FDI (Foreign Direct Investments) disbursement reached USD 19.1 billion, increasing 9.1% and we expect this uptrend to continue.

Vietnam leads PMI ranking in 2018



Foreign reserves recovered thanks to abundant foreign inflows

According to the State Bank of Vietnam (SBV), total purchased foreign currency in January is estimated at around USD 4 bn, lifting the nations reserves to USD 61 bn. Stability in the FX rate continued in February, supported by solid FDI and exports.

Reserve ratio requirement for selected banks to be cut by 50% if new draft circular is implemented

SBV has released a draft circular seeking public comment on the implementation of changes made to the Law of Credit Institutions in late 2017, namely the power of the SBV to adjust the reserve ratio requirement (RRR) for selected banks. The RRR in Vietnam for VND deposits currently ranges from 1% to 3% depending on the type of deposit. This circular will be applied to only a few selected banks. Most of them are state owned commercial banks such as Vietcombank (VCB) and Vietinbank (CTG).

Economy

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Macroeconomic Indicators				
	2016	2017	2018	Feb-19
GDP	6.21%	6.81%	7.08%	7.08%
Industrial production (YoY)	7.5%	9.4%	10.2%	9.2%
FDI disbursement (USD bn)	15.8	17.5	19.1	2.6
Exports (USD bn)	176.6	213.8	244.7	36.7
Imports (USD bn)	174.1	211.1	237.5	36.8
Trade balance (USD bn)	2.5	2.7	7.2	-0.1
Retail sales (YoY)	10.2%	10.7%	11.7%	12.2%
CPI (YoY)	4.74%	2.62%	2.98%	2.64%
VND	22,600	22,755	23,175	23,199
Credit growth (YoY)	16.5%	17.0%	13.9%	#NA
Foreign reserves (USD bn)	41	51	60	61

(Source: GSO, SBV, VCB, AFC Research)

Subscription

The next subscription deadline will be 25th March 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 28th February 2019

NAV	1,799*
Since Inception	+79.9%*
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%	+2.9%*											+1.25%*

*According to internal calculations

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**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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