

AFC VIETNAM FUND UPDATE

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|-------------------------------|---|
| 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 |

Contact Information

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The start to April trading was very uneventful with movements in the stock market indices limited and volumes low as investors wait for first quarter earnings results which will be published over the next two weeks. The indices in HCMC and Hanoi were both up a slight +0.2%, while our fund gained +0.3% to USD 1,832, according to internal calculations.

Market Developments

Most listed companies are holding their AGM's in April and May, which tend to grab investors' attention. We have already seen the first reactions to these AGM's with strong swings in both directions from several companies, some of which we own. With our diversified portfolio we can avoid this volatility which other investors might not be able to.

The AGM is an important event for management and shareholders, especially fund managers like us. We use the opportunity for many of our holdings at these meetings to intensify our contacts with the companies' Chairmen, CEOs, CFOs, chief accountants and also other shareholders to get more information, particularly to get a better feeling about how management are running their businesses. At the AGM, we can find out who the real owners of the various companies are, which is sometimes hidden behind proxies. We also get further information about competitors, clients and long-term shareholders of a company. Furthermore, AGM's also offer opportunities to find potential buyers or sellers for future block trades. At an AGM, where many questions are raised by shareholders, the way management replies to these questions provides us with an idea of how transparent or not some of these companies and their respective management are. Over the past years, we have divested a lot of our initial small cap positions through these kinds of contacts, sometimes even at a nice premium over the current market price. However, AGM's, especially from smaller companies are often painful for foreign investors, since most of them are conducted in Vietnamese, including both dialogue and documentation. It also explains why usually not many foreign shareholders join AGM's, which is a big advantage for us, given that our fund manager, Vicente Nguyen, is Vietnamese and hence is able to extract a lot of valuable information which normally can't be attained through other means. This AGM season he plans to attend approximately 15-20 AGM's, which will be held over the coming weeks.

Last week for example, he joined the AGM of Phu Tai company, one of our larger positions. The company, which has a market capitalization of around USD 140 mln, does business in three sectors – Furniture, Toyota dealerships and rock quarries. The company's valuation is very attractive with a P/E ratio of 7.8x and a P/B ratio of 1.9x. We are very optimistic about the outlook of this company based on the information we collected through our various channels. The company has had an impressive and solid growth rate over the past 4 years and after discussions with the Chairman, CEO and CFO of the company at the AGM we believe that the company has much further room to grow and therefore we have increased our position consequently.

| Income Statement (USD mln) | 2014 | 2015 | 2016 | 2017 | 2018 | CAGR |
|----------------------------|-------|-------|-------|-------|-------|-------|
| Net revenue | 105.5 | 131.0 | 157.5 | 170.8 | 203.0 | 17.8% |
| Gross profit | 13.9 | 19.4 | 25.2 | 30.0 | 36.3 | 27.1% |
| Operating profit | 6.1 | 9.8 | 14.1 | 17.0 | 20.1 | 34.7% |
| Profit after tax | 5.2 | 7.9 | 12.0 | 15.5 | 17.2 | 34.8% |
| Net profit | 4.8 | 7.5 | 11.4 | 14.8 | 16.5 | 36.3% |

(Source: PTB audited financial reports, AFC research)

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(PTB from June 2016 – April 2019; Source: Viet Capital Securities)

Recently, many investors paid significant attention to two AGM's, one being Cotecons (CTD) and the other Thong Nhat Group (GTN). Right after the CTD AGM was completed foreign investors sold off their holdings and the stock lost around 13% in just 2 days. CTD is the largest construction company in Vietnam with a market cap of over USD 400 mln. The conflict between major and minority shareholders reached a climax when Kusto Group rejected the merger between CTD and its associated company Ricons. There were some quarrels at the AGM and the meeting became quite hectic, although the company's outlook is not really affected by that conflict. We bought CTD for the first time about one year ago when the stock price lost 40%. It is now trading at 6.5x earnings, a level similar to three years ago.



(CTD from June 2013 – April 2019; Source: Viet Capital Securities)

GTN is another interesting story. Vinamilk announced a public offer to buy up to 46.8% of GTN who owns a 51% stake of Moc Chau Milk through its subsidiary, Vilico, another listed and interesting company we own. The State Securities Commission (SSC) already approved the bid; however, GTN's board of directors rejected the bid. There are 6 directors on the board of GTN, three foreign directors who approved the bid, but also three local directors who rejected the bid. Hence, the local chairman had to decide according to Vietnam's corporate law, and he voted alongside his Vietnamese compatriots in rejecting the bid. But we assume that this issue will be put forward at the next AGM where shareholders will vote on it and most likely accept the bid. Therefore, many investors will be closely following GTN's next AGM, where some likely heated debates will

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“entertain” the participants. Wilco, the current 51% owner of the very valuable milk producer, is trading at 9x earnings, whereas the bid from Vinamilk for the parent company GTN was for around 98x earnings. Therefore, we hope for a good exit opportunity of our holding at much higher prices than the current market price.



(GTN from Oct 2014 – April 2019; Source: Viet Capital Securities)

Standard & Poor’s Upgrades Vietnam’s Sovereign Credit Rating to ‘BB’ from ‘BB-’ after 9 years

S&P Global Rating Agency has raised Vietnam’s sovereign credit rating to BB from BB- and maintained its outlook at ‘stable’, its first upgrade since 2010.

The upgrade reflects the Vietnamese economy’s rapid expansion and improvement in the government’s “institutional settings” S&P said, adding that the positive changes of Vietnam’s macro economy are clearly recognized in the eyes of international credit rating organizations.

Yield Spread of Vietnam 10y Government Bond over US 10y Treasury (in bps)



(Source: Bloomberg, AFC Research)

Global investors now regard Vietnamese investments as less risky compared to several years ago, and hence demand a lower risk premium. Therefore, it does not make much sense to us that equity valuations are cheaper in Vietnam than in other

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comparable countries, especially in the mid-cap segment. Vietnam has a large number of undervalued listed companies which is a rarity in the current age of ultra-low interest rates, unless one is looking at countries which are undergoing either a political or economic crisis. Hence, we are certainly fortunate to be able to take advantage of this opportunity, which might disappear in the future.

Vietnam Customs revises up Q1 trade surplus to USD 1.4 bln

According to the latest government data, Vietnam's export turnover increased 5.3% YoY to USD 58.86 bln, while imports rose 8.0% YoY to USD 57.45 bln in Q1 2019. These increases resulted in a trade surplus of USD 1.41 bln, which was higher than USD 536 mln surplus previously estimated by the government statistic office. The variance was largely caused by higher than estimated exports of electronics & PCs, mobile phones & spare parts, machinery & equipment and lower than estimated imports of machinery & equipment.

Subscription

The next subscription deadline will be 24th April 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 April 2019

| | |
|-----------------|------------|
| NAV | 1,832* |
| Since Inception | +83.2%* |
| 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% | +2.90% | +1.58% | +0.3%* | | | | | | | | | +3.1%* |

*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.

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