

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 NAV 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

Asia Frontier Capital Ltd.
www.asiafrontiercapital.com

Mr. Andreas Vogelsanger, CEO
Asia Frontier Capital (Vietnam) Limited
Tel: +66 84435 7472, Fax: +852 3904 1017
av@asiafrontiercapital.com

Registered Office:
c/o Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue, George Town,
Grand Cayman KY1-9005,
Cayman Islands

Hong Kong Office:
Asia Frontier Investments Limited
905, 9th Floor, Loon Kee Building
267-275 Des Voeux Road Central
Hong Kong

After last month's sharp correction, the financial markets in Vietnam were relatively calm with slight losses across the board. The indices lost -1.0% in HCMC and -0.8% in Hanoi, while the Vietnamese Dong was able to gain against the Dollar. With some of our stocks advancing, our NAV managed to advance to around USD 1,814, up +1.9%, according to internal calculations.

Market Developments

Despite continuing uncertainties on Trump's trade war and increasing risks of a real war with Iran, markets were calm. Outbreaks of military conflict are usually not a major disruptor for financial markets (except typically higher volatility in the first few days), as long as production and transportation of oil is not severely affected. Also, in the current conflict with Iran this does not seem to be the case, especially since trade with Iran has been sanctioned for some time already. Therefore, investors continue to look at other issues with the exception of US investors, who seemingly have not any concerns at all. Otherwise, it is very hard to understand why some US indices just made new all-time highs while Europe continues to underperform and Emerging Markets trade at the same low levels as one and five years ago.

For that reason, we continue to see improving risk-reward ratios for selected Emerging Markets, especially for Vietnam.

One-Year Performance of MSCI Emerging Markets (green) and S&P 500 (yellow)



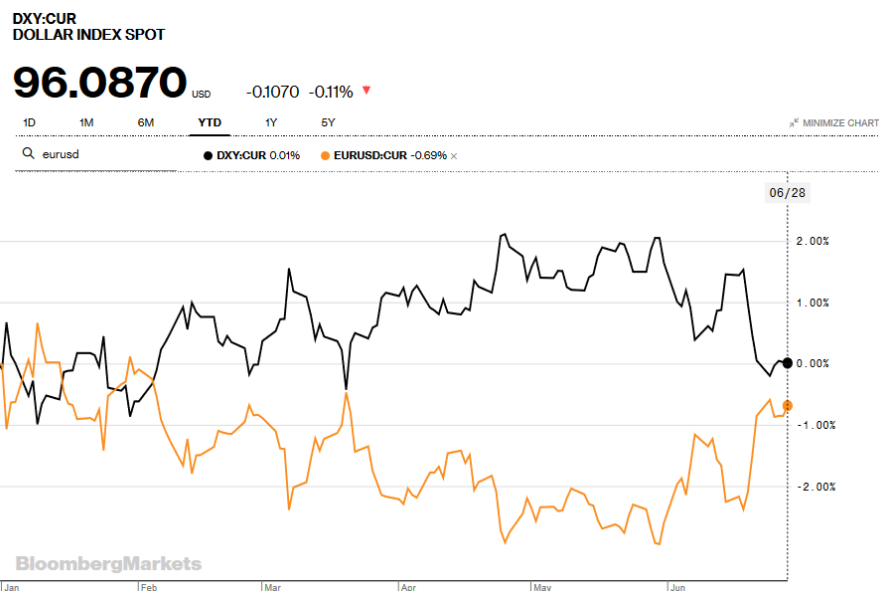
Five-Year Performance of MSCI Emerging Markets (green) and S&P 500 (yellow)



(Source: Financial Times - FT.com)

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After years of US outperformance, it may be nearing time for a new cycle to start, as we see possible turns in other markets like a strengthening gold price and a weakening Dollar where the latter is usually supportive for Emerging Markets.



(Source: Bloomberg – YTD performance Dollar Index and EUR/USD)

MSCI Emerging Markets Index Review

In September 2018, FTSE already added Vietnam to its watch list for a potential upgrade to “emerging market” status but Vietnam failed so far to be added by MSCI. Many experts believe that the two main reasons are foreign ownership limitations and the ease of capital flows. But the Vietnamese Government is aware of this and is continuously improving on all fronts in order to please MSCI and meet its requirements. Vietnam plans to pass a new securities law soon which will help to loosen foreign ownership limits and ease capital flows.

The Vietnamese government already relaxed foreign ownership limits some time ago, and investors are now able to buy up to 100% in listed companies (except for strategic sectors, such as banks, insurance companies, finance companies, etc.) as long as individual companies are willing to do so. But unfortunately, most listed companies are reluctant to increase their foreign ownership limits since they are afraid of being taken over by a foreign company. However, the new securities law would address this issue with the introduction of non-voting depositary receipts (NVDR) for foreign investors.

Vietnam also needs to improve the ease of capital flows and revise its policies about foreign exchange and foreign reserves. Although foreign reserves in Vietnam have risen considerably in recent years, the Vietnamese government still would like to see further improvements in order to be more comfortable in times of potential turbulence in financial markets and is hence keeping a tight control of currency in- and out-flows.

The MSCI Global Market Accessibility Review on 1st June 2019 revealed that Vietnam already meets all quantitative requirements. Although MSCI so far didn’t change its classification of Vietnam as a frontier market, it commented the following:

- MSCI sees a lot of improvements in Vietnam’s equity market compared to a previous assessment in June 2018. On 24th January 2019, Vietnam announced that it plans to set up the Vietnam Stock Exchange (VSE), which would combine both the Ho Chi Minh and Hanoi Stock Exchanges into VSE. The plan also includes establishing a CCP (central counterparty clearing and risk management system) for the Vietnam Securities Depository (VSD). Along with establishing the VSE, the government also announced plans to complete its

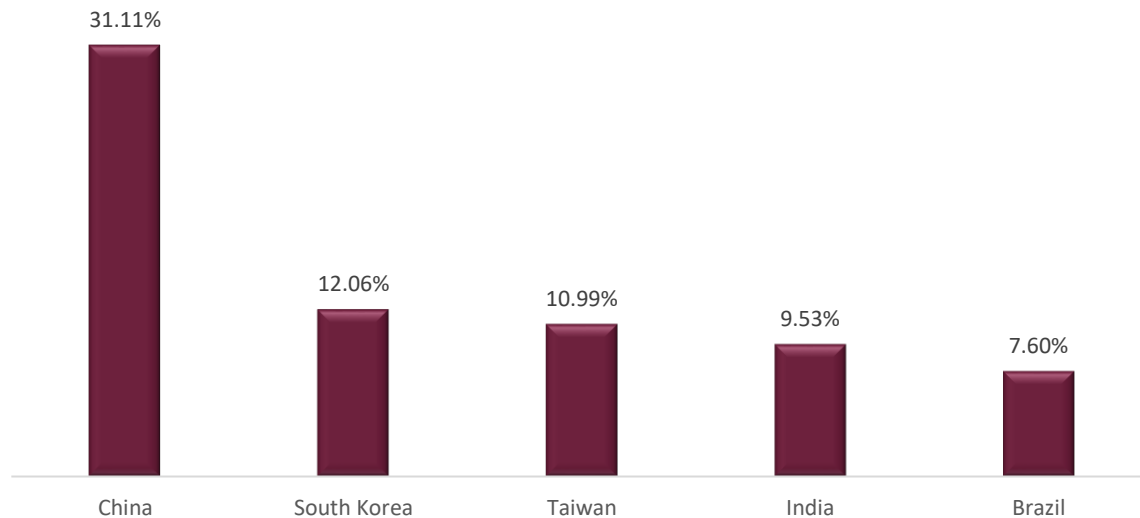
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legal framework to increase foreign ownership limits in sectors that do not require state ownership and promote administrative reforms to create conditions for foreign investors to access Vietnam's stock market.

- Regarding the need to ease capital flows, MSCI did not mention “low liquidity” in its latest report, something which it used to and is thus a positive sign for the Vietnamese market.

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 Emerging Market (EM) countries. With 1,198 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. At the end of May 2019, the total market cap of MSCI Emerging Markets Index reached USD 5,221 bln, of which China contributes 31.11%.

Top five countries in the MSCI Emerging Markets Index



(Source: MSCI Emerging Markets Index – USD in May 2019)

Given that Kuwait will most likely be upgraded from a frontier to an emerging market status by the end of this year, Vietnam will see inflows as it most likely will become the largest constituent in the MSCI Frontier Markets Index and its weighting will increase from currently 18.2% to around 26.5%.

Summer holiday – New lifestyle

It is very hot in Vietnam during the period of June-August, around 35-40 degrees Celsius. It is easy to understand why thousands of people flee to some of the famous beaches such as Danang or Nha Trang. These days, Vietnamese families also spend their summer holidays on the beach, but only about ten years ago, a summer holiday was considered very luxurious for Vietnamese families because of money and time. However, life is changing, and after a decade, income levels are steadily increasing along with the economic growth and consequently summer holidays are becoming an increasing norm.

Danang Beach during summer

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(Source: vnexpress.net)

Economy

Macroeconomic Indicators				
	2016	2017	2018	Jun-19
GDP	6.21%	6.81%	7.08%	6.76%
Industrial production (YoY)	7.5%	9.4%	10.2%	9.1%
FDI disbursement (USD bln)	15.8	17.5	19.1	9.1
Exports (USD bln)	176.6	213.8	244.7	122.7
Imports (USD bln)	174.1	211.1	237.5	122.8
Trade balance (USD bln)	2.5	2.7	7.2	0.0
Retail sales (YoY)	10.2%	10.7%	11.7%	11.5%
CPI (YoY)	4.74%	2.62%	2.98%	2.16%
VND	22,600	22,755	23,175	23,294
Credit growth (YoY)	16.5%	17.0%	13.9%	6.2%
Foreign reserves (USD bln)	41	51	60	61

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

Subscription

The next subscription deadline will be 25th July 2019. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 30th June 2019

NAV	1,814*
Since Inception	+80.1%*
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%	+0.82%	-3.35	+1.9*							2.1%*

*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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