

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	Trident Fund Services, Hong Kong
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

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The big one-day gain in Vingroup-tickers was all the excitement traders could report in the first two weeks of November. This and some gains in a few banks pushed the index in HCMC up +1.1%, and the index in Hanoi gained +0.8%, while mid- and small caps were lower as continued weak market breadth persisted. Our stocks were also lower and the NAV currently stands at approximately USD 1,776 (-0.7%), according to internal calculations.

Market Developments

November started with a "Vingroup-show". On the first trading day in November the second largest stock in the Ho Chi Minh Index, Vinhomes, jumped 7% (limit-up) to a multi-week high which helped lead to gains in the other two Vingroup-tickers. The following days showed some follow-through in these names, but unfortunately not for the broader market.

The VN30-Index was created to give investors a view of the development of the biggest companies on both stock exchanges (HCMC and Hanoi). Though, for foreign investors both indices should not be relevant since it is impossible for them to be replicated given many of the biggest components - currently 10 out of 30 stocks – are only available to local investors due to foreign ownership limits having been reached. At first sight this might not sound too bad with 2/3 of the stocks investable for foreigners, but many of them are financials. Also, the most attractive companies are among the stocks which are unavailable to foreigners. The very high concentration in banks, which represent 9 out of the 30 index stocks, also misrepresents the Vietnamese economy. Unfortunately, 5 of these 9 banks are also not available to foreigners.

When the foreign ownership limit is full for a single stock the only chance for foreigners to build a position is to buy this particular company from another foreigner when he is willing to sell, usually at a hefty premium over the current market price, if at all. For example, if an ETF or investment fund is buying one of those stocks at a 20% premium over market price from another foreigner it immediately leads to a loss in NAV as it has to value its holding at market price which is the price quoted at the exchange without foreign premium. Of course, there is also no guarantee that one will be able to sell this holding at a premium in the future.

Top 10 companies in Vietnam (market capitalization)

No	Ticker	PER	PBR	Available FOL
1	VinGroup	94.0	3.2	22%
2	Vietcombank	25.6	4.2	6%
3	Vinhomes	21.7	5.2	34%
4	Vinamilk	24.1	7.9	41%
5	PetroVietnam	17.8	4.2	45%
6	BIDV (Bank)	25.8	2.9	23%
7	Saigon Beer	41.2	8.6	37%
8	Techcombank	6.6	1.5	0%
9	Masan Group	16.4	2.3	9%
10	Vincom Retail	28.5	2.9	17%
11	AFC Vietnam Fund	7.8	1.0	

(Source: AFC Research, HSX, HNX, VietStock)

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Although trading volume in general has declined for most of the year and foreigners were net sellers in recent months, index heavyweights with the highest valuations gathered the most interest from investors recently – this is a phenomenon we see in many parts of the world and which we have written about recently. Therefore, we saw continued declines in small caps with more people capitulating and selling stocks with high yields and low valuations and switching into low yielding and more expensive blue chips.

The UPCOM market, where many smaller but also newly listed stocks are traded, is another confirmation that the broader market is still going nowhere despite attractive valuations. Although the market cap of UPCOM is currently USD 42.4 bln, which represents almost 1/3 of the Ho Chi Minh Stock Exchange, companies listed on UPCOM generate almost 60% of the earnings of their Ho Chi Minh Stock Exchange counterparts! Though, trading volume is only around 5% compared to HOSE.



(UPCOM March 2015–November 2019; source: Viet Capital Securities)

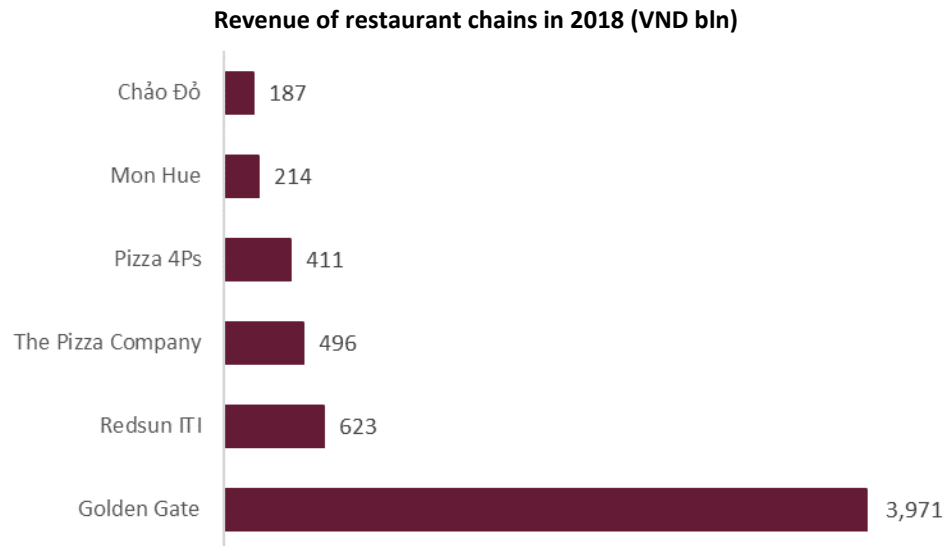
The index rally at the beginning of last year, which was also only driven by a few index heavyweights and not the broader market, was stronger than what we are experiencing now. But, in order to see a longer-term healthy uptrend we must see a broader rally on increasing volume, otherwise investors could be frustrated afterwards when the so-called safe blue chips lose 25% or more within a few months, like last year. In contrast to early last year, we are not pessimistic this time about the general market after an 18-month long consolidation phase and instead see a much better risk/reward ratio outside of the top 10 stocks, with more than 1,600 stocks to choose from.

F&B sector - tricky to be successful

Recently, one of the largest restaurant chains in Vietnam with more than 200 locations, Mon Hue, shut down due to the bankruptcy its holding company. This chain belongs to Huy Vietnam Company which raised around USD 70 mln in 2013 from many investment funds, including the famous Mark Mobius. With this capital injection, Huy Vietnam Company expanded quite rapidly in terms of number of locations under brand concepts such as Mon Hue, Phở Ông Hùng, Cơm Express, Great Banh My & Café, Cơm Thổ Cháy, Phở 99 etc. Most of these investments were made through private equity and hence no detailed information was disclosed to the public until the media started to dig further once Huy Vietnam filed for bankruptcy.

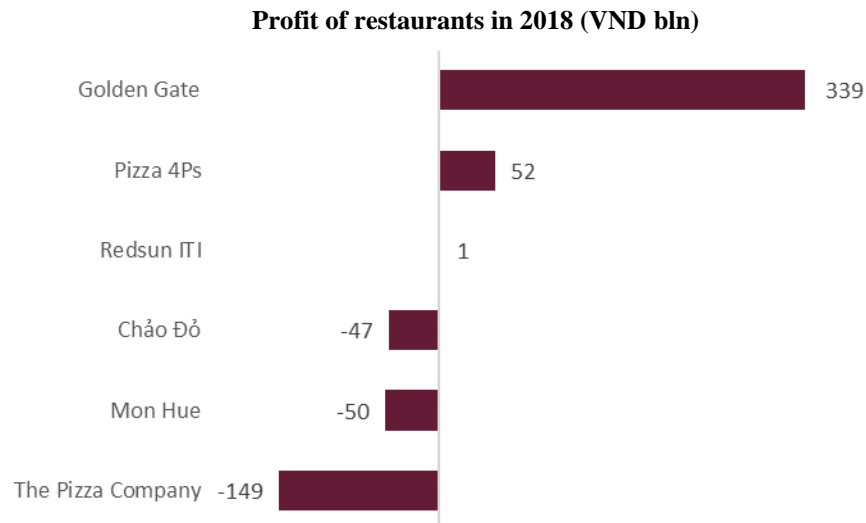
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The media in Vietnam recently widely reported how fast those restaurant chains have expanded in terms of number of locations and revenues. Unfortunately, only a few of their brands were profitable and the majority lost money. The key player in this sector is Golden Gate, a local company with more than 20 brands and 300 locations in 25 cities spread across the country. The second player is Red Sun which owns 15 brands and has more than 200 locations.



(Source: *cafef.vn*)

Due to aggressive competition from other players in the sector and surging expenses, especially in rents, most of these brands are losing money. According to a Cafef.vn correspondent, only a few restaurant chains are really making a profit, namely Golden Gate and Pizza 4P



(Source: *Cafef.vn*)

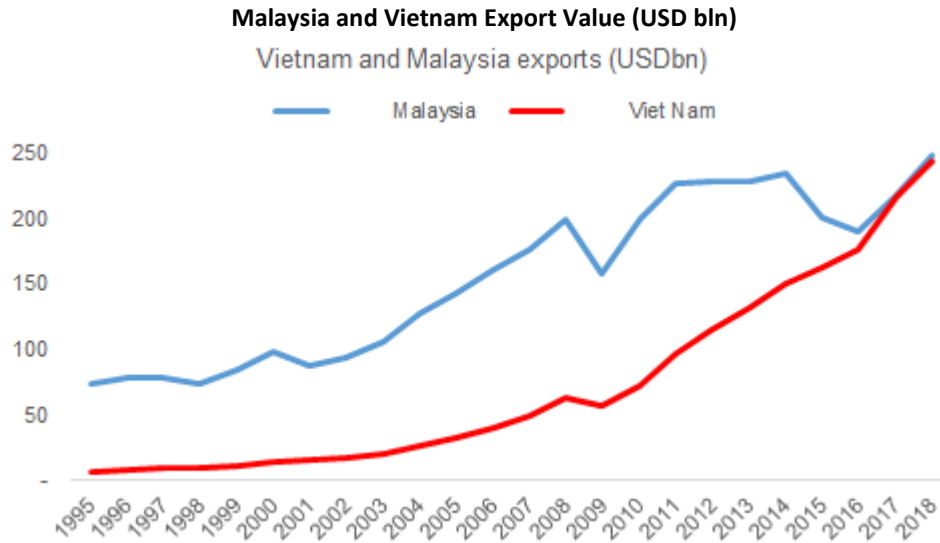
Mr. Hoang Tung, a well-known expert in this sector, recently mentioned that besides price and place, the most important factor which decides the success of a restaurant in Vietnam is the “product”. Choosing the right food is a survival factor of any restaurant. Often local restaurants do better than international chains such as McDonald’s, Burger King, etc.

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Vietnam is a promising market for the F&B sector with a population of almost 100 mln people. Most international brand names are eager to enter Vietnam and to establish a presence here. But it seems it will not be easy for them, even for well-established brands.

Vietnam narrows export gap with Malaysia

Vietnam is one of the fastest growing export economies in the world. In the last 10 years total exports grew over 14% per year from USD 62.6 bln in 2008 to USD 244.7 bln in 2018, catching up with Malaysia, with total exports in 2018 of USD 248.4bln).



(Source: UNCTAD, Natixis)

In terms of 2018 export numbers, Vietnam now ranks 4th in ASEAN, almost on par with Thailand and Malaysia but behind Singapore. Looking at the first 9 months of 2019, Vietnam's exports already surpassed Malaysia by USD 37.3 bln (Vietnam USD 194.3 bln compared to Malaysia USD 157.0 bln) and we expect this fast growth to continue.

Subscription

The next subscription deadline will be 25th November 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 15th November 2019

NAV	1,776*
Since Inception	+77.6%*
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%	+1.98%	+1.18%	+1.63%	-1.89%	-2.34%	-0.7%*		0%*

*According to internal calculations

**The Fund has appointed ACOLIN Fund Services AG, succursale Genève, 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.

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