

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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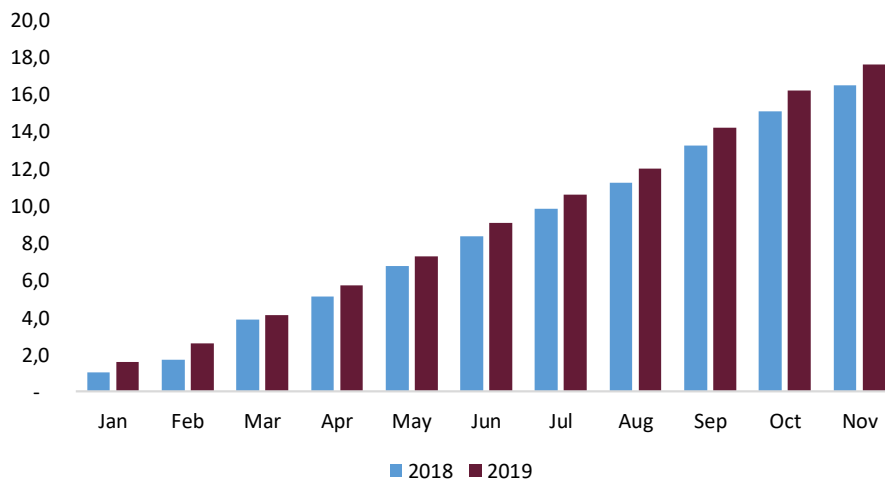
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The downtrend continued in November despite a one-day spike by the heavily weighted Vingroup-stocks. After surging 3% in the first few trading days, the index lost nearly 6% for the month. Negative sentiment among foreigners was seen both in blue chips and smaller names, with indices down across the board. The HCMC Stock Index lost -2.8% and Hanoi -2.6%, while losses in small- and mid-caps occurred at the beginning of the month. In this market environment we also experienced a loss in our NAV of -2.2% (USD 1,749), according to internal calculations.

Market Developments

2019 will be another success story for the Vietnamese economy, although we have seen a few mixed economic signals in recent weeks. We have to keep in mind that this year Vietnam, like every other country in the region, was confronted with several headwinds. A worldwide economic slowdown following lower trade, after an intensifying trade war between the USA and China, led to sharply reduced growth for most Asian economies, with Vietnam being one of the few outstanding exceptions. On the domestic front, the delayed issuance of licensing permits for many construction projects lowered the potential of even higher GDP growth. However, other indicators like FDI still confirm the strong underlying growth we see in Vietnam.

FDI disbursement 2018-2019



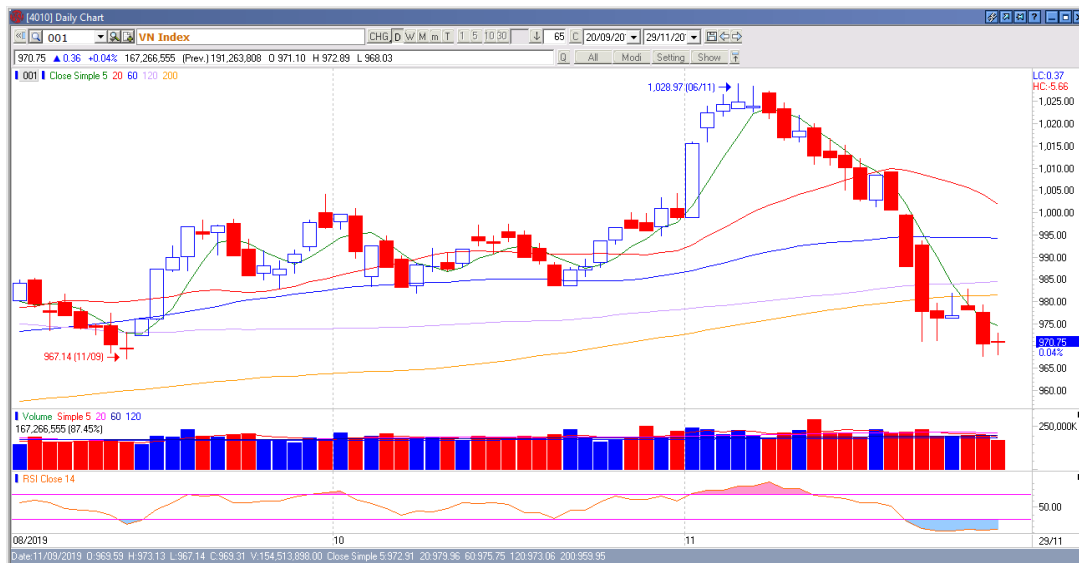
(Source: AFC Research, General Statistics Office of Vietnam (GSO))

Both negative factors could potentially fade out in 2020, so any weakness in underlying growth should be compensated and supported by either a recovery in world trade on a US-Chinese trade pact or higher approval rates in domestic construction projects, or both. Unfortunately, the stock market did not factor in any of the many positive developments in 2019 such as for example compelling GDP growth numbers or rising foreign direct investments, and any rally attempt was cut short. A handful of stocks pushed the index up in October, but on the first trading day of November Vingroup stocks once again pushed the index up strongly while the majority of stocks fell that day. On that day alone Vingroup- and bank stocks led to an outperformance of the HSX "benchmark" index of 2% against the small cap index (+1.68% versus -0.30%). In the following weeks the gain in the HSX Index reversed into an overall monthly loss, so the only difference is - once again – higher volatility in the so-called safer blue chips.

AFC VIETNAM FUND UPDATE

Those unfortunate short-term swings are neither helpful, nor are they easily explainable with Vietnam's atypical market structure (index weightings and foreign ownership limits), especially for non-professional investors.

Since the launch of the AFC Vietnam Fund back in December 2013, we have always focused on the long-term potential of Vietnam and also many of our investors told us that they don't need bi-monthly updates. We therefore have decided to stop publishing an interim report by the end of this year, but are always happy to answer our client's questions whenever they arise.



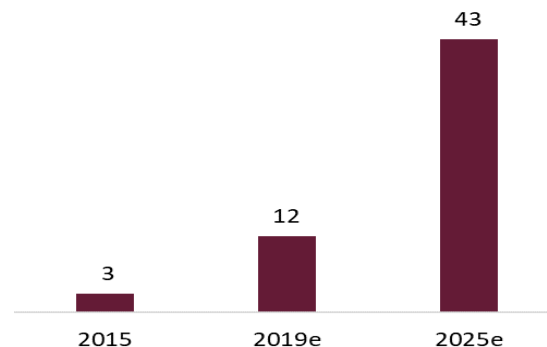
(HSX Index, August 2019-November 2019; Source: Viet Capital Securities)

The positive news is that the HSX Index has now turned from an overbought to an oversold level which we have not seen since the lows at the beginning of the year.

Vietnam's internet economy is booming!

According to an economic internet report issued by Google and Temasek in 2019, the internet economy in Vietnam will grow to USD 43 bln by 2025, up from just USD 3 bln in 2015, with E-commerce contributing USD 23 bln or more than half of this increase. Vietnam, with almost 100 mln inhabitants, is becoming one of the fastest growing internet economies in the world.

Vietnam internet economy value (USD bln)



(Source: Temasek & Google Report, AFC Research)

AFC VIETNAM FUND UPDATE

A lot of international E-commerce players, such as Lazada, Shopee, Tiki and Sendo, have dipped their toes into Vietnam in order to explore this promising market. The booming E-commerce market also helped another industry to flourish - the delivery business. Many companies and investors are investing heavily in this sector in order to capture the enormous growth. Currently some of the key players are:

Key players in delivery market in Vietnam

Traditional delivery	VNpost Viettel Post	Wide network, low cost but weak technology and slow delivery
Modern Delivery	GHN GHTK Kerry Ninjavan	Good technology, fast delivery, easy tracking but higher cost and limited network
Technology	Grab GoViet	Fast and great technology but high cost and inside cities only

(Source: AFC Research, Lazada, Shopee, Tiki, Sendo)

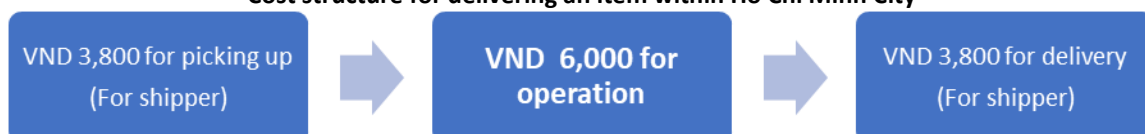
The two traditional delivery companies, VNpost and Viettel, which were set up in 1997 and 2005 respectively, have built a wide delivery network in 63 provinces in Vietnam, including in very rural mountainous and forested regions. However, their disadvantages are low technology and long delivery times. If a client wants to deliver something, he/she has to go to his/her closest office instead of somebody picking up the client's goods at home. Therefore, most of the clients are offline business retailers. Recently, VNpost and Viettel started to work with E-commerce platforms such as Lazada, Shopee, Sendo or Tiki, but the volume is still small, mainly due to unreliable customer care services.

The modern delivery companies are mostly new startups such as GHN, GHTK, Kerry, Ninjavan. Most of them started their businesses along with the E-commerce boom. GHN and GHTK are the two largest key players in this segment with more than 70% market share. They offer a full range of services from pick up, delivery, COD services and insurance. Their superior technologies allow them to capture this fast-growing business segment better. Barcode scanning, online tracking, compensation claims and fast delivery customer care services are high-level services well appreciated by retailers and E-commerce platforms. With their currently limited network, these two delivery companies (GHN and GHTK) are expanding quickly to cover all 63 provinces.

Technology companies, such as Grab and Goviet, are ride hailing apps. Based on their client data, they have started offering fast delivery, within an hour, but only inside major cities. Obviously, the fee is comparably high and is calculated based on distance.

Among the three business segments, only traditional ones are making some profit. The two other segments are burning money aggressively in favor of fast expansion and they are also reducing fees in order gain market share. According to an expert in this sector, it is impossible to make a profit with the current delivery fee structure. GHN and GHTK are charging VND 15,000 including VAT (US cents 64) for delivery within Ho Chi Minh City. This means that revenue before VAT is only VND 13,600 per item. Meanwhile, GHN pays VND 3,800 per item for pick up and VND 3,800 per item for successful delivery. Total cost for the shipper is therefore VND 7,600 per item. These companies get less than VND 6,000 per item for delivery within Ho Chi Minh City. In other words, 4 delivered goods are necessary to make one dollar before all other costs!

Cost structure for delivering an item within Ho Chi Minh City



AFC VIETNAM FUND UPDATE

(Source: GHN, AFC Research)

Of course, this amount is unable to cover all of their expenses. In order to reduce operational costs, most delivery companies do not sign labor contracts with shippers (delivery men) to avoid social contributions and other unexpected costs. Furthermore, they also do not need to invest in typical delivery vehicles such as motorbikes. Instead, shippers have to use their own motorbikes to apply for a job.

Delivery in Ho Chi Minh City vs Europe



DHL in Paris



GHTK in Ho Chi Minh City

(Source: DHL, GHTK, AFC Research)

Besides high expansion and operational costs, these companies strongly depend on the growth of E-commerce platforms. For example, nearly 90% of the GHN's total deliveries come from E-commerce platforms. In other words, if E-commerce companies face difficulties, these delivery companies will get into trouble as well. Furthermore, E-commerce companies such as Lazada or Tiki also want to reduce the influence of these delivery companies on their business. A successful order strongly depends on the – sometimes questionable - attitude of a shipper who does not have a committed labor contract with the logistics company. Consequently, E-commerce companies have to build their own delivery companies. Lazada has Lazada Express Logistic (LEL), Tiki has Tiki Express. Besides reducing the influence of delivery companies, E-commerce platforms also want to speed up delivery to within 2-4 hours. If a customer in Ho Chi Minh City buys a product on Tiki.vn, Tiki will deliver it within 2 hours with TikiNow service and Lazada within 4 hours with their new express delivery service.

TikiNow and Lazada Express Delivery



TikiNOW



Lazada Vietnam CEO

(Source: Tiki, Lazada, AFC Research)

AFC VIETNAM FUND UPDATE

Regardless of losing money of these delivery companies, venture investors are still investing aggressively as they are making investments into technology startups. Recently, GHN successfully raised around USD 100 mln from Temasek, a wholly owned investment company of the Singapore Government. With new injected capital, GHN will increase its appearance in all provinces, including remote mountainous areas. This fast expansion is burning a lot of money at the moment, but if they succeed, they will become “golden unicorns” in Vietnam. If they fail it will just be an adventure for them. However, Temasek’s investment into GHN shows that they want to be a part of this promising business in Vietnam.

Subscription

The next subscription deadline will be 23rd December 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 30th November 2019

NAV	1,749*
Since Inception	+74.9%*
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%	+2.90%	+1.58%	+0.82%	-3.35%	+1.98%	+1.18%	+1.63%	-1.89%	-2.34%	-2.2%*		-1.56%*

**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.

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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