

## AFC VIETNAM FUND UPDATE

<b>Fund Category</b>	Vietnam Public Equities
<b>Country Focus</b>	Vietnam
<b>Subscriptions</b>	Monthly at NAV (five business days before month end)
<b>Redemptions</b>	Monthly at NAV 30 days' notice
<b>Benchmark</b>	VN Index
<b>Fund Manager</b>	Vicente Nguyen
<b>Investment Manager</b>	Asia Frontier Capital (Vietnam) Limited, Cayman Islands
<b>Investment Advisor</b>	Asia Frontier Investments Limited, Hong Kong
<b>Fund Base Currency</b>	USD
<b>Minimum Investment</b>	USD 10,000
<b>Subsequent Investments</b>	USD 1,000
<b>Management Fee</b>	1.8% p.a. of NAV
<b>Performance Fee</b>	12.5% p.a. of NAV appreciation with high watermark
<b>Fund Domicile</b>	Cayman Islands
<b>Launch Date</b>	23 December 2013
<b>Custodian Bank</b>	Viet Capital Securities, Ho Chi Minh City
<b>Auditor</b>	Ernst & Young, Hong Kong
<b>Administrator</b>	Trident Fund Services, Hong Kong
<b>Legal Advisor</b>	Ogier, Hong Kong
<b>ISIN</b>	KYG0133A1673

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The last month of the year saw a mixed picture. While general weakness persisted during December, we saw some bright spots in the broader market where year-end window dressing led to bigger individual stock movements. The HCMC Stock Index lost -1.0%, Hanoi was “flat” 0.0%, with small- and mid-caps stocks weaker as well. Our portfolio fared much better in December with many stocks up and hence our NAV increased +2.26% to USD 1,788, according to internal calculations.

2019 ended little changed for most indices (small-cap +0.9%, mid-cap -0.1%, Hanoi-Index -1.7%), except for the large-cap dominated HCMC-Index which ended up +7.7%, mostly because of a single month rally in February, where only very few stocks were almost solely responsible for the full year's index gain. Despite a very weak market breadth which declined even further in the second half of 2019, our portfolio managed to hold up and according to internal calculations our NAV was slightly up for the year with a gain of +0.6% at USD 1,788.

### Market Developments

Trade tensions between China and the U.S. continued to be the major business headline for most of 2019, hurting investor sentiment towards Emerging Markets and leading to lower global economic growth which was felt in most parts of the world.

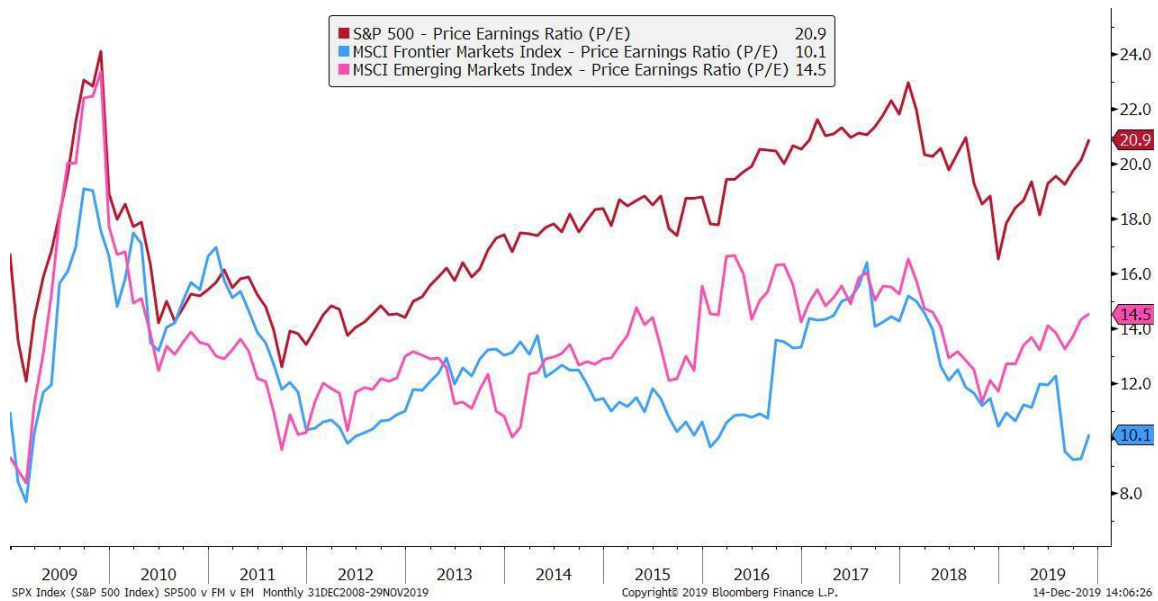
The trade conflict between China and the U.S. seemed to get close to a solution several times over the past year only to leave investors disappointed with no agreement. With the lowest global economic growth expected for 2019 since the 2008-2009 financial crisis, the recent announcement of a phase-one trade deal, which should be signed in the coming weeks, should lead to an improved positive market sentiment for Emerging Markets going forward. Recently, we have seen some renewed strength in many Emerging Markets and hope that the sideways trend will end, which has persisted since 2010.



(iShares MSCI Emerging Markets ETF – Jan 2003 to Dec 2019; Source: yahoo/finance)

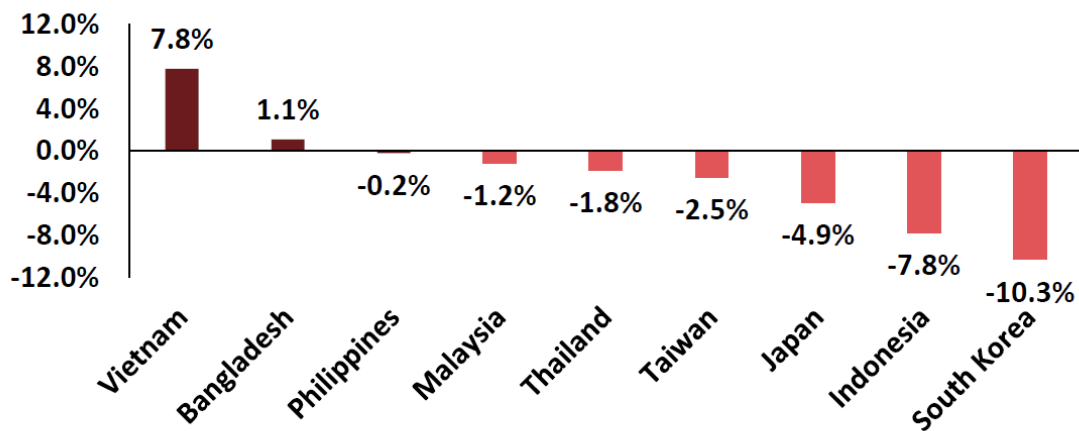
International money flows show an interesting, although unlucky picture for investors, like us, investing into undervalued stocks in an undervalued market. With the decoupling of a historical trend in world markets in recent years, the valuation gap between the U.S. and the developing world is at its biggest in the past 10 years.

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Within Asian frontier markets, Vietnam has already been the main beneficiary in 2019 from a manufacturing shift out of China, despite lower global trade. Depending on future talks and possible agreements from the U.S. with its trading partners, pressure on China’s manufacturing sector will diminish, but a change in direction back into China and out of Vietnam is highly unlikely, simply because of the huge difference in labor costs.

### Asian frontier markets are actually benefitting from trade tensions - Vietnam export growth has outperformed - 2019 year to date export growth



(Source: Bloomberg, General Statistics Office of Vietnam, Bangladesh Export Promotion Bureau)

It is nothing new that an economy and its stock market can move in different directions, but unlike a few years ago when the majority of Vietnamese stocks went up, the huge underperformance of most but the very largest stocks was neither something we expected nor which we liked to see. The good thing about investing and the stock market is that the past is not indicative of future developments. After a prolonged time of suffering in this environment we see so much value in the stocks we own that we think the tide could turn anytime and value stocks will become everybody’s darling again.

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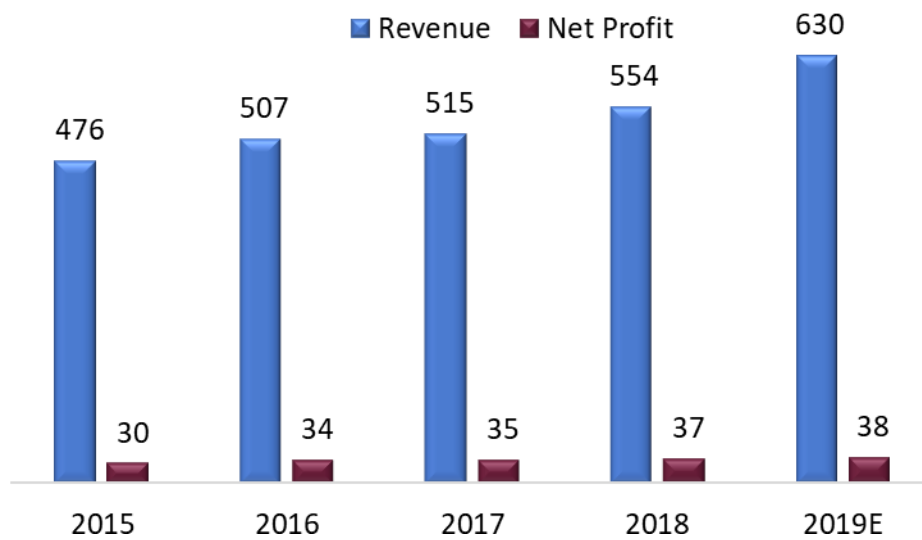


(Vietnam Mid Cap Index – March 2014 to Dec 2019; Source: Viet Capital Securities)

We also made several adjustments in our portfolio in 2019. The downturn in smaller stocks was accompanied by declining volume, with the exception being when forced selling occurred, mostly driven by foreign investors. During the year we further exited 10 positions, most of them our smallest companies. This was not because we do not see any value in these stocks anymore, but many mid-cap stocks were also hit hard and now offer similar valuations as small-caps, but with much higher liquidity. For example, one of our most recent exits demonstrates the difference of valuation in small and mid-caps compared to Vietnamese large-caps.

Last week we sold a 7% stake in Phuong Nam Education (SED), a small education company we were holding since the launch of our fund. This company, while small like our fund when we started, is exactly what we like to see as value investors. A strong balance sheet, decent growth and a high cash dividend yield. Although the stock held up much better than many other small caps over the past two years, the valuation is now cheaper than in 2014. The reason we sold the stock is simply that we can find similar valuations now in larger companies which also better fit the size of our fund.

SED Revenue and Net Profit over the past 5 years (VND bln)



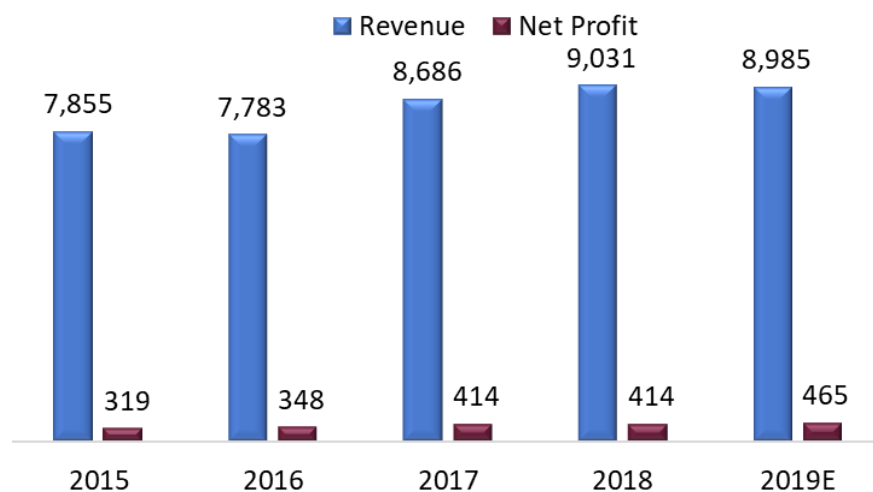
(Source: Audited SED financial report, AFC Research)

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SED distributes educational books for public schools in 26 provinces in the South of Vietnam, with a population of more than 40 mln people. SED is a subsidiary of Vietnam Publishing House, a 100% state owned company.

One example of a company in the mid-cap segment we added in the last quarter of 2019 was Loc Troi Group (LTG), the largest pesticide company in Vietnam. They are located in the Mekong Delta, the largest rice region in Vietnam with 70% of total rice production. The total market cap of LTG is VND 1,692 bln (USD 72.8 mln) and its trailing PER is at 3.5, PBR of 0.6 and it has a dividend yield of 7.9%.

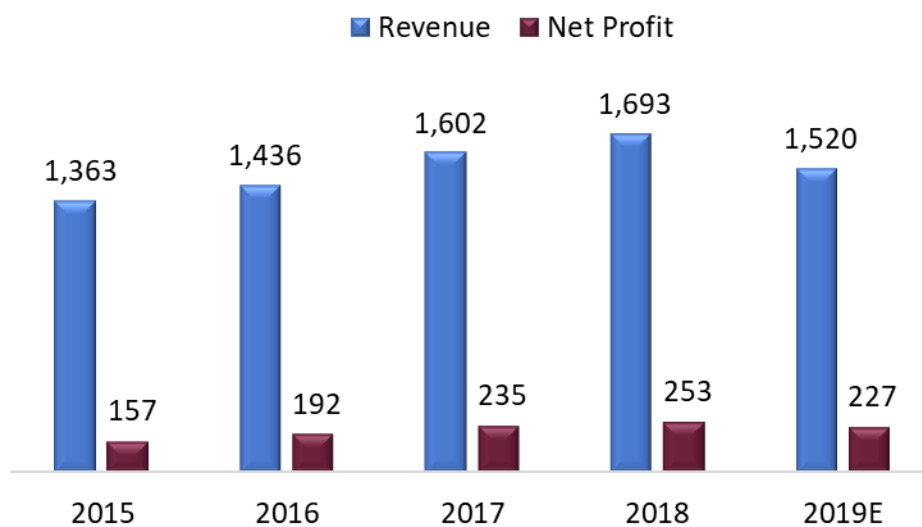
**LTG Revenue and Net Profit (VND bln)**



(Source: Audited LTG financial report, AFC Research)

Another undervalued stock in the agriculture sector is Vinaseed (NSC). The company is the largest agricultural seed researcher and provider in Vietnam. With a domestic market share of more than 40%, NSC became one of the most important companies in the agriculture sector, mainly due to its research capacity, with a team of more than 200 experts who are developing new seeds. NSC is trading at a PER of 7 and PBR of 1.4 with a total market cap of VND 1,560 bln (USD 67.1 mln)

**NSC Revenue and Net Profit (VND bln)**



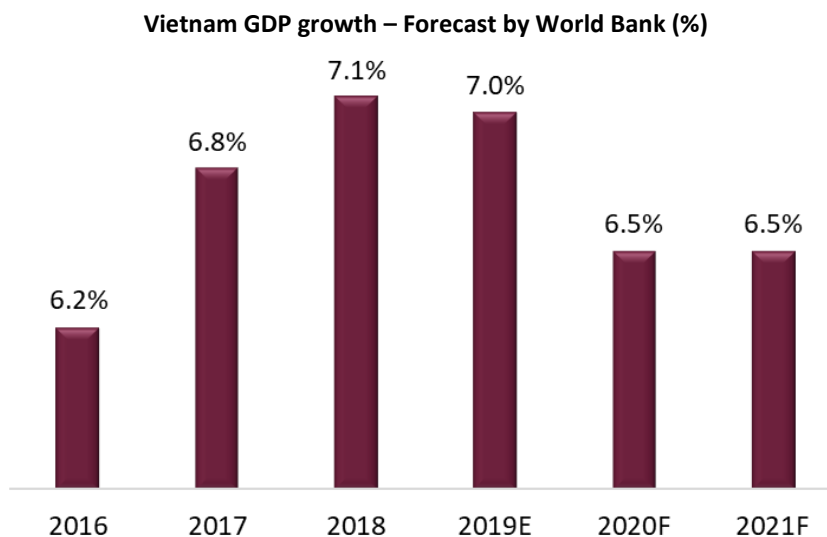
(Source: Audited NSC financial report, AFC Research)

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These are just two examples to demonstrate what kind of exceptional value one can currently find in the Vietnamese mid-cap segment.

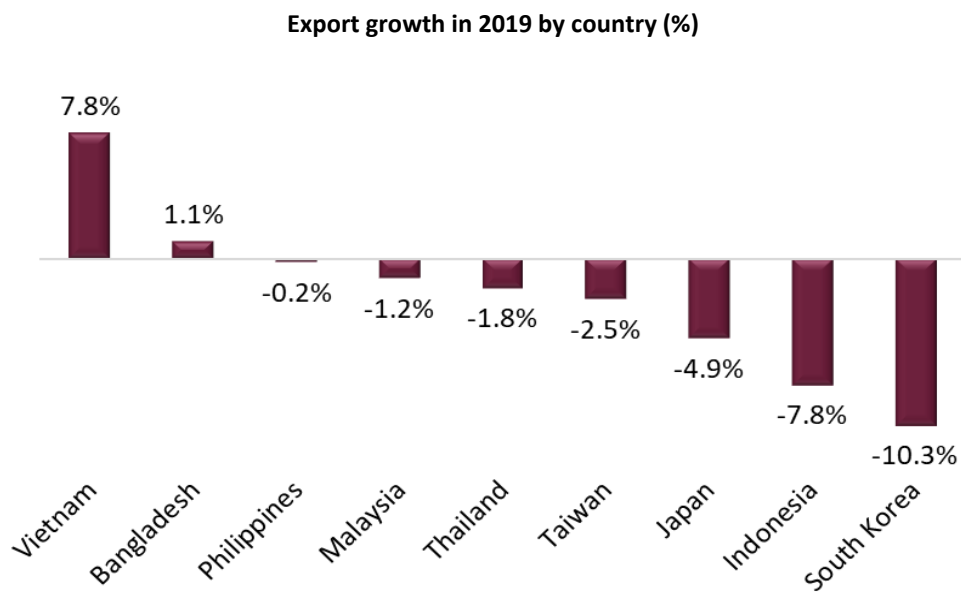
### Vietnam's economy had another successful year

According to the General Statistics Office of Vietnam (GSO), the Vietnamese economy clocked growth of 7.02% in 2019, one of the highest growth rates in the region.



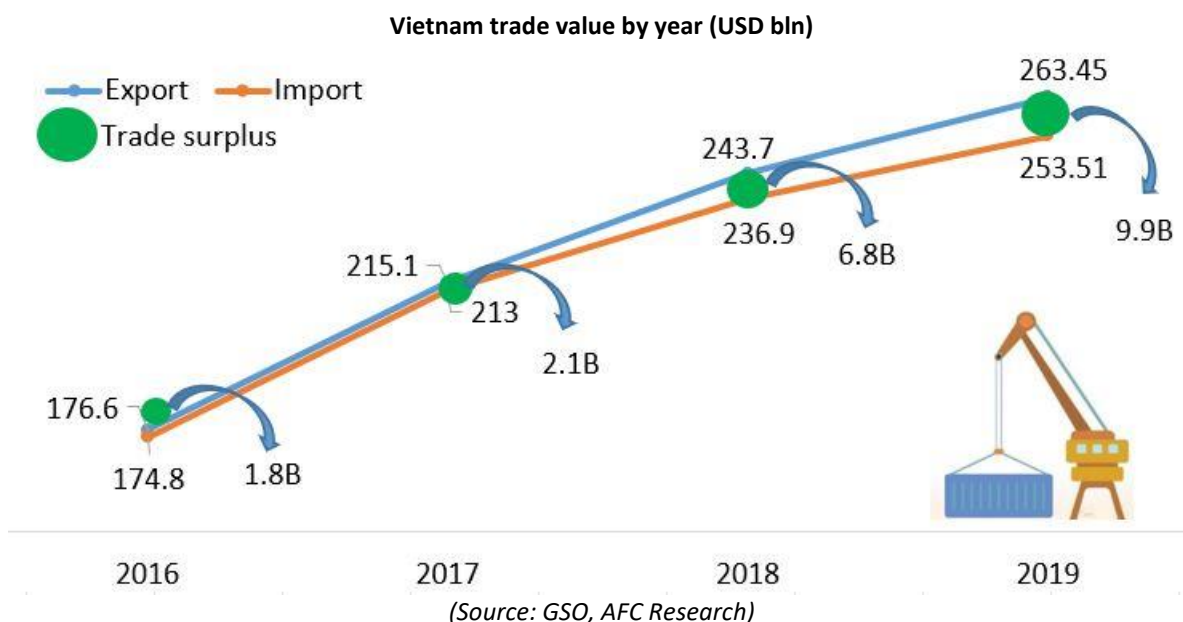
(Source: GSO, World Bank, AFC Research)

In 2019, total exports grew at 8.1 % to reach USD 263.5 bln compared to imports of USD 253.5 bln, hence the trade surplus reached a record high of around USD 10 bln.

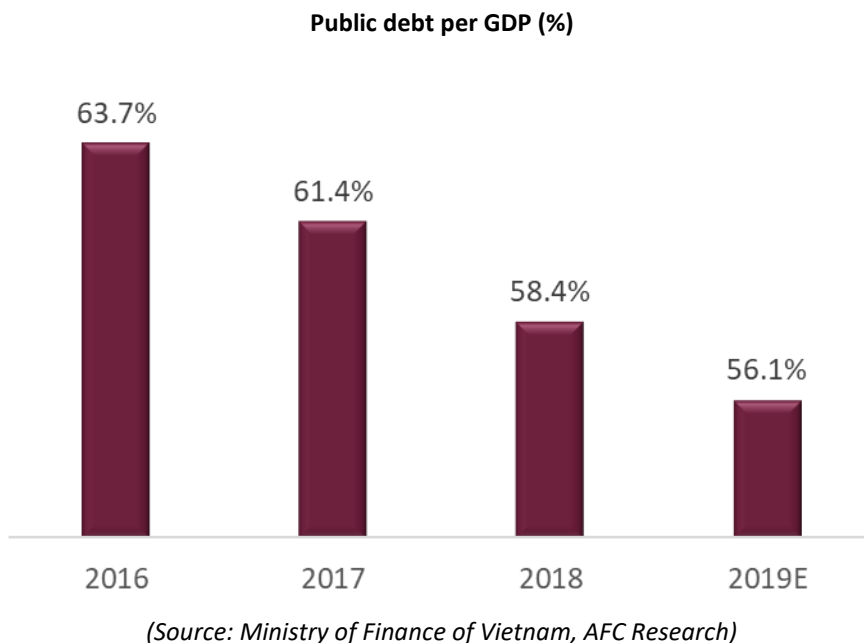


(Source: GSO, Bloomberg, AFC Research)

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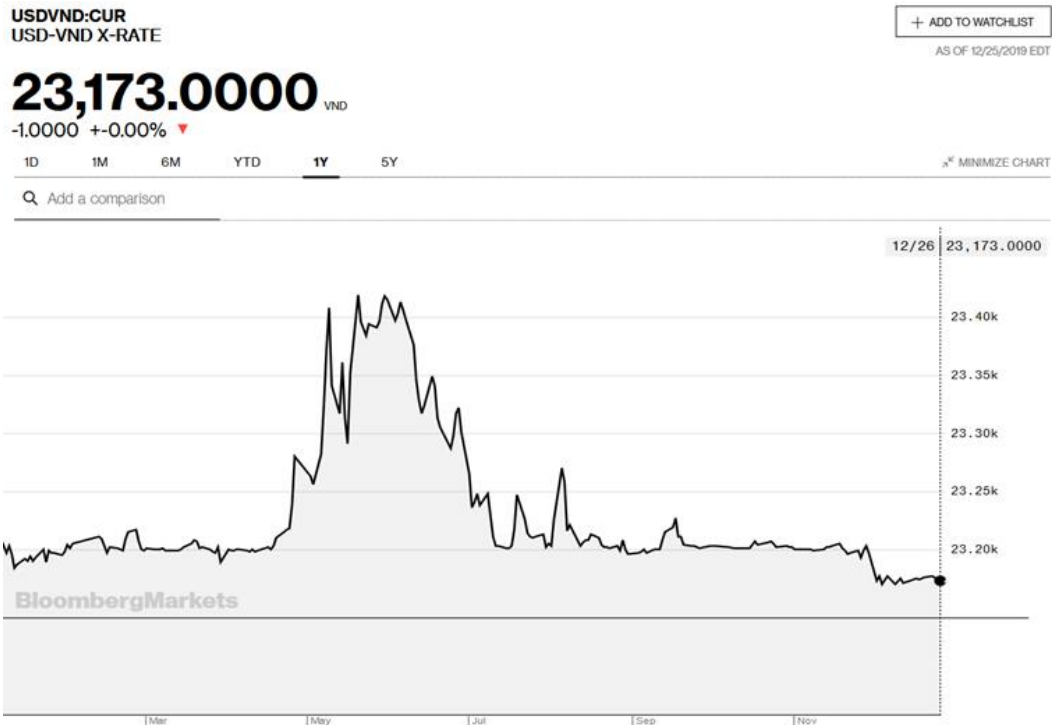


Another positive signal of Vietnam's economy is steadily declining public debt. According to an estimate from the World Bank, Vietnam successfully reduced its public debt over the last few years from 63.7% in 2016 to 56.1% in 2019.



Certainly, another convincing sign of the state of the economy is the very stable currency. Unlike every forecast at the beginning of the year, the VND kept pretty stable against the USD with little volatility (just 1% up and down during the year)—unlike many major currencies of the developed world.

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(Source: Bloomberg)

## Economy

Macroeconomic Indicators				
	2016	2017	2018	2019
GDP	6.21%	6.81%	7.08%	7.02%
Industrial production (YoY)	7.5%	9.4%	10.2%	8.9%
FDI disbursement (USD bln)	15.8	17.5	19.1	20.4
Exports (USD bln)	176.6	213.8	244.7	263.5
Imports (USD bln)	174.1	211.1	237.5	253.5
Trade balance (USD bln)	2.5	2.7	7.2	9.9
Retail sales (YoY)	10.2%	10.7%	11.7%	11.8%
CPI (YoY)	4.74%	2.62%	2.98%	5.23%
VND	22,600	22,755	23,175	23,230
Credit growth (YoY)	16.5%	17.0%	13.9%	12.1%
Foreign reserves (USD bln)	41	51	60	73

(Source: GSO, VCB, State Bank, AFC Research)



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## Subscription

The next subscription deadline will be 27<sup>th</sup> January 2020. 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 31<sup>st</sup> December 2019

NAV	1,788*
Since Inception	+78.8%*
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%	<b>+2.37%</b>
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%	<b>+32.50%</b>
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%	<b>+4.62%</b>
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%	<b>+15.29%</b>
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%	<b>+13.33%</b>
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%	<b>-4.17%</b>
2019	USD	-1.63%	+2.90%	+1.58%	+0.82%	-3.35%	+1.98%	+1.18%	+1.63%	-1.89%	-2.34%	-1.59%	+2.3%*	<b>+0.6%*</b>

\*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.*

*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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