

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) Ltd., Cayman Islands
Investment Advisor	Asia Frontier Investments Ltd., 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

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Winner Relative Value: AFC Vietnam Fund



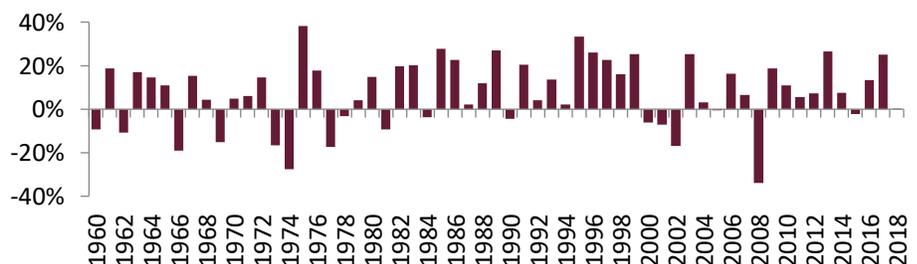
November's market activity was characterized by less volatility and sharply lower volume. Investors' nerves calmed, but they stayed mostly on the sidelines. Major indices ended mixed with HCMC up +1.3% and Hanoi down -0.5%. Mid- and small-caps were also mixed with only a few companies in our portfolio showing stronger movements. According to internal calculations, our NAV ended the month up by +0.5% at approximately USD 1,815.

Market Developments

With only one month left in 2018, it is time to sum up the events of this year and provide some initial thoughts about investments in 2019.

As we all know, 2018 was a year most investors would like to forget, especially if Santa Claus doesn't bring surprisingly strong gains in December. It will be remembered in the history books of finance for many things (including the meltdown in cryptocurrencies), but certainly not for a disastrous year in equities. What many investors have forgotten over the past few years of more or less continuous gains, is simply that stock markets are not a one-way street, and a year of losing 10% on average in world stock markets is not really anything special in the world of investing. As a general rule, people investing with a time horizon of 1-2 years should refrain from investing in stock markets. Many current investors around the world are first time buyers which were attracted by non-stop gains in recent years, especially in the tech sector. Like in all previous bull markets, they are now getting caught by adjustments in stock prices due to unsustainable valuations. The same can be said for markets like Vietnam, where a long-term investment horizon is even more important as we are investing there for an economic and stock market outperformance not only in the next 1-2 years, but rather for the next 1-2 generations. Though, this does not mean that we are not looking for short term gains as well, but there are many factors in politics and financial markets which influence the price of stocks which have little to do with the business activities of the invested companies. Like a dog owner walking his dog on a leash, the dog will sometimes be ahead and sometimes behind his owner, but overall, he will walk along with him – very similar to the economy and its stock market – the only problem is that we don't know how long the leash is. With our investment approach we try to reduce volatility in our portfolio as much as possible (so far very successfully), so investors do not have to worry too much about these short-term swings.

Dow Jones Industrial Average Yearly Returns



Source: www.1stock1.com/

We have continuously highlighted situations of overvaluation in some areas of our reports over the past 12-18 months and explained why we are not concerned at all about our investments in Vietnam. The small bubble in Vietnam's blue chips, which started in the second half of 2017 and lasted until the end of the first quarter of 2018, brought some short-term headaches for value investors like us, but of course didn't change our long-term belief that we should do well with our investments in undervalued companies which host healthy balance sheets and high dividend yields, thus reducing the volatility of our fund sharply. This has been proven over the past 5 years.

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Despite the excellent current performance of the Vietnamese economy - and outperformance in comparison with other economies in Asia and around the globe – the stock market corrected 27% from the top in early April, and it again shows very promising valuations. While we have held up much better than the market during corrections, our portfolio is still 1/3 cheaper than the index and the dividend yield of our investments is 3x the market average.

VN-Index forward P/E Ratio



Source: Bloomberg, AFC Research

The reason for the weakness in Vietnamese equities is not too difficult to pinpoint on a daily basis: trade tensions and corrections in major markets. But this environment also brings with it the perfect buying argument for long-term investors looking for higher returns in promising markets. The outperformance of the US market, which is now already 9 years long, looks like it may be coming to an end, which makes a long-term reversal to the mean from here increasingly likely.

MSCI Asia Pacific Index versus S&P500 estimated P/E Ratio



(Source: Bloomberg, AFC Research)

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Not many times in history have emerging markets traded at such a deep-discount to US equities. Many emerging market currencies went through a correction in 2018 and now look attractive, and the prospect of robust growth driven by a burgeoning population of youthful middle-class workers and consumers will at one point be given as an explanation when those markets start to outperform again. There are not many contrarian investors around (which we believe is a fruitful long-term strategy as many well-known and successful investors have proven in the past), but instead emerging markets are currently dominated by scared and nervous market participants.

Those pessimists are still pointing to risks in currency and debt markets like we saw 20 years ago during the Asian Financial Crisis. But many countries have learned their lessons since then and the main risk – debt denominated in foreign currencies – is with a few exceptions for most countries much lower than for many developed countries and also much lower than 20 years ago. China, South Korea, Taiwan, India, Brazil, South Africa, Mexico, and Russia make up over 80% of the MSCI Emerging Markets Index, but on average their USD debt is below 10%.

Considering all these arguments above, we are very optimistic about the prospects for emerging markets in Asia and particularly Vietnam, of course. Trade still remains the primary driver for the continued expansion of Vietnam. With its low labor costs and comparatively young and growing population, Vietnam remains an attractive manufacturing hub.

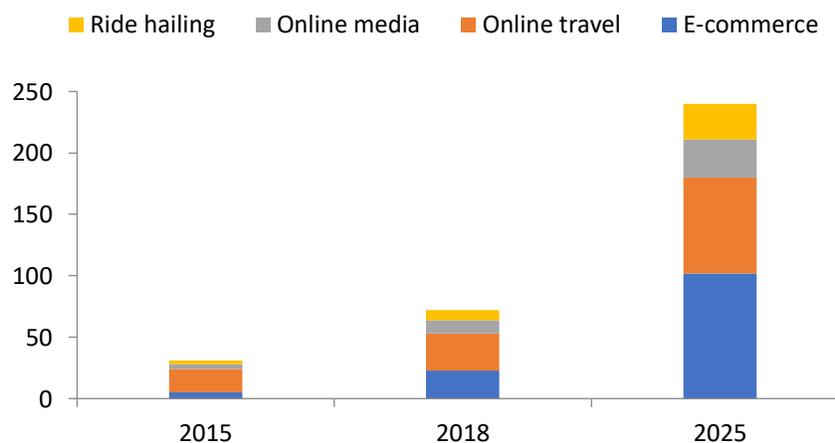
Also, another compelling factor for Vietnam's positive economic outlook is the strong and upcoming domestic market, which will further support headline growth. And on top of this, the strong growth in tourism which is at a record high in the first nine months of this year, the healthy labor market and consumer sales which have been growing at double-digits since last year, puts our fund in a very comfortable position.

Economy

Vietnam is one of the fastest growing internet economies in Southeast Asia

According to both Temasek Holding and Google, the internet economy of Southeast Asia is expanding fast, from USD 72 billion in 2015 to an estimated USD 240 billion by 2025. E-commerce will be the most important component of this growth with an estimated volume of USD 23 billion in 2015 to USD 102 billion in 2025.

Internet economy in South East Asia (USD billion)



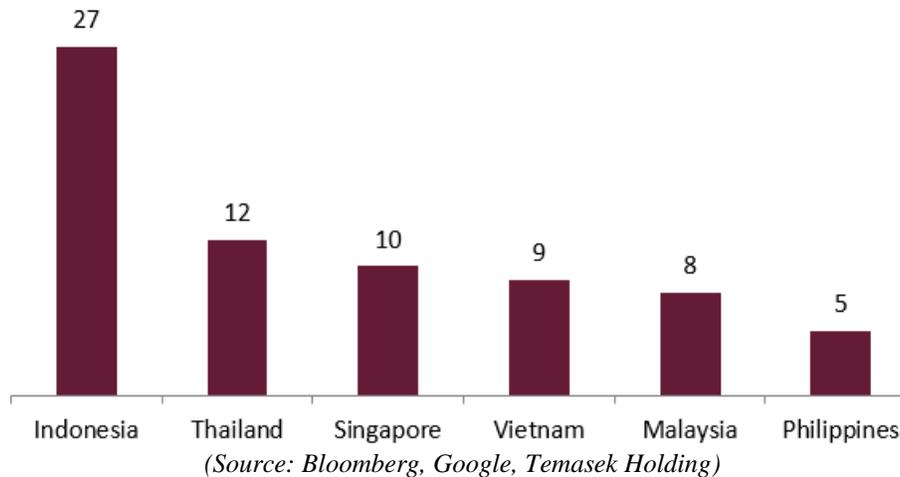
Source: Bloomberg, Google, Temasek Holding

It therefore doesn't come as a surprise that a record number of successful fund raisings have been done in this industry. In the first 6 months of 2018, investors poured USD 9.1 billion into internet companies compared to USD 9.4 billion in all of 2017.

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Vietnam is one of the fastest growing internet economies with an expected compounded annual growth rate of 25% between 2015 and 2025. The overall volume is expected to reach USD 9 billion in 2018, just behind Singapore, which boasts the highest GDP per capita in the region, but significantly higher than the Philippines which has a population of over 100 million.

Internet economy in South East Asia (USD billion)



The online shopping industry has boomed in Vietnam in recent years after giant players such as Lazada (part of Alibaba), Shopee (part of Tencent) and Tiki (part of JD.com) entered Vietnam. According to <http://vietnamreport.net.vn> (Vietnam Report Joint Stock Company), a professional market researcher, the total Vietnamese retail market is estimated to be at USD 120 billion in 2017 and expected to reach USD 160 billion by 2020. With a population of around 94 million people, Vietnam is becoming a promising destination for a lot of global internet companies such as Alibaba or even Amazon in the near future. The conversion from traditional shopping to online shopping is a key factor for the growth of the Vietnamese e-commerce industry. Even though online shopping business is booming, online revenues contribute only 6-7% of total retail sales, according to that research, and hence still has massive room for further growth.

With the fast-growing e-commerce sector in Vietnam, also online payment service providers are enjoying increasing demand and growth, such as for example Momo and VNPAY. These technology companies are the connection between banks, financial institutions, sellers and buyers. These online payment methods are quick, convenient and quite secure. This is the reason why they are very popular, especially among younger shoppers who are always ready to try out new geeky apps.

Paying by QR code at a selling machine



Source: www.cafef.vn, AFC Research

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Vietnam trade hit the record high

Vietnamese trade volume for the first 10 months of 2018 reached a record high at USD 397 billion, increasing by 13.8% compared to same period last year. Total exports were USD 202 billion and imports USD 195 billion, which equates to a trade surplus of USD 7 billion.

Macroeconomic Indicators				
	2015	2016	2017	Nov-18
GDP	6.68%	6.21%	6.81%	6.98%
Industrial production (YoY)	9.80%	7.50%	9.40%	10.10%
FDI disbursement (USD bn)	14.5	15.8	17.5	16.5
Exports (USD bn)	162.4	176.6	213.8	223.6
Imports (USD bn)	165.6	174.1	211.1	216.8
Trade balance (USD bn)	-3.2	2.5	2.7	6.8
Retail sales (YoY)	9.50%	10.20%	10.70%	11.50%
CPI (YoY)	1.34%	4.74%	2.62%	3.46%
VND	22,540	22,600	22,755	23,365
Credit growth (YoY)	17.30%	16.50%	16.96%	10.50%
Foreign reserves (USD bn)	36	41	51	62

(Source: SBV, GSO, AFC Research)

Subscription

The next subscription deadline will be 24th December 2018 and 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 November 2018

NAV	1,815*
Since Inception	+81.5%*
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%	+0.5%*		-2.1%*

*According to internal calculations

**The representative of the Fund in Switzerland is Hugo Fund Services SA, 6 Cours de Rive, 1204 Geneva. The distribution of Shares in Switzerland must exclusively be made to qualified investors. The place of performance and jurisdiction for Shares in the Fund distributed in Switzerland are at 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

Investments in equities in Vietnam are subject to market risk, idiosyncratic risk, liquidity risk, and currency exchange rate risk. The fund may use financial derivative instruments as a part of the investment process. This document does not constitute an offer to sell, or a solicitation of an offer to buy shares in AFC Vietnam Fund. We will not make such offer or solicitation prior to the delivery of an offering memorandum, the operating agreement or articles of association, a subscription booklet, and other materials relating to the matters herein. Before making an investment decision, we advise potential investors to read these materials carefully and to consult with their tax, legal, and financial advisors. The materials have not been reviewed by the regulatory authority of any jurisdiction. Investment is open only to accredited investors as defined by the relevant legal jurisdiction of residence and/or nationality. We have compiled this information from sources we believe to be reliable, but we cannot guarantee its accuracy. We present our opinions without warranty. Past performance is no guarantee of future results. © 2018 Asia Frontier Capital Limited. All rights reserved.