

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

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

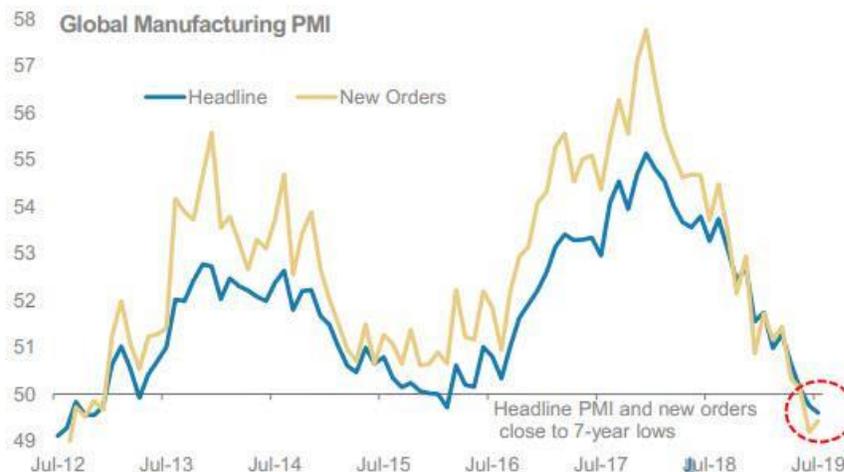
Hong Kong Office:
Asia Frontier Investments Limited
905, 9th Floor, Loon Kee Building
267-275 Des Voeux Road Central
Hong Kong

August saw a repetition of previous months where the family of Vincom stocks, the Chinese Yuan depreciation and subsequent big swings in world stock markets were once again the biggest performance drivers. Compared to other markets, Vietnam was once again more stable showing also much lower volatility, with the Ho Chi Minh City Index declining by -0.8% and the Hanoi Index by -2.0%. Our portfolio was again better protected from these factors and strong buying interest in many of our stocks brought our NAV to 1,865, a gain of +1.5%, according to internal calculations. Despite that the Vietnamese stock market is still down significantly from its high, our NAV is now only around 2% (in USD terms) below its all-time high.

Market Developments

World stock markets were caught again by questionable rhetoric and actions by the world's two biggest economies. While Trump is still talking about the wall between the USA and Mexico, he is currently building a much bigger economic wall around the USA, while most other countries are reducing tariffs in order to promote trade and their economies. Who is paying for that wall is pretty clear, namely US consumers and laid-off workers around the globe due to slower economic activity bearing the main consequences of the new trade policy. Part of US politics seems to be to find new enemies, nowadays also focusing on trade and currencies.

Exhibit 4: Global manufacturing PMI and new orders sub-index contracting for second consecutive month

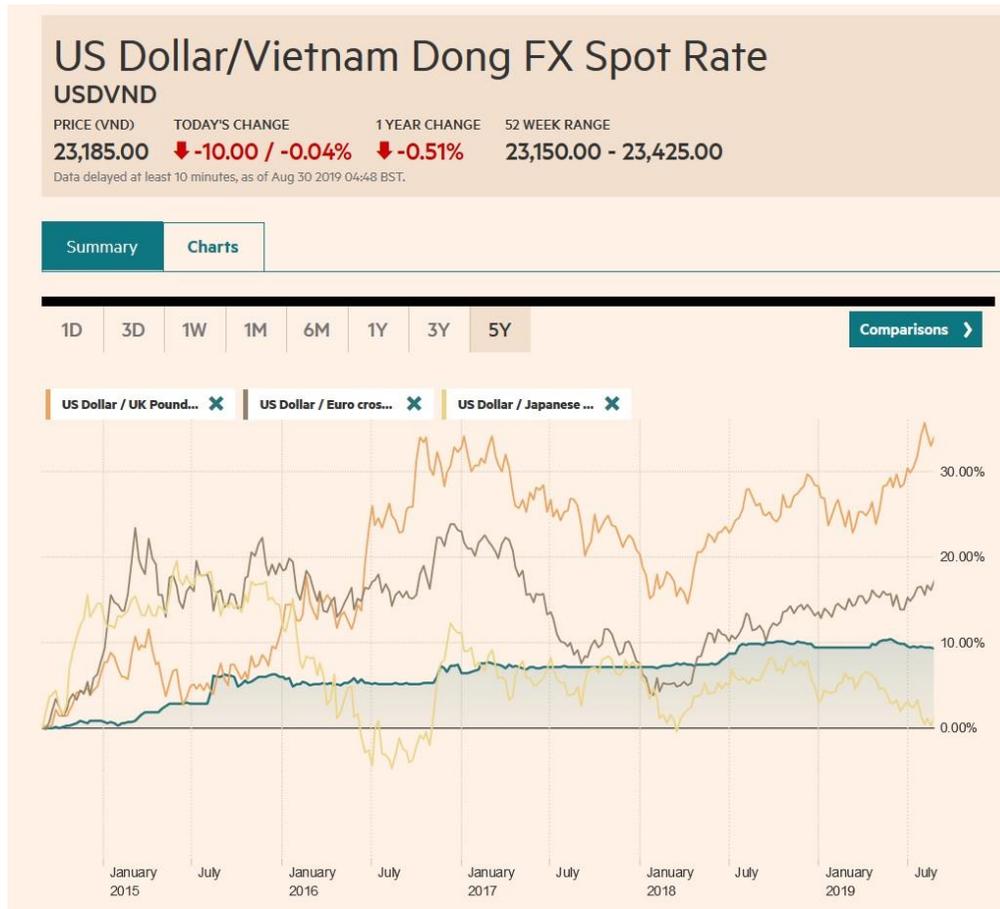


Source: Haver Analytics, Markit, IMF, Morgan Stanley Research

It might sound good for many Americans that US companies should purchase goods from countries other than China, but the subsequent shift in trade and production will mostly favor countries like Vietnam and ultimately victimize consumers, as it is highly unlikely that the USA (as Europe) would be able to produce most of the currently imported products at similar prices.

When some recent comments again targeted Vietnam's "cheap" currency and trade surplus with the US, somebody failed to check the facts. The Vietnamese Dong was one of the strongest currencies when compared to even the biggest and most important currencies in the world, and unlike Germany for example, the overall trade surplus of Vietnam is hovering around zero, although Vietnam, like most countries worldwide, has a big trade surplus with the US.

AFC VIETNAM FUND UPDATE



(5year VND, JPY, GBP, EUR against USD; source: Financial Times)

Can 5 stocks represent a market of more than 1,000?

Both the index and our portfolio are much calmer than most stock markets around the globe, but we, like most investors in Vietnam, are still facing the same dilemma being that the Index is not reflecting at all what is happening within the broader stock market. July and August saw a continuation of what we have seen in the first half of the year, when 90% of the performance came from the three Vincom stocks, plus Petrovietnam Gas and Vietcombank. A few other stocks added some smaller gains while the majority of stocks (there are 375 stocks in the HSX Index alone) continued to fall. Therefore, it is no wonder that the performance of most funds are lagging the index and are somewhere near zero for the year. In this environment we are glad to have some stocks which were “discovered” by investors this year which helped us to show a positive performance year to date, and we believe many more of our portfolio holdings will also soon be “discovered”.

Key to a better stock market performance are local investors picking up stocks at low prices. Many of these stocks have already been sold by some of the foreign funds which had to sell them in order to deal with redemptions earlier this year. Only 1% of a total of more than 2 million brokerage accounts are owned by foreigners, but these accounts hold around 25% of the total market cap in Vietnam, though most of them are strategic investors. Another 40% of the total market cap is held by management and the government of Vietnam and 35% of market cap is owned by local, mainly retail investors who often don't care about valuations and are instead following market rumors. Another consequence of this attitude is that last year's introduction of futures and this year's first listings of covered warrants resulted in a 99% participation rate of locals in those products as they are perfectly designed to gamble on short term market movements with high leverage. We do not see this as a negative but more of a natural market development in this still very young financial market.

AFC VIETNAM FUND UPDATE

The US markets will not outperform forever even if the common argument is that a prolonged zero interest environment will push up equity prices. This might be true for the US indices but not for most other markets where stocks are trading at the same levels as 20 years ago as for example in the case of many European markets.



Recently, we also saw increased interest in non-blue-chip names. While it has not shown up in the market breadth yet, we saw an outperformance of the small- and mid-cap indices in August. And despite all of those uncertainties, Vietnam stayed resilient and is even looking stronger from a medium-term perspective.



Phu Tai Joint Stock Company (PTB) – A beneficiary from the trade war

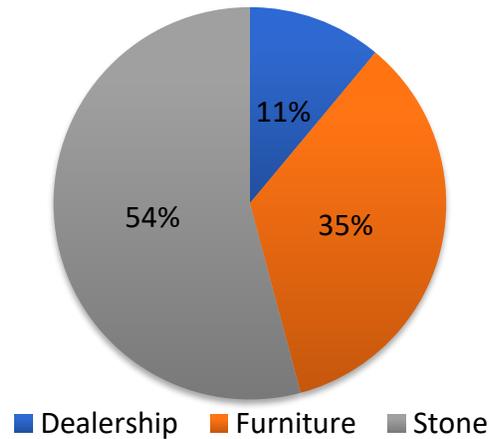
Last week we visited PTB, one of our top ten positions. PTB's business is split into three main divisions: Toyota car dealership, furniture and natural stone mining. This company is a good example of how Vietnam is benefiting from the current trade war between US and China, since the US is a big importer of furniture and stones. Our fund manager has met and discussed with the CEO of PTB, Mr. Le Van Thao, the current situation and future outlook of the company.

In 2018, the company reported total revenues of USD 196.5 mln, a year on year increase of 22.8%, of which furniture and stone mining contributed the lion's share. This is mainly due to a sharp increase of furniture and stone exports to the US, with furniture revenues increasing by 47.8% and stone mining revenues by 7.4%. Due to higher demand in this sector, PTB acquired some furniture companies and stone mines for a total investment of USD 11.5 mln.

AFC VIETNAM FUND UPDATE

The CEO also mentioned that the company plans to produce artificial quartz and he expects this will further enhance revenue growth and profitability in the stone mining division. More and more of their customers are switching from natural stones to artificial stones like quartz. He expects the first quartz labs will be operational in Q3 2020. In order to sell its quartz stone to the US, PTB has already signed agreements with some stone distributors in the US, which is the largest quartz stone importer.

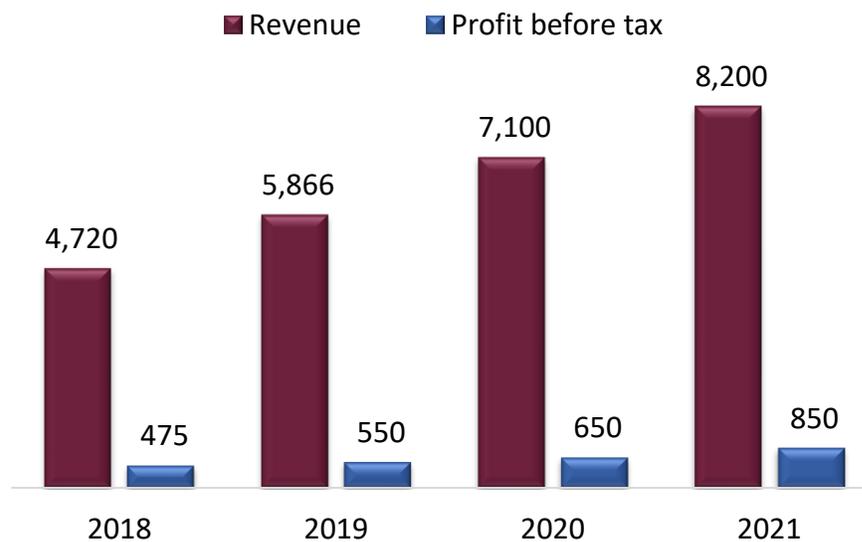
Profit structure in 2018 (%)



(Source: PTB annual report, PTB audited financial report, AFC Research)

The CEO also shared PTB's financial estimates and company outlook for the next three years. Despite these optimistic future forecasts, the stock is still trading at less than 8x estimated earnings for 2019 and is currently one of the fund's top 3 holding.

3 year financial outlook (VND billion)



(Source: PTB, AFC Research)

AFC VIETNAM FUND UPDATE



(PTB stock price from Jan 2016 to Aug 2019; Source: Viet Capital Securities)

Economy

Macroeconomic Indicators				
	2016	2017	2018	Aug-19
GDP	6.21%	6.81%	7.08%	6.76%
Industrial production (YoY)	7.5%	9.4%	10.2%	9.5%
FDI disbursement (USD bln)	15.8	17.5	19.1	12.0
Exports (USD bln)	176.6	213.8	244.7	170.0
Imports (USD bln)	174.1	211.1	237.5	166.6
Trade balance (USD bln)	2.5	2.7	7.2	3.4
Retail sales (YoY)	10.2%	10.7%	11.7%	11.5%
CPI (YoY)	4.74%	2.62%	2.98%	2.26%
VND	22,600	22,755	23,175	23,260
Credit growth (YoY)	16.5%	17.0%	13.9%	7.4%
Foreign reserves (USD bln)	41	51	60	68

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

Subscription

The next subscription deadline will be 24th September 2019. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

AFC VIETNAM FUND UPDATE

Estimated NAV as of 31st August 2019

NAV	1,865*
Since Inception	+86.5%*
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%	+0.45%	-2.05%	-4.17%
2019	USD	-1.63%	+2.90%	+1.58%	+0.82%	-3.35%	+1.98%	+1.18%	+1.5%*					+5.0%*

*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.

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. © 2019 Asia Frontier Capital Limited. All rights reserved.