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

Contact Information

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HFM AWARDS ASIA 2016 HEDGE FUND PERFORMANCE AWARDS Monday 19 September Conrad, Hong Kong

Winner Relative Value: AFC Vietnam Fund

The first half of December could be regarded as a one-day event. On the first trading day of the month financials pushed up the indices, while there was little movement for the rest of the period. The indices are currently up +2.8% (HCMC) and +1.7% (Hanoi). Similar to the rest of the market, we also saw little movement in our universe as well as light selling pressure in some of our top 10 holdings which led to an unchanged NAV of approximately USD 1,814, according to internal calculations. Market breadth continues to show a stabilization which means that the overall weak sentiment seems to be disappearing, with foreign investors also slowly returning to the market.

Market Developments

Global markets are still in a shaky mood - but we are quite relaxed. This may seem to be an arrogant statement, but as AFC fund insiders we are die-hard investors in Vietnam and have very little exposure to Developed Markets, as we put our money where our mouths are. Our team has witnessed all kinds of corrections and bear markets over the past 30 years. Still, that does not help us to predict the future, but we do think this improves our capability in assessing long term opportunities and risks. Long term predictions are unfortunately not very helpful in the short term but they help us to mitigate risks while sitting through these volatile times with a portfolio of high yielding and under-valued stocks.

Most corrections over the past few years were short lived and people got used to yearly, quarterly, and almost monthly gains. Since the global financial crisis of 2008/2009, people have forgotten why we saw those continuous gains over the years thereafter: stocks were very cheap in 2009, like not many times in history!

S&P 500, 2013-2018; Source: FINVIZ.com

With growing nervousness about the economic outlook over trade and high valuations in Developed Markets, investors tend to reduce equity exposure in Emerging Markets as well, as those markets were usually also expensive along with Developed Markets at the current stage of previous economic cycles and sold off along with everything else. However, this time current low valuations in Emerging Markets should give investors more confidence than in many so-called lower risk (aka Developed) markets. That could also be an explanation for why the losses in Chinese stocks, where the economy is certainly more affected by the trade war than any other country in the world, have actually been smaller than in the US market in the current quarter.

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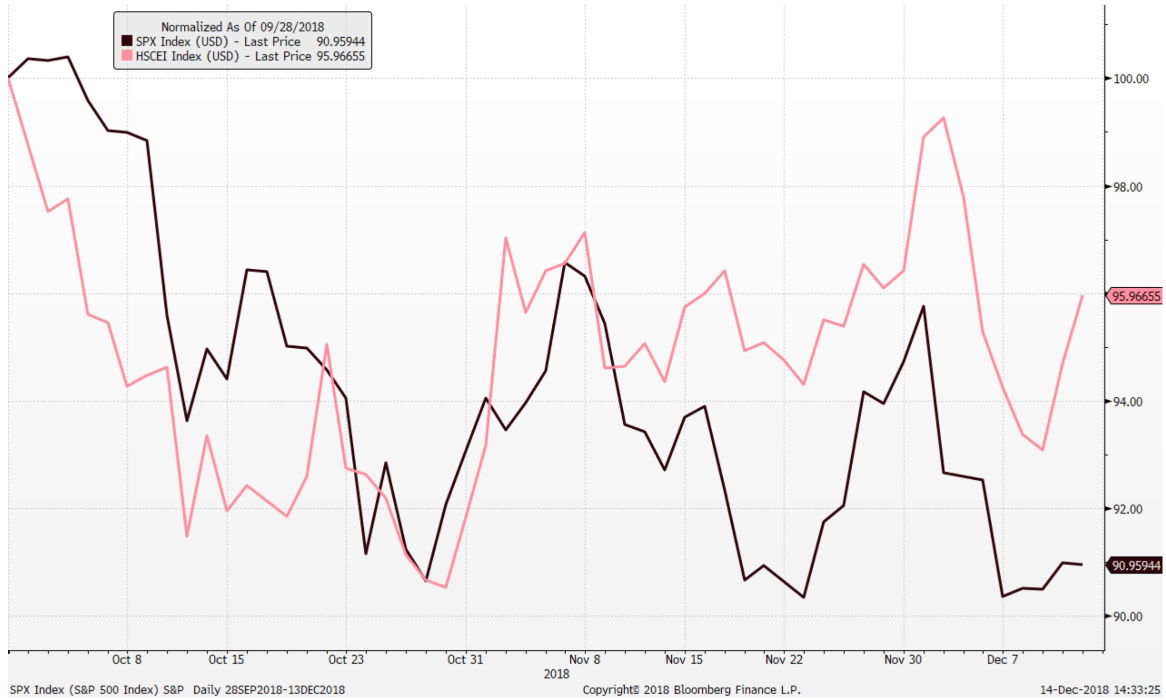
Hong Kong Stock Exchange Hang Seng China Enterprises Index vs S&P 500 from 30/09/201818 to 14/12/2018



Source: Bloomberg

Investors should always ask themselves why they have made a particular investment, whether it is into a specific company, a particular sector or country. The biggest investment mistake over the past decades we have witnessed was selling a good idea because of fears that leading markets could be weak. If an investor, for example, sold Apple when people were nervous in 2011 because of the Euro crisis or in 2016 in expectation of a weak market when Trump was elected, one would have missed superior gains. That is true for any well researched investment story – in the long run. If sold, people are hoping to buy back those investment ideas at a later time at lower prices - but in most cases that usually does not work out. Sometimes markets don't turn lower as expected, sometimes the investment idea trades higher despite a lower market and sometimes people are too scared to buy back when everything is going down, including their investment idea.

Around 30 years ago, in the late eighties', Japan was not only the leading market in Asia, but its total market capitalization was also bigger than the market capitalization of Wall Street after spectacular gains of 500% in just one decade. With US markets recovering from the '87 crash, Asian investors were especially skittish in 1990, when the Japanese bubble burst. For most people it was hard to believe that other markets, especially in the region, could flourish with the second biggest economy in the throes of a recession and one of the biggest bear markets of all time - Japan lost 82% from its peak in 1989 to 2009 and is today still almost 50% below its peak after 29 years! However, Thailand, Korea and Indonesia – the so-called Tiger countries, which were then at a similar stage of development as Vietnam is today, all had great runs in the following years to come, until the Asian crisis hit those markets in 1997.

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Thailand SET-Index 1987-1996

Source: Siamchart.com

In the US markets we are currently testing the lows from earlier this year and are already in the middle of a formidable correction. We think that the example of Japan and South East Asia in the nineties is a good proxy for what we could see over the next ten years in Vietnam. Even if Developed Markets are at similar or lower levels 5-10 years from now (which we do not predict of course), the new "Tigers" like Vietnam should see a continuation of their economic and financial prosperity.

Economy

Will Vietnam continue to follow China's export path?

Following the Doi Moi of 1986, Vietnam's economic reform with the goal of creating a "socialist-oriented market economy", the country embarked on an impressive economic growth path, much faster than most of its regional neighbors. It is interesting to observe how Vietnam's export volume is following closely the path of China, just with a time lag of 9 years. China officially opened its economy in late 1970's and since then its FDI have increased year by year at a rapid rate which has helped to drive the economy. China became a huge export economy with total exports skyrocketing from USD 53.4 billion in 1990 to USD 1,843 billion in 2017, an increase of nearly 35 times.

There are quite a few similarities between Vietnam and China's economies and cultures. Vietnam opened its economy in 1986, almost a decade after China. US sanctions were officially lifted in 1994 which helped Vietnam to connect to the rest of the world, especially when it became an official member of the WTO (World Trade Organization) in 2007. These were important trigger points for Vietnam's economy to flourish and from 1998 to 2017 its exports grew by a staggering 2,174% from USD 9.4 billion to USD 213.8 billion.

Also, in the first 11 months of 2018, exports continued to grow strongly at 14.4% to a record high of USD 223.6 billion, regardless of the trade tensions between China and the US. Recently, Vietnam successfully signed important free trade agreements including the CPTPP and EU-Vietnam Trade Agreement, which will have a very positive impact on the Vietnamese economy in the coming years. Besides Vietnam, only Singapore has such a diversified set of trade agreements, thus showing the openness of Vietnamese economic policy.

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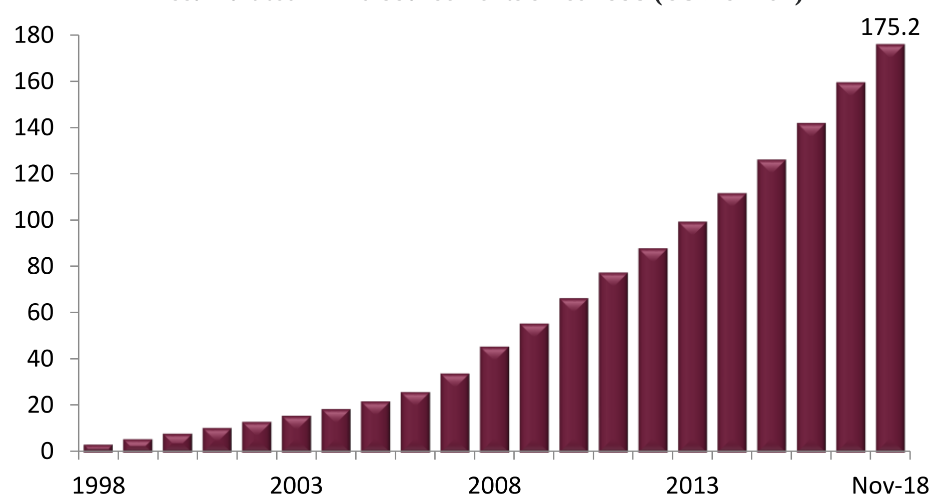
China and Vietnam Export Growth (1990-2017)

(Source: Bloomberg, GSO, AFC Research)

During the same period, Vietnam also enjoyed strong Foreign Direct Investments (FDI) inflow and total FDI disbursements reached a record high of USD 175.2 billion in November 2018.

Accumulated FDI disbursements since 1998 (USD billion)



(Source: GSO, Vietstock.vn, AFC Research)

Vietnam is widely considered to be one of the key beneficiaries in the trade dispute between China and the US, and the manufacturing shift from China into Vietnam is definitely accelerating. Also, Foxconn Group recently discussed with the Vietnamese Government their plans of potentially setting up an iPhone manufacturing facility in Vietnam.

PMI rises to 56.5 in November

Vietnam's Purchasing Managers' Index (PMI) increased strongly in November from 53.9 (Oct) to 56.5 (Nov), signaling a sharp improvement in the manufacturing sector, at the second-fastest pace in the survey's history.

15th December 2018

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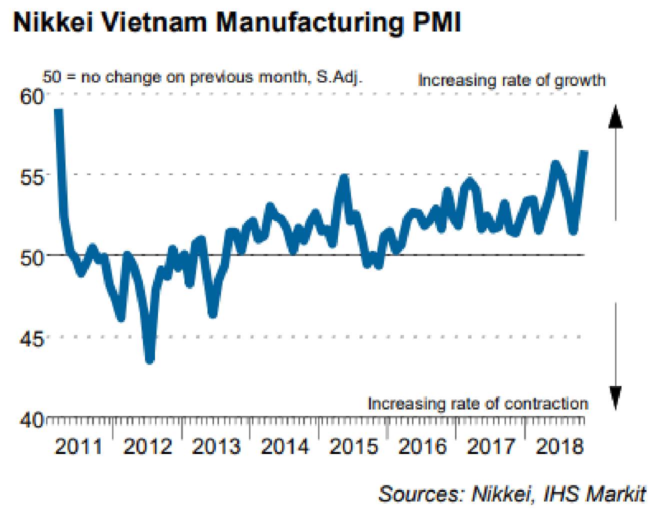

Subscription

The next subscription deadline will be 24th December 2018. 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 15th December 2018

NAV	1,814*
Since Inception	+81.4%*
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%	+0%*	**-2.16%***

***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.