31st December 2018

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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Winner Relative Value: AFC Vietnam Fund

The month of December can be seen as the climax of an already ugly year in all markets, including Vietnam. Deflating prices in overvalued stocks in the world's leading market, the USA, led to declines in Vietnam as well, although to a much lesser degree and the Vietnamese Dong was even able to gain against the USD by 0.4%. Nevertheless, the index in HCMC lost -3.7% and ended the year with a loss of -9.3% in local currency (-11.4% in USD). The index in Hanoi didn't fare much better, experiencing a loss for the month of –0.6% and ending the year down –10.8% in local currency (-12.9% in USD). According to internal calculations, our fund ended the month with a loss of –1.9%, while ending the year at a NAV of USD 1,780. Along with our strategy, we always note how unimportant short-term swings in a market like Vietnam are and how low our volatility is (our invested capital is always between 95% - 98%), and despite having our first yearly loss after 4 continuous years of gains, those losses are rather mild with the expected NAV down just –4.0% in USD terms after gaining 80% in previous years. The loss for 2018 in local currency at -1.8% was very small and depending on the investor's home currency, the fund's performance was even break even or positive in the respective currency of € or GBP.

After just celebrating our fund's 5th anniversary on 23rd December 2018, we can look back at an annualized USD performance of 11.4% with a very low annualized volatility of only 8.7%. Based on the highly attractive valuation of our portfolio and the success story of Vietnam which is continuously improving, we are looking forward to a prosperous future.

Market Developments

In December we finally saw something really "remarkable" as the financial media was looking, as always, for attention. Their headlines included "worst Christmas Eve day ever", "worst December since 1931" and "all major indices and markets now in bear market territory". It should be noted that these headlines are mostly from the same sources that were sending out super bullish messages just a few months ago, in line with most strategists bias for further gains. We did not like to see the US equity bubble expand over the past two years and we are certainly not happy with the declines hitting markets around the globe in Q4. Though, to keep things in perspective, most markets are now back to the levels seen two years ago and not at a level people would need to expect a world economic crisis like in 2008/2009 where many economic indicators were much more alarming than today. We see the overvaluation in certain sectors and markets deflating rapidly as there is no more "money for free" from most central banks; people just have not experienced any major losses over the past nine years, which was exceptional and not sustainable. It is not something we care too much about, but after we experienced similar losses in history, including the global financial crisis of 2008/2009, we saw either massive mid-term rebounds or long-term bottoms. Nevertheless, the dimension of the US stock market decline in just one single week (17. – 21. Dec.) was shocking with a loss of around USD 2,000 billion – this is roughly equivalent to 11x the total market cap of Vietnam's stock market, or 8x Vietnam's GDP!

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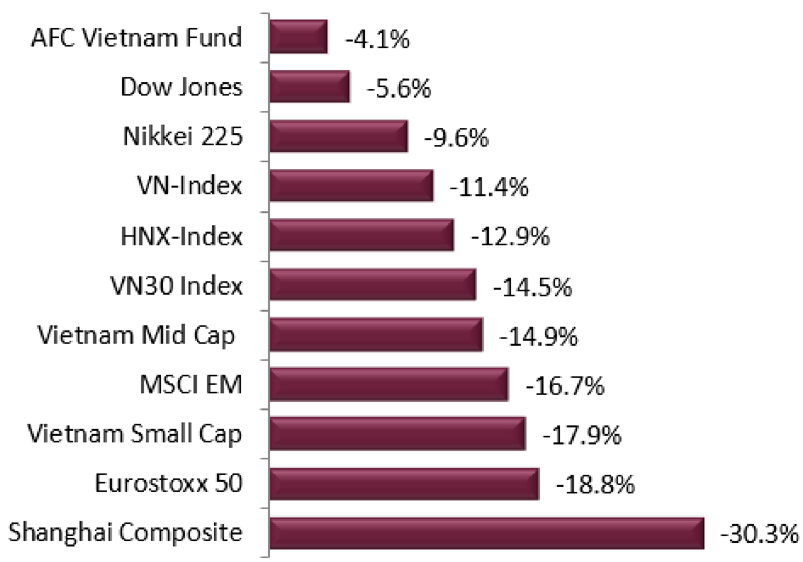
2018 Performance (in local currencies)

Stock/Index	29/12/2017	31/12/2018	Perf
AFC VF (EUR)	1,544.04	1,550.00	0.4%
AFC VF (CHF)	1,806.47	1,755.81	-2.8%
AFC VF	1,853.61	1,777.23	-4.1%
Dow Jones	24,719.22	23,327.46	-5.6%
VN-Index	984.24	892.54	-9.3%
HNX-Index	116.86	104.23	-10.8%
Nikkei 225	22,764.94	20,014.77	-12.1%
VN30 Index	975.52	854.99	-12.4%
Vietnam Mid Cap	1,066.03	929.79	-12.8%
Eurostoxx 50	3,503.96	3,001.42	-14.3%
Vietnam Small Cap	918.57	773.50	-15.8%
MSCI EM	1,159.45	965.67	-16.7%
Shanghai Composite	3,307.17	2,493.90	-24.6%

Source: Bloomberg, AFC Research

2018 Performance (in USD)



Source: Bloomberg, AFC Research

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Bear markets are defined as corrections of at least 20% from the top, which does not mean anything in reality. Depending on the absolute valuation of the market, earnings and economic outlook, a correction of 20% can lead to undervaluation and long term buy signals, or just prove to be the start of a longer-term normalization or even undervaluation of stock valuations. As for now, the global markets look to us like they are entering a necessary period of consolidation which will bring market valuations again in line with their long-term earnings trends. We therefore think that the "bear" will most likely stay asleep, which should be the case for most markets next near, especially if the global trade situation does not get worse and our world leaders realize that they have nothing to gain from their protective trade measures. That does not mean that volatility will end anytime soon and that all markets will rebound in a synchronized fashion, but many markets are well positioned, especially frontier & emerging markets, which have not rallied in recent years along with most developed markets, and on the other hand didn't decline as much recently along with the bigger and often wrongly called "safe" markets.

We are convinced that it makes a lot of sense to ignore short-term swings, panics and euphoria, and instead observe long-term developments. In the Hanoi Index chart below we marked the prices at year end. Just let us reflect a little bit and think which of all these events we all didn't know of at the beginning of the year and which then suddenly out of the blue happened during the year and materially impacted the market. Afterwards, will someone still want to predict what to expect in 2019? We can only measure valuations, growth perspectives and therefore risks for the long-term. Everything else is pure speculation by all of the market gurus and the hundreds, or thousands, of broadcasting and internet portals.

HNX Index 2009-2018 with year-end marks; Source: Viet Capital Securities

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Everybody likes to buy at a discount – daily needs, cars, houses – all, but stocks. The more expensive a stock, the more convinced investors are, but the cheaper a stock gets, the more scared everybody is to buy. If somebody purchases a car and then gets a 10% discount on the listing price the buyer will be happy despite the fact that this car will most likely depreciate in value over time - but (most likely) the owner of that car also has a real need or pleasure for this purchase and hence does not consider it as a real loss. With stocks it is different: the sole reason for a purchase is to sell them at a higher price in the future, and as soon as doubts of potential future gains arise, the tendency to sell, sometimes in panic, increases.

During these turbulent times we have tried to find out (in a rudimentary and simple manner), how far the current correction has already gone in terms of valuation adjustments. Looking at the indices for Vietnam and the USA, both trailing valuations came back to levels which look attractive again, or at least not expensive. The P/E's of the Vietnamese indices currently stand at 15.8x for the Ho Chi Minh City Index and 8.9x for the Hanoi Index! Comparatively, the P/E for the Dow Jones Industrial Average Index stands at around 18x. But from a bottom up angle, it is still hard to find a lot of real value and hence attractively valued stocks in the US markets. While popular technology stocks are still trading at 30-80x trailing earnings, brand name consumer stocks are mostly trading between 20x and 40x. Mainly financial stocks and a few other select names bring the average down to 18x. Also, in Vietnam there are still a few blue chips trading at elevated valuations, but most companies are now back to very reasonable valuations, even FPT, the leading technology stock, which is now trading at only around 10x earnings. Many stocks in the small/mid-cap sector can even be found at only 4-10x earnings, a level last seen 4-5 years ago, around the time we started the fund and showed superior gains thereafter.

Economy

Looking beyond current stock movements, we see Vietnam continuously getting more and more integrated into the global economy. Trade pacts with the EU and other countries are only accelerating a trend which has been in place for some years already. High FDI inflows continued in 2018 and make Vietnam an important trade partner for the world. China's economic surge began in the 90's, with Vietnam now playing catch up – while from a low base and at a smaller scale than China, despite having a population racing towards 100 million.

Source: JP Morgan, LGT, November 2018

Just one example of this trend is manufacturing and export of washing machines, where Vietnam took around 50% of the market share from China – and that was before the start of Trump's trade war!

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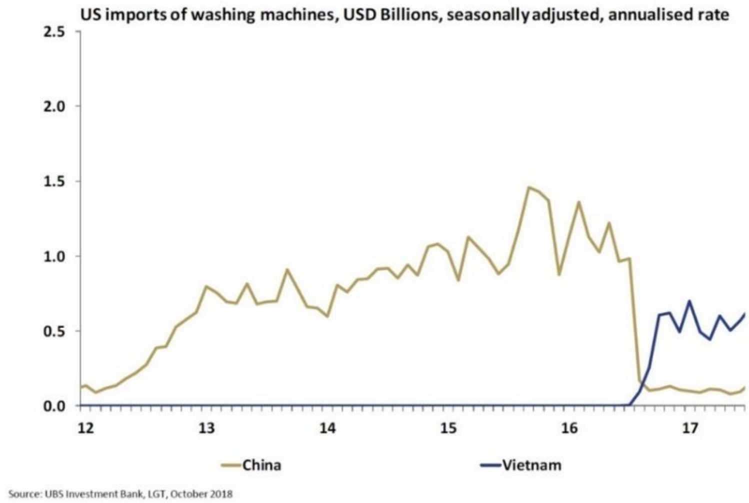
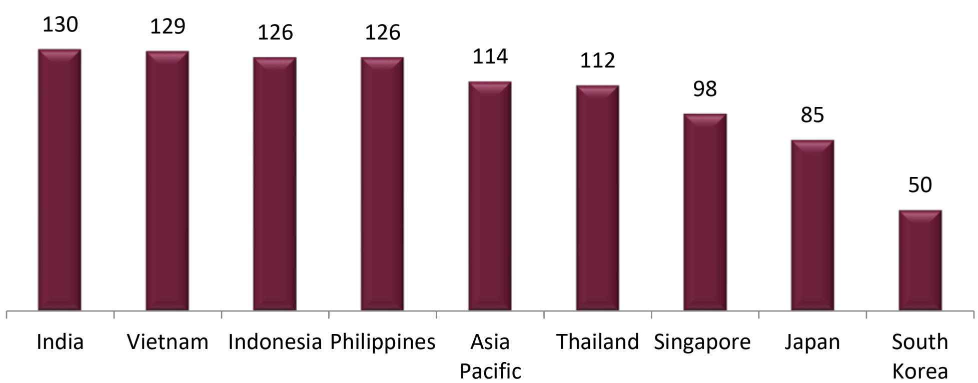


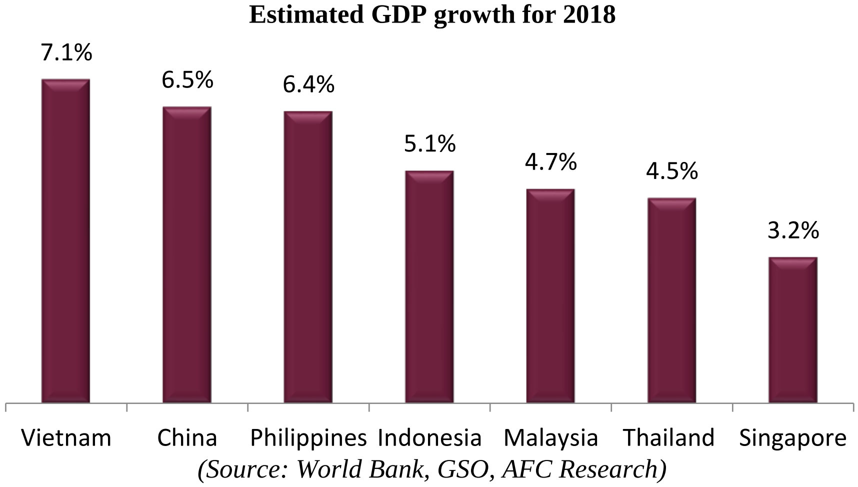
Consumer Confidence Index in 3Q-2018



(Source: AC Nielsen, AFC Research)

Most of the economies of Southeast Asia with a close relation to China, such as Singapore and Malaysia had a difficult year in terms of economic growth, with the sole exception being Vietnam. This is mainly due to an acceleration of FDI inflows into the manufacturing sector, as many large manufacturers in China look for alternative jurisdiction to avoid the impact of the trade war.

Estimated GDP growth for 2018



(Source: World Bank, GSO, AFC Research)

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Macroeconomic Indicators				
	2015	2016	2017	2018
GDP	6.68%	6.21%	6.81%	7.08%
Industrial production (YoY)	9.8%	7.5%	9.4%	10.2%
FDI disbursement (USD bn)	14.5	15.8	17.5	19.1
Exports (USD bn)	162.4	176.6	213.8	244.7
Imports (USD bn)	165.6	174.1	211.1	237.5
Trade balance (USD bn)	-3.2	2.52	2.67	7.2
Retail sales (YoY)	9.5%	10.2%	10.7%	11.7%
CPI (YoY)	1.34%	4.74%	2.62%	2.98%
VND	22,540	22,600	22,755	23,175
Credit growth (YoY)	17.3%	16.5%	17.0%	13.3%
Foreign reserves (USD bn)	36	41	51	60.0

(Source: SBV, GSO, AFC Research)

With only 11 public holidays, Vietnam seems to be one of the hardest working countries in Southeast Asia and they certainly make sure that their foreign trading partners can reach them easier compared to any other country in Southeast Asia.

** Malaysia's 50 days include also state holidays*

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Subscription

The next subscription deadline will be 25th January 2019. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

We wish you all a Happy New Year!

AFC Vietnam Fund

Estimated NAV as of 31st December 2018

NAV	1,780*
Since Inception	+78%*
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%	-1.9%*	**-4.0%***

***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.