

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 |

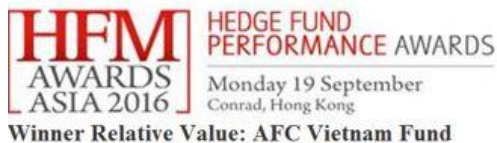
Contact Information

Asia Frontier Capital Ltd.
www.asiafrontiercapital.com

Mr. Andreas Vogelsanger, CEO
Asia Frontier Capital (Vietnam) Ltd.
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
KY1-9007, Cayman Islands

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

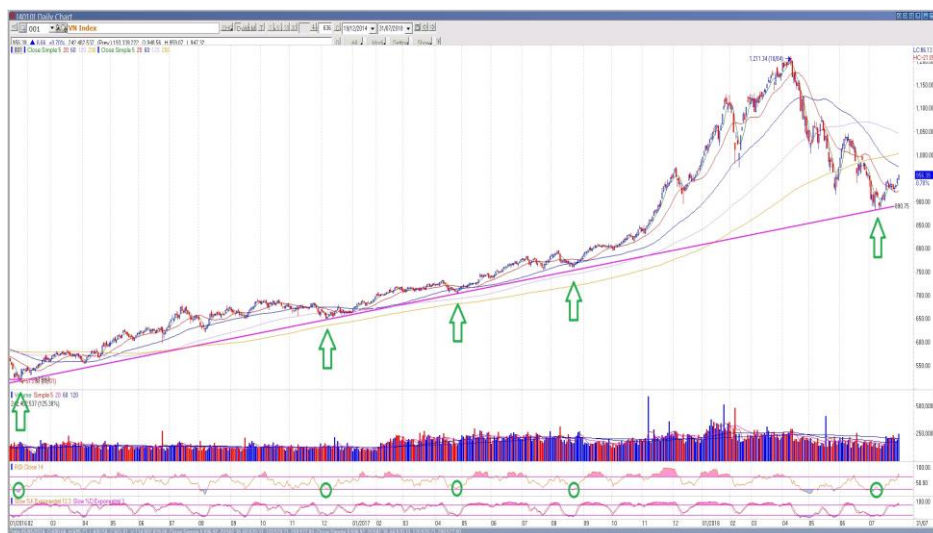


As expected, we saw a rebound in all indices after the heavy selling in early July. HCMC ended the month down -0.5% and Hanoi was unchanged. We also saw renewed interest in the broader market which helped also the stocks outside of these indices and therefore we saw a slight increase in the value our portfolio of +0.2% in local currency. But the lower Dong (-1.5% vs. USD) resulted in a decrease of 1.4% in the NAV to USD 1,776, according to internal calculations.

Market Developments

Recent market behavior points to a further stabilization of emerging market stocks after turbulence in recent months. We saw a general recovery from the lows in several markets including Vietnam.

As expected, we have also seen declining volatility. While big caps also led this rebound, we have noticed smaller companies with decent Q2 earnings receiving a lot of attention from investors.



VN-Index 2016 to date, source: VietCapital Securities

Periodic uncertainties in all markets, and especially in emerging markets, are healthy and necessary to bring down unrealistic expectations. Letting out the proverbial surplus of air from the bull market balloon like in the chart above averts an inevitable larger correction later on, something we have seen during periods of extended speculation over the past 40 years when investing in emerging markets has become fashionable.

We are happy to see investors in value stocks continuing to be mostly bullish as we are. In being able to attract new investors, we were not forced to trim down our holdings like many other funds had to do, including ETF's, but instead we were also able to either enter new investments or increase existing holdings in attractive companies which were pushed down for no fundamental reasons by these forced sellers. After the release of the second quarter results from around 50 (around 70%) of our holdings, we are very happy to see that 29 of them are trading at less than 8x expected earnings for 2018 and 8 of them are trading below 5x expected 2018 earnings.



AFC VIETNAM FUND UPDATE

Another stabilizing factor we saw last week was the change in the reference rate for the USD/VND which was raised 1% by the SBV to 23,273 from 23,050. Due to high demand from banks, the SBV sold USD 2bn in six business days through July 20, curbing the SBV's foreign reserves to below USD62bn. However, banks were not interested in the SBV's new asking price and no banks registered to buy from the SBV that day anymore as they could trade at a much lower price of 23,230 in the interbank market. These actions offer more psychological support to the market than a real change in competitiveness against other Asian currencies as they fluctuate much more against the USD than the Vietnamese Dong. How little has changed is shown in the charts of the VND against the currency of another important export market, the European Union, and the VND against the currency of the largest competitor for Vietnam as a production hub, China. Both currencies had swings of 7-10% over the past year just to stay on a more or less level footing. In our view it makes much more sense to use our time to explore and analyze the opportunities in Vietnam than trying to guesstimate currency moves which are beyond any reasonable predictability.



EUR/VND and CNY/VND, 1 year. Source: NetDania Creations ApS

Additionally, we think that only long-term changes of major magnitudes (20% or more) will shift investments from entrepreneurs and hence change the competitive landscape of countries in a more profound manner.

Vietnam, the fastest growing exporting country, in a volatile monetary market.

Vietnam became the fastest growing exporting country in South East Asia when exports grew from USD 62.7 billion in 2008 to USD 213.8 billion in 2017, a CAGR of 14.6%. After 10 years, Vietnam overtook Malaysia as the second largest exporter in South East Asia, after Thailand (USD 236 billion in 2017).



Trailing four quarters
Source: CEIC
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AFC VIETNAM FUND UPDATE

In 2018, Vietnam's export revenues are expected to grow 15% to reach USD 245bn, on the path to become the largest exporter in the region by 2020.

Vietnam's economic growth was strongly supported by its FDI policies over the last decade to lure more and more investments into the country. With strong fundamentals such as a huge labor force, low wages and improving infrastructure, Vietnam became a destination for many large international companies such as Samsung, LG, Intel and Sony, just to name a few.

The strong growth in exports helped Vietnam to enrich its foreign reserves from USD 13 billion in 2010 to USD 62 billion in 2018. Growing foreign reserves and comparably low volatility in the currency continue to attract more FDI investment which are stimulating export growth.

Fast changing retail sector

Vietnam's consumption behavior is changing fast from traditional channels like markets and mom-and-pop shops to modern channels such as convenience and online stores. With a population of around 95 million, convenience stores became a promising land for investors. However, it is also an aggressive competitive battle between local and foreign investors, the latter of which were sometimes much less successful than originally thought.

7-Eleven, when arriving in Vietnam, announced plans to open 1,000 stores by 2027, which means that it needs to open 100 stores each year. However, after one year of operation, it has opened only 11.

Family Mart, a big player from Japan, stated that it would have 1,000 shops by 2020 in Vietnam. However, already in 2017, the retailer changed its Vietnam strategy, citing that it cannot pour more resources into expansion.

Sojitz and *Ministop* are investors in the chain *Ministop* which had plans for 800 shops in 2018, but so far has only opened 115 shops.

A local player *The Gioi Di Dong*, the largest mobile phone distribution chain, launched *Bach Hoa Xanh*, a grocery chain which currently has 323 stores.

Another retail shop giant is *Vinmart +*, a member of *Vingroup*, which has 804 stores.



Source: stores' websites, AFC research

AFC VIETNAM FUND UPDATE

There are more than 2,200 convenience stores in Vietnam with more than 1,500 local stores and 700 foreign stores, compared to less than 1,000 two years ago. The fast-growing number of convenience stores pushed rents up sharply in prime locations in HCMC and Hanoi and has created a challenging operating environment. As a consequence, companies have had to close down poor performing locations and moderate expansion growth.

The Vietnamese owned convenience stores seem to be more successful due to their cultural understanding in choosing the right location and offering a better product mix for the average consumer. Furthermore, the Vietnamese seem to be much more attracted to online shopping than other countries at a similar stage of development. While shopping malls and convenience stores are less visited by Vietnamese and often not as successful so far compared to other countries, the number of online shops is growing at a very fast pace and the entrepreneurship in this segment is amazing. E-commerce is one of the fastest growing sectors in Vietnam and many online shops are actively using social media as their selling platform to satisfy the growing demand from Vietnamese consumers.

People are able to order anything from groceries to mobile phones online and some of the shops even guarantee delivery within 2 hours! New business ideas and partnerships are also a result of innovation and the fast-growing consumer base with higher disposable incomes. While most goods on Amazon are not delivered to Vietnam at all and self-importing for private consumers is almost impossible due to complicated and uncompetitive custom procedures. Hence websites like *fado.vn* were established to order from Amazon websites in Japan, USA and Germany by simply copying the product-link from the Amazon-website into the fado-website. The website immediately gives a competitive quotation in VND, already including custom and delivery costs, plus the expected delivery time from the original Amazon-distributor.

Keeping this unique way of purchasing and delivering goods in Vietnam in mind, regular retail shops will have to adapt their business models to keep up with the competition if they want to survive.

Economy

| Macroeconomic Indicators | | | | |
|-----------------------------|--------|--------|--------|--------|
| | 2015 | 2016 | 2017 | Jul-18 |
| GDP | 6.68% | 6.21% | 6.81% | 7.08% |
| Industrial production (YoY) | 9.80% | 7.50% | 9.40% | 10.90% |
| FDI disbursement (USD bn) | 14.5 | 15.8 | 17.5 | 9.9 |
| Exports (USD bn) | 162.4 | 176.6 | 213.8 | 133.7 |
| Imports (USD bn) | 165.6 | 174.1 | 211.1 | 130.6 |
| Trade balance (USD bn) | -3.2 | 2.52 | 2.67 | 3.06 |
| Retail sales (YoY) | 9.50% | 10.20% | 10.7% | 11.1% |
| CPI (YoY) | 1.34% | 4.74% | 2.62% | 4.46% |
| VND | 22,540 | 22,600 | 22,755 | 23,258 |
| Credit growth (YoY) | 17.30% | 16.50% | 16.96% | 6.35% |
| Foreign reserves (USD bn) | 36 | 41 | 51 | 62 |

Source: GSO, VCB, AFC Research

Industrial production grew at an impressive rate of 10.9% in July.

FDI disbursement increased by 8.8% to USD 9.9 billion.

Exports grew by 15.3% yoy to USD 133.7 bn, which generated a trade surplus of USD 3.06 bn in the first 7 months of the year.

AFC VIETNAM FUND UPDATE

Subscription

The next subscription deadline will be 27th August and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

Estimated NAV as of 31st July 2018

| | |
|-----------------|------------|
| NAV | 1,776* |
| Since Inception | +77.6%* |
| 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% | -1.4%* | | | | | | -4.2%* |

*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.*

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DISCLAIMER

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