

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 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) 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

While Vietnam underperformed the recovery rally in January, increasing trading volume continues to underpin the quality of the current advance. With the Vincom-family again gaining 4-10%, the indices in HCMC and Hanoi were higher by +4.0% and +4.3% respectively. Mid-caps underperformed in the first two weeks of March while we saw volume and prices in many of our small- and midcaps increasing sharply, to a degree which we haven't seen for years. Our NAV gained an estimated +2.0% to USD 1,834, according to internal calculations.

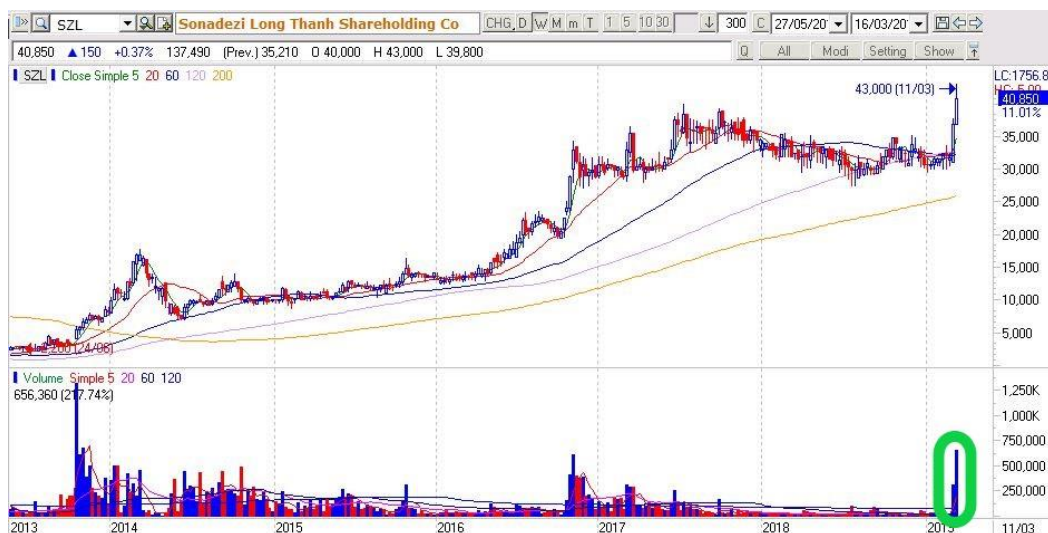
Market Developments

When investors talk about the (stock) "market" it is widely understood that they are referring to the sum of stocks traded on a stock exchange. As market participants normally are not able to follow all stocks or own the majority of them, indices were introduced which differ widely in their compositions and definitions. But all of them are trying to provide investors an easier view on the developments of financial markets in certain countries, regions or sectors.

Over the years and decades, as the financial services industry became bigger and more important, the stock exchanges and index providers invented more and more indices, primarily as marketing tools to convince people to invest into their products. Worldwide, there are about 100,000 companies listed on stock exchanges. While in countries like the USA, where the number of listed companies has been in decline for the past 20 years, the number of stock indices has increased sharply worldwide and is estimated at more than 3 million different indices. While, for example, the *Dow Jones Industrial Average* has existed since 1885 and is still widely used, the majority of indices are mainly used to influence and convince investors worldwide to buy certain financial products like Exchange Traded Funds (ETF's), structured products and many others. The reality is that too much information is more often harmful than helpful, otherwise the performance of the various funds and investors in general would have improved over the past 20, 30 or 50 years since the creation of these indices. The majority of indices nowadays are capitalization-weighted; therefore, the impact of an individual stock price change on the index is proportional to the company's overall market value. As a consequence, the mechanics of capitalization-weighting led to trend-following strategies that provide an inefficient risk-return trade-off which often leads to higher volatility and no improvement in performance – the opposite of what people usually expect from those products.

Although we outperformed the HCMC Index over the past, difficult, 12 months by more than 10%, for the above reasons and more important, for valuation reasons, we do not focus on the movements or composition of the index. Instead, we invest into companies with the highest absolute risk-adjusted upside potential. Stock movements in recent weeks show us that investors are again focusing on value stocks. While we still see hefty short term moves in certain blue chips in both directions, an increasing number of our stocks are showing tremendous increases in volume, some of them 10x the average volume of 2018. Just one of these examples is *Sonadezi Long Thanh*, an industrial park and real estate developer, whose price increased 30% over the past two weeks on much higher than average volume.

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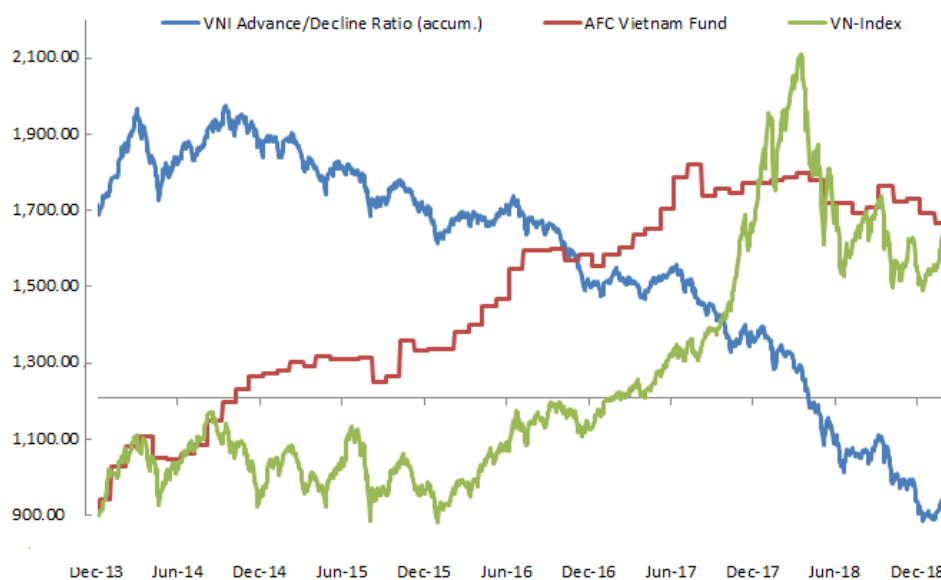


(Source: Viet Capital Securities)

This is a very good example of one the small cap stocks we have owned since the launch of the fund and which announced profit growth of more than 20% last year. The company was trading at an attractive valuation of 5x P/E and P/B of 1x just two weeks ago. After the recent big jump, which might be tempting to sell for short term traders, it still trades at a P/E of only 6.8x and P/B of 1.3x, which is 50% cheaper than the market average.

We distance ourselves from the main index not only because of the valuation but also because our correlation shows a much higher connection to the market breadth as we own a very diversified portfolio, in contrast to the very concentrated main indices in HCMC and Hanoi. We also strongly believe that over the long run a healthy bull market in Vietnam has to be supported, like in any other country, by a strong overall market and not only by a handful of stocks with high valuations.

In order to validate our continuous statement that our fund's performance depends on a broad-based advance, also known as positive market breadth, we analyzed the statistical relationship of the daily movements between the fund, the index and the market breadth (advance/decline ratio).



(Source: Bloomberg, AFC Research)

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Our fund (in *red*) always advanced in the past when the market breadth (in *blue*) went up, even if it was only temporarily. The correlation with the HCMC index (in *green*) was of course positive with 0.56 (0=uncorrelated, 100 = 100% correlated; data since inception), but the relationship with the market breadth was surprisingly even higher at 0.66. That is the reason why we saw very good performance until mid-2016, although the market went mostly sideways, and we underperformed mid-2017 to early 2018 in a blue-chip driven market rally, while most other stocks declined. Therefore, we give the current broader market strength on high volume much higher attention than the index movement, since we expect that the current turnaround in the market breadth will give the stocks we own a long awaited performance boost.

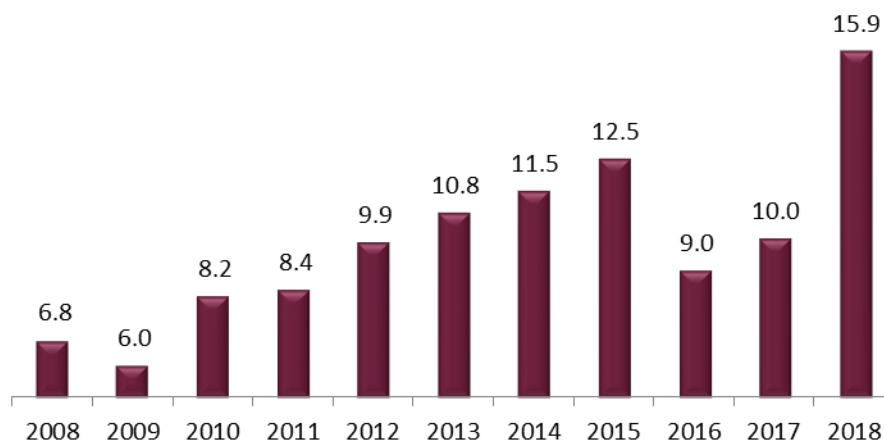
Although it is too early to call it a successful turnaround, we are very happy to see volume in many smaller stocks jumping to levels not seen for years.

Vietnam's economy thrives as top talents return

With more than 5 million Vietnamese living overseas, "Viet Kieu" are playing an important role in Vietnam's economy. The term "Viet Kieu" means Vietnamese living overseas, mostly those who fled as refugees following the Vietnam War. After more than 40 years a lot of them have already returned to Vietnam in order to build businesses and hence contribute to the national economic growth. This is a very interesting and important development for Vietnam's economy, as in many other developing countries it is just the opposite, where well educated people are leaving their home countries, a so called "brain drain", and without this talent an important part in the development of their respective countries is missing.

According to the Vietnamese Government, total remittances in 2018 reached USD 15.9 bln, a record high, which hugely benefits the country's foreign exchange reserves and of course the economy.

Remittances to Vietnam over the last ten years (USD bln)



(Source: GSO, SBV, AFC Research)

The Vietnamese economy also benefits nicely from the international know-how and experience Viet Kieus bring with them. A good example of this is Vin Group (VIC), which is owned by a Viet Kieu, Mr. Pham Nhat Vuong. VIC is the largest listed stock in terms of market capitalization at USD 16.2 billion. Vin Group is also the largest real estate company in Vietnam and is expanding into other business such as retail, hospitality, education, automobiles and technology. In 2018, VIC's total number of employees reached around 43,000. There are of course plenty of other examples of successful Viet Kieu entrepreneurs, such as Mr. Nguyen Dang Quang, Chairman of Masan Group (MSN), Mrs Nguyen Thi Phuong Thao, Chairman of Vietjet Air (VJC) and Vice chairman of HDBank (HDB) who are all U.S. Dollar billionaires according to Forbes.

Already back in 2004, the Vietnamese government passed a resolution to facilitate the return of Viet Kieu's since it fully recognizes the value of their brainpower and experience. In 2007 it also relaxed visa requirements, whereby Viet Kieu's were

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no longer required to have visa's to return home. Furthermore, Vietnamese leaders annually visit foreign countries with the highest population of Viet Kieu in order to inform them about the prosperous economic outlook and all of the privileges they can receive if they decide to return.

Subscription

The next subscription deadline will be 25th March 2019. 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 March 2019

NAV	1,834*
Since Inception	+83.4%*
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%	-2.05%	-4.17%
2019	USD	-1.63%	+2.90%	+2.0%*										+3.2%*

*According to internal calculations

**The Fund has appointed Hugo Fund Services SA, 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.

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