

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



For another month the heaviest weighted stock in the VN-Index, VinGroup with a weighting of around 12%, had a +1.5% positive contribution to the benchmark index in HCMC, lowering the overall negative index performance. Though, with the rest of the market suffering for the third month in a row, the indices lost -1.1% in HCMC and -7.6% in Hanoi. Volatility was also felt in most parts of the mid-cap segment which gained 7% at the beginning of the month but ended it down with a loss of -4%. We saw selected interest in our portfolio which resulted in a small gain of +0.3% in local currency. Though, with a weaker Dong in June (-0.6%), our NAV was slightly down to approximately USD 1,799 (-0.2%), according to internal calculations.

Market Developments

With almost all indices down around -20% in the second quarter of 2018, we have to look forward as to what to expect for the second half of the year. One thing we know for certain is that the current pace of the decline is unsustainable. With the Hanoi index losing around 10 points per month since the end of March, it would hit zero in the spring of 2019 which of course is complete nonsense. Broad declines and pessimism currently makes us more optimistic that we have seen the bigger part of the long-expected correction in most market segments.



Hanoi Index Nov 2013 – June 2018; Source: VietCapital Securities

Locals are the dominant players in the market, intensifying the swings in both directions, regardless of foreign flows. An example to prove this thesis are stocks which are heavily weighted in the index, but practically not traded by foreigners as their foreign ownership limits have been reached and no foreigners are willing to sell. Such a stock is *Asia Commercial Bank (ACB)*. With a weighting of 20%, it is by far the biggest contributor to the Hanoi-Index. The volatility is enormous as can be seen in the chart below, with zero participation of foreign investors.

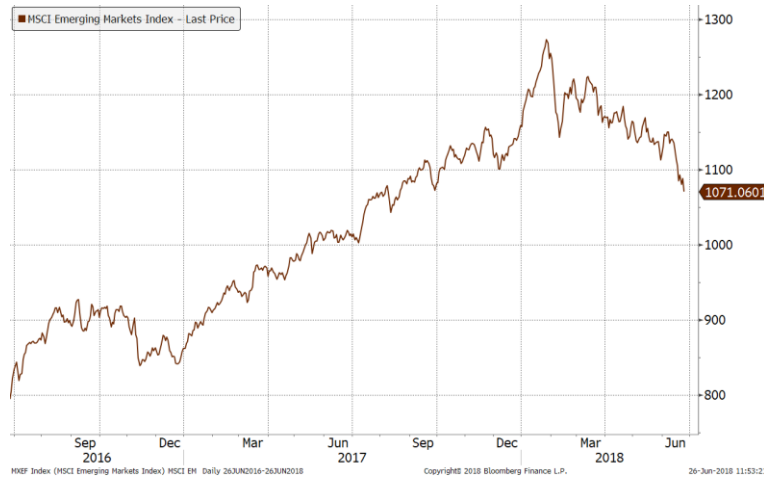


ACB April 2017 – June 2018; Source: VietCapital Securities



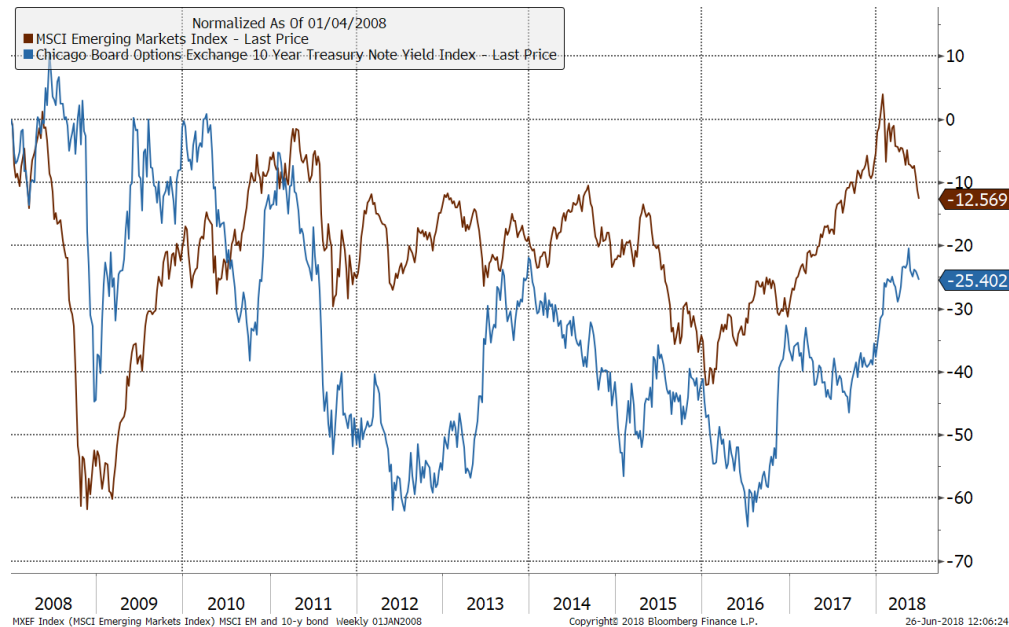
AFC VIETNAM FUND UPDATE

Our long-term followers may remember when we pointed out the possible outperformance of emerging markets after years of low returns. What followed was an impressive 18-month bull run with gains of 50%.



MSCI Emerging Markets Index 26/06/2016 – 26/06/2018; Source: Bloomberg

The ongoing correction which started in early 2018 is technically speaking only a correction of previous medium-term gains. While the normalization of the US interest rate environment should not come as a surprise, as it was widely expected and has been talked about for years, market commentators and analysts always (really always!) point out how bad rising US interest rates are for emerging markets. While short term rates have been climbing since the end of 2015 from unsustainable and historically unseen levels of practically 0%, the lows in the US ten-year government bond yield were seen in summer of 2012 and 2016 (2 and 6 years ago)! The strong performance of emerging markets therefore took place *after* US rates turned and starting rising.

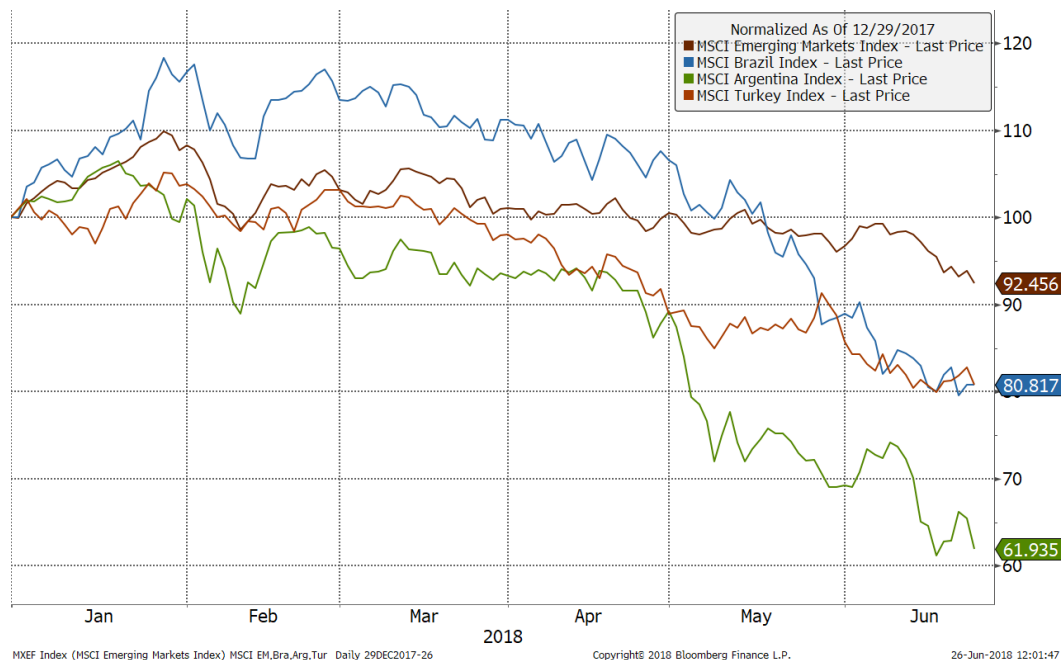


Source: Bloomberg

AFC VIETNAM FUND UPDATE

If people would take the time to compare the long-time relationship between the MSCI Emerging Markets Index and the yield of the US 10-year bond yield, they would see exactly as we do in the chart above that there were just a few short periods where rising bond yields really resulted in weakness in emerging markets. Over the last 10 years there seems to even be a positive correlation which is the opposite of what experts talk about. Correlations between asset classes are very different compared to past economic cycles since the financial crisis 10 years ago.

In our last mid-month report we mentioned the very diverse performance of emerging markets in general in 2018, as it is absurd to lump all of these countries together with their very different macroeconomic stories and geographic locations. While some emerging markets like Argentina, Brazil, Turkey, etc. are in the spotlight for good reasons, their contribution to the global economy is rather limited. Currently 7 out of the top 10 holdings of the Emerging Markets ETF (EEM) are Chinese companies, with China alone contributing almost one third of the total weighting in the MSCI Emerging Market Index, doubling over the past 10 years. Asia has been the driver of global economic growth over the past 20 years and it will continue to be so for many years to come.



01 Jan 2018 – 26 June 2018; Source: Bloomberg

While Vietnam is still categorized as a Frontier Market, some investors have been hoping that an upgrade to the much larger investment pool of Emerging Markets could soon take place. Unfortunately, but widely expected, Vietnam still needs improvements in issues such as foreign ownership constraints, flow of information and equal rights for foreign and local investors.

Instead of Vietnam, crisis-ridden Argentina will be included in the EM index from June 2019, and Frontier Market heavyweight Kuwait (with a current weight of around 18%) will be added to the watchlist for a potential upgrade. Meanwhile, Saudi Arabia will leapfrog Frontier Market status, going direct to Emerging Market status, but it will join in several stages between March 2019 and December 2019 – we think the government must have made more positive decisions than just allowing female drivers on their roads.

This could in fact result in a substantial upgrade in the weighting of Vietnam in the Frontier Index, from around 15% at present to 25-30%. On the other hand, the Frontier Market segment could become less attractive due to fewer meaningful countries being part of it. Nevertheless, it is a great opportunity for long-term investors to accumulate some of the many undervalued Vietnamese stocks around as an upgrade of Vietnam is more a question of “when” rather than “if”.

AFC VIETNAM FUND UPDATE

Index	Market Capitalization	Vietnam Weight
MSCI Emerging market	USD 5.27 tn	32 bps *
MSCI Frontier market	USD 117 bn	14.70%
MSCI Vietnam	USD 17 bn	

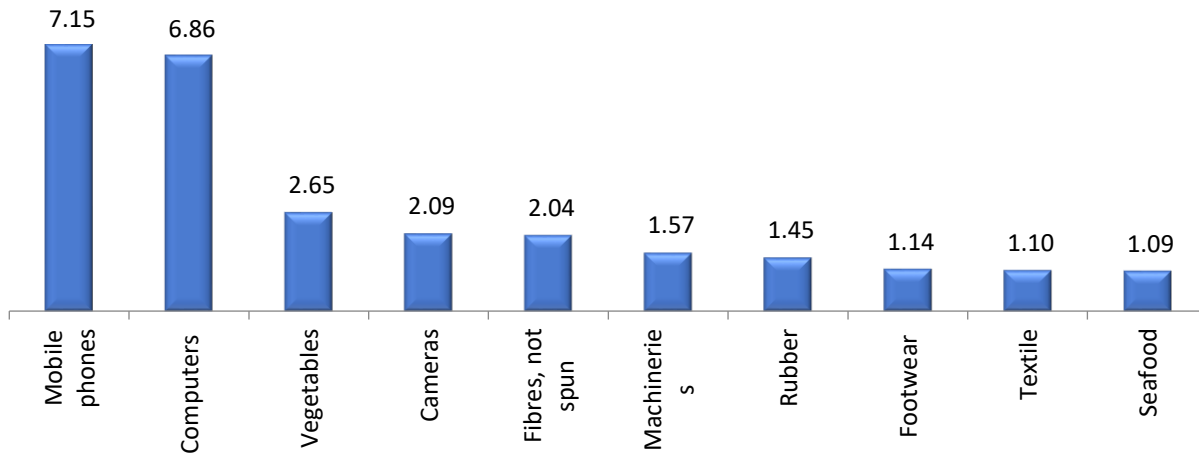
* Hypothetical assumption, assuming Vietnam's inclusion

Source: MSCI, VCSC estimates

Impact of trade war between US and China to Vietnam economy

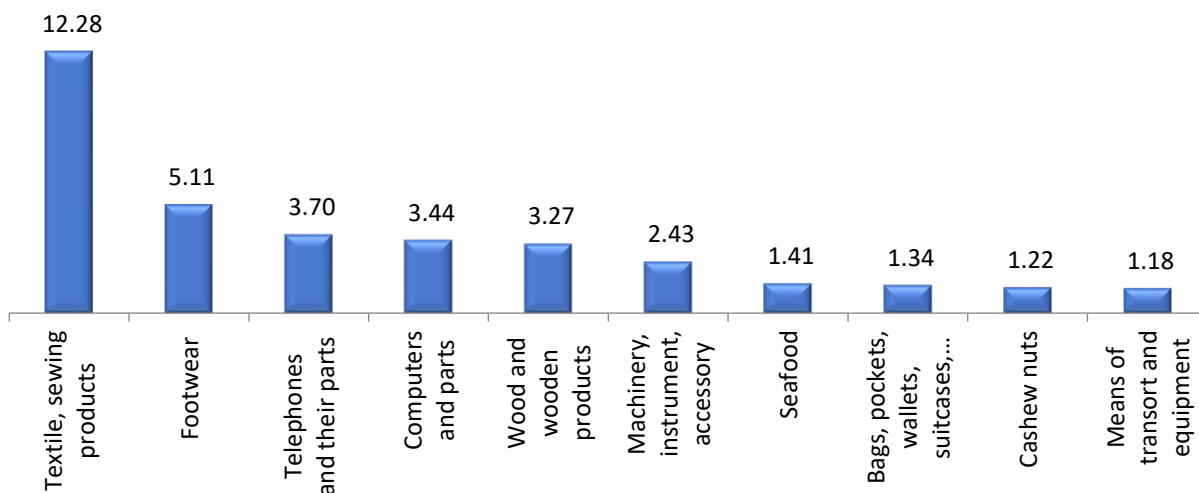
The trade war between the two largest economies in the world, USA and China, has officially started. President Donald Trump signed a decision to increase tariffs on USD 200 billion of goods from China which will be officially applied on 6th July. On the same day China responded by announcing new tariffs on USD 50 billion of US goods, mostly agricultural products which would directly hit Trump's voting base. China and USA are two of the largest trading partners of Vietnam and this trade war may hence influence the Vietnamese economy to a certain extent.

Vietnamese Exports to China in 2017 (USD billion)



Source: GSO, AFC Research

Vietnamese Exports to the US in 2017 (USD billion)



AFC VIETNAM FUND UPDATE

Source: GSO, AFC Research

Positive impacts

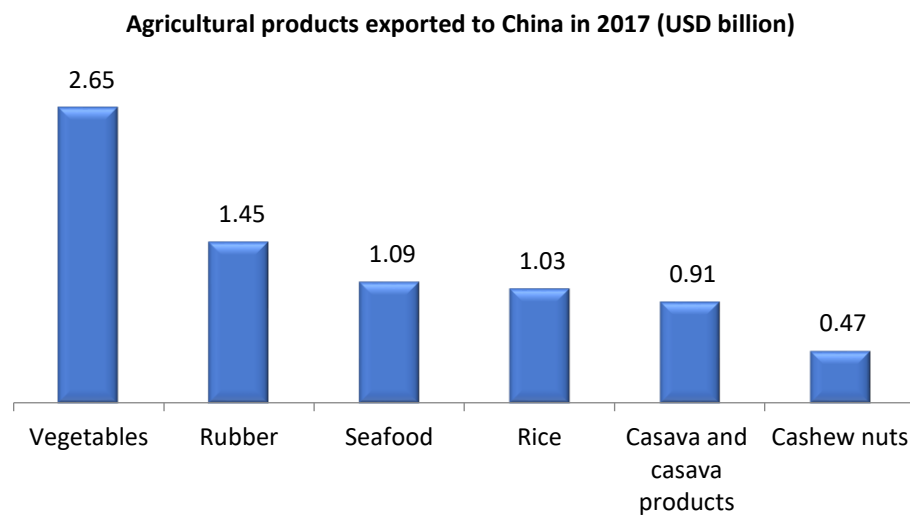
- *Mobile phone and chip exports to US can be shifted from China to Vietnam*

These new US tariffs are applied on high-tech products, such as mobile phones and chips. Mobile phones and chips from China will face obstacles to access the US market when a 25% tax rate will be levied. Samsung, the largest mobile phone and chip maker in the world, has factories in both China and Vietnam and might therefore increase production capacity in Vietnam in order to avoid tariffs.

Samsung is also the largest chip maker in the world and may also consider opening a chip factory in Vietnam. Intel Corp, the second largest chip maker in the world, might accelerate its production shift from China to Vietnam as well.

- *Cheaper imports from US, higher exports to China*

China's retaliation on US tariffs included a 25% tariff on 659 U.S. goods, mostly agricultural products. This could lead to higher agricultural exports from Vietnam to China.



Source: GSO, AFC Research

On the other hand, Vietnam may benefit from cheaper imports from China due to price pressures when US tariffs are applied on Chinese exports such as machinery, materials, mobiles, electronic products etc.

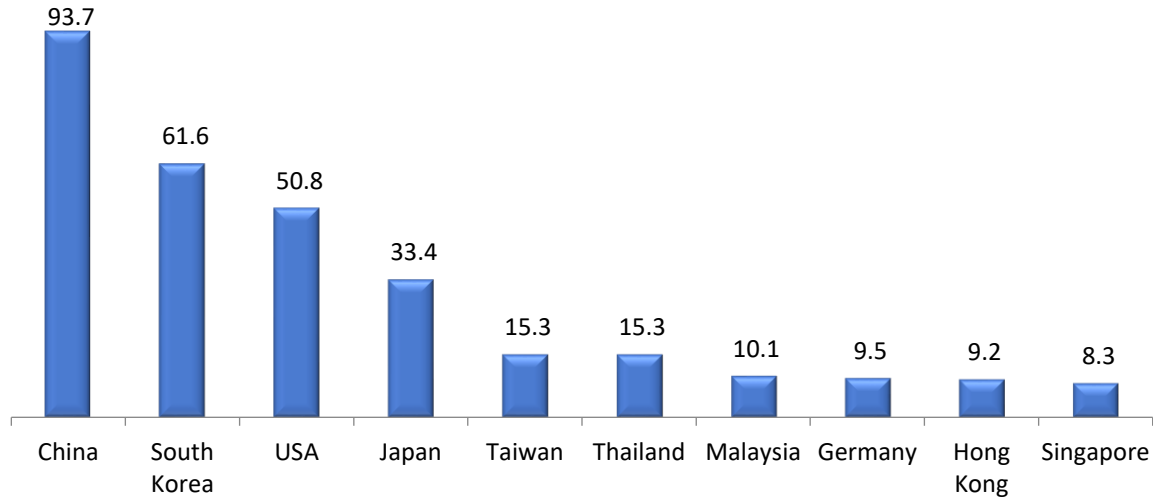
Negative impacts

- *Global economic growth slowdown*

The current impact on economic growth rates due to the new Chinese and US tariffs are still quite small, but there is of course the risk that this trade war could escalate and hence also affect the growth of the global economy.

AFC VIETNAM FUND UPDATE

Largest trading partners of Vietnam in 2017 (USD billion)



Source: GSO, AFC Research

Concern

- *China's production shift to Vietnam*

In order to avoid US tariffs, Chinese manufacturers may shift their production to Vietnam. Though, this could potentially affect Vietnam negatively if in the future the US applies tariffs to Chinese exporters operating in Vietnam.

Economy

Macroeconomic Indicators				
	2015	2016	2017	Jun-18
GDP	6.68%	6.21%	6.81%	7.08%
Industrial production (YoY)	9.80%	7.50%	9.40%	10.50%
FDI disbursement (USD bn)	14.5	15.8	17.5	8.4
Exports (USD bn)	162.4	176.6	213.8	113.9
Imports (USD bn)	165.6	174.1	211.1	111.2
Trade balance (USD bn)	-3.2	2.52	2.67	2.71
Retail sales (YoY)	9.50%	10.20%	10.7%	10.7%
CPI (YoY)	1.34%	4.74%	2.62%	4.67%
VND	22,540	22,600	22,755	22,985
Credit growth (YoY)	17.30%	16.50%	16.96%	6.35%
Foreign reserves (USD bn)	36	41	51	63

Source: GSO, AFC Research

GDP growth in the first half of 2018 was at 7.08%, the highest level since 2011. Vietnam is one of the fastest growing countries in the region.

FDI disbursement reached USD 8.37 billion, a gain of 8.4% compared to same period last year.

AFC VIETNAM FUND UPDATE

CPI surged upward in June 2018 to 4.67%, due to higher food prices.

Exports continue to grow strongly at 16% to USD 113.93 billion, compared to import growth of 10% to USD 111.22 billion, leading to a trade surplus of USD 2.71 billion.

Subscription

The next subscription deadline will be 25th July 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 30th June 2018

NAV	1,799*
Since Inception	+79.9%*
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%	-0.2%*							-2.97%*

*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.

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. © 2018 Asia Frontier Capital Limited. All rights reserved.