

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

With the markets down another 7%/10% (HCMC/Hanoi) in the first three days of July, we finally saw a selloff which should put a medium-term bottom into place. The possible support in the Hanoi index, which we discussed just days earlier in our June report, was missed by only 2 points. With a slightly lower currency (-0.5%), the following rebound left the indices in HCMC and Hanoi down -5.8% and -3.9% in USD terms, respectively. Small- and midcaps were also caught in the latest round of selling which we now see as a buying opportunity based on both technical signals and fundamental valuations. According to internal calculations, our NAV is currently down -3.3% to approximately USD 1,741.

Market Developments

With markets down in the shadow of uncertainties, mainly around China's trade and currency, we are starting to believe that Vietnamese stock markets are trading close to the point where *possible negative* developments are priced in and *existing positive* developments are being ignored; this is assuming that the world's most important Twitter account spares us from any new surprises.

With both Hong Kong and Chinese stocks losing more than 10% over the past few weeks, new nervousness was felt in the currency markets as trade sanctions came into effect. Actually, the Chinese Yuan now trades at the level we saw just twelve months ago, far from any panic. Weakness in the Vietnamese currency is also quite limited with losses of -1.5% over the past year, which in comparison is about the same movement of a daily swing in one of the major currencies on an active day.

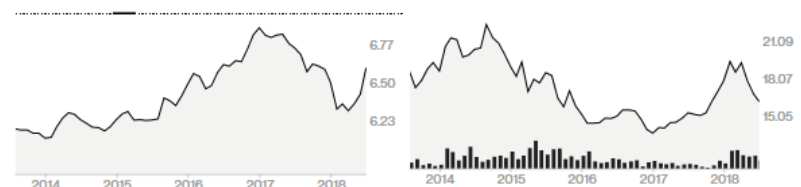
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Chinese Yuan 5 years

VanEck Vectors Vietnam ETF 5 years

Source: Bloomberg

The huge money flows into and out of Vietnam which we witnessed over the past year can also be seen in the enormous swings of the Vietnam ETF which lost 25% since its peak just three months ago.

While most people are talking about a strong USD at present, it is interesting to observe that the USD is still trading lower against major currencies over the past twelve months.

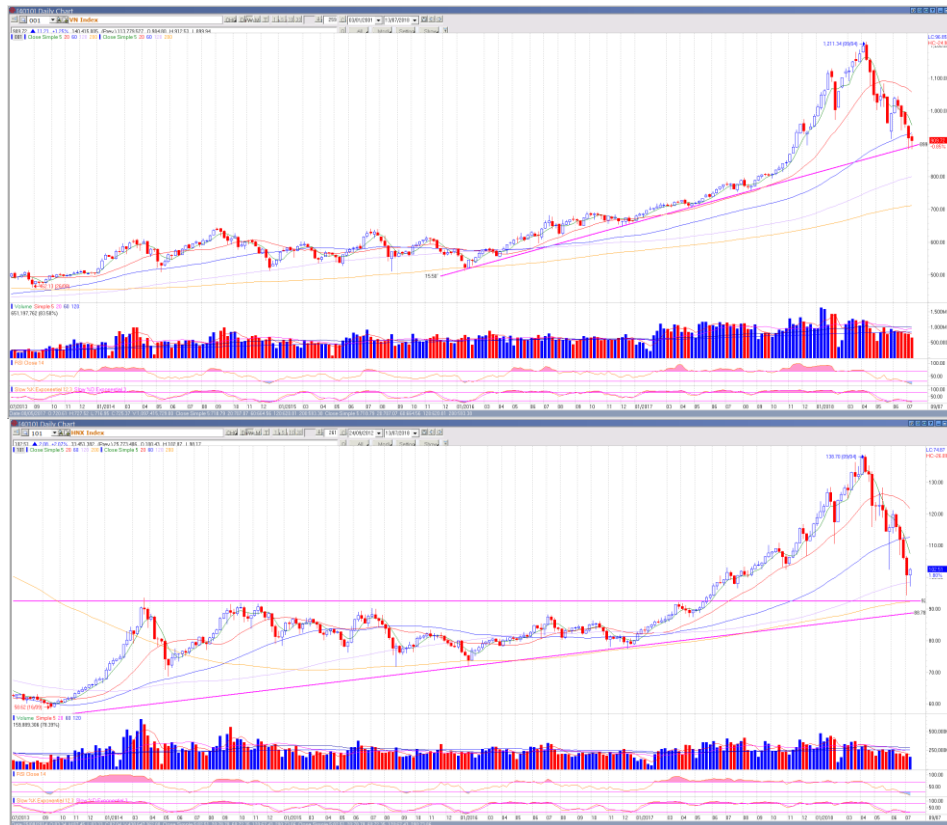


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USD-Index 12 months; source: Finviz.com

The technical indicators of the current charts even suggest possible short-term weakness in the USD, which could trigger a recovery in emerging markets and compensate some of the losses from previous months. With the main index in HCMC trading at an oversold level not seen many times over the past 10 years on compelling macro-economic fundamentals, we are well positioned for the next upside move where investors will hopefully not repeat the same mistake as in late 2017 to early 2018 where they completely ignored any rational valuation analysis. On the other hand, had this not occurred, then we wouldn't have been able to have taken advantage of the recent panic selling in order to build up new strategic positions in some of the heavily undervalued companies in the small- and midcap segment. Selling and turnover has dried up in many stocks as it seems that nobody wants to sell at these levels, except for some forced sellers from people who have bought on margin or funds which are liquidating positions.



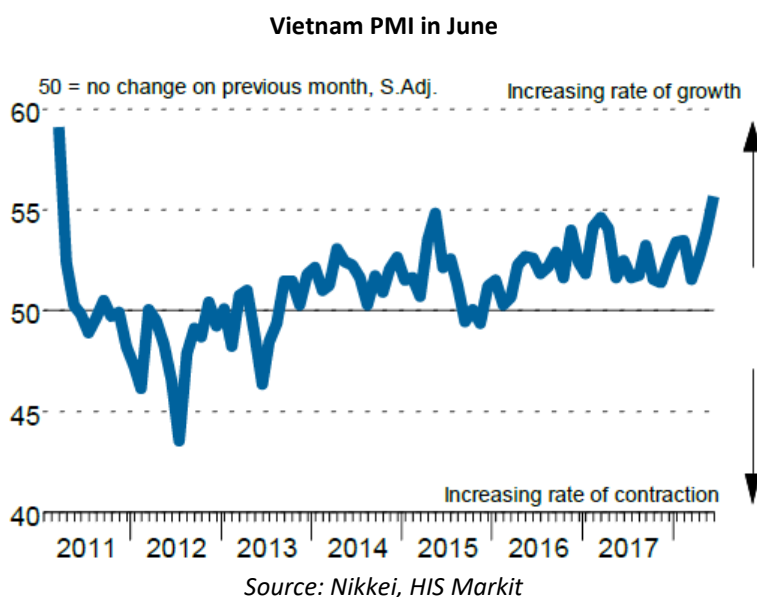
5 year HCMC and Hanoi Index; Source: VietCapital Securities

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Up to 2017 we repeatedly pointed out the exceptionally low volatility in Vietnam. While most experts and investors tend to extrapolate recent moves into the future, we believe just the opposite and expect volatility to decrease over the coming months to levels which are more in line with the long-term average. For the first time in 18 months we see buy signals in both indices accompanied with reasonable valuations in big caps and very attractive valuations in the small- and mid-cap segment. With the way the market behaved recently, we see this accelerated weakness as an end to a correction in a bull market rather than the start of a bear market.

Vietnam leads ASEAN PMI in June

The Vietnamese PMI (Production Manufacturing Index) saw a strong jump from 53.9 in May to 55.7 in June, the highest level in the last 8 years. This was also the highest reading in ASEAN, followed by Singapore (53.6), Philippines (52.9), Indonesia (50.3) and Thailand (50.2).



This 8-year high was supported by record low unemployment numbers and increasing orders which all led to a strong GDP growth number of 7.08% in the first half of 2018. FDI enterprises also contributed to the 16% growth in exports in the first six months of the year. Regardless of concerns about an escalating trade war between the world's two largest economies, the U.S and China, Vietnam so far seems to be benefitting given that more and more Chinese products might be produced in Vietnam.

With the recent stock market correction, Vietnam again offers value compared to other South East Asian countries. Not only do companies enjoy superior growth and lower valuations, but Vietnam also could possibly be the only predator in Asia in the case of an ongoing trade war.

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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 15th July 2018

NAV	1,741*
Since Inception	+74.1%*
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%	-3.3%*						-6.10%*

*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

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