

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



Market volatility fell in August as prices rose among banking stocks and a select few blue chips, while the majority of stocks were almost unchanged. Pressure on the Vietnamese Dong vanished and the rate versus USD was stable. Due to the heavy weight of banking stocks the indices in HCMC and Hanoi gained +3.5% and +6.2%, respectively. With stock market turnover down 20-30% from its one-year average and only a few significant movements in our portfolio, our NAV gained approximately +0.7% to USD 1,790, according to internal calculations.

Market Developments

International investors are still focused on the political friction and trade tariffs between the USA and – let's call it a growing number of countries around the globe. People are now mainly concerned about the impact on those countries involved, but at the end of the day global trade and growth as a whole will be negatively affected. Currently, people still feel safe in US assets including the USD but are dumping assets from struggling countries such as Turkey, for example. Countries like Vietnam are, at least for now, not being negatively impacted, similar to most countries in the west, but people still fear a contagion effect similar to that which occurred during the Asian crisis 20 years ago, although economic conditions and the level of development are not comparable. The emerging market crisis of the 90's was mainly caused by a misallocation of capital and an unhealthy combination of current account and trade deficits, as well as low currency reserves and overvalued currencies, none of which are not the case for most countries in Asia today.

In fact, the exact opposite is the reason for Trump's aggressive foreign economic policy which makes investors feel uneasy. High trade surpluses and an accumulation of USD assets over the past 10-20 years in countries like China are leading to fears that an increasing number of countries will have trade surpluses with the USA, and hence could become a target of US trade sanctions, including Vietnam. Vietnam is a smaller, but growing exporter to the USA, although exports to Asian countries still dominate with a share of around 48%. Vietnam still has a very small economy on a global perspective, but its currency reserves have improved significantly over the past few years, reaching over USD 60bn even though the trade balance is currently only around 1-2% of GDP, which seems to be low when compared for example to Germany where the balance is around 8-9% of GDP.



Vietnam exports; Source: United Nations COMTRADE, Trading Economics

AFC VIETNAM FUND UPDATE

The fact is that the world economy has changed a lot over the past 20 years since China's economy really took off and it can be taken for granted that Trump will not be able to change the rise of Asia. Almost all of the top ten ports in the world are located in Asia and the main trade routes are now going out of Asia. Trump and the USA can punish the world for being uncompetitive themselves in many areas, but instead of improving their own outdated infrastructure (airports, bridges, highways, railways, just to name a few) and accelerate the progress in areas of innovation where the US was always a leader (like hi-tech), Trump is promoting a comeback of steel and coal, and is probably dreaming of one day shipping plastic toys to China.

TRADE ROUTES

Trade between an origin group of countries and a destination group of countries is referred to as a **trade route**.

Top Trade Routes (TEU shipped) 2017

Route	West Bound	East Bound	North Bound	South Bound	Total
Asia-North America	7,490,000	19,482,000			26,572,000
Asia-North Europe	9,924,000	5,139,000			15,063,000
Asia-Mediterranean	5,504,000	2,409,000			7,913,000
Asia-Middle East					
North Europe-North America	3,284,000	2,120,000			5,404,000
Asia-East Coast South America			730,000	1,344,000	2,074,000
North Europe/Mediterranean-East Coast South America			830,000	850,000	1,680,000
North America-East Coast South America			794,000	474,000	1,268,000

Source: World Shipping Council

With recent tariffs, Trump is merely accelerating the obvious trend away from a cooperating western economic block with (North) America and Europe *including* Russia and Turkey, which would be better able to stand up against a rising Asia. Contrariwise, we now see a weakened central Europe and a stronger economic block building between China, Russia and countries in the southeast of Europe. It is questionable that this is really in the long-term interest of the USA.

For the time being, Vietnam is seen as an external port for Chinese goods. With lower duties out of Vietnam, trade should increase and be shielded from a somewhat lower global trade. The main beneficiaries would be ports and the logistic industry in Vietnam. We've always been bullish on the outlook for stronger exports in the long term but are puzzled by the very cheap valuations of many of those companies where we see a lot of potential for the future.

One good example is - Da Nang Port, a hidden growth story. This company, is the largest port operator in Central Vietnam which hosts a total population of more than 20 million people. Da Nang Port was founded by the French in 1901 as an important military port for the French Army and was one of the first ports in Vietnam. After the liberation, Da Nang Port became a commercial port under the control of the Vietnamese government. With a 113 year history, Da Nang Port listed on UPCOM in 2016 and is now trading on the Hanoi Stock Exchange.

AFC VIETNAM FUND UPDATE

Vietnam has three important economic and social regions - The North, South and Central, with Da Nang City being the most important town in the Central region. Most exports from this region are handled through the port of Da Nang, which has an annual capacity of 8 million tons/year.

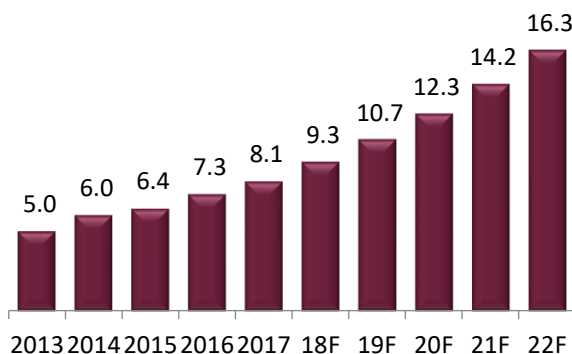
Da Nang Port



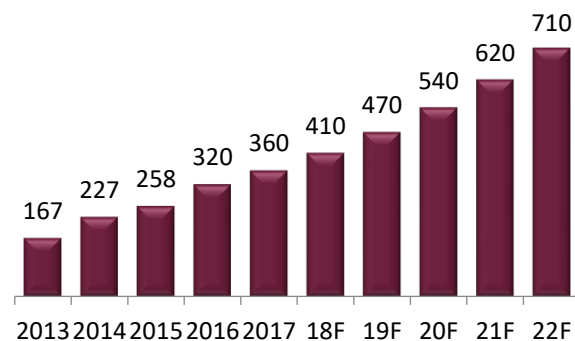
Source: AFC Research

Due to its important role and geographic location, Da Nang port has had steady and impressive growth over the last 5 years. Total cargo volume increased from 3.8 million tons in 2011 to 8.1 million tons in 2017 and is expected to grow to 10 million tons by 2020, a CAGR of 13%. The container (20 foot) volume increased from 114,000 in 2011 to 360,000 in 2017, a CAGR of 22%. At the end of July 2018, Da Nang Port completed its sub-port expansion, Tien Sa Port, to increase the total capacity of the company to 12 million tons of cargo. This expansion was needed in order to handle the company's expected growth of around 15% per annum over the next 5 years. But for its long-term future, Da Nang Port has already planned to build another port in Lien Chieu District, which is expected to be completed by 2025.

Cargo volume (million tons)



TEU Container volume (thousands)

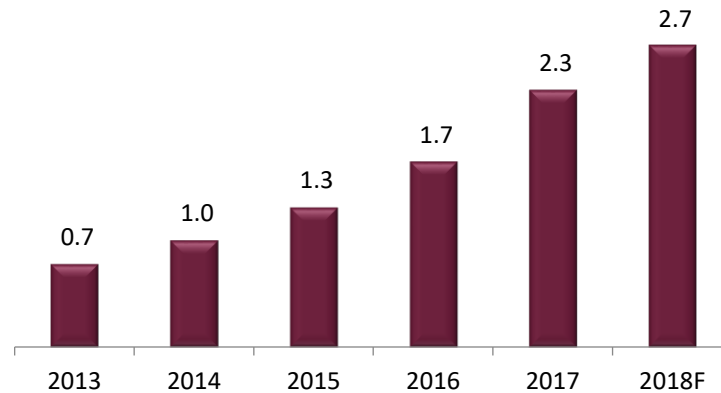


Source: CDN, AFC Research

AFC VIETNAM FUND UPDATE

On the other hand, Da Nang is one of the most attractive travel destinations in Vietnam, with beautiful beaches and many other attractions. Also, the recent APEC meeting which was held in 2017 created a lot of international attention. International visitors are expected to reach 2.7 million in 2018, an annual growth rate of 30% over the past 5 years. Cruise ship arrivals in Da Nang have also doubled in the first 7 months of 2018 to more than 70 ships, mostly from China.

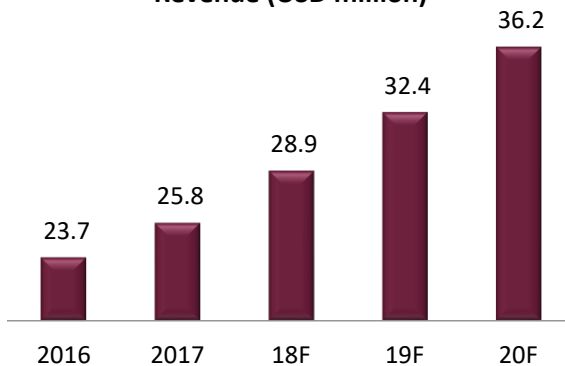
International visitors to Da Nang (million visitors)



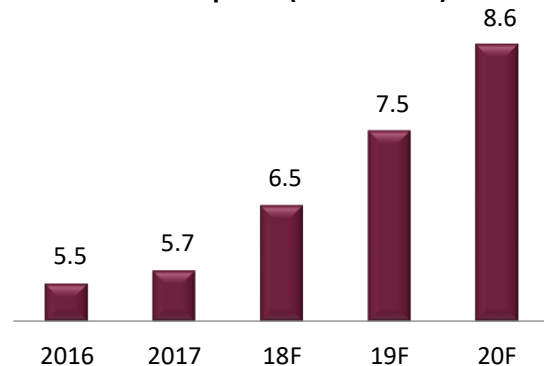
(Source: Da Nang Tourism Department, AFC Research)

Da Nang Port Company is an undervalued stock with a hidden growth story. When it first listed its shares on UPCOM in 2016, most investors did not notice it, neither did it garner any attention when it up listed to the Hanoi Stock Exchange in 2018. We attribute this mainly to the current environment where small and mid-caps are mostly ignored. In the last 5 years, total revenue and operating profit of Da Nang Port were up strongly. The stock is trading at a PER of 10 and a PBR of 1.2. With a bright outlook and a solid balance sheet, Da Nang Port is one of many hidden gems in our universe.

Revenue (USD million)



Net profit (USD million)



(Source: CDN Audited Financial Statements, AFC Research)

AFC VIETNAM FUND UPDATE

Economy

Macroeconomic Indicators				
	2015	2016	2017	Aug-18
GDP	6.68%	6.21%	6.81%	7.08%
Industrial production (YoY)	9.80%	7.50%	9.40%	11.20%
FDI disbursement (USD bn)	14.5	15.8	17.5	11.3
Exports (USD bn)	162.4	176.6	213.8	155.4
Imports (USD bn)	165.6	174.1	211.1	152.7
Trade balance (USD bn)	-3.2	2.52	2.67	2.75
Retail sales (YoY)	9.50%	10.20%	10.7%	11.2%
CPI (YoY)	1.34%	4.74%	2.62%	3.98%
VND	22,540	22,600	22,755	23,293
Credit growth (YoY)	17.30%	16.50%	16.96%	6.35%
Foreign reserves (USD bn)	36	41	51	62

(Source: GSO, SBV, AFC Research)

FDI disbursement in the first 8 months hit USD 11.25 billion, gaining by 9.2% y-o-y. Solid FDI disbursement should help reduce pressure on FX rates.

Exports and imports keep growing strongly at 14.5% and 11.6%, and are targeted to reach USD 155.4 billion and USD 152.7 billion, respectively. The trade surplus gained USD 2.8 billion in the first 8 months of this year.

CPI slowed down in August to 3.98% from last month of 4.46%.

Subscription

The next subscription deadline will be 24th September and if you would like any assistance with the investment process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

AFC VIETNAM FUND UPDATE

Estimated NAV as of 31st August 2018

NAV	1,790*
Since Inception	+79%*
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%	+0.7%*					-3.5%*

*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.