

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

Just a few trading days after our comments in our September report about the US being the only well performing stock market this year, the world is faced with the biggest drop in stock prices in the US since at least February. Stock prices have tumbled between 5-10% worldwide. Vietnam also lost some ground with HCMC declining -4.6 and Hanoi -5.6%. few good earnings preannouncements helped our portfolio to weather this storm pretty well and our NAV lost comparably little with -1.5% at USD 1,817, according to internal calculations.

Market Developments

Two weeks into October and we are facing the worst equity markets worldwide since February 2018 with basically all markets down somewhere between 5-10%. The themes have not changed: Trump, trade conflicts and higher interest rates. The biggest differences between now and February are that this time trade tariffs are already in place and the starting point of the correction was 3-10% higher depending on whether you are looking at the S&P or the NASDAQ index. To keep things in perspective, Vietnam's starting point of this correction was 10% lower than in February, and we have already seen earlier this year five separate one-day sell-offs between 3-5%. Of course, on days like those where almost every single stock is down, we also lose money, but as most of our stocks are not driven by index money flows, the extent of the total portfolio losses is distinctively milder.



Source: Bloomberg

Most strategists have been bullish on US equities for a long time, which created a positive investment sentiment and hence also contributed to the outperformance of the US markets versus almost other markets over the past years. The emphasis or key learning is, that investors should never look back but should ask themselves which investment classes or markets currently show the best risk/reward-ratio for the future.

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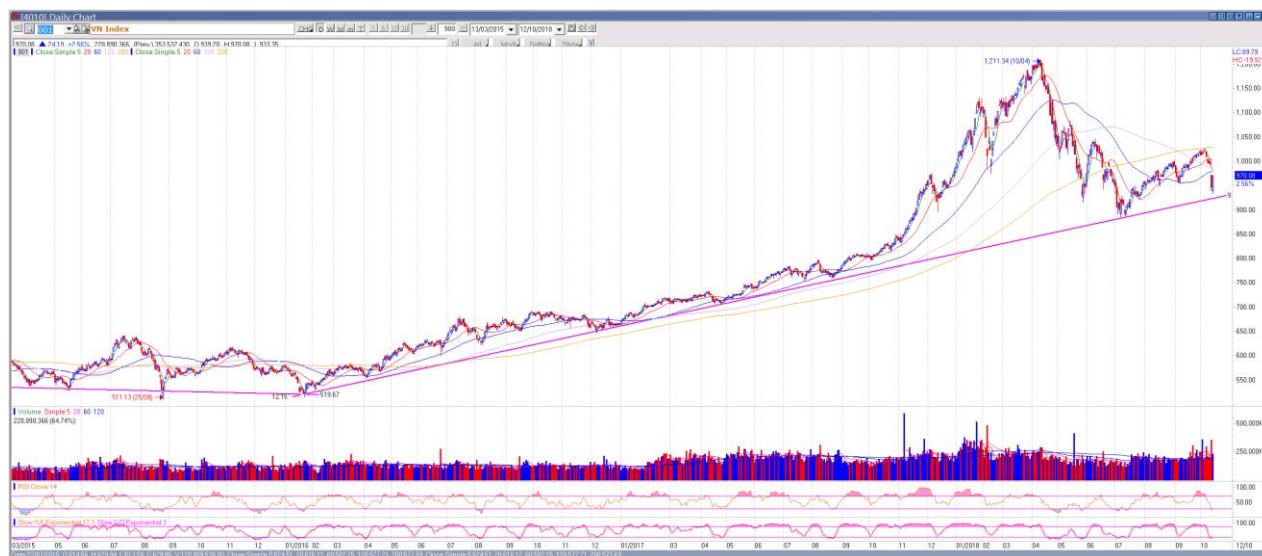


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We continuously discuss the tremendous value we are finding in our portfolio in Vietnam, where many of our stocks are trading at just 4-8x earnings and at an average dividend yield of over 7%, with some companies paying out dividends yielding in excess of 10%. Compared to the current valuation of the US stock market, we are in a very comfortable position and can focus on individual investment stories instead of fearing that a correction of the extended valuations could bring major losses. It is almost impossible to find US blue chip stocks with P/E-ratios of less than 20x. Most Wall Street darlings which drove the indices over the past 1-2 years to record levels are now valued at 40x-50x and sometimes over 100x earnings. The creation of fancy expressions like the “FANG’s” (Facebook-Amazon-Netflix-Google), which cover the core group of stocks which everybody wants to have in their portfolio shows the focus of both private and institutional investors on hyped stocks, no matter how expensive their valuations might be. As always, in overextended markets we sometimes see sharp corrections which shake out investors with the weakest nerves first, but until stocks like Amazon with a P/E north of 100x get attention from value investors, further adjustments have to be seen, as the Amazon story has not really changed much over the past year but the stock price doubled.

Seemingly continuous comments from the US President such as those calling his own central bank (FED) “crazy” for raising interest rates while he was defaming the FED for just the opposite a few years ago, and further hostile comments in China’s direction, will certainly not help sentiment in the short term. Though, we should also keep in mind that October is historically always a volatile month for stock markets and many times also a very good entry point once volatility peaks.

We are neither trying to be market timers, nor do we make any predictions, but as attentive market observers we also see recent developments as the possible first signs of cracks in the outperformance of US financial assets. As investors are slowly moving their attention to investment opportunities for 2019 Vietnam still shines with strong economic data via a steady rise in industrial production and private demand, low inflation and trade surplus.



HSX, 2015-2018, Source: VietCapital Securities

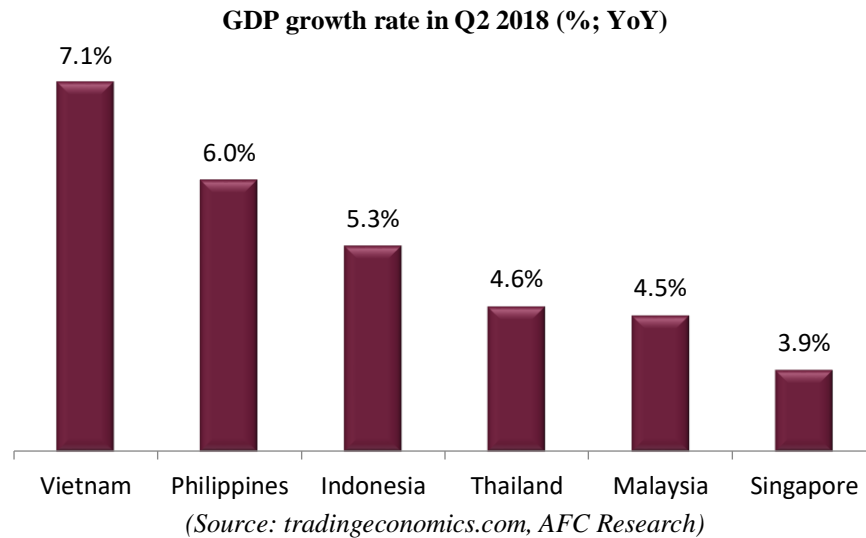
We are yet again at the trend line which has supported the market since 2016. Even if that uptrend was to break in the short term, the comparable risk seems to be much lower than in other markets. Earnings season for the third quarter is just starting in Vietnam which will give us a pretty good indication for the full year profits and an update on valuations.

Standard Chartered Bank says Vietnam is the fastest growing ASEAN country

Standard Chartered Bank estimates the Vietnam’s GDP growth rate might reach 7% in 2018, driven by strong FDI and rising exports and consumption. They also predict the VND will remain stable versus the USD in 2018 and 2019.

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Vietnam is likely to remain the fastest-growing ASEAN economy in 2018 and 2019, as in 2017. In the second quarter of 2018 the Vietnamese economy grew at 7.1%, the highest among ASEAN countries despite the tensions of the ongoing trade war between US and China.



Despite the worsening US/China trade conflict, the World Bank also upgraded its estimate for Vietnam's 2018 GDP growth to 6.8% from 6.5%.

Also, the tourist sector in Vietnam is prospering nicely. In the first 9 months of 2018, the number of international visitors to Vietnam reached 11.6 million people, a healthy increase of 22.9% compared to the same period last year. The government estimates that the average tourist spending per capita lies at around USD 800 – USD 1,000, which generates around USD 9 - 11 billion of revenues.

The rice terrace in October in Ha Giang Province, Vietnam



Hagiangsensetravel.com



(Source: Hagiangsensetravel.com)

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Subscription

The next subscription deadline will be 25th October 2018 and 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 October 2018

NAV	1,817*
Since Inception	+81.7%*
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	-1.5*			-2.0%*

*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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