15th May 2019

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

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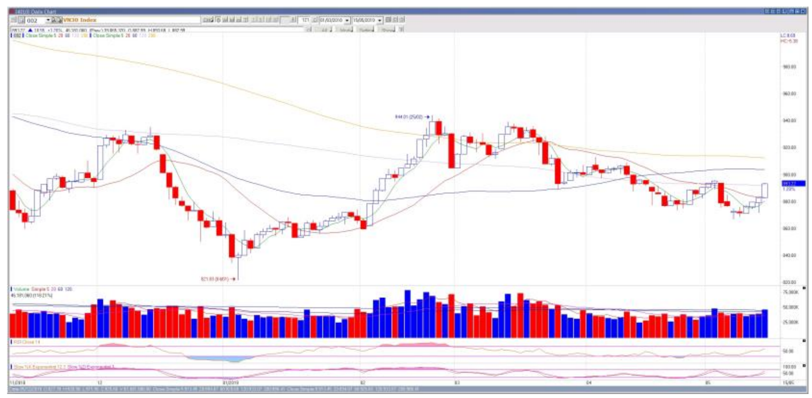
Led by blue chips, markets in HCMC and Hanoi are down -0.4% and -1.0% respectively, after recovering strongly over the past few days. The Vietnamese stock market managed to perform better than most developed markets recently, mainly because it is seen as one of the few countries in the world which is benefiting from the trade war between China and the US. We exited another three of our holdings in order to raise cash and reinvest into companies which are trading at steep discounts compared to their historical valuations. With the Vietnamese Dong a little bit weaker, our NAV is currently at around USD 1,805, down -2%, according to internal calculations.



(VN30 Index from March 2018 to May 2019; Source: Viet Capital Securities)

Market Developments

It has been almost one year since TTT (Trump Trade Tweets) rattled the markets for the first time. What was first seen by many as a mere warning shot towards the Chinese Government and not likely something that would be a real threat to global growth, punitive tariffs soon became real and were later increased to a level which seriously affected some sectors around the world. After tweeting – only Trump knows how many times – about the now very questionable progress in trade talks, the US stock market was pushed up again to its old highs from last year. How deeply disconnected markets behaved over the past 12 months and over the past few years is clearly shown when looking at Europe (Eurostoxx Index) for example, which has hardly moved in USD terms over the past 6 years (!) while the US (S&P 500) is up 70% and brought valuations up to levels which demand nerves of steel from its investors.

While continued or even increased trade tensions are definitely poison for most markets in the short term, as pointed out already last year, Vietnam which benefits nicely from an accelerated manufacturing shift from China, is a relative winner compared to other export-oriented economies – not to mention the vastly growing middle class, which drives the domestic economy. Vietnam is part of the ASEAN Economic Community and benefits from ASEAN's trade deals in the region. The country also has trade deals with the EU, Japan, South Korea, Israel, Chile, and is part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). On 9th May, Fitch Ratings revised Vietnam's outlook to positive from stable while maintaining the long-term foreign currency issuer default rating (IDR) at BB. The revision is in response to strengthening external buffers from persistent current account surpluses, falling government debt levels, high economic growth rates and stable inflation. This comes after last month when Standard & Poor's (S&P) Global Ratings upgraded Vietnam's sovereign rating to BB with a stable outlook.

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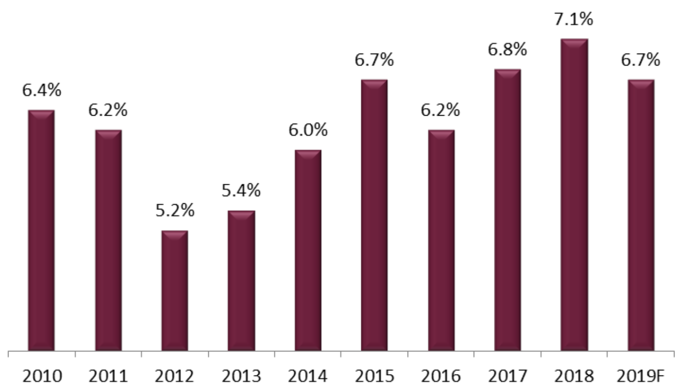
Vietnam GDP growth (2010-2019)



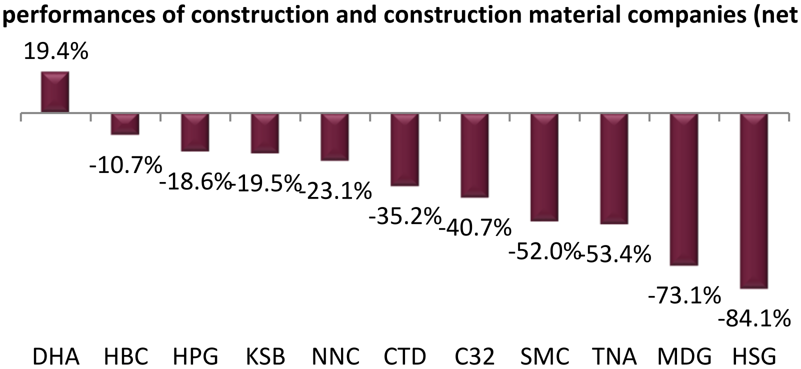
(Source: Bloomberg, AFC Research)

Despite its high economic growth rates over the past few years and a consensus GDP growth forecast of +6.7% for this year, Vietnam could grow even faster in the future if not held back by internal government issues. One could argue that this is like a kind of “growth reserve” which would have a great impact if the government can manage its internal administration issues as efficiently as they manage external economic policy issues - but as much as we hope for that, it is unfortunately far from certain that this will happen soon, as other examples in the region have shown in the past.

Construction sector is facing difficulties in the short term

As we mentioned in our previous report, a lot of real estate projects in Ho Chi Minh City are delayed due to investigations which will limit the short-term supply. This current situation hit the construction industry and related sectors such as construction materials. For example CTD (Coteccons Construction), the largest construction company in Vietnam, had a slow start to the year, and others such as HBC (Hoa Binh Construction Group), the second largest construction company, as well as most other construction material companies have also reported lower profits in the first quarter - especially companies located in Ho Chi Minh City or surrounding provinces such as Binh Duong or Dong Nai.

Q1-2019 performances of construction and construction material companies (net profit, %)



(Source: companies’ reports, AFC research, HSX)

After recording strong growth in recent years, this interim weakness offers good opportunities in some of those companies with strong balance sheets such as e.g. CTD, which keeps more than USD 188 million in cash. After falling 40-50% from their highs over the past 12-18 months, these companies will eventually benefit nicely, once the project approval process starts again. After all, Vietnam’s demand for new houses and better infrastructure is not standing still, but is constantly growing, which is normal for such a fast-growing Asian frontier economy.

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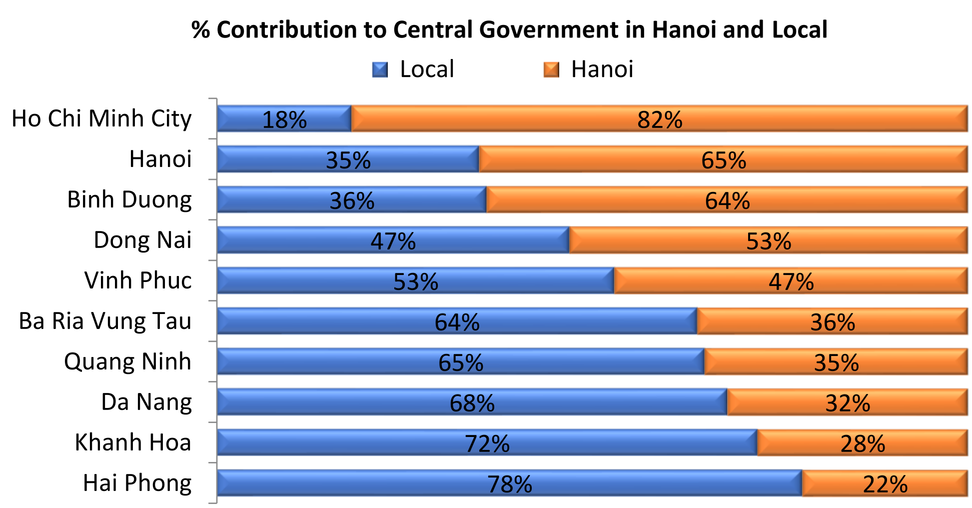
(CTD July 2013 to May 2019; from Source: VCSC)

Not only the private sector, but also the public sector is facing the same situation due to project approval delays. Particularly, the metro project which connects the center of Ho Chi Minh City with its suburban areas, which has been postponed for more than one year and no new deadline for completion has been set yet. The Ben Thanh – Suoi Tien Metro line for example should have been completed in 2018, but after 12 years of construction, the work is unfortunately still in progress…

(Source: vnexpress.net)

The reason for this metro project postponement is the lack of investment capital of Ho Chi Minh City after the Central Government requested the City to transfer 82% of its collected taxes to Hanoi, up from 78%.



(Source: Vietnam National Assembly)

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Like with almost any other mega-project around the world, cost overruns and delays are normal – and as of today we would still not rule out that the first metro train in Saigon will operate earlier than the first airplane departs from the new Berlin airport!

Subscription

The next subscription deadline will be 27th May 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 May 2019

NAV	1,805*
Since Inception	+80.5%*
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%	+1.58%	+0.83%	-2.0%*								**+1.6%***

***According to internal calculations**