

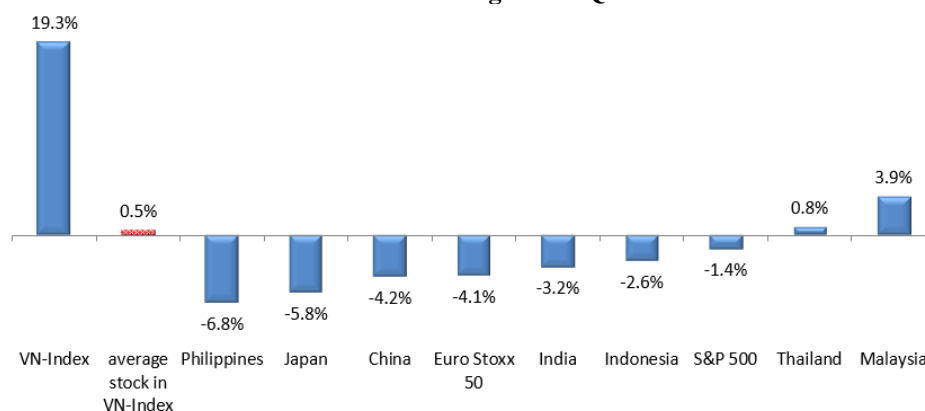
AFC VIETNAM FUND UPDATE

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 most markets around the globe in negative territory this month, as well as for the first quarter, Vietnam was able to buck the trend again – at least some index heavyweights did. The indices of HCMC and Hanoi advanced by 4.7% and 3.4% respectively while most stocks lost ground again. Our diversified investment strategy is still playing out, but at a slower pace in this environment. With a slightly lower Dong, our NAV was able to gain +0.7% to USD 1,882, according to internal calculations.

Market Developments

Indices around the globe in Q1/2018



Source: Bloomberg, AFC Research

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Winner Relative Value: AFC Vietnam Fund



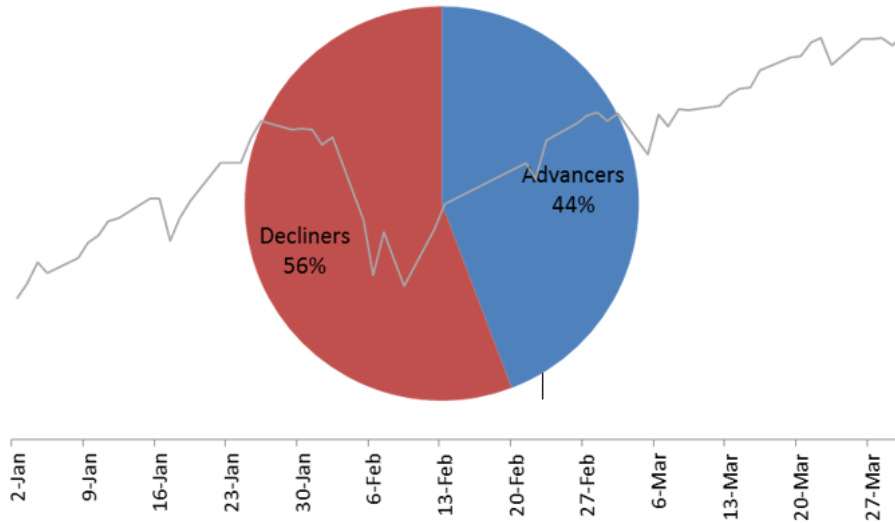
Vietnam continues to have not only two stock exchanges, but also two different types of stocks – a tiny group of index heavyweights and all the remaining 1,000+ stocks. We are still looking for the light at the end of this very long tunnel in terms of an improved market sentiment for small and mid-caps. Local retail investors, responsible for about 80% of market activity, are continuing to follow foreign institutions, which have been pouring money into the same stocks since the beginning of this decoupling. Some market observers would call these valuations by now “stretched”, but for others valuation is simply not an investment criterion at all, like ETF’s or short-term momentum players. For many institutional investors this ongoing strange market behavior is now becoming more and more of a problem the larger the disconnect between the majority of the stocks and the index heavyweights gets.

With an index up 19.3% in the first quarter of 2018, people would think that all investors should be happy with their stock investments, as it seems to be an outright bull market. In fact, despite the tremendous index gains over the past few months, only a minority of stocks have participated in this rally. The majority of stocks are actually down since the beginning of this year.

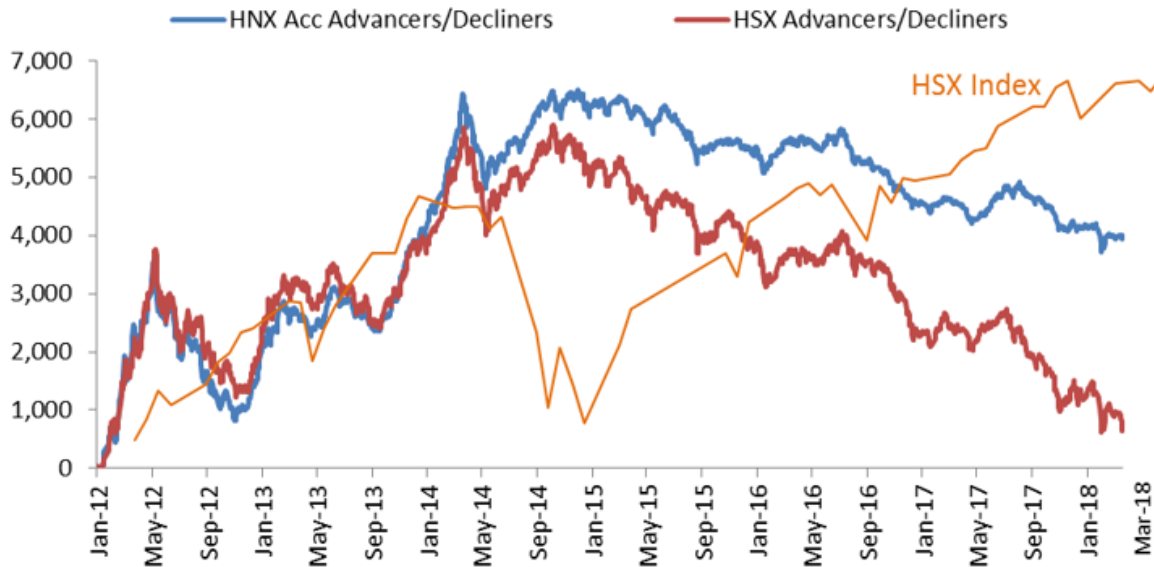


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Despite index gains in Q1, the majority of stocks lost value



HCMC index Q1/2018, advance/decline ratio- Source: Vietstock, AFC Research

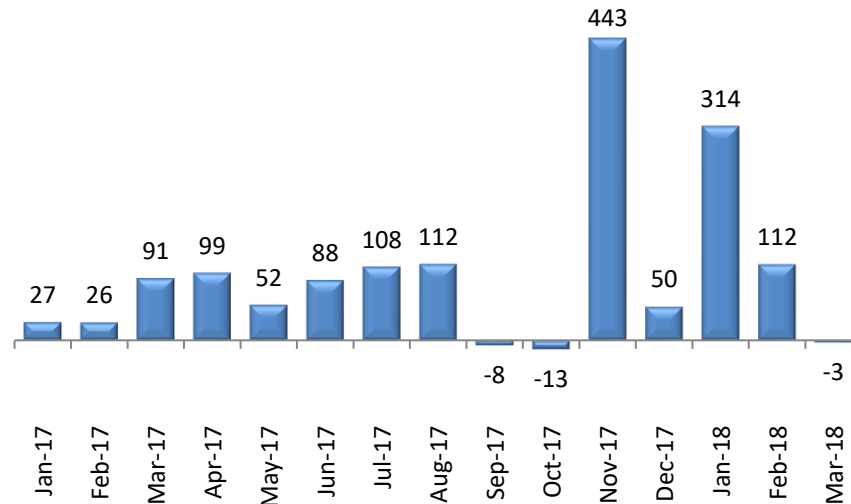


Hanoi & HCMC advance/decline ratio, HCMC index, Source: Bloomberg, AFC Research

The market breadth has been trending south now for some years, as reported several times, but the real disconnect to the index started in 2015 and accelerated last year when large mutual funds and ETF's saw huge inflows.

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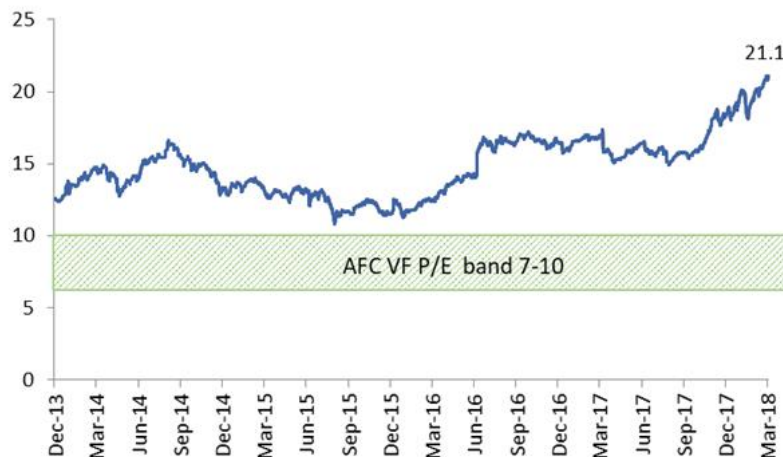
Net buying value on Ho Chi Minh City Stock Exchange by foreign investors (USD million)



Source: HSX, AFC Research

In the past it was no big deal for fund managers to put monthly inflows of a few million dollars to work when this amounted only to a very small amount compared to their total assets. However, just imagine what happens if inflows of 500 million dollars are concentrated in a few big funds which are all trying to track the index in one way or another. They simply have no choice but to invest simultaneously into the most liquid stocks which are also the biggest index components. When our fund sees inflows of 10% (or around 5 million dollars) we are easily able to choose many attractively valued stocks with a high upside potential in our view and can make these investments over a period of 1-2 weeks without pushing up the stock prices. In contrast, if a fund with USD 1 billion in assets receives 10% (or 100 million) over a short time period, then they need to invest this money as fast as possible into a rising index environment or else the high cash level will drag down their overall fund performance. The fund manager has therefore no chance to build up meaningful positions in smaller or less liquid but much cheaper stocks, instead being forced to invest in “hot” and therefore liquid stocks, which mostly have very expensive valuations nobody would have dreamed of just a year ago.

Market valuation vs. AFC Vietnam fund valuation



P/E of HCMC index, P/E range AFC Vietnam Fund, Source: Bloomberg, AFC Research

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Valuation is therefore now only a secondary criterium for many investors, while heavy trading and therefore liquidity via retail investors are much more important as they are largely unaware of (or just don't care about) valuation levels. The story of how this will end can be found in several history books.

One can easily do the math: Not all of the index heavyweights are real growth machines, but let's just assume a company is trading at 40x earnings and has a very high 20% long term growth rate. At some point – when the next big market correction happens that valuation will come down to 15x-20x, if not more. In other words, if a market correction occurs in the next 5 years, which is not an unlikely scenario, then investors would face a more or less significant loss in that investment. The dividend yield in those stocks, which varies between 1-3%, doesn't offer a real cushion either.

Comparatively, with “value” stocks trading sideways over the past 9 months, the average dividend yield in our stocks is still around 6%. So, whatever the markets look like in the short term, we always have to remind ourselves, why we started this fund in the first place. We saw tremendous value in a country where politics, people and economics were all in line to start a long-term growth cycle in the economy and the financial markets, which should last for decades if no major mistakes occur. While valuations in most big caps remain extended, nothing has changed with the majority of stocks traded on Vietnam's markets – value is still there and waiting to be exploited as one of our typical holdings just showed over the past two trading days in March. Unlike the index heavyweight, the brewery Sabeco, which is trading at more than 30x earnings, a small undervalued brewery we invested in long time ago, just announced a special dividend payment at their AGM as they have significant unused cash on their balance sheet without any meaningful debt. With that dividend amounting to 50% of total market cap we will be paid back half of our initial investment and are still owning the same operational brewery as before. As expected, the stock jumped 16% after this announcement.

Economy

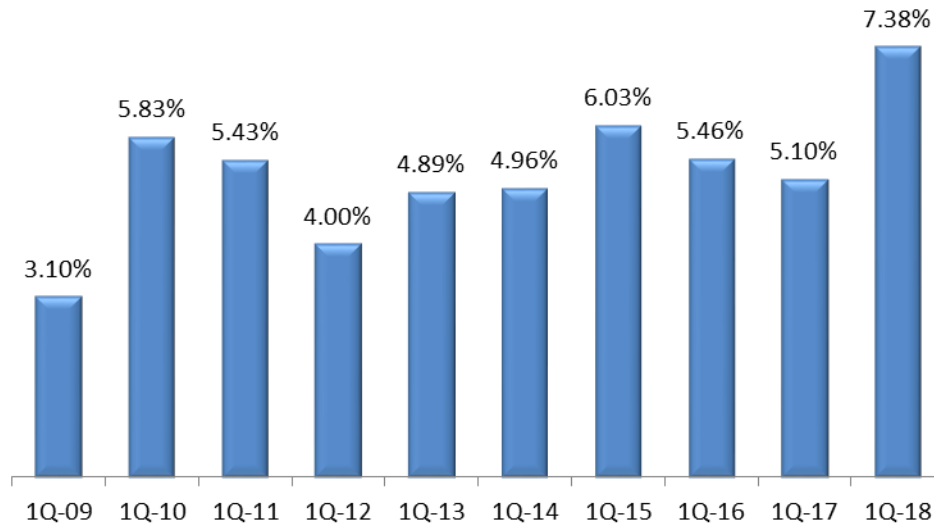
Macroeconomic Indicators					
	2014	2015	2016	2017	Mar-18
GDP	5.98%	6.68%	6.21%	6.81%	7.38%
Industrial production (YoY)	7.60%	9.80%	7.50%	9.40%	11.60%
FDI disbursement (USD bn)	12.4	14.5	15.8	17.5	3.9
Exports (USD bn)	150	162.4	176.6	213.8	54.3
Imports (USD bn)	148	165.6	174.1	211.1	53.0
Trade balance (USD bn)	2	-3.2	2.52	2.67	1.30
Retail sales (YoY)	10.60%	9.50%	10.20%	10.7%	9.9%
CPI (YoY)	1.86%	1.34%	4.74%	2.62%	2.66%
VND	21,405	22,540	22,600	22,755	22,755
Credit growth (YoY)	14.00%	17.30%	16.50%	16.96%	2.23%
Foreign reserves (USD bn)	36	36	41	51	60

Source: Viet Capital Securities, AFC Research

The Vietnamese economy saw impressive growth in the first quarter of 2018 when GDP growth hit 7.38%, the highest in the last ten years. It proves that Vietnam is on track to move back into a high growth period. GDP growth is supported by high growth in industrial production with 11.6% in the first quarter.

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GDP growth in Q1 by year



Source: GSO, AFC Research

Exports continue to show strong improvement, having grown by 22.0% in Q1 to USD 54.3 billion. Imports also jumped 13.6% to USD 53.0 billion. The trade surplus hit USD 1.3 billion as well.

FDI disbursement keeps increasing, up by 7.2% to USD 3.88 billion, showing how confident foreign investors are.

The inflation index, CPI, increased 2.66% in the first quarter.

Subscription

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

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 31st March 2018

NAV	1,882*
Since Inception	+88.2%*
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%	+0.7%*										+1.5%*

*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.*

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