30th November 2021

ASIA FRONTIER CAPITAL

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 NAV 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	Trident Fund Services, Hong Kong
Legal Advisor	Ogier, Hong Kong
ISIN	KYG0133A1673

Contact Information

Asia Frontier Capital Ltd.
www.asiafrontiercapital.com

Mr. Andreas Vogelsanger, CEO
Asia Frontier Capital (Vietnam) Limited
Tel: +66 84435 7472, Fax: +852 3904 1017
av@asiafrontiercapital.com

Registered Office:
c/o Intertrust Corporate Services (Cayman) Limited
One Nexus Way, Camana Bay
Grand Cayman KY1-9005,
Cayman Islands

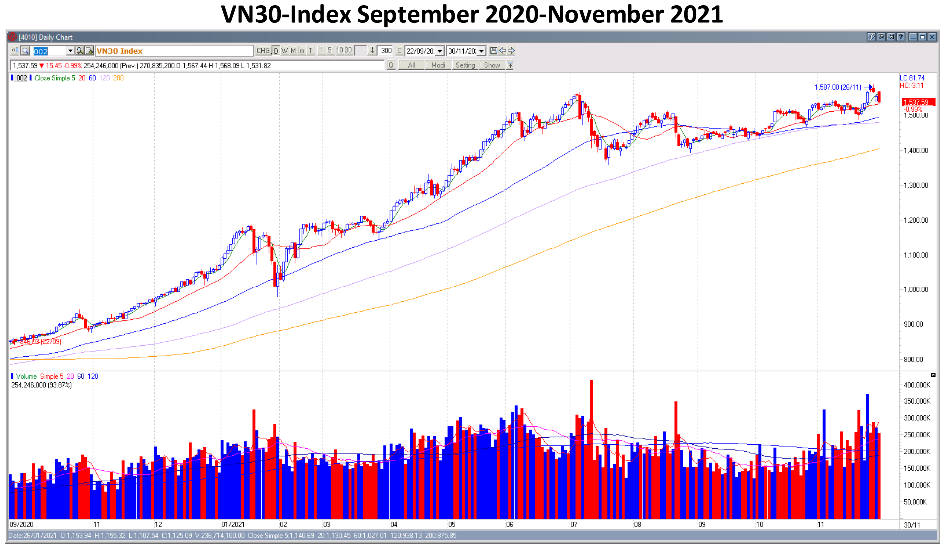
Hong Kong Office:
Asia Frontier Investments Limited
1805, 18/Floor, Hing Yip Commercial Centre
272-284 Des Voeux Road Central, Sheung Wan
Hong Kong

The VN-index continued its upward trend in November for the 4th consecutive month. Local investors were little worried about the new COVID-19 variant, Omicron, where still few facts are known, and instead are focused on improving fundamentals and economic data. The gains were less broad-based than in the previous months, with foreigners being net sellers again. The VN index gained +2.4%, while our NAV reached USD 3,615, +2.4% in November, according to internal estimates.

Market Developments

The mixed picture for Vietnam´s market continued in November. Small and mid-caps continued to advance as of the beginning of the month, and closed again significantly higher compared to October, while the blue-chip index VN-30 gave up most of its earlier gains. Nevertheless, turnover increased again to new record levels along with new all-time highs in the index, confirming the underlying bull-market.

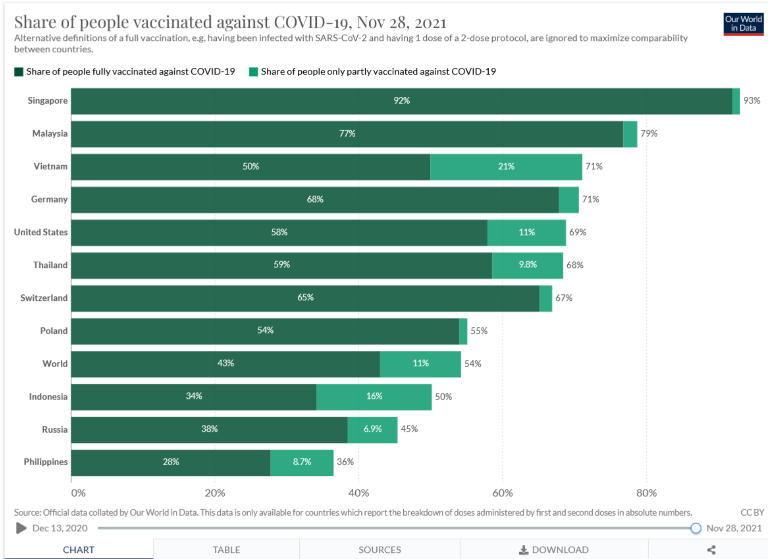
VN30-Index September 2020-November 2021



(Source: Viet Capital Securities)

As expected, the vaccination campaign has moved ahead much faster than in other countries, and Vietnam is now on par with the higher vaccinated countries in the western world. The unusually high number of first shots given proves the speed of this process as many people still have to wait the necessary interval in order to receive their second shot.

AFC VIETNAM FUND UPDATE



(Source: Our World in Data)

Despite a resurgence in infections, with daily rates up to 13,000 (which is still much lower than currently in Western Europe), the country continues to open its economy and even welcomed their first foreign tourists on 17th November, although only on a pilot project, where people have to stay in one of five designated provinces on a tour package without being quarantined on entry. A more regular opening for international tourists is not expected before the second quarter of 2022, but we all know too well how plans worked out so far in the west during the pandemic, as the last few days has proved once again...


(Source: VnExpress)

After all, with competition from other opening tourist destinations in the region like for example Thailand, it just shows that Vietnam wants to advance to its self-induced "new normal" as best as possible and give up completely on their previous zero-COVID strategy. With domestic infection rates up again and several restrictions put back into place, it needs to be seen how this plan for tourism-reopening will work out. In HCMC for example, bars and karaoke parlors were shut down again, after opening up for only two days – poor business owners, who were forced to close for seven months and took them a lot of preparations (and money) in order to re-open, just to be forced to close again.

4th wave fully hit Vietnam in April

Wave	Time	No. of cases		
		Sum	Domestic	Death
1	23 January – 24 July 2020	415	106	0
2	25 July 2020 – 27 January 2021	1,136	554	35
3	28 January – 26 April 2021	1,301	910	0
4	27 April 2021 – ongoing	1,062,617	1,060,394	23,441

(Source: Wikipedia; Ministry of Health)

Earnings growth in Vietnam, supported by inflation?

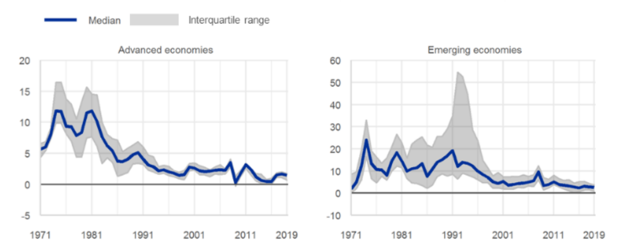
30th November 2021

AFC VIETNAM FUND UPDATE

Despite economic difficulties throughout the year by imposed lockdowns, the IMF reckons that economic growth should reach 3.8% this year, which is the highest rate among the five major Southeast Asian economies - Indonesia, Thailand, the Philippines, and Malaysia. Even though this is a very low number for Vietnam, the growth for listed companies in Vietnam is rather positive. Growth for the first nine months was very strong with around 30% and is forecast to reach 56% for the full year 2021, and around 20% in 2022. Banks, the oil & gas sector, real estate, and industrials saw the strongest results. When we break this down further and keep in mind that lockdowns in 2020 and 2021 distorted earnings in both years, we see that earnings from listed companies are strongly correlated to three main areas of the economy: the domestic economy, production for the export sector, and commodity-related businesses. While the consumer sector was certainly severely impacted by the lockdowns, the largest listed companies like Vinamilk, Masan or Mobile World, all have pricing power, and are highly profitable. This should show strong growth in the coming years with higher consumer spending. The export sector, while depending on the international economic development, will continue to profit from companies ramping up production and diversifying out of China. Given the export size of the two countries, a 1% move out of China into Vietnam, translates roughly into a 10% gain for Vietnam. Higher inflation also means higher sales for those companies, and as we can currently experience everywhere, most companies are able to pass on those increases to their customers. As for commodity related companies, the transition into a "green economy" needs, absurdly enough, tremendous amounts of all kinds of commodities from coal, oil, metals, materials for semiconductors, concrete, etc., when at the same time producing those commodities is getting costlier as well because of higher labor costs and "greener" economic policies.

Range of inflation in advanced and emerging economies over time

(annual percentage changes)



Source: Haver Analytics.
Note: The interquartile range covers 50% of the sample of 25 advanced and 93 emerging market economies.

For almost 40 years the world was able to enjoy a low inflation environment. This was not due to strict debt control from governments or tight money policy from central banks around the world, but mainly because of a globalization trend which lasted until just now. Enabled was this trend only after (luckily timed) political events which opened up countries previously closed as production hubs and consumer bases, therefore dramatically increasing the number of potential consumers – as well as low-income workers. This in fact dramatically reduced production costs, and at the same time increased the number of potential consumers in developed countries from roughly 1bn (North America plus Europe) to the now ever-increasing number of developing country populations climbing up the wealth ladder. China, Southeast Asia, Eastern Europe, Latin America, and finally Africa were very welcomed production bases for international companies in order to reduce their costs on one hand and sell their products on the other.

Forty years later and we see not only one but several headwinds for keeping prices in check. Besides global money printing and rising debts, the world is running out of cheap production alternatives like China or Vietnam, with the exception of automatization which certainly will be a necessity in certain sectors. Despite further productivity potential in developing countries, labor costs are constantly rising, adoption of emission reduction policies, higher social responsibility standards (such as eliminating child labor, safer working environments, etc.) will continue to drive up production costs in the same way as the transition from coal to renewable energy production is already driving up prices for electricity. With this outlook, we are glad to be in the stock market business where we can adapt our investment policies and find attractive investments in a country like Vietnam, and not be in a stiff position like bond investors, not to speak of central bankers without (m)any choices at all.

AFC VIETNAM FUND UPDATE

Giant economic stimulus package

In November 2021, the Vietnamese National Assembly organized meetings to discuss a giant economic stimulus package of USD 35 bln, equivalent to 10% of Vietnam's GDP, in order to boost the economic recovery. According to initial discussions, no final decision has been reached yet how and where they should spend this stimulus package, since the State Bank of Vietnam is concerned that rising inflation could be a threat as it was back in 2011-2012. Many members of the National Assembly therefore suggested that the package should focus on public investments, social welfare and consumption. Other members also suggested that the government should support enterprises through a "lending interest rate allowance" plan, similar to what they did in 2009-2010. However, all the suggestions triggered certain debate and push back.

1. Public investments: the chairman of the national assembly said that "there are still more than VND200,000 bln (USD 8.8bln) which has not yet been disbursed in 2021, why do we have to pump more money into this sector". The chairman therefore recommended that the government should clarify why public investment disbursement is so slow before pumping more money into the economy.
2. Lending interest rate allowances to enterprises: The governor of the state bank said that it may cause a huge risk to the economy because of the increased inflationary pressures it would create. She is also worried that many enterprises may get the allowances to buy assets rather than support their own businesses.
3. Social allowances: The national assembly asked the government to work out a solution to better allocate these social benefits to people in need and to reduce abuse of the system as they have experienced in the past.

With all above arguments and opinions, the national assembly requested the government work out a clearer plan with more details and solutions on how to allocate this stimulus package more efficiently. They will organize another meeting before the end of year and finalize and approve this package.

National Assembly Meeting

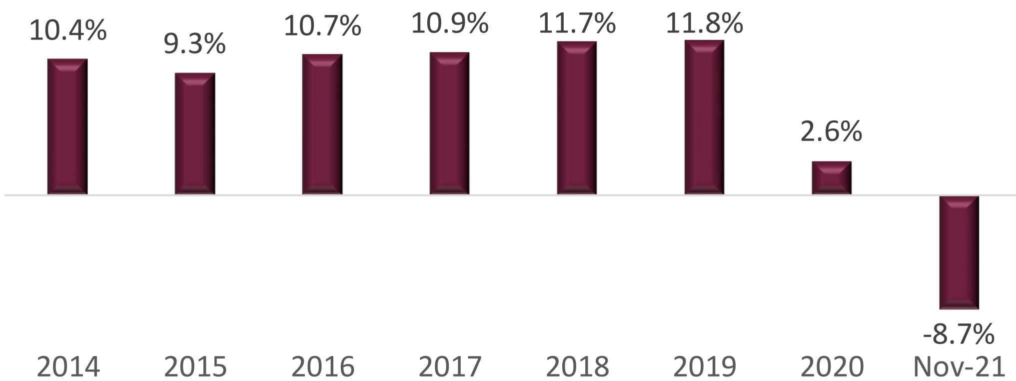
(Source: National Assembly)

Consumption recovery

COVID-19 had a severe impact on the consumer sector in Vietnam, the same as most other nations, but given its young population, with around 50% of its almost 100 mln habitants below the age of 35, and its rapidly growing middle class, we expect a fast recovery once the economy is open again.

Consumption fell sharply due to COVID-19

AFC VIETNAM FUND UPDATE



(Source: GSO, AFC Research)

Retail revenues in Vietnam grew around 10% before the pandemic, then fell to 2.6% in 2020 and are expected to decline by 8% in 2021. According to the General Statistic Office of Vietnam, total retail revenues decreased 8.7% y/y, mainly due to the 5-month long lockdown in Ho Chi Minh City, the economic hub of Vietnam. All restaurants, coffee shops, traditional markets, retail stores, etc., were completely closed during this period. In the 35 years since 1986 (when Vietnam launched a political and economic innovation campaign “Doi Moi” that introduced reforms intended to facilitate the transition from a centralized economy to a "socialist-oriented market economy"), this is the first time that Vietnam has seen negative growth in retail revenues. This is on one hand a very disappointing experience, but on the other it’s also a golden chance for new investors to gain exposure to this market, given that there is a strong chance that consumption will recover as soon as the economy is open again – at the end of the day, people want to shop and entertain themselves after this long lockdown. Vietnam has secured enough vaccines to ensure that all adults can be fully vaccinated by year-end, and it is expected that the vaccination rate for adults will soon reach 95% which would be very beneficial for a safer and more stable rebound of the consumer sector.

One of the largest consumer companies in Vietnam is Vinamilk (VNM). The stock price of VNM fell 36% from its peak in January 2018 to the current level of 87,600 Dong/share.

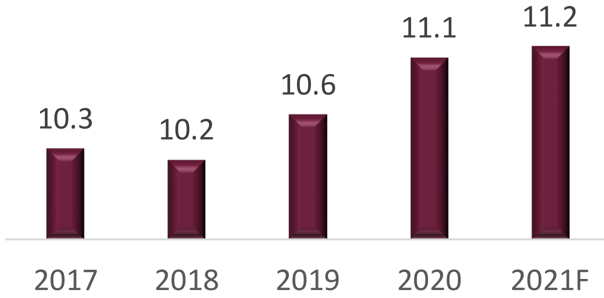
Vinamilk (VNM) share price

(Source: VCSC)

Vinamilk is the largest dairy company in Vietnam with market share of around 45% after taking over Moc Chau Milk. The second largest dairy company is Friesland Campina with 15.8% market share. The market capitalization of Vinamilk is USD 7.9 bln and the stock is trading currently at PER of 18x.

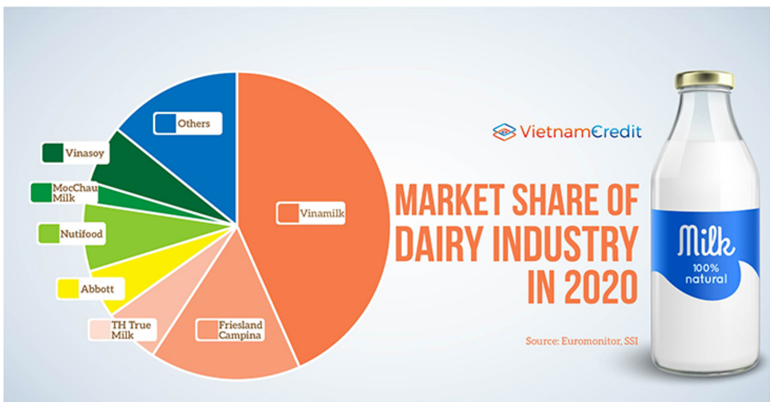
AFC VIETNAM FUND UPDATE

Vinamilk net profit (VND trln)



(Source: Vinamilk, AFC Research)

Vietnam dairy market share in 2020



(Source: Vietnam Credit)

But Vinamilk's share price performed poorly over the last four years against the index, because investors became frustrated with Vinamilk´s slowing earnings growth. Due to aggressive competition in the dairy industry, Vinamilk couldn't expand as rapidly as they wished. This is why Vinamilk's net profits were unable to grow over the past four years. Nevertheless, despite the serious impact of COVID-19 in 2021, the company was able to keep its net profit at the same level as the year before. Meanwhile, many small dairy companies are now on the verge of bankruptcy, or had to close down completely, which worked in favor of Vinamilk, given that they were able to capture some market share from them. Looking ahead, the expected 2022 government stimulus package of around USD 35bln - equivalent to around 10% of GDP - will certainly help to drive consumption and consumer companies such as for example Vinamilk should nicely benefit from it.

26 Years of 'Too Little, Too Late'?

Earlier this month, over a hundred world leaders managed to congregate in Glasgow at the 26th session of the Conference of the Parties (COP26) amidst a global pandemic and demonstrated the political will that has been massed to tackle the monumental task of curbing global warming.

This sense of urgency is well deserved: the first COP was held in 1995, while the COP21 Paris climate accord in 2015 laid down goals of limiting global warming, ideally to 1.5˚C above pre-industrial levels. With temperatures already having risen by 1.1˚C, COP26 is a much-needed acceleration of the pace of action – aiming to spawn increased international cooperation, more concrete measures to mitigate climate change, and coordination on climate messaging among other goals. However, objections from China and India toward the end of the conference led to the revision of a clause that called for the phase-out of coal to be rephrased as "phase down". Naturally, this development caused many to lament that things would continue to be 'too little, too late' for the foreseeable future. The fact that mere days after these talks the price of coal in the Central

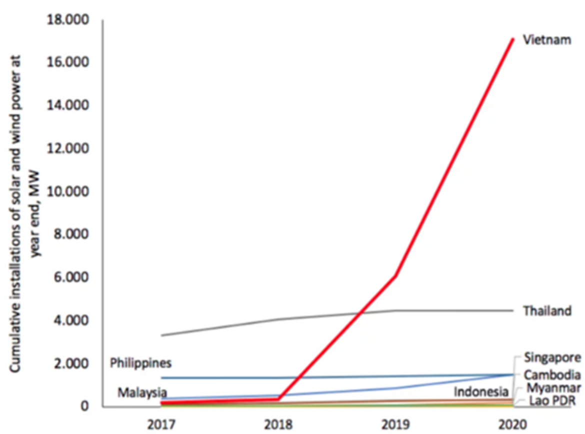
AFC VIETNAM FUND UPDATE

Appalachian region of the US (which acts as a benchmark for the eastern US thermal coal market) reached its highest price since 2009 also served as a stark reminder to the world of its unabating reliance on coal and other fossil fuels. Hopefully carbon markets can help lower the bill, attract investment in clean innovation in developing countries, and accelerate emission cuts. The agreement in Glasgow set the rules for trading emissions in bilateral deals and in an UN-supervised marketplace. Estimates place the value of this market to around USD 100 bln. Countries where it is difficult or too expensive to cut greenhouse gases can buy credits representing emissions reduction from nations that already lowered pollution more than they pledged.

<u>Vietnam's role in COP26</u>

Despite all the doom and gloom, one can clearly see the rapid progress that developing nations are making – especially Vietnam. Floods, rising sea levels and other extreme weather events are biting reality for too many in Vietnam, particularly in the South. In fact, the commercial capital Ho Chi Minh City itself regularly floods, causing untold damage to real estate and threatening to jeopardize plans to turn it into a regional financial center and smart city.

While Vietnam lacks the resources of developed nations, it is encouraging to see that Vietnam has taken on a leading role in Southeast Asia in the climate fight, recognizing that change starts at home. After all, Vietnam is currently the 9th largest coal consumer globally, but was among more than 40 countries that pledged to shift away from coal-fueled power generation and halt the construction of new plants - commitments that neither the US, China, nor India made. In terms of pace, coal consumption is to be reduced by 30% by 2030 and is to be phased-out completely by 2040, with gas and renewable energy sources taking on greater significance. Notably, Vietnam is not only far bolder than its peers of similar income per head in ASEAN, it is also committed to achieving net-zero carbon emissions by 2050, an entire decade ahead of its huge neighbour, China. Already today Vietnam has installed more wind and solar power than its ASEAN peers and aims to achieve wind and solar power capacity of between 31-38 gigawatts by 2030.



(Source: ASEAN Centre for Energy)

Prime Minister Pham Minh Chinh had called for fairness and justice in tackling climate change – considering cumulative historical emissions and uneven resource distribution, developed nations must share in the burden of adjusting to a fossil fuel free world. This reflects the principle of "common but differentiated responsibilities" first formalized in the Earth Summit in Rio de Janeiro of 1992. In this regard, COP26 delegates agreed to greatly increase financing for developing country Parties beyond USD 100 bln per year. Clean energy investments with foreign partners are also an important avenue to further these goals. Seeing the determination of the Vietnamese government to green the country's power generation, foreign companies are increasingly entering the market as they recognize the potential that lies in renewables, with a potential capacity of 311 gigawatts available in wind power alone. For one, Orstead, the Danish renewable energy developer, has recently announced two potential wind farm projects in Vietnam.

30th November 2021

AFC VIETNAM FUND UPDATE

Positioning the AFC Vietnam Fund for the green revolution – remember TV2?

When operating in a frontier market, foreign equity funds can also play an important, normative role in contributing to Vietnam's shift to a greener economy. As we navigate the early stages of ESG's overall development in Vietnam, we have an opportunity not only to spread awareness to companies that do not already have concrete ESG measures, but also to assist in laying down the rules of the investment landscape looking forward. There are several opportunities in green energy investments in Vietnam. Many remain undervalued despite their evident growth potential. *Power Engineering No 2 Consulting (TV2; we introduced the company in our June report)* is one such example of a position that we have selected to position ourselves for tailwinds in the renewables sector.

For a brief recap, TV2 is a successful green power consulting firm in Vietnam with net revenues and profits that have grown steadily over the past 10 years. Its significant human capital and R&D investments have borne fruit in that regard. Today, the company can boast of having significant design and consulting roles in hundreds of hydro, solar and wind power projects in Vietnam. Apart from the overall growth of the sector, TV2 is also an attractive choice of investment in that foreign investors armed with ESG mandates are sure to pile into the sector in years to come. Since our June update, TV2's market cap has already increased by nearly 50%. With the stock currently trading at a P/E of 9.3x and P/B of 2.3x, stocks in the renewables sector present ripe opportunities for investment that the AFC Vietnam Fund will be sure to be attuned to.

Economy

Macroeconomic Indicators				
	2018	2019	2020	Nov-21
GDP	7.08%	7.02%	7.30%	1.42%
Industrial production (YoY)	10.2%	8.9%	3.4%	3.6%
FDI disbursement (USD bln)	19.1	20.4	20.0	17.1
Exports (USD bln)	244.7	264.2	281.5	299.7
Imports (USD bln)	237.5	253.1	262.4	299.5
Trade balance (USD bln)	7.2	11.1	19.1	0.2
Retail sales (YoY)	11.70%	11.80%	2.60%	-8.70%
CPI (YoY)	3.54%	2.79%	3.23%	2.10%
VND	23,175	23,230	23,108	22,705
Credit growth (YoY)	13.9%	12.1%	10.5%	7.4%
Foreign reserves (USD bln)	60	73	92	94.8

(Source: GSO, VCB, State Bank, AFC Research)

Subscription

The next subscription deadline will be 24th December 2021. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

AFC VIETNAM FUND UPDATE

Estimated NAV as of 30th November 2021

NAV	3,615*
Since Inception	+261.5%*
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%	+0.82%	-3.35%	+1.98%	+1.18%	+1.63%	-1.89%	-2.34%	-1.59%	+2.31%	**+0.70%**
2020	**USD**	-1.41%	-3.93%	-18.44%	+12.72%	+4.28%	-0.28%	+0.78%	+8.65%	+6.02%	+0.72%	+6.91%	+12.77%	**+27.66%**
2021	**USD**	-1.89%	+9.49%	+5.84%	+1.58%	+6.37%	+8.37%	-1.30%	+8.47%	+3.80%	+4.47%	+2.4%*		**+58.3%***

***According to internal estimates**