31st December 2021

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

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The final month of the year was modestly positive with an index gain of +1.3%, and therefore the year ended with a strong gain of 35.7%. The Vietnamese Dong reversed most of its earlier weakness in December, and ended the year with a gain of 1.3% versus the USD. Despite recording the first Omicron cases and a higher number of infections in Hanoi, investors in Vietnam, like everywhere around the world, continued to see the stock market as the best place to invest with very few alternatives. After strong gains in previous months, we saw profit taking in a number of holdings in our portfolio. Combined with a slightly weaker Dong, we recorded a loss of -1.9% for the month, but ended the year with the highest yearly gain since inception of +55.3% (NAV USD 3,547, +254.7% since inception), according to internal estimates.

Market Developments

December saw a slight correction of the very positive overall 2021 performance. With lockdowns ending and people returning to work it might give some the impression that people have less time and interest in the stock market. Reality is of course that people simply take some profits towards the end of the year, or before the start of the Chinese New Year holidays, which will start on 1st February 2022.

(Source: Viet Capital Securities)

Why local investors increasingly contributed to a decoupling of the stock market in Vietnam from others in the region can be seen in the following chart. The number of newly opened stock trading accounts rose sharply in 2021 compared to 2020. One has to keep in mind, that while this is already currently a very supportive factor for the stock market, the investor base is still very low in Vietnam and 1.5 mln new stock trading accounts translates to an increase of 1.5% of the overall population owning stocks. At the moment, there are a total of over 4 mln stock trading accounts, accounting for only around 4% of the population, hence there is room for much more growth over the coming years.

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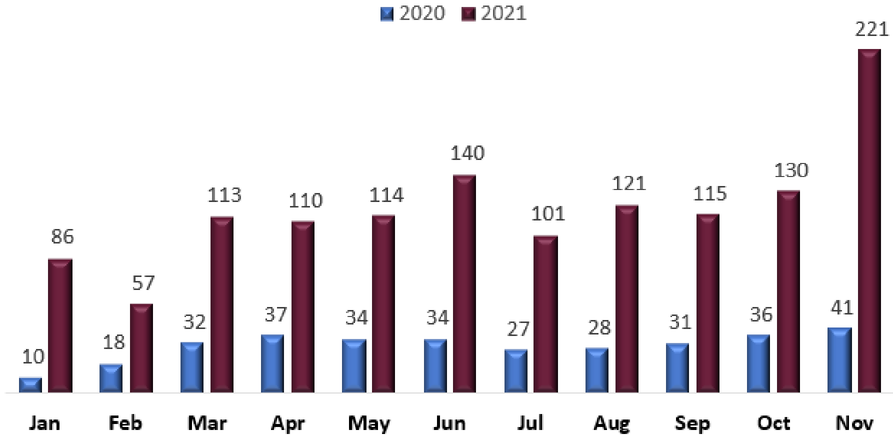
New stock trading accounts (in thousand)

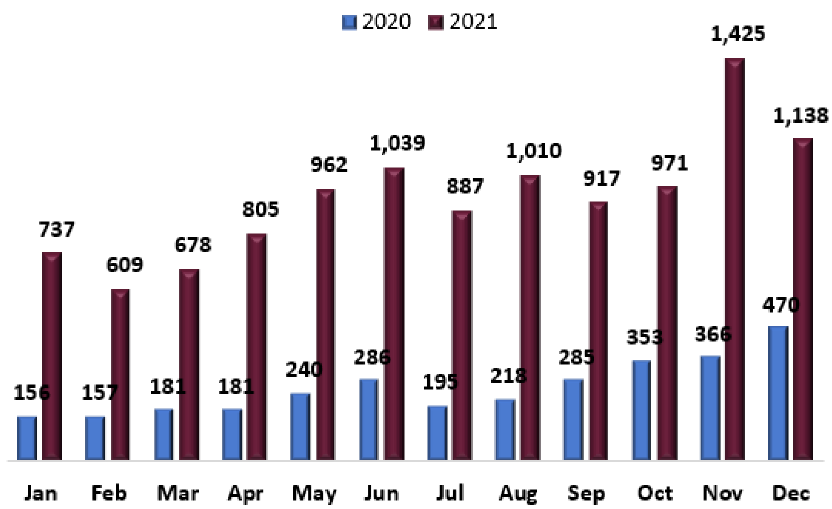


(Source: VSD, AFC Research)

Vietnamese law is very restrictive in regards to investment in overseas stock markets and to do international money transfers. This restriction combined with a modern, young, and growing middle class, looking to save and invest their growing wealth, leads to a logical money flow into all kinds of (local!) asset classes, including stocks. The best example for this weird situation is that local gold prices for 24 karat gold bars always have been significantly more expensive than the world market, and the current price for gold in Vietnam is around 23% higher than the “real” gold price. A good comparison is also the Chinese stock market, where local investors are trapped with their Renminbi´s, valuing one and the same company on the home market often much higher than their Hong Kong listed shares, like for example the new listing of China Mobile on the Shanghai Stock Exchange which trades at a premium of more than 50% over its Hong Kong listed shares.

With few alternatives, local Vietnamese investors are probably very thankful that foreigners consequently left the scene to locals in 2021, otherwise stock gains would have been even more dramatic. At the beginning of the year, we were very wrong, expecting that foreign investors would return to the buy side in 2021, but maybe we were just a bit early and we will see their return in the coming year. Since valuations are still attractive, especially given the circumstances described above, there is plenty of room for further gains, and as we always said – an undervalued market, as Vietnam has been for years, seldom stops at average valuations. It usually ends up in excess leading to extreme overvaluations. Did we already mention in this report, that our fund’s average P/E is currently still only at around 11x?

Average daily trading value on the Ho Chi Minh Stock Exchange (USD mln)



(Source: HSX, AFC Research)

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Compared to the same period last year, monthly trading value of Ho Chi Minh Stock Exchange jumped 2.65 times from USD 257 mln per day to USD 931 mln per day. Particularly, trading value surpassed USD 1 bln per day in November and December.

Nevertheless, 2021 was a stellar year in terms of performance for investors in Vietnam with a gain of 36%, a continuation of the bull market which started in 2016, and it overcame the worldwide COVID-19 related selloff in early 2020. The gains were underpinned by strong earnings despite business disruptions caused by the lockdowns in the third quarter, with 2022 forecast to show another surge in profits by 20% or even slightly above. With this performance, Vietnam not only outperformed almost every other important stock market, but also set the base for a prosperous 2022.

(Source: Bloomberg)

Investors in our AFC Vietnam Fund saw even a bigger gain of 55% which not only outperformed the index dramatically, but also shows – once again – why actively managed funds can be a wise choice over ETF´s, especially in markets like Vietnam.

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(Source: Bloomberg; AFC Vietnam Fund performance estimated)

The Vietnamese Dong, while correcting in December against the USD, finished the year practically flat and was one of the most stable currencies in the world, not only when compared to developing countries.

(Source: Bloomberg)

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Positive forecasts for 2022

As always at the end of the year, investors look ahead to the new year and are trying to get an idea of what 2022 could bring for them. Currently, and meanwhile one month into the new Omicron-fears, analysts are forecasting a further rebound in economic activity in Southeast Asia, with Vietnam being one of the fastest growing economy. While the new virus variant boasts some uncertainties in the short term and might bring a setback in the vaccination cycle, those risks are seen mostly as concerns in the short term and will likely not bring back the broad-based lockdowns we saw this year in Vietnam. Experts at the Asian Development Bank see a rebound in economic growth of 6.5% in Vietnam for 2022 after a lockdown-induced weakened growth of just 2.0% in 2021.

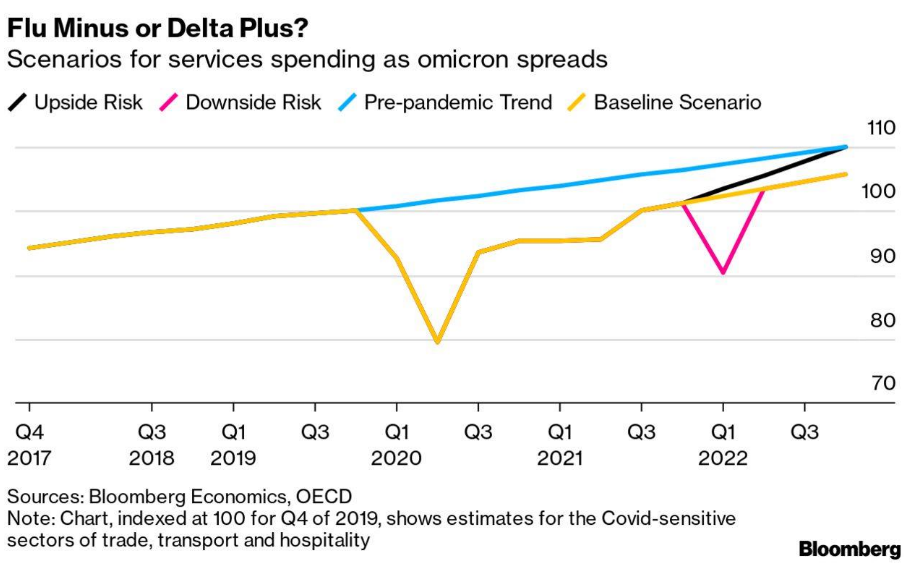
Omicron weighs on developing Asia's GDP growth outlook

(Forecast, in percent)

	2021		2022	
	Sept.	Dec.	Sept.	Dec.
Kazakhstan	3.4	3.7	3.7	3.9
Hong Kong	6.2	6.4	3.4	3.4
China	8.1	8.0	5.5	5.3
South Korea	4.0	4.0	3.1	3.1
Taiwan	6.2	6.2	3.0	3.0
India	10.0	9.7	7.5	7.5
Indonesia	3.5	3.5	4.8	5.0
Malaysia	4.7	3.8	6.1	5.9
Philippines	4.5	5.1	5.5	6.0
Singapore	6.5	6.9	4.1	4.1
Thailand	0.8	1.0	3.9	4.0
Vietnam	3.8	2.0	6.5	6.5
Developing Asia	7.1	7.0	5.4	5.3

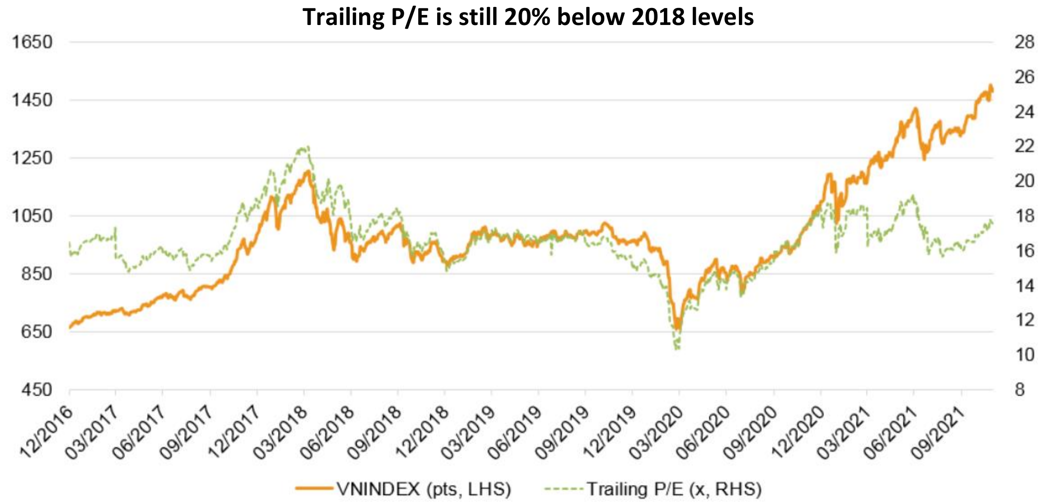
Months indicate timing of forecast
Source: Asian Development Bank

Omicron is seen mostly as a short-term risk



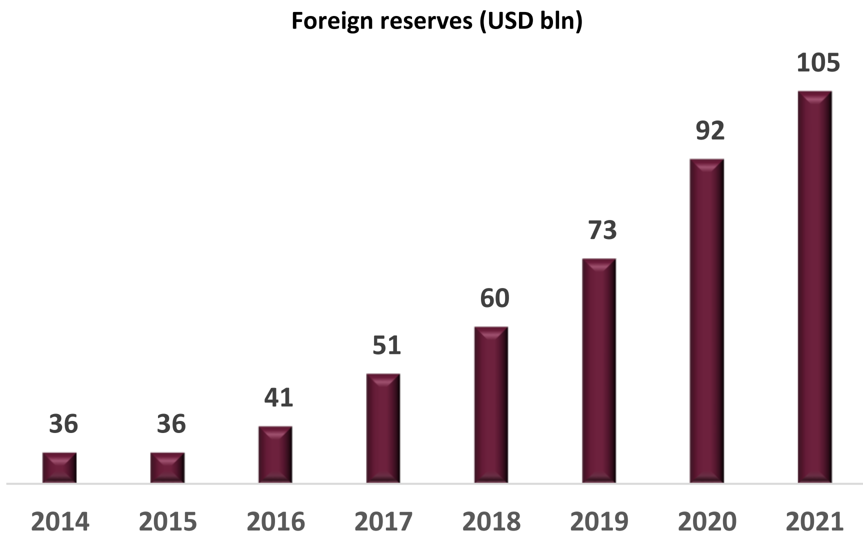
Macro data continue to look stable and positive

Our investment story in Vietnam was always based on the assumption that economic policies in Vietnam are stable, with low costs of production, a pro-investment-oriented government and a highly motivated and educated population, the financial markets will continue to develop. Eight years after launching our AFC Vietnam Fund, absolutely nothing has changed: long term economic growth continues to look stellar post-pandemic in comparison to other economies, diversification in production mainly out of China continues to provide further growth in foreign investments, and domestic growth will continue to grow after the brief COVID-19 related pause. Samsung alone, for example, has invested USD 17.7 bln over the past 24 years. The South Korean company achieved revenues of nearly USD 60.5 bln in the first ten months of 2021 with its eight manufacturing and research facilities in Vietnam. A stable currency, low inflation, a supportive balance of trade and payments, growing currency reserves - all data have continued improving since our start in 2013. Furthermore, the valuations in the stock market are still attractive with an expected 2022 P/E for the market of only 14.5x on expected earnings growth of around 20% in 2022 - our portfolio looks even more attractive with a completely undemanding expected 2022 P/E of just 8.8x.



(Source: Bloomberg, VNDS Research)

With another strong increase in Vietnam's foreign exchange reserves, which lowered its country risk substantially, government bond yields could trail around 3-4% in the coming years. These factors will also allow higher multiples for the stock market in the future. The improving foreign exchange reserves of Vietnam which are supported strongly by increasing FDI and a strong trade balance completely supports the Vietnamese Dong's stability.



(Source: GSO, AFC Research)

Strong export growth: Vietnam continues to be one of the most important manufacturing hubs in the world after China. The trade war between US and China has benefitted Vietnam substantially, with a surge of US buyers looking for new suppliers in

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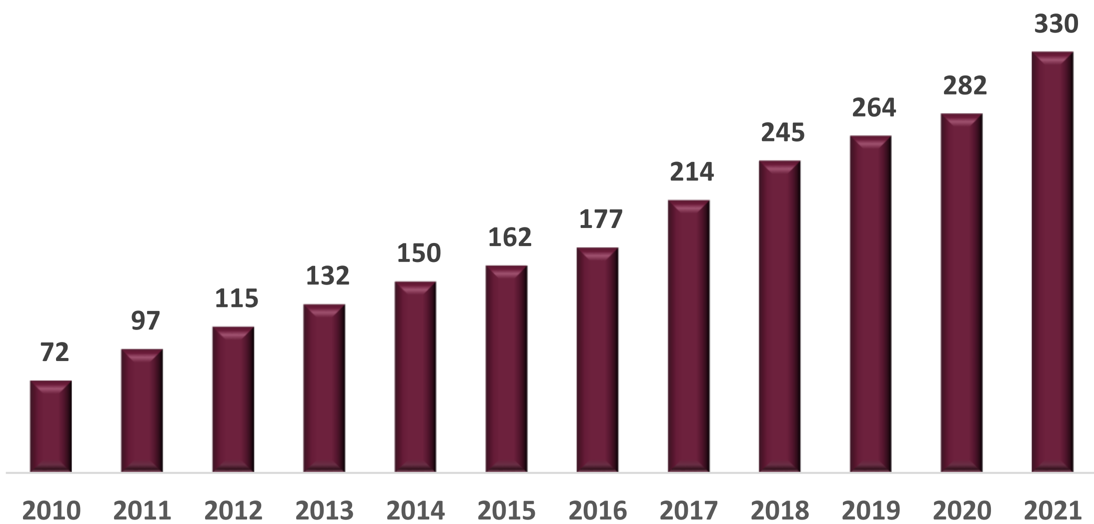
Vietnam. Regardless of the serious impact of COVID-19, export revenues of Vietnam showed an impressive growth of 19.4% to USD 336.3 bln, reaching a new all-time high. Vietnam is part of many significant free trade agreements such as for example CPTPP, EUVFTA, UKVFTA, RECEPT and over the last 10 years, export revenues have therefore increased by more than 4.5 times.

Vietnam export revenues (USD bln)



(Source: GSO, AFC Research)

The LEGO Group will invest more than USD 1 bln

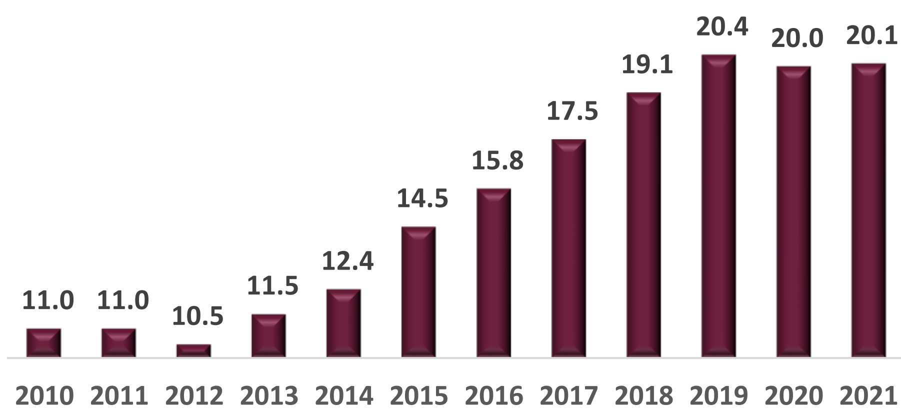
Another example of large international companies establishing a manufacturing hub in Vietnam, the Danish company Lego decided to build a new factory, creating up to 4,000 new jobs over the next 15 years in the province of Binh Duong, around 50km from Ho Chi Minh City, on a 44-hectare site. Construction is set to begin in the second half of 2022, and production is scheduled to start in 2024. This is the sixth LEGO factory to expand the group's global manufacturing footprint and support long-term growth in the Asia-Pacific region. The facility is planned to be the company's first carbon-neutral factory and will include investments in solar energy generation.

(Source: Lego System A/S)

Chief Operations Officer, Carsten Rasmussen said: "We are very grateful for the support of the Vietnamese government in helping us to achieve our ambition to build our first carbon-neutral factory. Their plans to invest in expanding renewable energy production infrastructure and a collaborative approach working with foreign companies who are seeking to make high-quality investments were among the factors in our decision to build here." The new factory will feature solar panels on its roof and VSIP (Vietnam - Singapore Industrial Park Joint Stock Company) will build a nearby solar project on behalf of The LEGO Group. Combined, these solar parks will produce enough renewable energy to match 100 per cent of the factory's annual energy requirements. It will be constructed with an aim to meet a minimum standard of LEED Gold (Leadership in Energy and Environmental Design), which covers all areas of sustainability including energy, water, and waste. The factory will be designed to accommodate electric vehicles and be outfitted with energy-efficient production equipment. The LEGO Group with VSIP will also plant 50,000 trees in Vietnam to compensate for vegetation removed during construction.

LEGO's billion USD project is one of the show cases to demonstrate the long-term belief of international investors in Vietnam. Since Vietnam had joined many free trade agreements with other countries, we saw a huge and strong investment flow from Asian countries such as South Korea, Japan, Taiwan, but also from the West such as Europe and the US.

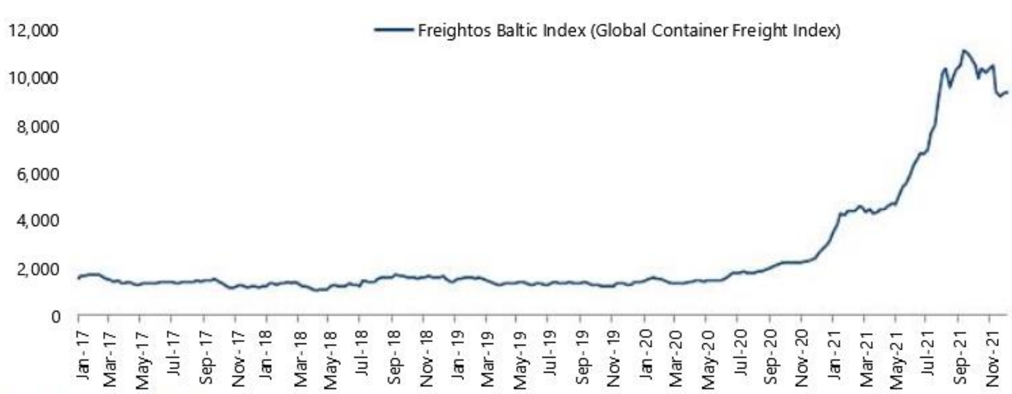
FDI disbursement into Vietnam (USD bln)



(Source: GSO, AFC Research)

Risks are seen in uneven growth in the region

Beside the always existing political noise from tensions with China about the South China Sea issue, along with others, growth in Asia in general has seldom been homogenous in the past. On one hand, China is the largest trading partner of Vietnam, and slower demand certainly has all kinds of effects on Vietnam's economy. Ongoing regulation of several industries in China results in lower demand and prices for certain raw materials and products which has both positive and negative impacts on Vietnam, from lowering inflationary pressures to lower exports and lower margins for some affected companies. On the other hand, easing bottlenecks in shipping is not only important for the world, but also for the export-oriented economy of Vietnam. Trade to the US alone increased 200 times from just USD 450 mln in 1995 to USD 90.8 bln in 2020, greatly benefiting people and businesses on both sides. A functioning shipment from Vietnamese produced goods is therefore essential.



(Source: Bloomberg, Freightos)

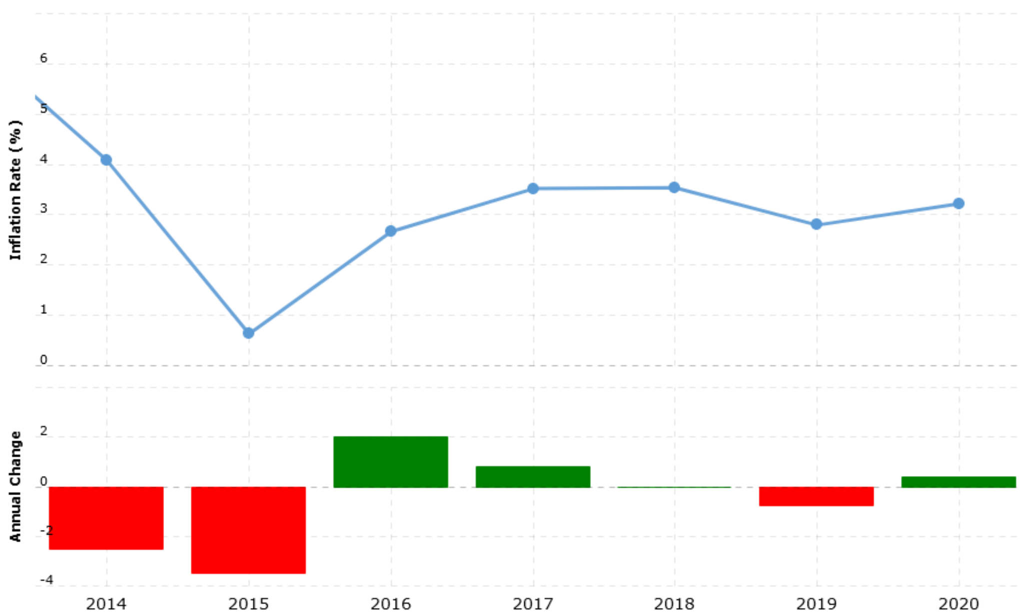
Both Vietnamese citizens and international investors are always taking a close look at the inflation risks in Vietnam. Historically a problem in most emerging markets, the government was very successful in controlling inflation "back home" over the past few years, but is of course aware that international developments in commodities, trade, or high inflation in major economies could also have an impact on the country.

US unit labor costs and core inflation

(Source: US Bureau of Labor Statistics)

Rising labor costs are running at 25-year highs along with the core inflation rate in the US. With interest rates at zero, the FED certainly has pressure to not wait too long to raise rates, keeping in mind that real interest rates which are already negative for years now, are currently deeply negative. The same can be said for Europe, although the pressure from the labor market is less severe, but absolutely noticeable recently. Countries like Vietnam on the other hand are meant to have rising wages (around 7-10% p.a.), as cost-advantages in low-wage countries are usually the main reason for companies investing there, but also ensure that wages and living standards in those countries are raised over time. It is therefore very encouraging to see how well the economic policies were able to keep growth and stability balanced, with the inflation rate expected to end 2021, lockdown-related, lower at just around 2%, and returning back to the previously seen levels of 3-3.5% in 2022.

Inflation rate in Vietnam 2014-2020



(Source: Worldbank, Macrotrends LLC)

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Economy

Macroeconomic Indicators				
	2018	**2019**	**2020**	**2021**
GDP	7.08%	7.02%	2.91%	2.58%
Industrial production (YoY)	10.2%	8.9%	3.4%	4.8%
FDI disbursement (USD bln)	19.1	20.4	20.0	19.7
Exports (USD bln)	244.7	264.2	281.5	336.3
Imports (USD bln)	237.5	253.1	262.4	332.3
Trade balance (USD bln)	7.2	11.1	19.1	4.0
Retail sales (YoY)	11.70%	11.80%	2.60%	-3.80%
CPI (YoY)	3.54%	2.79%	3.23%	1.89%
VND	23,175	23,230	23,108	22,782
Credit growth (YoY)	13.9%	12.1%	10.5%	13.0%
Foreign reserves (USD bln)	60	73	92	105

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

Subscription

The next subscription deadline will be 25th January 2022. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 31st December 2021

NAV	3,547*
Since Inception	+254.7%*
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	-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%	+2.42%	-1.9%*	**+55.3%***

***According to internal estimates**

The Fund has appointed ACOLIN Fund Services AG, succursale Genève, 6 Cours de Rive, 1204 Geneva, Switzerland, as its Swiss Representative. NPB Neue Privat Bank AG, Limmatquai 1, 8024 Zürich, Switzerland is the Swiss Paying Agent. In Switzerland shares shall be distributed exclusively to qualified investors. The fund offering documents, articles of association and audited financial statements can be obtained free of charge from the Representative. The place of performance with respect to [shares distributed in or from Switzerland is 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.