30th November 2022

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
CIO	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 VN Index continued its correction in November and by mid-month, the Vietnam Index lost almost -15%. This decline was still mainly driven by forced sellers due to margin calls, but it does look like that we saw the worst of this "wash out" in the second half of November when the market started to recover and closed the month at +2.1% and the small & mid cap indices closed down around -4 to -5% down! Also, the AFC Vietnam Fund went through this rollercoaster and our NAV managed to close the month in positive territory with +1.5% at USD 2,724, according to internal estimates.

Market Developments

The nerves of investors in the Vietnamese stock market were tested again in November with its continued decline in the first half of the month. On 16th November the VN Index hit a yearly low of 873.67, losing a staggering 50.4% in USD terms since the beginning of the year, despite healthy earnings growth of Vietnamese companies in 2022 of around 17% and a phenomenal GDP growth forecast for 2022 of around 8% and for 2023 of around 6%! This massive correction in the Vietnamese stock market was mainly due to disciplinary actions of the Vietnamese government, arresting high level stock and real estate manipulators and stopping real estate developers who were financing their business expansion by illegally issuing corporate bonds and selling them to local retail investors. This all happened at a time where geopolitical tensions were on the rise and hence ever-increasing global uncertainties of financial investors. These government actions have also created uncertainty followed by panic among local retail stock investors, who typically are highly leveraged. The sharp correction in the Vietnamese stock market started to trigger more and more margin calls with an ever-increasing number of Vietnamese retail investors turning into forced sellers. On top of that, with a frozen corporate bond market, many real estate companies ran into liquidity issues. Many of the outstanding corporate bonds issued by real estate developers were collateralised with their own stocks, and with a falling market this collateral had also to be sold, creating additional selling pressure.

We believe that these government actions created a lot of pain in the short term, but are very important and beneficial for the long-term development of the Vietnamese stock market. The Vietnamese authorities have of course also realised the turmoil which followed their disciplinary measures and have hence issued a list of actions to restore confidence in the financial markets. It very much looks like the forced selling is done and hence the VN Index was able to recover in the second half of November. If the Vietnamese stock market, as we expect, is now coming back to normality, there is a good chance that the currently depressed valuations will finally catch up with regional peers and hence we should see higher index levels soon. Also, when observing a longer dated chart, the VN Index is now trading at its technical support level.

VN Index – May 2000 to Nov. 2022

(Source: Viet Capital Securities)

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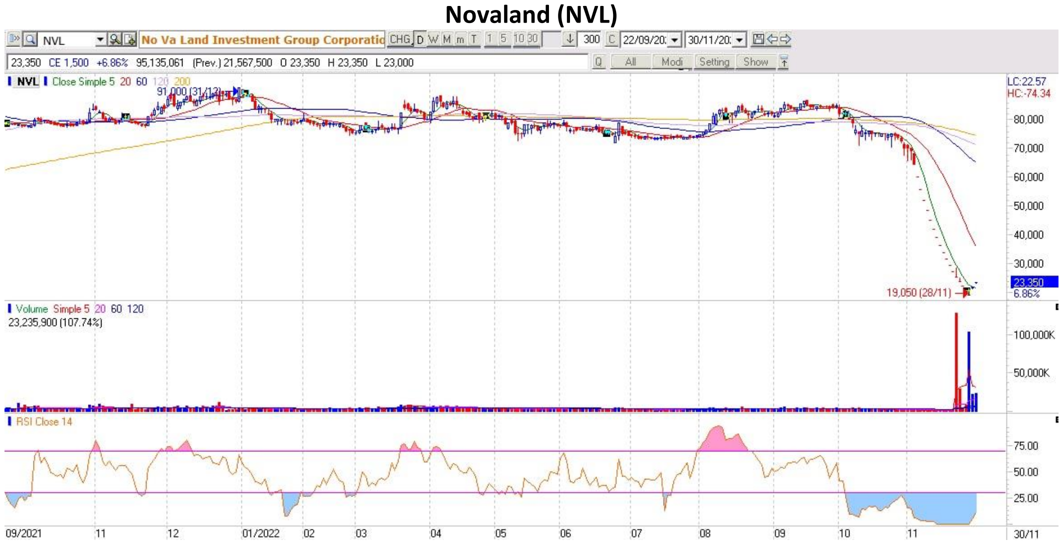
Foreigners took advantage of the margin call induced forced selling and bought Vietnamese shares aggressively for the first time this year.

(Source: stockbiz)

One of the larger real estate company which share price declined a lot over the past couple of months is Novaland (NVL). Many rumours circulated how severe NVL's liquidity issues were due to the frozen corporate bond market. This led local retail investors to dump their shares which triggered a liquidation of NVL shares which were used as collateral for some of their outstanding corporate bonds. All this created enormous selling pressure on NVL's stock price and in November alone more than 70% of its market cap was wiped out at the low, from USD 5.5 bn to USD 1.7 bn!

Novaland (NVL)



(Source: VCSC)

Only in the last couple of days has NVL's stock price started to stabilise, given the State Bank of Vietnam's effort to increase liquidity in the banking system in order to ease the liquidity crunch some of the real estate companies are currently facing.

Examples like NVL were creating a lot of panic among local retail investors and the mood in the social media, local newspapers and financial blogs quickly became overly pessimistic about the stock market and the economic outlook of Vietnam. We do understand that especially retail investors are incredibly scared in such an environment of falling stock prices. There are of course a few sectors, such as for example real estate, construction and construction materials which might face difficult times with increasing interest rates, but the reality is that the broad economy is on track and is firing on all cylinders. This becomes very visible when visiting commercial centres in Vietnam with many shoppers, or the busy restaurants, pubs and the crowded and vibrant streets in the various cities across the country with all its busy food stands.

Vincom Commercial Center

(Source: AFC Research)

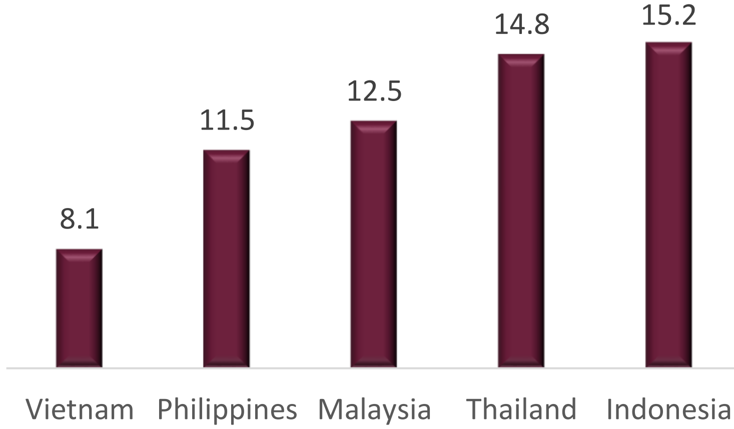
A restaurant in HCMC

(Source: AFC Research)

The Vietnamese Government is very determined to keep its economic growth story on track and hence the Government is very keen to keep its government debt in relation to GDP at a very low level of around 40%. But it also tries to keep inflation under control which currently stands at 3%, and it manages and monitors its currency and interest rates very carefully. The aim is to reach GDP growth of around 5.5% to 6% in 2023, which is slightly below recent forecasts by Fitch Solutions with 6.5% and World Bank with 6.7%.

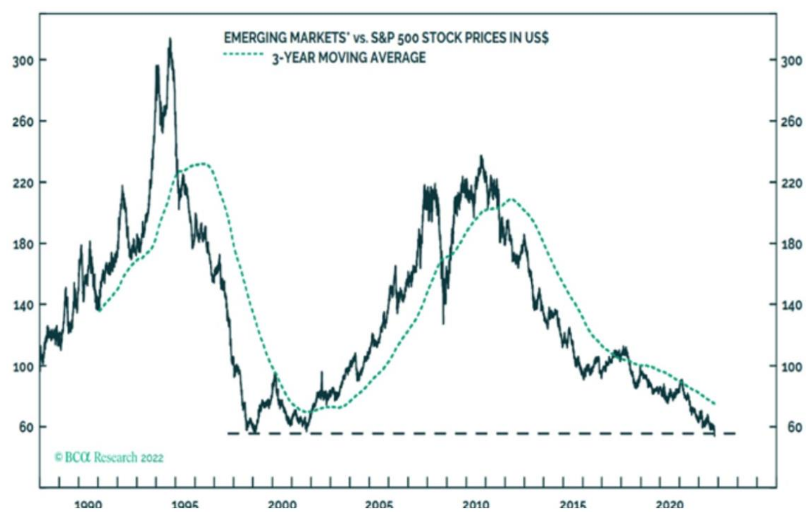
Vietnam is one of the fastest growing economies in the world with an expected GDP growth of around 8% for 2022 and around 6% for 2023. But the recent fall in the stock market brought down valuations to incredibly attractive levels with a forward 2023 P/E of 8.1x, which compares to the Philippines with 11.5x, Malaysia with 12.5x, Thailand with 14.8x and Indonesia with 15.2x. In our view, this creates **a great buying opportunity** for long-term value investors!

P/E 2023 by market (x)



(Source: Bloomberg)

It is also interesting to note that emerging markets compared to the S&P 500 are now trading at a 34 year low! That makes you wonder if all bad news for emerging markets have already been priced in at this stage and that the next 10 years to come might look brighter again?



Exports from Vietnam to the EU and US will most likely face some headwinds in 2023, given the risk that both, EU and US, will probably enter into a recession next year. But at the same time Vietnam will probably benefit from the current geopolitical tensions between US – China – Taiwan and the China's zero COVID policy, with an accelerated manufacturing shift from China into Vietnam. But also, the relatively new FTA between the European Union and Vietnam, which was signed on 30th June 2019, is expected to have a positive and growing impact on trade between the two parties.

If we look at exports in the first 10 months of 2022 from Vietnam to the EU, they showed an impressive growth of 14% yoy, regardless of record high inflation in Europe. Vietnam's export staples to the EU included machinery, equipment, and spare parts, footwear, computers, electronics, apparel, toys, sports equipment, seafood, and coffee, among others. But also, when you look at the first 10 months of 2022 export numbers from Vietnam to the US, they grew by 21.8% yoy and reached almost the same level as the full year export number of 2021.

It is difficult to forecast how long a possible recession in the US and Europe will last, before consumption will pick up again, but according to Fitch, they expect the US economy to enter into a recession - albeit relatively mild by historical standards.

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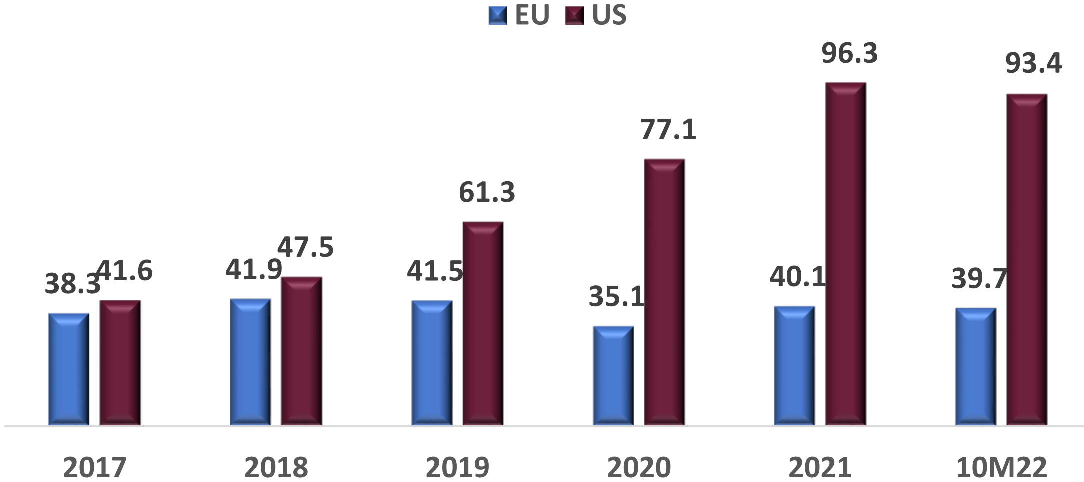
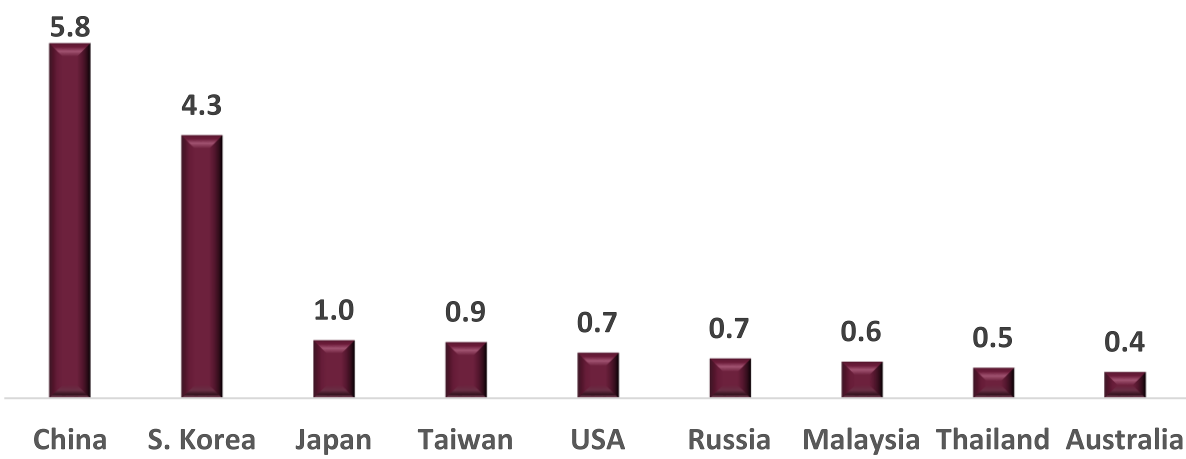
Exports from Vietnam to EU and USA



(Source: Bloomberg, GSO, AFC Research)

The tourism sector in Vietnam has gone through a very tough time during 2020 and 2021, with the absence of international tourist due to COVID lockdowns. Domestic tourism however picked up strongly in 2022, but the number of international tourists is still very low. Pre-COVID-19, China was the main contributor to Vietnam's tourist sector with an estimated revenue of USD 8bn (32% of total revenues) and 5.8 million tourists in 2019.

Vietnamese tourism by market in 2019 (mn visitors)



(Source: GSO, AFC Research)

As we have all seen in the news recently, China is still holding on to its zero COVID policy and hence it is difficult to forecast when Vietnam will again see rising tourist arrivals from China. But there was one piece of news which made us slightly optimistic that the situation might change soon, with the announcement of China Southern Airlines on 14th November 2022, that it will cancel pre-flight quarantine requirements for passengers on flights from Vietnam to China. Even though China has not yet removed all requirements but it might be the first sign that the situation is slowly changing. The impact on a potential easing of China's zero COVID policy would of course have a massive positive impact on Vietnam's tourist sector, and we are therefore monitoring the situation carefully.

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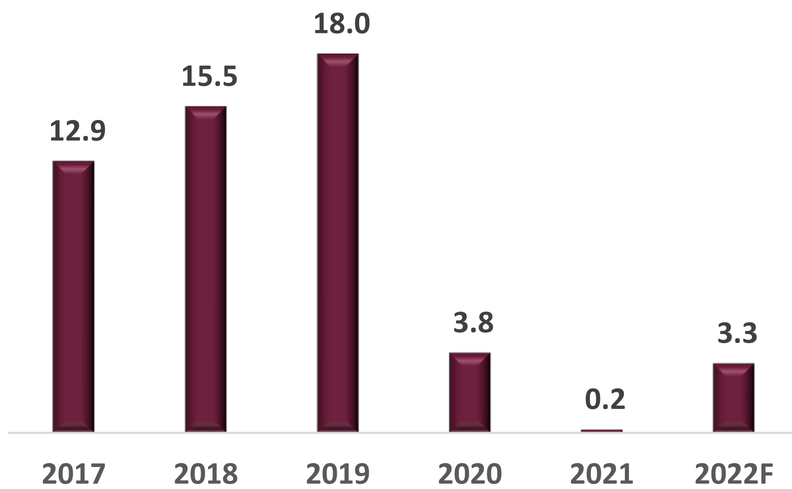
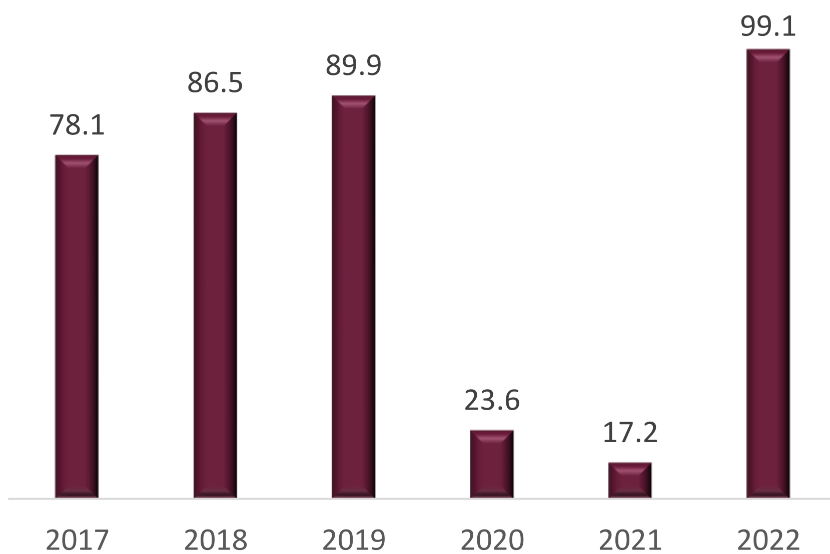
International tourist arrivals to Vietnam (mn)



(Source: GSO)

We are very optimistic about Vietnam's economic outlook, but we also think that there a few sectors which will face a lot of difficulties in 2023, such as for example real estate and other related sectors including construction and construction materials. A tightening monetary policy will lower property demand in the short term, regardless of a bright long-term economic outlook. We therefore have no exposure in the AFC Vietnam Fund in these sectors. We are still overweight the insurance sector given that insurance companies are cash rich and are a main beneficiary of rising interest rates. Besides the insurance sector, we also have exposure in the tourism sector, given that we expect a strong recovery in 2022 and 2023. One of our holdings in this sector is Dam Sen Water Park (DSN), which recently reported an impressive profit for the first 9 months of 2022 of VND 99.1bn (+582% yoy), which even surpassed pre-pandemic profit numbers!

Net profit of DSN in first 9M (VND bn)



(Source: DSN, AFC Research)

AFC VIETNAM FUND UPDATE

Economy

Macroeconomic Indicators				
	2019	**2020**	**2021**	**Nov-22**
GDP	7.02%	2.91%	2.58%	8.83%
Industrial production (YoY)	8.9%	3.4%	4.8%	8.6%
FDI disbursement (USD bln)	20.4	20.0	19.7	19.7
Exports (USD bln)	264.2	281.5	336.3	342.2
Imports (USD bln)	253.1	262.4	332.3	331.6
Trade balance (USD bln)	11.1	19.1	4.0	10.6
Retail sales (YoY)	11.80%	2.60%	-3.80%	20.50%
CPI (YoY)	2.79%	3.23%	1.89%	3.02%
VND	23,230	23,108	22,782	24,654
Credit growth (YoY)	12.1%	10.5%	13.0%	11.5%
Foreign reserves (USD bln)	73	92	105	90*

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

***According to internal estimates**

Disbursed foreign capital in Vietnam has increased in the first 11 months of 2022 by 15% to USD19.68 billion. This continues to underline the long-term foreign investment opportunities that Vietnam presents, and it continues to provide a bright spot in a relatively bleak international picture.

Subscription

The next subscription deadline will be 22nd December 2022. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

We take this opportunity to thank you for your support and wish you and your family a wonderful holiday season!

Best regards,

AFC Vietnam Fund

30th November 2022

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Estimated NAV as of 30th November 2022

NAV	2,724*
Since Inception	+172.4%*
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%	-1.69%	**+55.61%**
2022	**USD**	-2.51%	+1.92%	+5.99%	-5.82%	-5.85%	-3.73%	+2.50%	+1.76%	-10.01%	-10.53%	+1.5%*		**-23.4%***

***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.

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