31st August 2023

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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In August, according to internal estimates, the fund experienced a decrease of -3.6% to a Net Asset Value (NAV) of USD 3,292, according to internal estimates, which regrettably marked an underperformance compared to the index. Simultaneously, the VN-Index encountered a decline of 1.6% in USD terms (VND weakened by around 1.7% vs USD in August), closing the month at 1,224.05 points. It's essential to note that the index correction witnessed in August, subsequent to the robust surge in July, is essentially a normal technical signal, bearing no relevance to macroeconomic factors or enterprises' earnings.

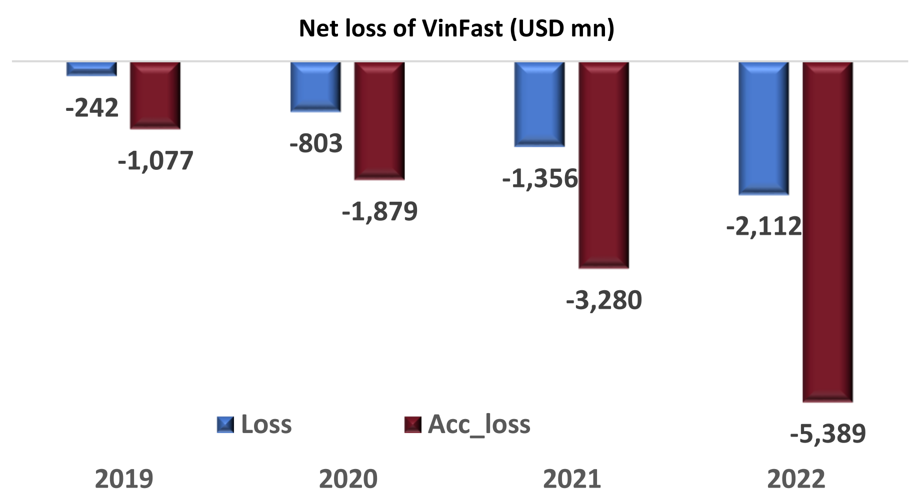
Market Developments

August's market dynamics were notably influenced by two significant factors, namely Vingroup's (VIC) stock performance and speculative activity surrounding real estate stocks.

VIC, a significant index influencer with an index weight of about 5%, surged by over 50% in mid-August, propelling the VN-Index higher by more than 2.5%. This surge was fueled by VinFast, Vingroup's electric vehicle subsidiary, which ventured into the U.S. stock market via a SPAC listing on 14th August. Despite VinFast's substantial historical losses, its valuation soared beyond USD 200 bn by 28th August, a remarkable feat.

This surge triggered heightened trading activity for VIC, driven by the belief among local retail investors that Vingroup's 51% ownership of VinFast would amplify VIC's market capitalization. Nevertheless, VIC's valuation, currently at approximately 44 times its earnings, is notably high. VinFast's role as a trailblazer in the electric vehicle sector doesn't erase its recurring annual losses, reaching USD 2.1 bn in 2022 and accumulating to an overall loss of USD 5.4 bn.

Interestingly, VinFast's stock journey experienced twists. Its rapid ascent was marked by a significant correction in the final trading days of August, with the stock price plummeting from a peak of USD 93 on 28th August to a closing price of USD 34.71 by end of August. Despite this correction, VinFast's market capitalization remains substantial at USD 80.6 billion, surpassing established automotive giants like Mercedes Benz, BMW, and Volkswagen in size.



(Source: VinFast, SEC)

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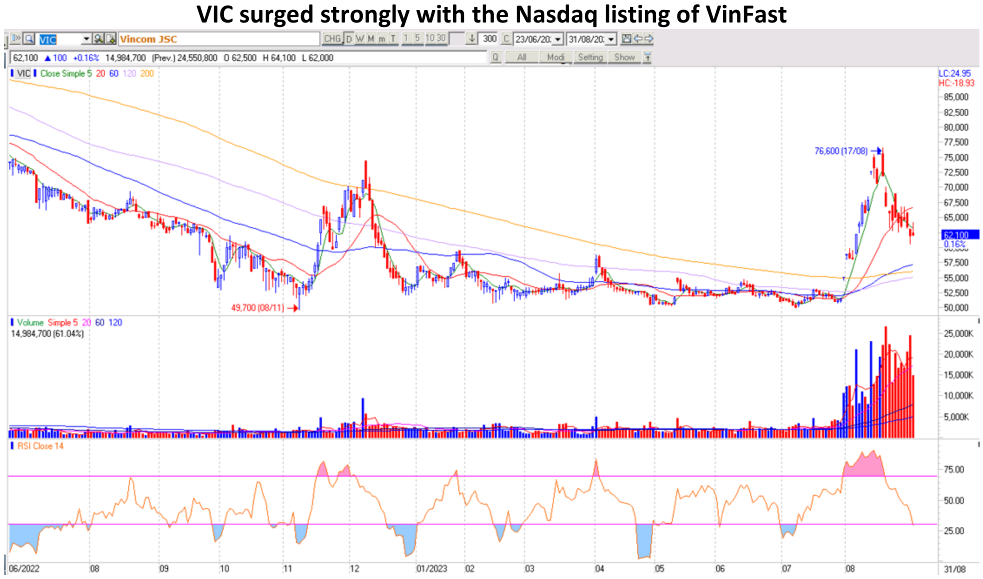
VIC surged strongly with the Nasdaq listing of VinFast



(VIC from June 2022 to Aug. 2023; Source: Vietcapital Securities)

VinFast stock performance on Nasdaq since its listing on 14th August 2023

(Source: yahoo finance)

A considerable portion of the VN-Index's outperformance can also be attributed to speculative activity surrounding real estate stocks. In August, retail investors, often influenced by media and social networks, poured substantial capital into speculative real estate stocks. The prevailing sentiment was rooted in the belief that decreasing interest rates would bolster the real estate sector. This surge affected several real estate stocks, even those grappling with substantial losses and default situations. A prime example is Novaland (NVL), Vietnam's second-largest real estate company, which skyrocketed by 38% in the last two months despite reporting substantial losses of more than VND 1,000 bn in 1H 2023 and which auditors had substantial doubts about as a going concern. This phenomenon extended to Phat Dat Group's PDR, a company unable to fulfill its bond obligations and operating with plummeting revenue. In the last two months, PDR's stock price soared by 48% despite dismal financials, leading to an inflated trailing P/E valuation of 69x. Unfortunately, such speculative trends within the sector persist despite fundamental challenges, with 55 gainers among the 65 real estate stocks listed in the same period, despite a corresponding decline in sector earnings.

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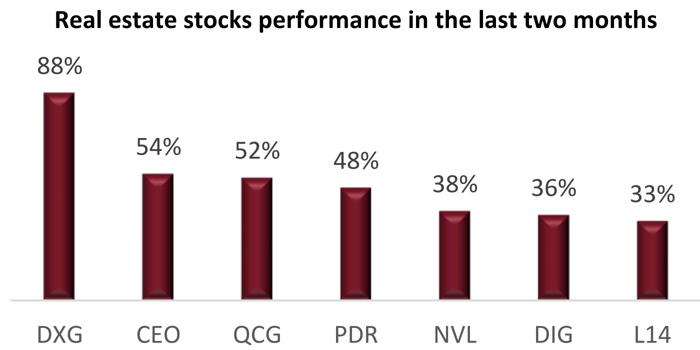
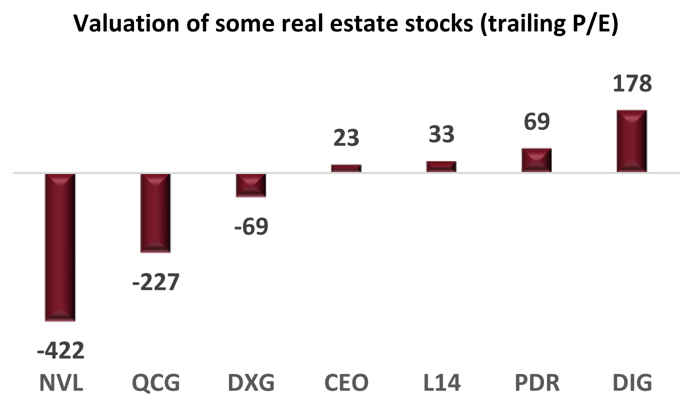


(Source: HOSE)



(Source: Vietstock, HOSE)

The outlook for the real estate sector remains uncertain, and a full recovery appears to be a matter of time, likely spanning around 2-3 years, despite the sector's recent buoyant stock market performance. The persistent high level of bad debts originating from the real estate sector within the banking system further underscores the existing challenges, with no definitive signs of recovery thus far.

This scenario of speculative surges triggering market volatility echoes our experience in the past, notably in 2018. During that period, local individual investors heavily allocated funds into overvalued index-heavy stocks, propelling a substantial surge in the VN Index. However, this was followed by a sharp index decline in 2019, illustrating the potential pitfalls of speculative trends.

While we acknowledge the potential continuation of this trend, we opt to avoid it, given our historical observations. Instead, we concentrate on investments in recovery sectors, such as export companies. Over the past quarters, we have noted a downturn in the export sector due to inflationary pressures in the U.S. and EU, impacting industries like furniture, seafood, and garments. However, signs of recovery emerged in Q2 2023, with August marking a narrowing decline in export revenues, reaching USD 32.4 bn, increasing 7.7% against July, reflecting a yoy decline of 7.6%, compared to 13% in H1 2023.

Additionally, the prospect of an upgraded strategic partnership between the U.S. and Vietnam, as hinted by a Reuters article on 19th August 2023, may significantly bolster Vietnamese economic growth in the coming decade. The existing comprehensive partnership between the two nations, signed a decade ago during President Obama's visit, has proven instrumental in driving Vietnam's exports to the US from USD 19.6 billion in 2012 to USD 109.3 billion in 2022.

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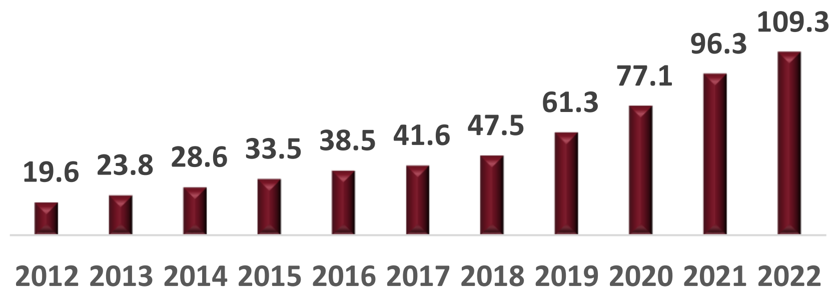
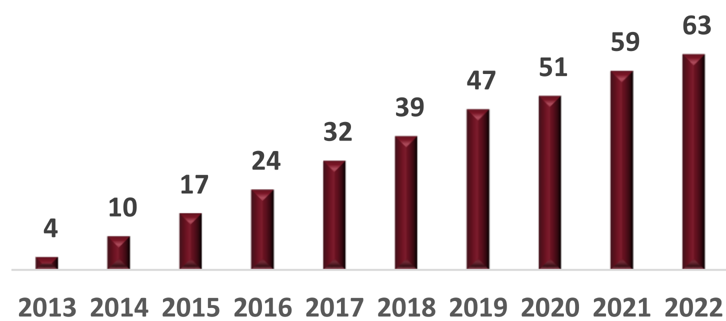
Export value to US (USD bn)



(Source: GSO, AFC Research)

Moreover, we anticipate a positive impact on foreign direct investment (FDI) from U.S. allies like South Korea and Japan. These nations, pivotal U.S. partners in the Asia-Pacific region, have heavily invested in Vietnam since the comprehensive partnership was established in 2013. Notably, South Korean investment has surpassed USD 60 billion through several large projects.

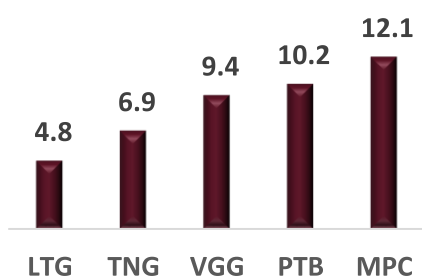
FDI from South Korea to Vietnam in the last 10 years (accumulated USD bn)



(Source: GSO, AFC Research)

Given these considerations, we have chosen to focus on export-oriented companies in our portfolio, including MPC, PTB, LTG, TNG, and VGG. Despite enduring challenges amid weak U.S. and EU consumption and consequent profit declines, we see the potential for recovery in the second half of 2023 and 2024. Furthermore, if the US-Vietnam partnership upgrade materializes, these companies' prospects over the next decade appear promising. Presently, these export firms are undervalued, trading at an average P/E ratio of 10.0x due to their substantial profit dips in H1 2023. As their profitability recovers, the valuation is anticipated to reduce to an appealing 5.0 - 6.0 times earnings, representing a compelling investment opportunity.

Valuation of exporters (PER, x)



(Source: Vietstock)

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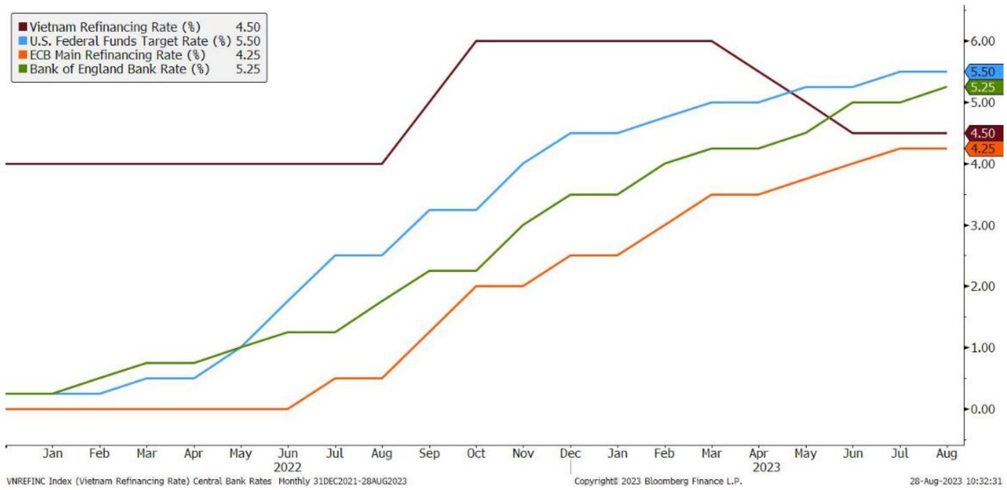
Emerging Economies Lead the Battle Against Inflation

In a notable departure from the U.S. Federal Reserve's aggressive interest rate hikes since March 2022, several emerging economies, such as for example Vietnam and China, have embarked on rate-cutting cycles to stimulate their economic growth. This trend reflects a broader global shift in monetary policy, as developing nations proactively tackle inflation rather than awaiting signals from the Fed, European Central Bank, or Bank of England.



What sets this cycle apart is its unprecedented breadth. Over the last two decades, instances of policy easing in select emerging economies while the Fed maintained a tightening stance have often resulted in positive outcomes for equities in these developing nations. This stands in contrast to the previous norm, wherein Fed policy largely dictated market dynamics.

The Federal Reserve's latest hike in July pushed the benchmark overnight interest rate to a range of 5.25%-5.50%, with the possibility of another increase in September. Yet, emerging economies have adopted a divergent strategy. Vietnam for example, has proactively reduced interest rates in response to diminishing inflationary pressures. It is interesting to note that emerging and frontier markets are increasingly navigating their economic trajectory independently of the more established central banks. The evolving landscape in emerging economies underscores the increasingly dynamic and interconnected nature of global financial markets.

Economy

Macroeconomic Indicators				
	2020	2021	2022	Aug-23
GDP	2.91%	2.58%	8.02%	3.32%
Industrial production (YoY)	3.4%	4.8%	7.7%	-0.4%
FDI disbursement (USD bln)	20	19.7	22.4	13.1
Exports (USD bln)	281.5	336.3	371.9	227.7
Imports (USD bln)	262.4	332.3	360.7	207.5
Trade balance (USD bln)	19.1	4.0	11.2	20.2
Retail sales (YoY)	2.60%	-3.80%	19.80%	10.00%
CPI (YoY)	3.23%	1.89%	3.15%	3.10%
VND	23,108	22,782	23,663	24,095
Credit growth (YoY)	10.5%	13.0%	12.9%	4.7%
Foreign reserves (USD bln)	92	105	90	96

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

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Subscription

The next subscription deadline will be 25th September 2023. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

NAV as of 31st August 2023

NAV	3,292*
Since Inception	+229.2%*
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%	+0.58%	-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%	+1.35%	+6.09%	**-18.84%**
2023	**USD**	+4.70%	-5.71%	+3.80%	+2.17%	+3.42%	+3.01%	+6.09%	-3.6%*					**+14.1%***

***According to internal estimates**