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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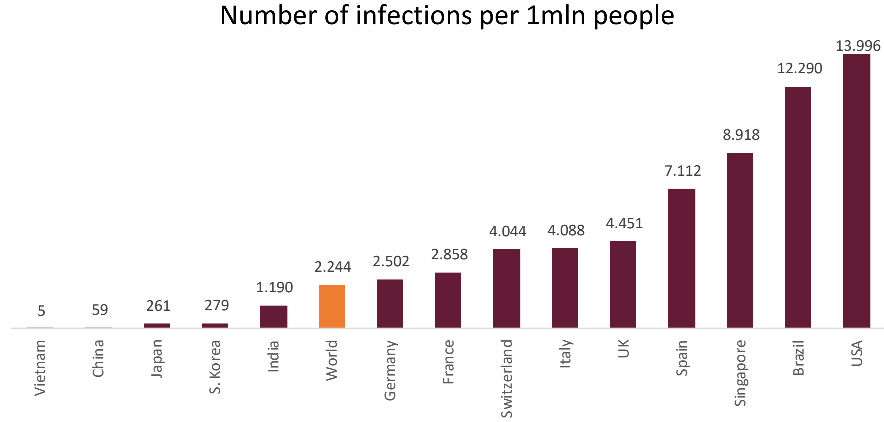
Very similar to June, the index rose around 6% at the beginning of the month, but moved into negative territory after COVID-19 returned to Vietnam on 24th July, thus ending 99 days of no community infections. Although total new infections remain very small compared to almost any other country, some parts of Vietnam saw renewed restrictions and social distancing campaigns. The indices in Ho Chi Minh City and Hanoi lost -3.2% and -2.0%, while small and mid-cap stocks were down around 5%. With better than the overall market's second quarter company results, our portfolio ended up with a gain of +0.5% (NAV USD 1,628), according to internal calculations.

Market Developments

If stock market movements are sometimes described as a rollercoaster, then this month can definitely be referred to as one. As of the first trading day in July, we saw strong buying interest on the Ho Chi Minh City Stock Exchange which pushed the market up to +6% mid-month. Followed by lower stock market turnover and correcting stock prices, pointing to an exhaustion of buying interest from local investors, this suddenly turned into outright panic selling on 24th July, when the first COVID-19 infection was registered in the central city of Danang after 99 days without any community infections nationwide. Compared to almost any other country, Vietnam still has very few infections but most people were already thinking that their country would stay "clean" forever.

While we have been expecting a stock market correction for some time, the trigger for this came – as is usually the case – in a totally unexpected manner.



(Source: www.worldometers.info, AFC Research)

The strong reaction from local investors on the stock market to the comparably low numbers of new infections is totally understandable as thoughts of COVID-19 had almost been eradicated from people's minds and Vietnamese people were proud to be from one of the few larger countries in the world winning the war over the virus. Therefore, the "jump" in the number of daily new infections from 0 to 56 on July 31st is seen as more meaningful than a rise in daily infections in Germany from 600 to 1,000 cases, not to speak of the US where a rise from 50,000 to 70,000 does not seem to bother too many people, especially not investors. The real risk from this current outbreak in Danang is to which extent the virus was spread now by travelers, who were mostly arriving by plane and then transported throughout the city in coaches, and who are now just returning back home to their provinces, with thousands currently tested and/or isolated.

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The next few days will probably show to what extent the virus was spread. Though, with the strict measures the government already implemented, infection rates should stay low and manageable. In fact, "low rates" could prove to be even better than "no rates" as the zero-infection rate almost forced the government to keep the borders completely closed, as happened after the successful containment in April. Under a scenario of "low rates", Vietnam would be able to restart their very important international tourism industry easier with other "low rate" countries.

With cash on hand and increased volatility, the timing of the announcements of second quarter earnings, which have started coming out over the past 14 days, is perfect for us. Remember, second quarter earnings were impacted by the lockdown in April, so we are able to see which companies were able to manage this situation better than others, in case we see a repeat of a nationwide lockdown. Government announcements from the past few weeks to accelerate economic activity will now be that much more important to implement, so our visibility for sector and company outlooks have actually improved over the past few weeks. Further domestic economic recovery will be interrupted or delayed at worst (as it had been in April), but for now we see no change for export-oriented companies.

We therefore concentrate our attention on the companies in our portfolio and their recent business developments. In fact, many of our top holdings showed good results in this difficult economic environment. Since we attribute great importance to a sound balance sheet and unlike most other funds, we avoid big concentrations in our portfolio, we are closely watching the current situation, but in a relaxed manner. To give an example, our top three positions which represent 17% of our total assets under management showed stable to positive results in the first half of 2020. Net profit for the three companies were +24%/+36%/-4% compared to 2019, and while they are not benefitting from the crisis, they are showing resilience to the economic disruptions most companies around the globe currently feel. All three companies are trading at very inexpensive levels, near their book value, and between just 4-7x earnings and have high dividend yields from 6-10%. Maybe even more important during these uncertain times is that none of these three has any net leverage and they continue to have good long-term growth prospects. Also, the other 7 companies in the top ten positions do not look much different, with no imminent risk to their business models. All we need now is some luck in timing to catch good companies at even more attractive prices with our healthy cash balance.

Index corrected around 50% of recent gains

(VN Index from Oct 2014 to July 2020; Source: Viet Capital Securities)

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Beer investment are as bitter as its flavor

Vietnam is one of the fastest growing beer markets in the world and therefore became a hunting ground for many international beer producers such as Heineken and Thai Beverage. Saigon Beer Corp, or Sabeco (SAB), is the largest brewery in Vietnam with a dominant market share of over 45%. Sabeco was originally a state-owned enterprise which was privatized in 2007 before it listed on the Ho Chi Minh City Stock Exchange in 2016. The initial listing price of SAB was VND 132,000 per share and the Vietnamese government sold 10.41% of the company. In 2017, when the Ministry of Industry and Trade announced that they would sell an additional stake of 53.59% in Sabeco through public auction, the stock price started rallying from around VND 180,000 to VND 335,000, sparking a rush into most publicly traded brewery stocks. At the time, Heineken and Thai Beverage were the two potential buyers of this stake, because both of them wanted to become the largest market player in one of the fastest growing beer markets in the world. However, according to Vietnamese securities law at this time, a foreign investor could only hold a maximum of 49% in SAB, making it difficult to control the company.

(Sabeco from Nov 2016 to July 2020; Source: Viet Capital Securities)

On the auction date, there were only two participants, Vietnam Brewery and one local individual investor. Vietnam Brewery succeeded in buying 53.59% of Sabeco and hence became the largest shareholder of SAB. It is likely many investors wondered who the real investor behind Vietnam Brewery was – in fact, it was Thai Beverage, which paid VND 320,000 per share for this acquisition. In order to avoid the FOL (foreign ownership limit) of 49%, Thai Beverage had set up a local company in Vietnam and used it as a vehicle to buy the 53.59% stake of Sabeco. After this vehicle (Vietnam Brewery) completed the acquisition, Thai Beverage simply took full control and hence became the largest beer brewer in Vietnam with a market share of more than 45%.

Following the acquisition, the stock price collapsed over 35% from VND 320,000 to below VND 200,000. But Thai Beverage started to restructure Sabeco with some success and in the third quarter of 2019, Sabeco reported strong growth of 23% in net profits which pushed the stock price up strongly. But in December 2019, the Vietnamese government announced a new zero tolerance drunk driving law with hefty fines of up to USD 1,800 and revocation of one's driver's license for 24 months. This new law had a negative impact on beer consumption as well as drinking pubs and restaurants which took a big hit.

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Since this new law on drunk driving, the stock price of Sabeco started to fall, a trend which has continued with the arrival of COVID-19. This storm of events had a severe impact on the company, with its net profits tumbling 50% in the first quarter of 2020 and Sabeco's stock price trading at VND 111,000 end of March 2020, around 70% off of its peak. At this level, Thai Beverage has lost around USD 3.5 bln on its investment in terms of valuation and there were many rumors that Thai Beverage was looking for a potential buyer for its stake in Sabeco. Although Vietnamese people will not stop drinking, the new law has certainly reduced beer consumption in Vietnam, at least for the time being.

The Manufacturing shift to Vietnam is continues

Through the end of July, FDI (foreign direct investments) stood at USD 10.1 bln, which is only 0.5 bln lower than in the period of 2019, despite COVID-19. This ongoing manufacturing shift into Vietnam, mostly from China, is helping to keep Vietnam's export growth positive.

(Source: GSO, AFC Research)

Export growth tumbled by -14.4% and -15.5% in April and May, but it recovered strongly in June to -1.9% yoy and grew to +0.3% in July 2020. In the first seven months of 2020, Vietnam reported a trade surplus of USD 6.5 bln.

Apple will produce millions of its popular AirPods wireless earphones in Vietnam for the first time in the third quarter of 2020, according to Nikkei Asian Review, in a sign that the company is accelerating its diversification of production out of China amid the coronavirus pandemic.

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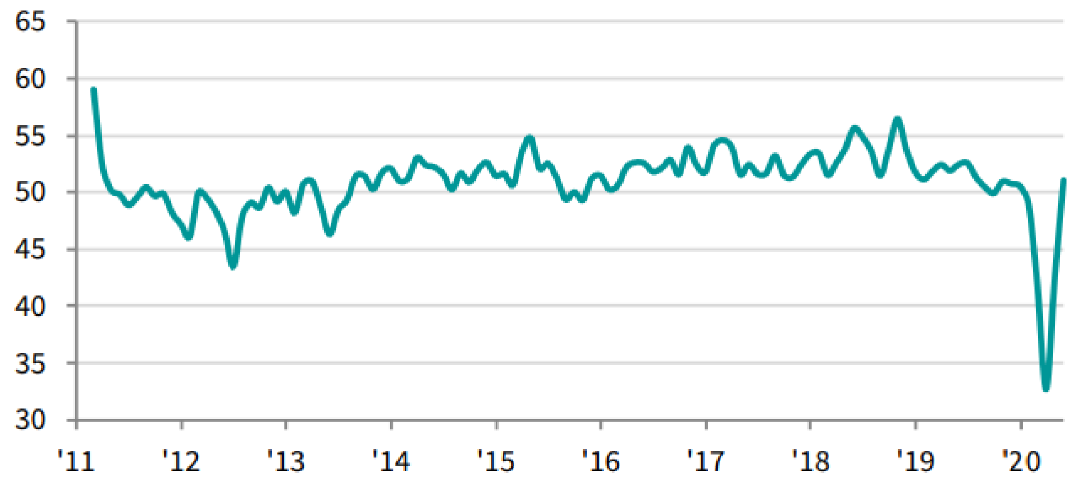
(Source: Nikkei Asian Review)

IHS Markit published a report about Vietnam showing the strong recovery of the Vietnamese Purchasing Managers' Index (PMI) from 42.7 in May to 51.1 in June. New orders increased for the first time in five months at a solid pace. Respondents indicated that the COVID-19 pandemic has been brought under control in Vietnam and had contributed to rising new business. Both the consumer and intermediate goods sectors posted expansions in new business.

PMI (%)



(Source: IHS Markit)

Also, the tourist sector started to grow again, mainly thanks to a huge propaganda campaign from the Vietnamese government in order to stimulate domestic tourism. According to the Aviation Department of Vietnam, the number of flights and passengers increased sharply by 21% and 27% in July. Domestic passenger growth in the aviation sector fell by only 8.6% year on year in July which is considered as good performance compared to other countries. To which extent the latest COVID-19 outbreak in Vietnam will have a bigger impact again on the aviation and tourism sector remains to be seen.

Passenger growth in the aviation sector (% yoy)

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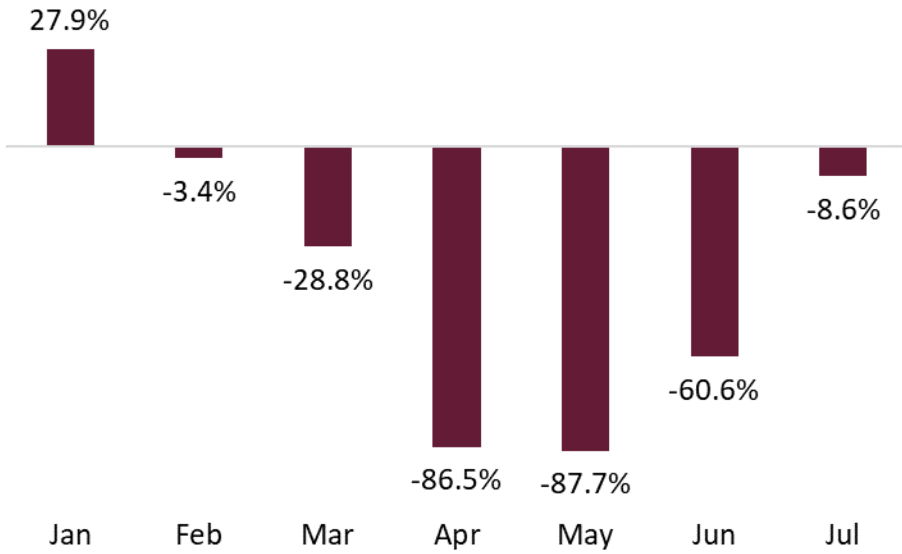

(Source: GSO, AFC Research)

Economy

Governments around the world have announced unprecedented fiscal stimulus packages in response to the COVID-19 pandemic which vary significantly across countries. Developed economies have announced more aggressive packages than developing economies which have been more cautious; for example, Japan is spending 42% of GDP, the US 14%, while ASEAN-5 on average only 5.9%, despite starting with a lower public debt/GDP ratio. Vietnam has announced a rather moderate fiscal package of around USD 12 bln, equivalent to 4.6% of 2019 nominal GDP, including tax and land rent deferrals (USD 8 bln), assistance for people affected by COVID-19 (USD 2 bln) and exemption and reduction of taxes and fees (USD 2 bln). With this plan, the total fiscal deficit could reach around USD 14 bln or 5% of 2020 estimated nominal GDP, which is around 1.5% higher than the original target and far off from any concerning levels in face of this global crisis.

Macroeconomic Indicators				
	2017	2018	2019	Jul-20
GDP	6.81%	7.08%	7.02%	1.81%
Industrial production (YoY)	9.4%	10.2%	8.9%	2.6%
FDI disbursement (USD bln)	17.5	19.1	20.4	10.1
Exports (USD bln)	213.8	244.7	264.2	145.8
Imports (USD bln)	211.1	237.5	253.1	139.3
Trade balance (USD bln)	2.7	7.2	11.1	6.5
Retail sales (YoY)	10.7%	11.7%	11.8%	-0.4%
CPI (YoY)	3.53%	3.54%	2.79%	4.07%
VND	22,755	23,175	23,230	23,180
Credit growth (YoY)	17.0%	13.9%	12.1%	3.3%
Foreign reserves (USD bln)	51	60	73	84

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

31st July 2020

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Subscription

The next subscription deadline will be 25th August 2020. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

Estimated NAV as of 31st July 2020

NAV	1,628*
Since Inception	+62.8%*
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%	+0.5%*						**-9.0%***

***According to internal calculations**

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.