

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

Contact Information

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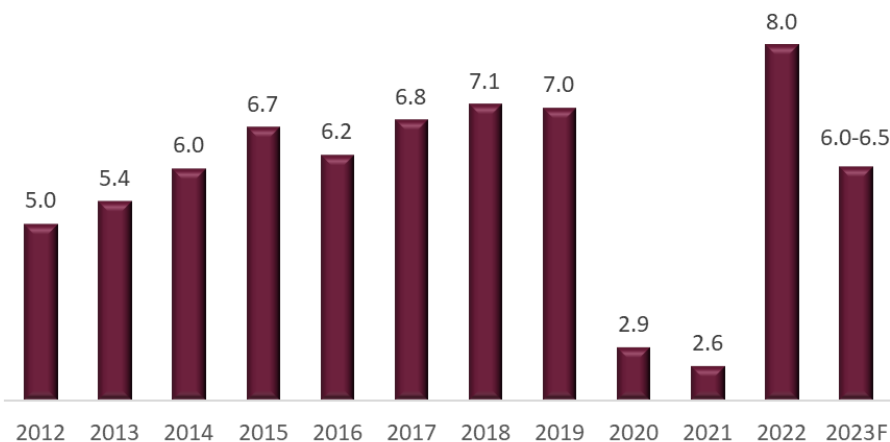
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The final month of the year was marginally positive with an index gain of +0.6% in USD terms, and therefore the year ended with a loss of -34.9% in USD terms. The Vietnamese Dong ended the year with a loss of -3.2% versus the USD, which compares favorably to most other currencies around the globe. Most of our portfolio holdings performed well this month and the NAV of the AFC Vietnam Fund rose by +6% in December, and ended the year with a loss of -19% (NAV USD 2,881, +188.1% since inception), according to internal estimates.

Market Developments

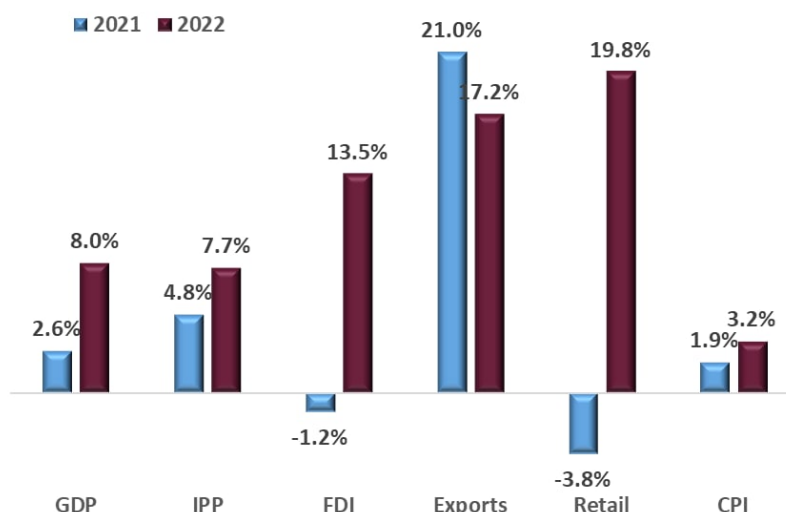
Vietnam's economy had just completed 2022 with an impressive GDP growth of 8.02%, a record high in more than 10 years. This is an amazing result compared to most countries in the world. Vietnam successfully overcame the challenges brought about by COVID-19 and fully reopened its economy. But besides an impressive GDP growth in 2022, we also saw great economic achievements in for example industrial production, foreign direct investments (FDI), retail sales, trade volume, etc.

GDP growth of Vietnam over the last ten years (%)



(Source: GSO, AFC Research)

Impressive economic achievement in all aspects (% yoy)



(Source: GSO, AFC Research)

AFC VIETNAM FUND UPDATE

Nevertheless, 2022 was a rather difficult year for investors around the world, and especially the Vietnamese stock market which experienced a massive selloff, mainly triggered by corruption investigations in the real estate sector and disciplinary measures in the financial market. With a falling stock market, overleveraged domestic retail investors got hurt most, with ever increasing margin calls from forced sellers. But it looks like the VN-Index reached its bottom mid-November and the stock market since then has started to recover strongly. These government measures were certainly hurtful in the short term, but are very important and beneficial for the long-term development of the Vietnamese stock market.

This sharp decline of the Vietnamese stock market in 2022, brought down valuations to a very attractive level, with a 2023 forward P/E ratio for the VN-Index of around 9.48x, according to Bloomberg. Current valuations are certainly very attractive in comparison to other markets around the region and in our view offer a great buying opportunity for long-term value investors!

2022 global stock markets comparison in USD



(Source: Bloomberg)

Unfortunately, investors in our AFC Vietnam Fund also lost money this year, albeit much less than the VN-Index or most other Vietnam funds, such as for example the VanEck Vietnam ETF.



(Source: Bloomberg; AFC Vietnam Fund performance estimated)

AFC VIETNAM FUND UPDATE

Also, the Vietnamese Dong went through a roller coaster ride but finished the year with a loss versus the USD of -3.2%, which compares relatively favorably to most other currencies globally.



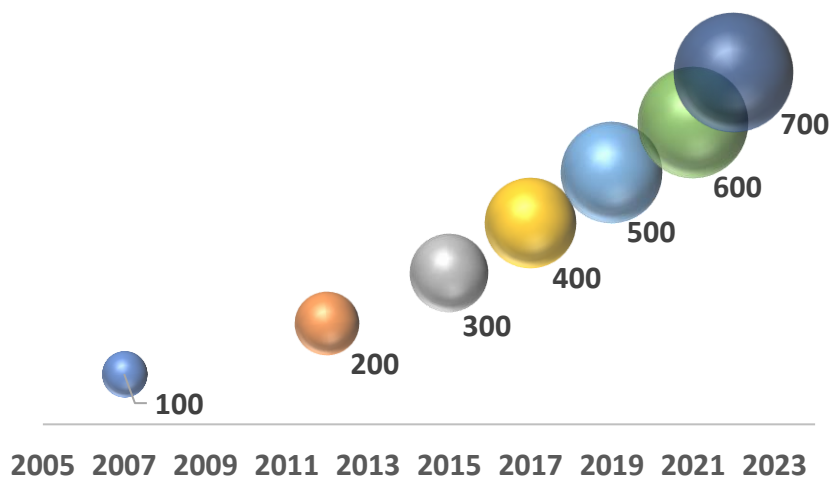
(Source: Bloomberg)

Positive forecasts for 2023

The growth of the Vietnamese economy is expected to slow down a little bit in 2023 to around 6% to 6.5%, which is still one of the highest GDP growth rates worldwide. This lower growth forecast for Vietnam is mainly due to possibly less consumption in Europe and the US, given that both might face a recession next year. But given that Vietnam is expected to be one of the main beneficiaries with current geopolitical tensions between the US – China – Taiwan, with an accelerated manufacturing shift from China into Vietnam and Vietnam’s huge public investment plan to support the economy, we believe that a 6% to 6.5% GDP growth target for Vietnam’s economy is very realistic.

Despite global political and economic uncertainties, Vietnam’s economy performed very well in 2022, especially in international trade with a total volume of over USD 700bn. Back in 2007, Vietnam’s trade value surpassed for the first time the USD 100bn threshold. It then took around 5 years to increase the trading volume by another USD 100bn, unlike in 2022, where in only 12 months the same increase in trading volume of USD 100bn was achieved.

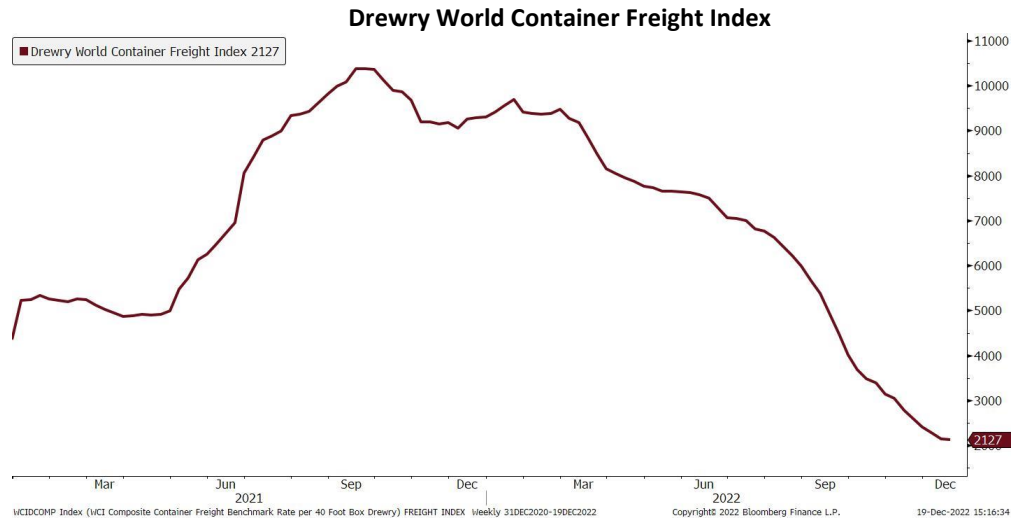
Vietnamese trade value (USD bn)



(Source: GSO, AFC Research)

AFC VIETNAM FUND UPDATE

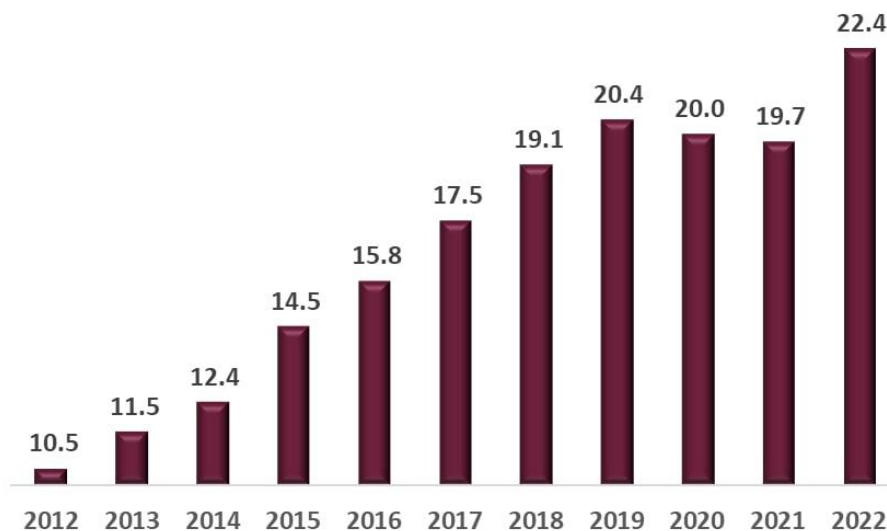
The economic situation in the EU and US is expected to weaken in 2023, which will have a negative impact on Vietnam's export volume, which have already started to decline since Q3/2022. Despite this harsher trade environment, we expect that Vietnam will manage to achieve its GDP growth target of around 6% to 6.5%. One beneficial factor for Vietnam's economy are the much lower freight costs in comparison to 1 year ago. The Drewry's composite World Container Index decreased by almost 80% to USD 2'127 per 40ft container since the peak in September 2021. It is expected that freight cost will remain low in 2023, which will help exporters in Vietnam to reduce their selling prices to customers in order to keep up the demand.



(Source: Bloomberg)

Besides exports, Vietnam's domestic consumption is gaining rapidly in importance, with one of the fastest growing middle-class in the world. With a population of almost 100 million people, the size of middle-class Vietnamese households is expected to double in the next decade to around 70% of its population, significantly increasing the average purchasing power for goods and services. But also, foreign direct investments (FDI) are a key factor to Vietnam's economic success story. Vietnam managed to attract important amounts of foreign direct investments since the economic reform "Doi Moi" back in 1986. Since then, FDI into Vietnam has increased gradually and plays a very important role in Vietnam's economic growth story.

FDI disbursement into Vietnam (USD bn)



(Source: GSO, AFC research)

AFC VIETNAM FUND UPDATE

One great example of a foreign company investing in Vietnam is certainly Samsung Electronics. The company just announced that they will raise their total investment in the country from USD 18 bn to USD 20 bn. Samsung's Chairman, Lee Jae-yong, visited Vietnam in December to join the grand opening of their largest R&D Center in South East Asia. The center will be in charge of R&D for Samsung's mobile devices, including smartphones and tablets, as well as software and hardware products and is expected to hire about 2,000 workers in Vietnam.

Grand opening of Samsung R&D Center



(Source: Cafef)

Great opportunity for long term investors

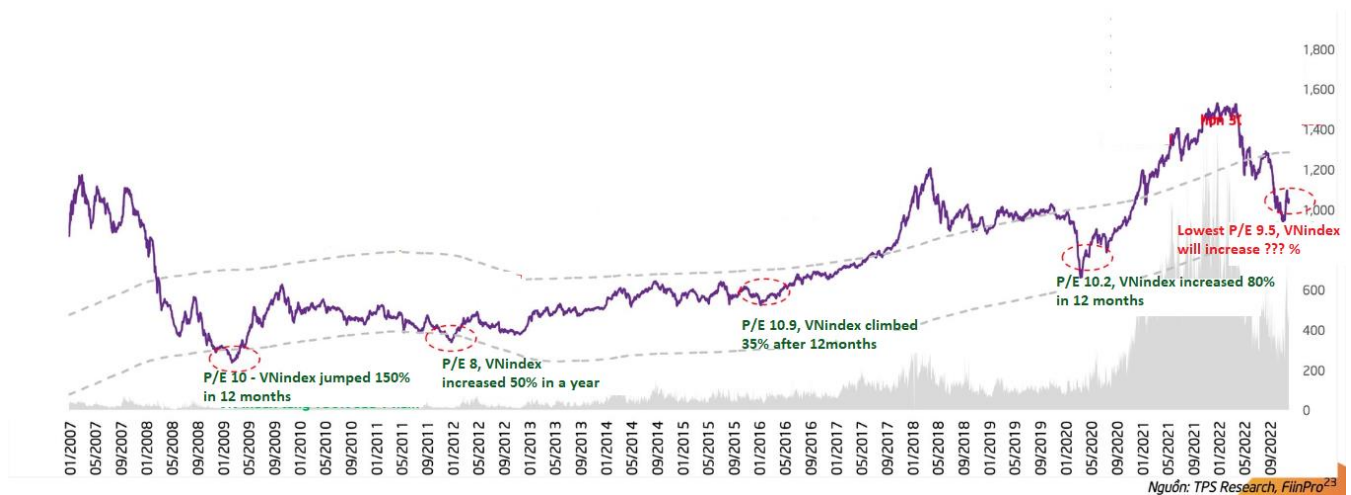
Although the economy has performed very well in 2022, the Vietnamese benchmark dropped by -34.9% in USD terms. As mentioned, this fall has mainly to do with government investigations and interventions and has nothing to do with the economic performance of Vietnam. But it did bring down valuations to very attractive levels and the trailing P/E ratio for the VN-Index is now trading at 10.3x. There were only 4 times the P/E ratio of the market was trading at around 10x since 2007. And each time the index performed very well in the following 12 months by a range between 35% to 150%.

No	Year	PER	Upside in next 12m (%)
1	2009	10.0	150%
2	2012	8.0	50%
3	2016	10.9	35%
4	2020	10.2	80%

(Source: HOSE, AFC Research)

AFC VIETNAM FUND UPDATE

VN-Index (2007 to 2022)

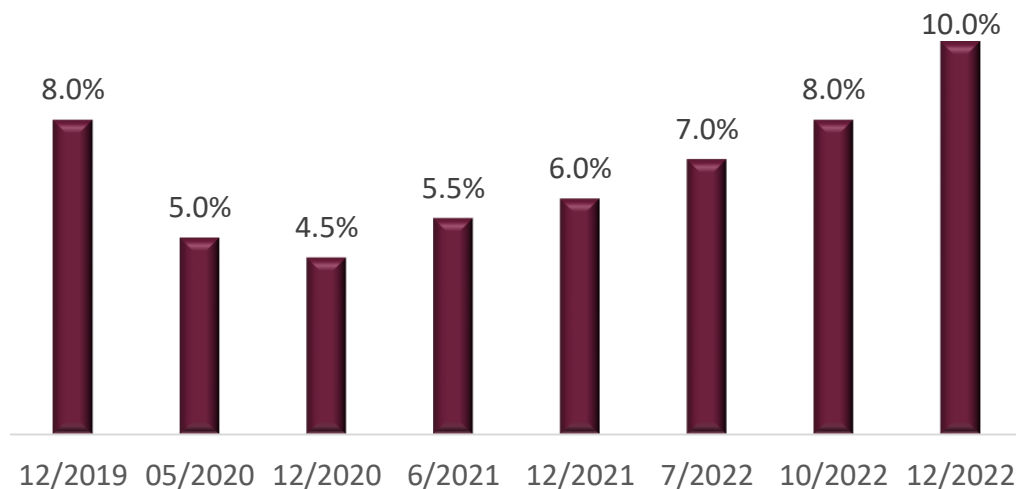


(Source: Tien Phong Securities)

We do think this time around it won't be any different than the past 4 occasions when the VN-Index was trading at these trailing P/E ratios and hence we are quite optimistic for next year.

In the second half of 2022, the Vietnamese government became much stricter allowing companies to issue corporate bonds and selling them to retail investors. These new restrictions created a liquidity crunch for many companies, especially in the real estate sector and they had to find alternative means to finance their business expansion, such as for example bank loans. Consequently, banks had to raise their deposit interest rate to attract more capital inflow from depositors in order to fund their loan business, and hence interest rates went up substantially. Towards the end of 2022, 12-month fixed term deposit rates increased to around 10%, levels we haven't seen for over 5 years.

Deposit interest rate for 12M term (%)



(Source: banks, AFC Research)

The impact of higher interest rates is especially hard for real estate companies. Real estate buyers became much more cautious in buying now houses or land, given that mortgages are less affordable. Hence, sales volume for real estate tumbled dramatically and on top of this, real estate companies are also struggling to pay back their outstanding corporate bonds of around USD 5.6bn which are maturing in 2023. These companies therefore have to dispose some of their assets at dumping prices, which impacted their stock prices severely, with some real estate shares losing up to 90% of their value this year.

AFC VIETNAM FUND UPDATE

Real estate stocks plunged

Property Woes

Vietnam's property stocks have tanked amid an industry probe



The Vietnamese government however recently intervened in the market and issued a new regulation which allow enterprises to restructure and extend the maturity of their outstanding corporate bonds. The government also increased the credit quota for banks in Vietnam und raised the credit growth from 12% to 14% in 2022 and we expect it to be at the same level for 2023. This should help to ease the pressure on some of these companies a little bit.

Tet holiday

The Vietnamese New Year is also called Tet. It falls on 22nd January in 2023. Vietnamese people enjoy a 6-day national public holiday from 21st January (Tet Eve) to 26th January 2023. The Vietnamese New Year is the most important festival of the year in Vietnam, celebrating love, the start of spring, and the best of hopes for the new year. It is observed on the first day of the first month of the Vietnamese Lunar Calendar and ranges between late January and mid-February on the Gregorian calendar. Many people prepare for Tet by cooking special holiday food and cleaning their houses. There are a lot of customs practiced during Tet such as visiting a person's house on the first day of the new year (xông nhà), ancestral worship, wishing New Year's greetings, giving lucky money to children and elderly people and opening a shop. Tet is also an occasion for pilgrims and family reunions. During Tet, Vietnamese visit their relatives and temples, forgetting the troubles of the past year and hoping for a better upcoming year. In Vietnam there are three regions, the north, the central and the south. In different region, they have different culture from food to other customs. For example, Vietnamese people will prepare food for ancestors and pray for better things. If we look at the way they prepare the food, we also see a different styles between the north and the south.

Food for ancestors during TET



(Source: AFC Research)

AFC VIETNAM FUND UPDATE

Normally the people in the south prepare a much simpler menu than the north. And in the north, Chung Cake (Bánh Chung) is a MUST but in the south, Tet cake (Bánh Tét) is an important dish even though both Chung and Tet cake are cooked with same recipe and method. The only difference between them is the shape. Chung Cake has a square shape which represents for the sun and Tet Cake has a round shape which represents for the moon.



(Source: AFC Research)

If northern people enjoy Chung Cake with cabbage pickles, the southern people will eat Tet cake with beansprout and carrot pickles. They fit each other perfectly. If you have chance to visit Vietnam during Tet holidays, please don't miss out to try some of the festive dishes.

Economy

Macroeconomic Indicators				
	2019	2020	2021	2022
GDP	7.02%	2.91%	2.58%	8.02%
Industrial production (YoY)	8.9%	3.4%	4.8%	7.7%
FDI disbursement (USD bln)	20.4	20.0	19.7	22.4
Exports (USD bln)	264.2	281.5	336.3	371.9
Imports (USD bln)	253.1	262.4	332.3	360.7
Trade balance (USD bln)	11.1	19.1	4.0	11.2
Retail sales (YoY)	11.80%	2.60%	-3.80%	19.80%
CPI (YoY)	2.79%	3.23%	1.89%	3.15%
VND	23,230	23,108	22,782	23,580
Credit growth (YoY)	12.1%	10.5%	13.0%	12.9%
Foreign reserves (USD bln)	73	92	105	90*

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

*According to internal estimates

The GDP growth of 8.02% was most impressive this year with the services sector as the main driver of the growth in the economy, growing 8.12% YoY in Q4 and 10.0% YoY in 2022, contributing 56.7% to overall GDP growth in 2022. Within the services sector, accommodation & catering services (Q4: +37.62% YoY; 2022: +40.6% YoY), transportation & logistics (Q4: +6.9%; 2022: +11.9%) and wholesale & retail sales (Q4: +6.8%; 2022: +10.2%) were the top gainers.

AFC VIETNAM FUND UPDATE

However, the industry & construction sector's growth decelerated to 4.2% YoY in Q4, in which the manufacturing sub-sector grew only 2.98% YoY, which was the lowest Q4 growth since 2011. Nevertheless, the industry & construction sector increased 7.8% YoY in 2022, contributing 38.2% to overall GDP growth, in which the manufacturing sector grew 8.1%.

Meanwhile, the agriculture, forestry & fishery sector increased 3.85% in Q4 and 3.36% in 2022, which is the highest level over the past four years, contributing 5.1% to overall growth.

Subscription

The next subscription deadline will be 25th January 2023. 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 wishing you all a very healthy, happy and prosperous New Year!

Best regards,

AFC Vietnam Fund

NAV as of 31st December 2022

NAV	2,881*
Since Inception	+188.1%*
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%	+6.0%*	-19.0%*

*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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