

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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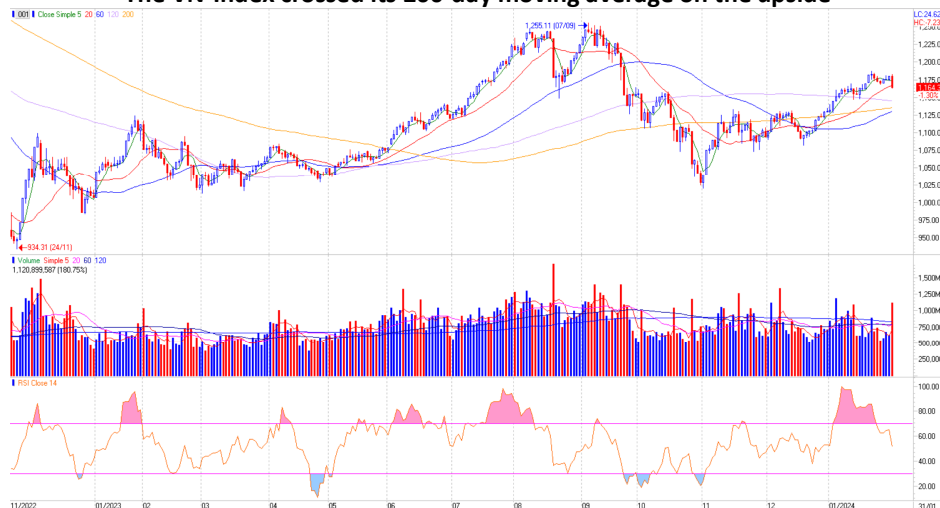
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The VN-Index continued its solid recovery in January, climbing 2.3% in USD terms to 1,164.3 points, driven mainly by the strong performance of the banking sector, while the remaining sectors were unchanged. Meanwhile, the AFC Vietnam Fund closed the month at -2.3%, with a Net Asset Value (NAV) of USD 3,072, according to our internal estimates. The fund's underperformance is attributed primarily to its strategic decision not to include banks in its portfolio. Additionally, the Vietnamese Dong (VND) depreciated against the USD by 0.75% in January, further impacting the fund's performance.

Market Developments

In January, the VN-Index experienced a significant surge primarily driven by the banking sector, which holds a substantial weight of nearly 40% in the index. Key players in the banking industry, including VCB, CTG, BID, TCB, and ACB, recorded notable increases ranging from 7-12%.

The VN-Index crossed its 200-day moving average on the upside



(Source: Vietcap)

AFC Vietnam Fund has strategically excluded banks from its portfolio due to perceived risks within the banking and real estate sectors, particularly anticipating challenges in the banking sector over the next 2-3 years. The decision is rooted in observations of the consequences of the late 2022 real estate crisis. During this period, numerous banks had to aggressively increase deposit interest rates to stave off a liquidity crunch. The State Bank of Vietnam (SBV) therefore intervened in the second half of 2023 to ease interest rates. The SBV also issued a new regulation (Circular 02/2023/TT-NHNN), permitting commercial banks to maintain existing loan risk classifications without reclassification and, at the same time, allowing banks to reduce loan provisions by 50% until June 2024. At a recent press conference, the Standing Deputy Governor Dao Minh Tu stated that the SBV is contemplating extending this Circular, given that the current non-performing loan (NPL) level has increased from 1.92% at the end of 2022 to 4.95%, despite this new regulation. He also mentioned that the SBV plans to manage monetary policy in 2024 by focusing on restructuring the credit institution system, handling bad debts, and striving to achieve an NPL ratio below 3% by the end of the year. We remain cautious and concerned that due to the SBV's leniency, the official and "non-official" NPL ratio will deteriorate further, given the ongoing challenges in the banking sector.

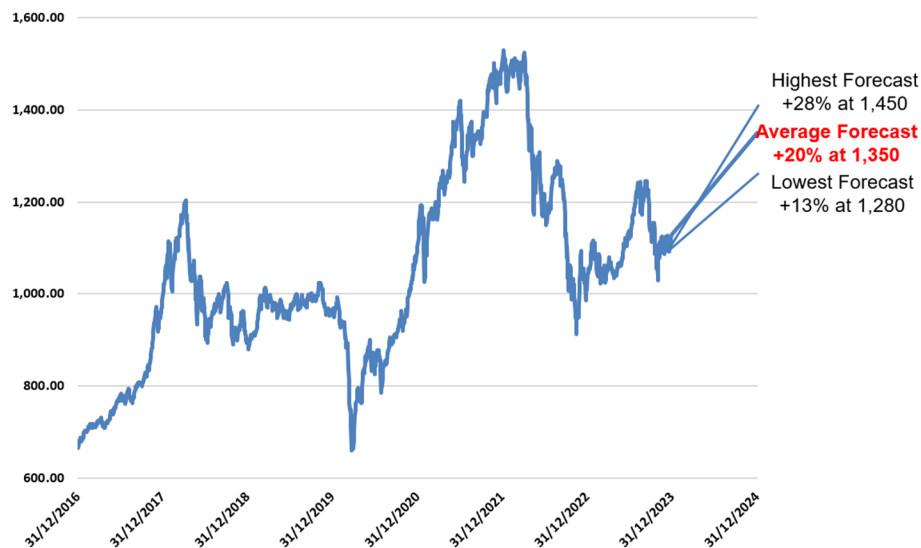
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This caution is supported by the SBV's announcement of credit growth of 13.5% year-on-year at the end of 2023, up from around 9.15% at the end of November. This indicates a hurried lending environment in the last month of 2023, with a monthly increase of around USD 20 bn. This substantial loan growth is likely sourced from larger enterprises rather than retail investors. After thorough research and investigation, there is a suspicion that some distressed real estate companies were selling their subsidiaries and/or real estate assets to a special purpose vehicle (SPV) owned by themselves, to buy back their corporate bonds and to report extraordinary profits. The issue arises if this SPV borrowed funds from banks to purchase assets from their parent company. If this suspicion holds true, the reported level of NPLs may not accurately reflect the actual situation, potentially leaving the NPL level at the same or higher levels. In light of these uncertainties, the AFC Vietnam Fund has prudently chosen to avoid exposure to the banking sector for the time being.

Furthermore, we are closely monitoring the market, whose liquidity is currently significantly below the record highs during 2021. We anticipate that speculative funds will soon take profits from the banking sector and move to other sectors. We also believe that we will soon experience a robust increase in the mid and small-cap segment, which would align with our strategic portfolio allocation.

Optimistic stock market outlook for 2024

Despite existing economic and banking sector challenges, Vietnamese stock brokers collectively express optimism, believing that the worst is behind us. Projections from major brokers, indicate a bullish outlook for the Vietnamese stock market in 2024, with the average forecast expecting a 20% increase, closing the year at approximately 1,350 points. Among the brokers, VNDIRECT stands out as the most optimistic, forecasting a 28.4% increase to reach 1,450 points. Meanwhile, MB Securities adopts a more conservative stance, projecting a +13.3% increase to 1,280 points.



(Source: AFC Research, Vietcap, MB Securities, VN Direct)

TET holiday

The TET holiday or Vietnamese New Year, holds immense cultural significance in Vietnam, bringing families together in joyous celebrations. Commencing one to two weeks before TET, many young families embark on a journey from the cities to their hometowns, contributing to preparations for the holiday. Traditional activities include cleaning houses and adorning them with festive decorations, particularly flowers, which play a central role during TET. Flower farmers residing in the countryside engage in planting, harvesting, and selling flowers in city street markets in the lead-up to TET. These farmers often form close-knit communities in what are referred to as "flower villages," drawing attention from tourists seeking to experience rural life and traditional village markets. One prominent flower village is Sadec Flower Village, located around 150 km from Ho Chi

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Minh City. Established in the late 19th century in Dong Thap province, this village boasts over 2,500 families engaged in the flower business, spanning more than 800 hectares along the Mekong River. The vibrant array of flowers and colorful festivities at Sadec Flower Village create an authentic TET atmosphere, making it a popular destination for local tourists, mainly from Ho Chi Minh City. Given the increasing influx of visitors, local authorities have initiated various activities, such as an old village market, to further attract and engage tourists during this festive period.

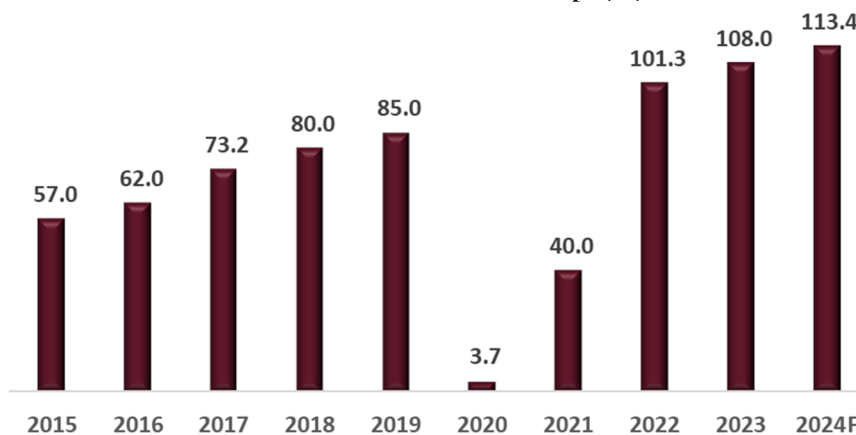
Sadec flower village



(Source: Nguoilaodong, AFC Research)

Flower planting stands out as a pivotal economic activity in Sadec village, contributing significantly to the local economy. In 2020, Sadec village achieved substantial flower revenue of USD 90 m. However, the subsequent years of 2021 and 2022 witnessed a decline in flower revenue to USD 65 million due to the adverse effects of the COVID-19 pandemic. Encouragingly, in 2023, the village experienced a recovery, with flower revenue bouncing back to USD 80 m, as reported by local authorities. The economic impact extends beyond flower sales, with local tourists playing a crucial role in generating substantial income for flower farmers. The number of visitors to Sadec flower village has been steadily increasing each year, contributing to the overall growth of the tourism sector. The rising income levels and robust economic expansion in Vietnam have further fueled the growth of domestic tourism, creating job opportunities and benefiting the rural communities. According to the Vietnam Tourism Department, the total number of local visits in 2023 set a record high at 108 m, surpassing the 2019 level by a significant margin.

Domestic tourism – visitor trips (m)



(Source: GSO)

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Economy

Vietnam attracts USD 2.36 bn in FDI in the first month of 2024

As of 20th January 2024, Vietnam has attracted over USD 2.36 bn in foreign direct investment (FDI), indicating a remarkable increase of more than 40% compared to the same period in 2023, according to the Foreign Investment Agency under the Ministry of Planning and Investment. This growth is attributed to the approval of 190 new projects, a year-on-year increase of 24.2%, with a total registered capital exceeding USD 2 bn, reflecting a substantial 67% rise from the previous year. Large-scale projects and diverse sectors contributed to this surge, with the real estate sector leading at over USD 1.27 bn (53.9%), followed by the processing and manufacturing industry at nearly USD 926 m (39.2%). Investments were made by companies from 39 countries and territories, with Singapore leading at more than USD 1.4 bn (59.5% of total investment), followed by Japan with nearly USD 297 m. Investments were distributed across 35 provinces and cities, with Hanoi attracting the most FDI, followed by Ba Ria-Vung Tau, Bac Giang, Bac Ninh, and Dong Nai.

Macroeconomic Indicators				
	2021	2022	2023	Jan-24
GDP	2.58%	8.02%	5.05%	5.05%
Industrial production (YoY)	4.8%	7.7%	3.0%	18.3%
FDI disbursement (USD bln)	19.74	22.4	23.2	1.5
Exports (USD bln)	336.3	371.9	355.5	33.6
Imports (USD bln)	332.3	360.7	327.5	30.7
Trade balance (USD bln)	4.0	11.2	28.0	2.9
Retail sales (YoY)	-3.80%	19.80%	9.60%	8.10%
CPI (YoY)	1.89%	3.15%	3.25%	3.37%
VND	22,782	23,663	24,261	24,425
Credit growth (YoY)	13.0%	12.9%	13.5%	#NA
Foreign reserves (USD bln)	105	90	96	96

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

Subscription

The next subscription deadline will be 23rd February 2024. If you would like any assistance with the subscription process, please email Andreas Vogelsanger at av@asiafrontiercapital.com.

Best regards,

AFC Vietnam Fund

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NAV as of 31st January 2024

NAV	3,072*
Since Inception	+207.2%*
Annualised Return	+11.9%*
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%	-3.53%	-2.91%	-8.13%	+4.58%	+2.38%	+9.02%
2024	USD	-2.3%*												-2.3%*

*According to internal estimates

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* The fund is authorized for distribution to professional investors in Hong Kong, Japan, Singapore, and the UK.

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