

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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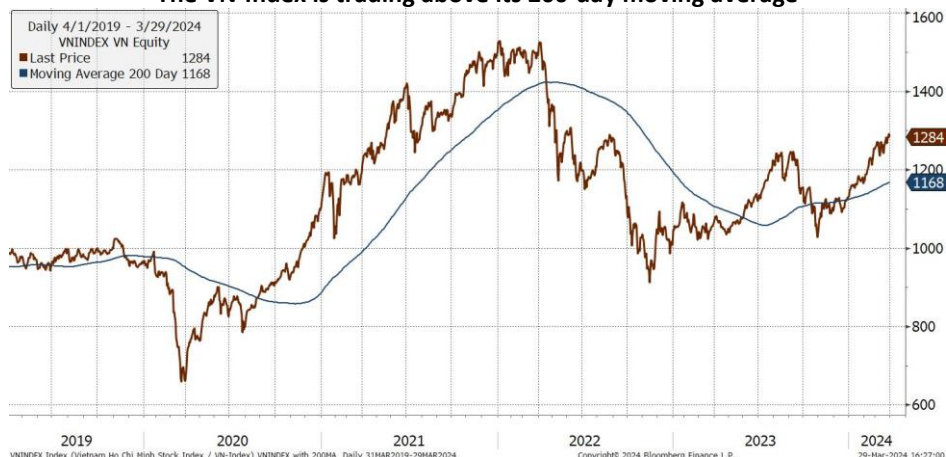
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In March, the VN-Index increased by 1.8% to 1,284.09 points, compared to the AFC Vietnam Fund which closed the month at +2.3%, with a Net Asset Value (NAV) of USD 3,160, according to our internal estimates. During the month, bank stocks began to trade sideways, prompting investors, especially local retail investors, to explore opportunities in other sectors, such as real estate and export-oriented companies. Also, the shift towards mid-cap stocks contributed to the VN-Index's resilience despite the slight decline in banking stocks, leading to an overall gain in the benchmark index.

Market Developments

Despite facing challenges such as the State Bank's withdrawal of money supply and the President's resignation, the market has displayed remarkable resilience. This resilience was evident in the market's ability to swiftly rebound following sharp declines in the index. Additionally, the market's resilience is supported by strong liquidity and the prevailing low interest rate environment. Furthermore, the VN-Index's current position above its 200-day moving average indicates a positive technical outlook for the market.

The VN-Index is trading above its 200-day moving average



(Source: Bloomberg)

Export stocks rallied in March

Export stocks experienced significant growth in March, building upon the impressive results observed in the first two months of the year, particularly within the furniture sector. As previously mentioned in our February 2024 report, export growth across various sectors was notable, with furniture exports in particular experiencing a remarkable 74% increase to reach USD 2.4 bn in January and February combined. This positive momentum continued to bolster furniture exporters throughout March.

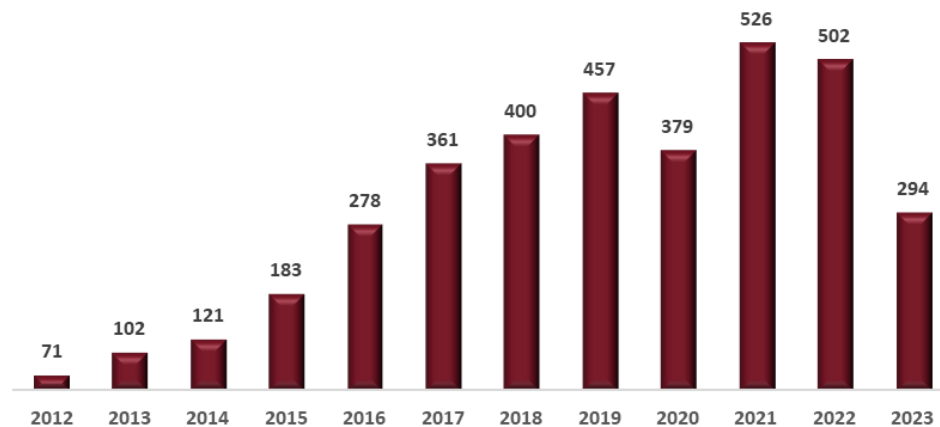
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One notable illustration of our investment strategy in action is Phu Tai Corporation (PTB), a leading local furniture exporter in Vietnam and a significant component of our portfolio. In March, PTB demonstrated a remarkable performance, with its stock price soaring by 14.4% from VND 57,600 per share to 65,900 VND per share.

Over the past decade, PTB has consistently exhibited robust growth, with its net profit skyrocketing by 607% from VND 71 bn in 2012 to VND 502 bn in 2022. However, in 2023, the company experienced a significant downturn in net profits, attributable to a sharp decline in demand from key markets such as the U.S. and EU.

Despite this setback, PTB boasts impressive profitability metrics, including a commendable return on equity (ROE) of 19%. Our steadfast commitment to PTB exemplifies our investment philosophy, characterized by meticulous evaluation of each company and strategic entry during periods of sectoral adversity, followed by patient anticipation of a recovery.

Net profit of PTB over the past 10 years (VND bn)



(Source: PTB, AFC Research)

Vietnam has experienced negative export growth only twice in the last twenty years, in 2009 and 2023. In both instances, export growth strongly rebounded and accelerated rapidly post-recovery. Therefore, we remain confident in the export sector's resilience and growth potential, underscoring our strategic investment direction.

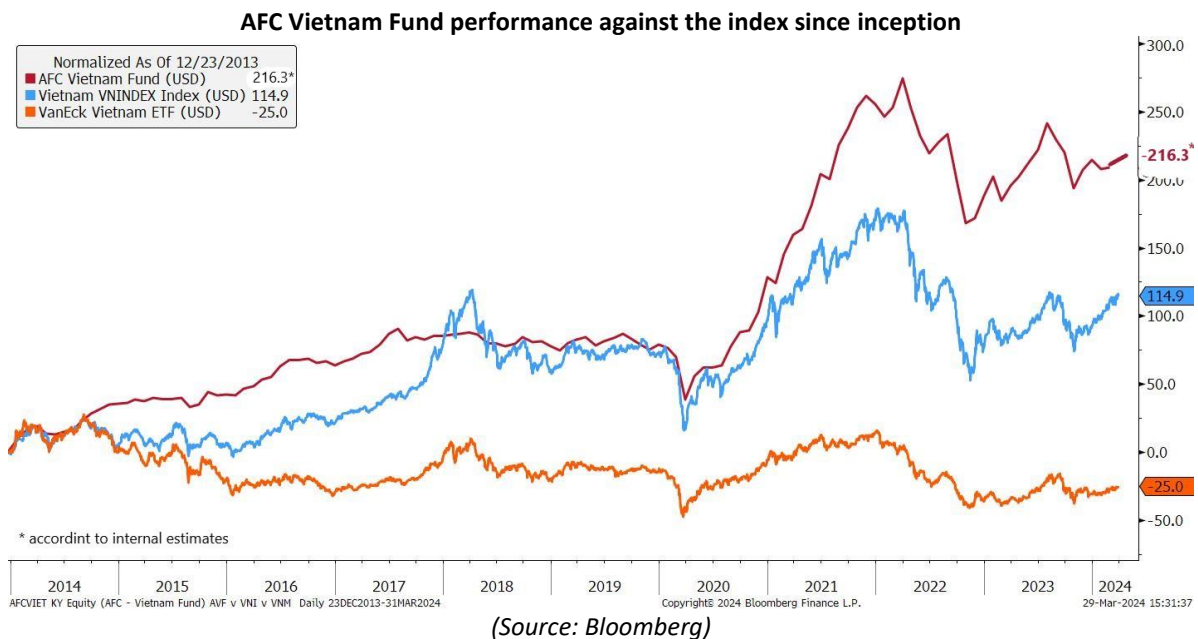
As emphasized in our previous reports, our decision to maintain an underweight position in banks is rooted in our cautious approach towards the sector's non-performing loan (NPL) ratio. Despite the rapid growth observed in bank stocks during the first two months of the year, we remain committed to prioritizing investments in the resilient and confirmed recovery of the export sector. However, we plan to reassess our strategic approach to banking stocks following the announcement of the first-quarter 2024 results in the latter half of April 2024. At that juncture, we will conduct a comprehensive analysis to determine the most suitable course of action regarding potential investments in this sector.

While the first quarter of 2024 has been challenging, our track record over the past few years, or even since our inception more than 10 years ago, underscores our consistent ability to outperform the index. This steadfast performance reaffirms our confidence in our investment approach and our unwavering commitment to delivering robust returns to our investors over the long term.

- **2021** was the second year of the COVID-19 pandemic, but it was our record year with a net performance of the AFC Vietnam Fund of +55.61% net to investors, while the VN Index in USD terms over the same period achieved a performance of +37.35%.

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- **2022** was a terrible year with intense corruption investigations and arrests of high-ranking government officials and business magnates. Also, the State Bank of Vietnam targeted real estate developers who issued corporate bonds and illegally sold them to retail investors. In that year, the AFC Vietnam Fund lost 18.84%, while the VN Index in USD terms over the same period lost 35.08%.
- **2023** was still a challenging year, especially for an export-oriented economy like Vietnam. There were challenges due to significantly lower consumption in Europe and the U.S. due to inflation and recession fears. However, the Vietnamese economy began to improve gradually towards the end of 2023, with export numbers showing positive growth again. In 2023, the AFC Vietnam Fund achieved a return of +9.02%, while the VN Index in USD terms over the same period achieved a return of +9.26%.



Resignation of Vietnam's President

The recent resignation of Vietnam's President, Vo Van Thuong, and the appointment of Vice President Vo Thi Anh Xuan as acting president has sparked concern among various international political and economic institutions. However, for several reasons, we believe that this event will have limited impact on Vietnam's economic strategy and outlook.

Firstly, it's important to note that major economic and political policies in Vietnam are determined by the 18-member Party Central Committee rather than a single individual. Therefore, changes in leadership at the presidential level are unlikely to significantly alter the country's overall direction or policies.

Secondly, the president's role in Vietnam is primarily symbolic. He or she represents moral values through public image rather than holding substantial political or economic power. As such, the change in presidency is unlikely to have a substantial impact on Vietnam's economic strategy or trajectory.

Overall, while President Vo Van Thuong's resignation may have raised concerns among some international observers, we believe that the fundamental drivers of Vietnam's economic policies and outlook remain intact, guided by broader institutional structures and collective decision-making processes within the Party Central Committee.

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One step closer to a market upgrade to Emerging Market status

The State Securities Commission of Vietnam (SSC) has introduced a draft circular proposing amendments and supplements to existing regulations governing securities transactions and information disclosure in the stock market. Key revisions outlined in the draft include the removal of the pre-funding requirement for foreign institutional investors, clarification on handling investor shortages of funds, and language requirements for information disclosure.

The proposed regulatory changes aim to address barriers hindering the Vietnamese stock market's progression from Frontier Market to Emerging Market status, particularly pre-funding requirements and English language disclosures. While the draft circular is a step in the right direction, several issues still require clarification, such as standardizing agreement terms, implementing penalty mechanisms for non-payment, and sharing the quality of investor payment records.

Despite these concerns, the draft circular reflects the authorities' commitment to resolving market issues. This positive development, coupled with the anticipated launch of the KRX trading system this year, is expected to bolster market sentiment and liquidity. Stock brokerage company Vietcapital predicts that leading securities firms with strong capital will be the primary beneficiaries of these advancements.

Trial and sentencing of chairwoman of Van Thinh Phat

In our Vietnam report from October 2022, we highlighted the arrest of Mrs. Truong My Lan, the Chairwoman of Van Thinh Phat, a prominent real estate group. This event had a significant impact on the market at the time, contributing to further declines throughout the year. After more than a year of investigations, the Van Thinh Phat court case commenced in March 2024 and is anticipated to conclude at the end of April 2024. We believe that this event is already priced into the market and hence we don't see any major impact.

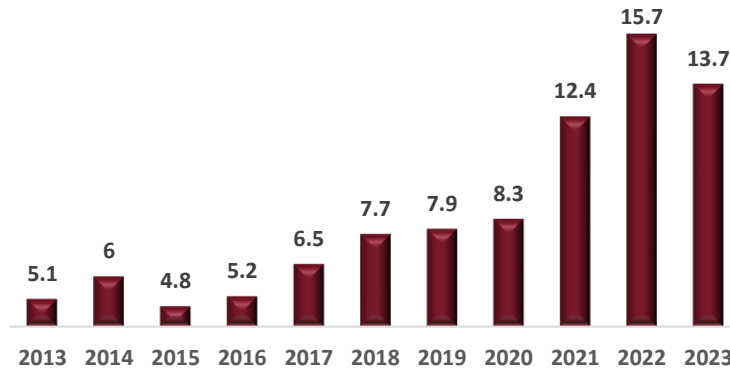
The severity of the situation is underscored by the potential consequences facing Mrs. Truong My Lan. With allegations of substantial losses amounting to approximately USD 20 bn (equivalent to around 5% of Vietnam's GDP) incurred by investors and Saigon Commercial Bank, she may potentially face the death penalty. If such a verdict is reached and finalized, it would serve as a significant deterrent against similar cases in the future, aiming to prevent and eliminate such egregious financial misconduct within the industry.

Comprehensive Strategic Partnership Agreement with Vietnam – Australia

Vietnam has recently elevated its relationship with Australia to a Comprehensive Strategic Partnership, marking a significant milestone in bilateral ties. This agreement involves a comprehensive and multi-faceted collaboration across various domains, including political, economic, security, cultural, and people-to-people exchanges. It represents a commitment from both parties to deepen and strengthen their relationship significantly and to work closely together on shared interests and common goals. Australia stands as one of Vietnam's most crucial and largest trade partners, with trade turnover witnessing a remarkable surge from USD 5.1 bn in 2013 to USD 13.7 bn in 2023. Renowned for its abundant natural resources, Australia's status as a major exporter has positioned it as a vital economic ally for Vietnam. The escalating trade tensions between China and Australia have further bolstered Vietnam's advantageous position, as many Australian companies have turned to Vietnam as an export hub for China-bound goods. The newly forged Comprehensive Strategic Partnership between Vietnam and Australia is poised to provide a substantial boost to Vietnam's economic growth trajectory.

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Trade value with Australia (USD bn)



(Source: GSO, AFC Research)

Comprehensive Strategic Partners of Vietnam



(Source: MOFA)

With this development, Australia joins the ranks of China, Russia, India, South Korea, the U.S., and Japan as Vietnam's seventh Comprehensive Strategic Partner. Vietnam's unique distinction lies in its ability to establish robust relationships with all major global economies, a testament to its diplomatic prowess and strategic significance on the international stage.

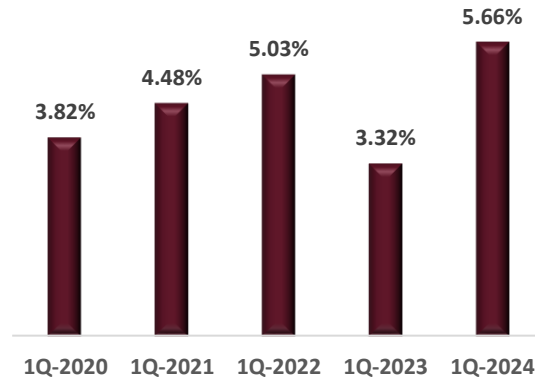
Economy

Recovery of Vietnam's GDP growth

In March, amidst global turbulence, Vietnam continues to solidify its reputation as a prime investment destination, supported by robust macroeconomic indicators. The first quarter of the year witnessed a remarkable resurgence in Vietnam's GDP growth, with an impressive jump of 5.6%, the highest rate for the period since 2020. Notably, the export sector demonstrated remarkable resilience, registering a substantial increase of 14.2% compared to the sharp decline observed last year. Additionally, Foreign Direct Investment (FDI) remained steady, reaching 4.6 bn USD in the first quarter.

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Vietnam's GDP growth



(Source: GSO, AFC Research)

Furthermore, the State Bank's effective management has ensured that the Consumer Price Index (CPI) remains under control, standing at a manageable 3.77%. These positive macroeconomic data points underscore Vietnam's resilience and stability amidst global challenges, reinforcing its allure as an attractive destination for investors.

Macroeconomic Indicators				
	2021	2022	2023	Mar-24
GDP	2.58%	8.02%	5.05%	5.66%
Industrial production (YoY)	4.8%	7.7%	3.0%	6.2%
FDI disbursement (USD bln)	19.74	22.4	23.2	4.6
Exports (USD bln)	336.3	371.9	355.5	93.1
Imports (USD bln)	332.3	360.7	327.5	85.0
Trade balance (USD bln)	4.0	11.2	28.0	8.1
Retail sales (YoY)	-3.80%	19.80%	9.60%	8.20%
CPI (YoY)	1.89%	3.15%	3.25%	3.77%
VND	22,782	23,663	24,261	24,799
Credit growth (YoY)	13.0%	12.9%	13.5%	0.3%
Foreign reserves (USD bln)	105	90	96	96

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

Subscription

The next subscription deadline will be 24th April 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 March 2024

NAV	3,160*
Since Inception	+216.0%*
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	-2.24%	+0.49%	+2.3%*										+0.5%*

*According to internal estimates

* 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.

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

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