30th April 2020

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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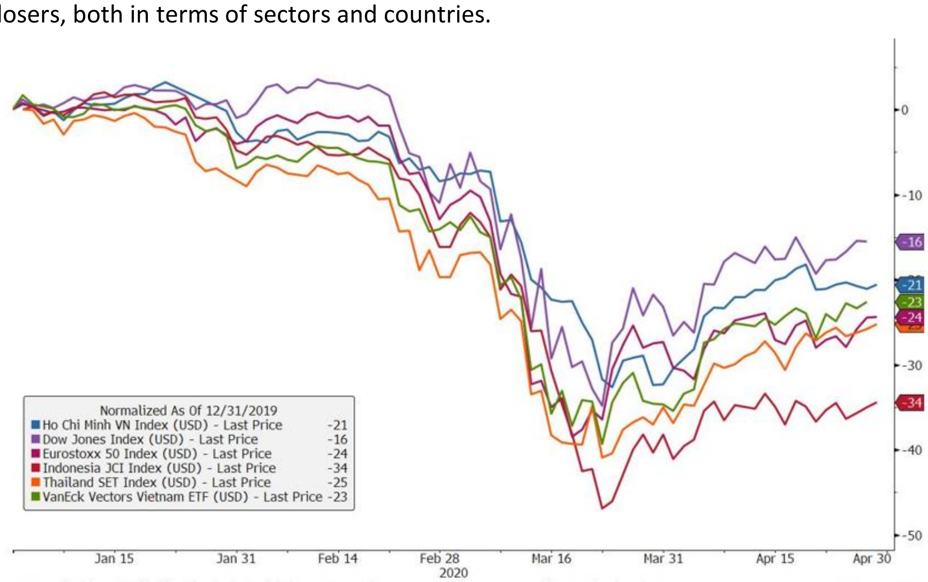
After the sharp declines global markets saw in March, we saw a massive recovery in most stock markets. Investors are now seeing the first hard facts in terms of economic numbers which show the strongest decline in economic activity since at least the recession in 2009, but the restart of most economies and "flattening of the curve" has now been achieved in many countries and investors are hoping for a fast recovery in the second half of the year. The broad-based rally pushed the stock indices in HCMC up +16.1% and Hanoi up +15.3%, with strong gains also seen in smaller stocks, while the Vietnamese Dong was +1.5% versus the USD. Most of our portfolio holdings were also able to show sizable gains last month and according to internal calculations our NAV gained +12.8% to USD 1,559.

Market Developments

It is interesting to notice how different the world looks like after just one month. Coincidentally, the lows of global stock markets were reached around the end of last month when we showed how much damage had already been done in one of the steepest declines in history. Just a few weeks ago – and around 2.4 mln infections and 180,000 deaths later - most markets were able to recover 30% to 50% of their previous losses. Governments around the world are increasing the capacity of their massive economic stimulus programs on an almost weekly basis. Loosening restrictions on businesses and private lives and hopes for a yet to be developed vaccine and/or treatment were supportive of markets. This brought buyers back, helping global markets to recover from extremely oversold territory. We share the hopes of investors, but technically we are still in a very young bear market where strong bounces are normal and as we suggested last month, another pullback is likely before we can see a major bottom. The odds of another down-leg will be determined by the development of future infection rates, re-activation of economies by governments and preliminary assessments of economic damage to the private sector and consumers. We now understand a lot more about the virus and the economic damage than just 1-2 months ago, but it is still too early for a more precise outlook. But what we do expect in terms of market developments – other than in the initial crash a few weeks ago – is that any further retracement of the recent week's gains will be now much more selective as investors can better sort possible winners from losers, both in terms of sectors and countries.



(Source: Bloomberg)

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Unlike other rallies in Vietnam over the past few years, the recovery this time was very broad based; even when accounting for the flaws in both stock indices in HCMC and Hanoi, with the HSX Index being very concentrated on Vingroup-stocks and banks, and two banking stocks in Hanoi being the main drivers for the index gains in April. We have seen price jumps in many small- and mid-cap stocks recently, some of which gained 30% to 80%. Those gains were driven by a new influx of capital from local first-time investors which more than compensated for continued foreign selling. We are also seeing a spike in new brokerage accounts being opened, with 32,000 in March alone, a development we have been waiting a long time for but certainly did not expect to happen during this bear market. In controlling risks, we used the massive jump in liquidity and sharp rally to reduce or exit positions in selected smaller stocks. We will reinvest this cash in bigger companies on renewed weakness given that many companies are currently trading back at similar valuations than before the crash.

(Noi Bai Cargo Service Joint Stock Company; Source: Viet Capital Securities)

Vietnam successfully controls COVID-19

Vietnam became one of the first countries in the world to ease social-distancing measures on 23rd April. The government has reported 270 infections since the start of the outbreak and so far has reported no deaths. Unlike other low-income countries with minimal diagnostic capacity, Vietnam has conducted more than 200,000 tests. Based on historical mistrust against the Chinese, the government started an awareness campaign as early as January, and in February a song was written to educate people. It went viral across borders with over 40 mln hits so far.

https://www.youtube.com/watch?v=BtulL3oArQw&feature=emb_logo

Two larger outbreaks in March in Hanoi and HCMC were successfully contained and there were very few infections from returnees who are automatically transferred into state quarantines for 14 days upon arrival from overseas; HCMC for example, hasn't had any infections since 7th April. After the social distancing campaign ended on 23rd April, the country is now almost completely back to normal with people back to work, schools open again after being closed for 3 months and cafes and restaurants open, while there are still a few limitations left for some entertainment places like karaoke or massage parlors.

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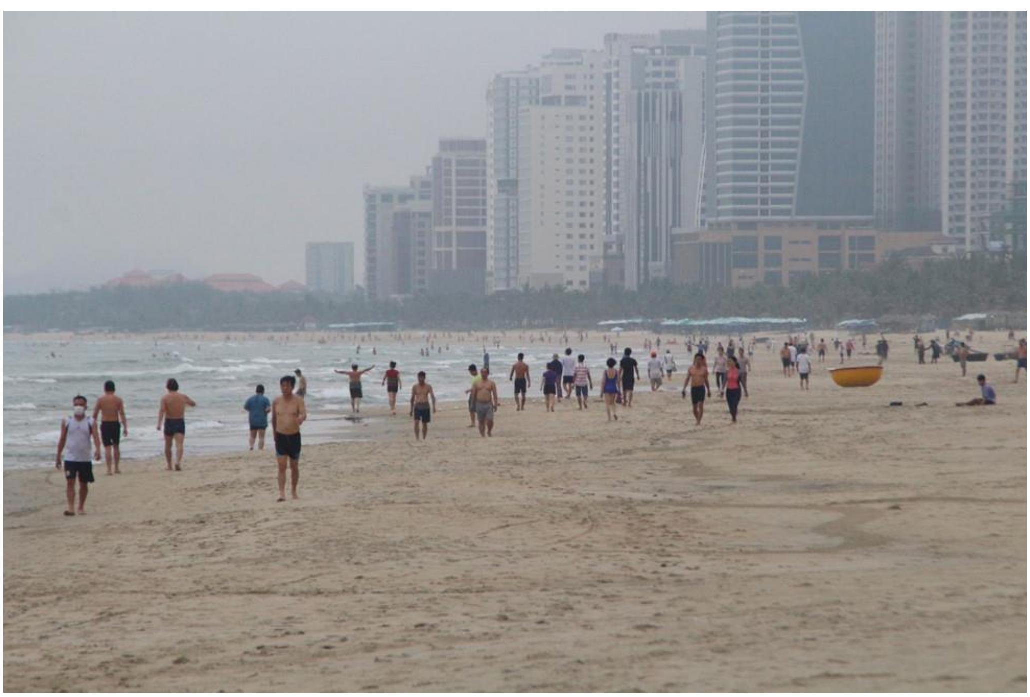
A street coffee store in HCMC

(Source: Thanhnien News)

On the weekend of 25th and 26th April, people in coastal provinces such as Ba Ria Vung Tau (120 km east of HCMC) and Danang finally went out and relaxed at the beach as normal.

Locals are flocking to the beaches



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(Source: Thanhnien News)

The fact that Vietnam has been able to restart its economy in a much faster manner than other countries will certainly lead to a faster recovery of the domestic economy. According to a survey, Vietnamese are the most optimistic citizens for a fast recovery, but the successful containment could hinder Vietnam from opening its borders anytime soon, in fear that another wave of imported infections would destroy all the work the country has accomplished. As long as the government (as well as others) is not willing to open its borders with other countries with low infections, any strong recovery in the tourism and aviation industry will be impossible and will also hinder the process of the potential shift in production from China to Vietnam. No tourist on his average one-week vacation will travel to Vietnam when a 14-day quarantine is imposed if international flights will be started again under these circumstances. The same problem faces business leaders when they want to set up companies or factories which most likely will never happen through remote (online video) Zoom sessions. In our view it is a tricky decision to take, if Vietnam does not want to lose the race to gain substantial market share in global manufacturing.

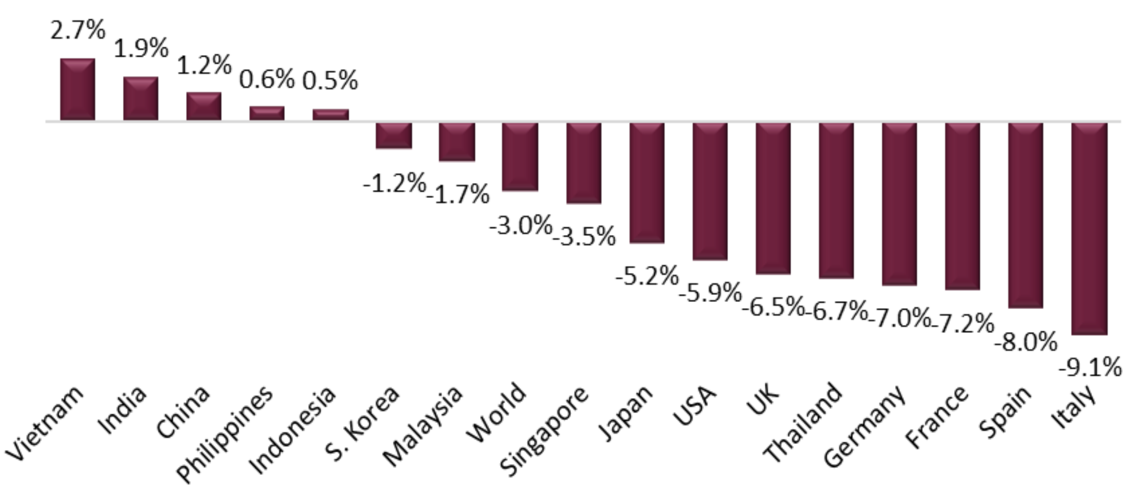
While many unknowns and hurdles exist for Vietnam, as for any other country in the world, the current crisis will not derail the long term rise of Vietnam – the consensus is just the opposite - the country will come out of this crisis stronger and we believe that Vietnam will prove once again that it is one of the few winners in the long run. For example, the further liberalization of much of Asian trade engendered by the Comprehensive and Progressive Agreement for Trans-Pacific Partnership will continue to benefit the country. As foreign companies look for more low-cost manufacturing bases outside China, Vietnam is an obvious candidate.

Many international firms see a risk of being too dependent of Chinese supply chains and therefore are trying to diversify. According to A.T. Kearney, there is a strong trend that US enterprises are moving out of China, with Vietnam being one of the key beneficiaries. The consulting company said that of the USD 31 bln in U.S. imports in 2019 that shifted away from China, around 46% was absorbed by Vietnam.

Recently, the Japanese government announced an aid package of USD 2.2 bln for Japanese enterprises to move out of China. They were encouraged to move back to Japan or other ASEAN countries; and Vietnam is one of the main destinations in ASEAN where hundreds of large Japanese companies are already doing business.

Although all estimates have to currently be taken with a fair amount of skepticism, recent IMF forecasts show the possible damage to several economies. According to the IMF, Vietnam is expected to grow at 2.7% in 2020 and recover to 7.0% in 2021.

GDP growth in 2020 by country estimated by IMF



(Source: IMF)

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The Vietnamese government recently announced an economic stimulus package, mainly to reduce taxes and fees for enterprises. The State Bank of Vietnam also provides a special loan program for companies to borrow funds at 0% in order to pay salaries for their employees.

Incredible valuation

Last month the Ho Chi Minh Index fell by 24.9%, from 882.19 to 662.53, and hence brought valuations of some companies to very attractive levels. Also, in our portfolio we have many holdings which have no debt on their balance sheet, or even net cash. One extreme example is Doan Xa Port (DXP), which has a net cash balance of VND 303 bln as of 31st March 2020, compared to its market cap of VND 270 bln, while its shares currently trade at 6.5x earnings and 30% below book value! DXP is a small port operator in Hai Phong Province, the main exporting hub of North Vietnam. One of the reasons for this incredible valuation is that investors are worried that COVID-19 will affect smaller ports much more than larger ports. However, we visited DXP before the crash and are in regular contact with the CEO, who updates us on the company's strategy and progress. DXP is mainly focusing on smaller domestic ships, rather than the big export vessels. DXP was therefore not affected by the recent sharp declines in international trade and was even a small beneficiary when other domestic ships switched to smaller ports in order to reduce costs. Its revenues in the first quarter of 2020 therefore increased against the trend by around 8% and net profit jumped by 35% while most other ports had negative growth. But one of the most important factors is the company's cash position which amounts to around 75% of its total assets. DXP's healthy balance sheet puts the company in a quite comfortable position, despite the pandemic and leaves it with lot of options, such as for example the ability to acquire a competitor, payout a high extraordinary dividend or a share buyback. But whatever option the company chooses, DXP is definitely in a very good position to survive the current crisis unshattered while some of its competitors will struggle to survive.

Doan Xa Port

(Source: Doan Xa Port JSC)

Another good example of an attractively valued company with great prospects is Agriculture Bank Insurance (ABI). It is the cheapest listed insurance company in Vietnam with a P/E ratio of 3.5x and a P/B ratio of 0.9. In the first quarter of 2020 the company reported net profit growth of 30% from VND 63 bln to VND 81.9 bln. Over the last four years, ABI's net profits increased by 199% from VND 81 bln in 2015 to VND 242 bln in 2019. ABI's net profit is expected to reach VND 300 bln in

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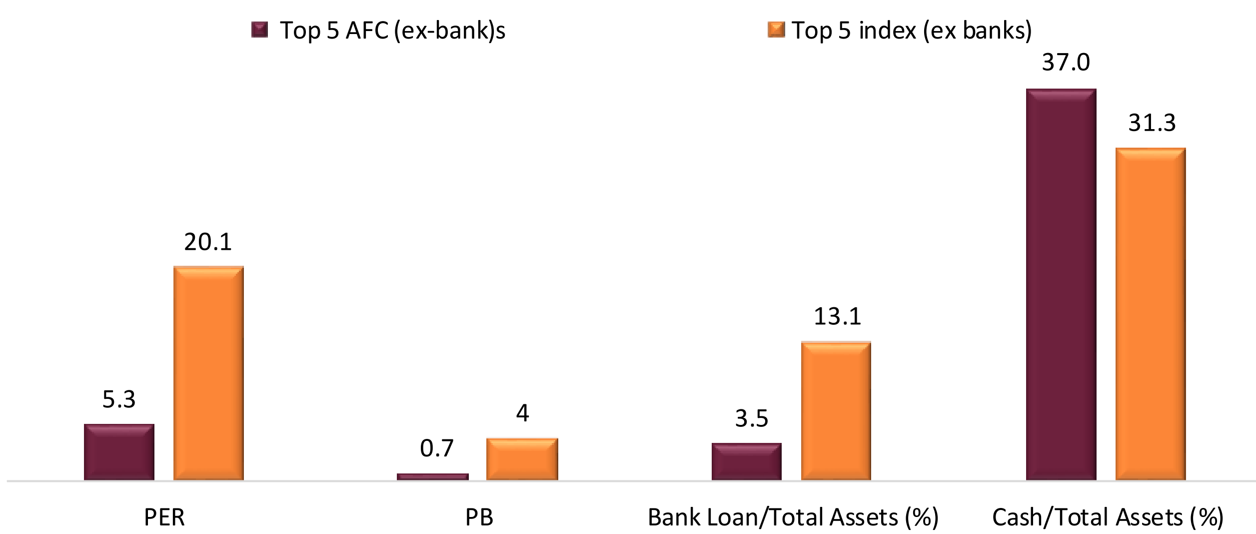
2020, staggering growth of 24%! The main reason for this incredible growth in 1Q 2020 is a new regulation which was approved by the Ministry of Finance whereby the company is now allowed to target clients for its agriculture credit risk insurance products with the maximum size of loans increasing to VND 300 mln, up from VND 200 mln. This new regulation helps ABI to substantially increase the number of its target clients from Agriculture Bank. Furthermore, ABI's balance sheet looks extremely healthy with more than VND 2,000 bln cash, equivalent to over 75% of total assets. We are very confident that this company is in a very good position to survive this current crisis unscathed.

We always see high valuations and weak balance sheets as the biggest danger when investing in stock markets in general, but especially in markets such as Vietnam. Being invested in conservative companies, as we do, outside the main indices, reduces the risk of big price swings due to inflows and outflows of for example index-trackers. We therefore show less losses in downturns, but also show less gains in recoveries over the short term. On a longer-term time horizon, one of the most important factors is the difference in valuations. The valuation of our top 5 positions (ex-banks) is significantly more attractive compared to the top 5 index positions (ex-banks). The average P/E ratio of our top 5 holdings is only 5.3x compared to 20.1x of the top 5 index stocks. It is also important to assess the level of bank debts of the various companies since failing to repay their bank loans or interest in Vietnam is a serious offence with far reaching consequences.

Top 5 AFC (ex-banks)	PER	PB	Bank Loan/Total Assets	Cash/Total Assets	Top 5 Index (ex-banks)	PER	PB	Bank Loan/Total Assets	Cash/Total Assets
ABI	3.5	0.9	0%	77%	VIC	38.0	2.6	32%	7%
UIC	6.3	1.0	10%	10%	VHM	10.2	3.3	13%	7%
VSC	6.0	0.6	3%	13%	VNM	17.5	6.0	12%	34%
TCL	6.3	0.7	4%	24%	GAS	10.6	2.4	5%	47%
DVP	4.4	0.5	0%	61%	SAB	24.0	5.7	4%	61%
Average	**5.3**	**0.7**	**3.5%**	**37.0%**	**Average**	**20.1**	**4.0**	**13.1%**	**31.3%**

(Source: Vietstock.vn, AFC Research, Companies audited reports)



(Source: Vietstock.vn, AFC Research, Companies' audited reports)

The current release of Q1 results are important as always, but unlike the usual focus on earnings which will be only fully affected in the second quarter, investors are mainly having a look at the liquidity and debt situation of the various

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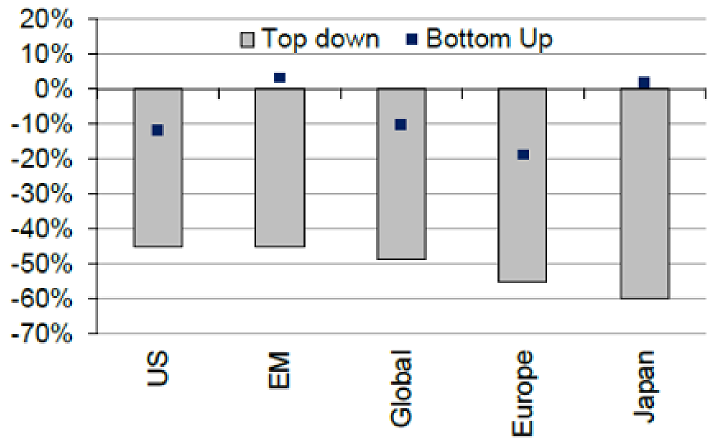
companies which shows the probability of surviving a longer term crisis in case COVID-19 is here to stay. Besides the incredibly cheap valuation of our portfolio, it is important to highlight that our high dividend yields are most likely secured even in the current environment, and the bank loan ratio of the top 5 index stocks is almost 3x higher.

Current EPS growth forecast for 2020



(Source: Citi Research, Factset)

Analysts will still need to lower their profit estimates tremendously with all the headwinds from the sharp drop in economic activity. The top down estimate revisions of 40%-60% seem to be more realistic when we look at first quarter releases from companies around the world. In Vietnam we saw weaker results as well, but in many cases not as bad as we expected. Our expectations for the second quarter are quite inconsistent as certain sectors will feel the full brunt of the crisis (e.g. export oriented companies to Europe and the US), while others are already showing a recovery (like domestic oriented retail companies).

With more than half of our companies having reported their 2020 first quarter earnings, we now can make our first careful estimates of the impact of the economic crisis for 2020 full year earnings which could be around -15%. This is certainly a meaningful decline, but in perspective of this extraordinary worldwide "economic" crisis, certainly not very worrisome, given the outstanding valuations we see in our portfolio.

One example of a long-term beneficiary is one of our holdings, FPT Corporation, a blue-chip software powerhouse in Vietnam with a strong focus on expanding its overseas business. Despite short-term headwinds, FPT's outsourcing business could emerge as a long-term beneficiary after the COVID-19 crisis as clients could diversify away from Chinese and Indian competitors whose operations and project delivery abilities have been disrupted by the COVID-19 outbreak. Currently FPT is trading at very favorable 12x earnings and has a long-term topline growth rate of around 20%.

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(FPT 2014-2020; Source: Viet Capital Securities)

Economy

Macroeconomic Indicators				
	2017	**2018**	**2019**	**Apr-20**
GDP	6.81%	7.08%	7.02%	3.82%
Industrial production (YoY)	9.4%	10.2%	8.9%	1.8%
FDI disbursement (USD bln)	17.5	19.1	20.4	5.2
Exports (USD bln)	213.8	244.7	264.2	82.9
Imports (USD bln)	211.1	237.5	253.1	79.9
Trade balance (USD bln)	2.7	7.2	11.1	3.1
Retail sales (YoY)	10.7%	11.7%	11.8%	-4.3%
CPI (YoY)	3.53%	3.54%	2.79%	4.90%
VND	22,755	23,175	23,230	23,330
Credit growth (YoY)	17.0%	13.9%	12.1%	0.7%
Foreign reserves (USD bln)	51	60	73	84

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

Subscription

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

Best regards,

AFC Vietnam Fund

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Estimated NAV as of 30th April 2020

NAV	1,559*
Since Inception	+55.9%*
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%	-18.7%	+12.8%*									**-12.9%***

***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 those applicable laws and regulations of their relevant jurisdictions.