

## AFC VIETNAM FUND UPDATE

<b>Fund Category</b>	Vietnam Public Equities
<b>Country Focus</b>	Vietnam
<b>Subscriptions</b>	Monthly at NAV (five business days before month end)
<b>Redemptions</b>	Monthly at NAV 30 days' notice
<b>Benchmark</b>	VN Index
<b>Fund Manager</b>	Vicente Nguyen
<b>Investment Manager</b>	Asia Frontier Capital (Vietnam) Limited, Cayman Islands
<b>Investment Advisor</b>	Asia Frontier Investments Limited, Hong Kong
<b>Fund Base Currency</b>	USD
<b>Minimum Investment</b>	USD 10,000
<b>Subsequent Investments</b>	USD 1,000
<b>Management Fee</b>	1.8% p.a. of NAV
<b>Performance Fee</b>	12.5% p.a. of NAV appreciation with high watermark
<b>Fund Domicile</b>	Cayman Islands
<b>Launch Date</b>	23 December 2013
<b>Custodian Bank</b>	Viet Capital Securities, Ho Chi Minh City
<b>Auditor</b>	Ernst & Young, Hong Kong
<b>Administrator</b>	Trident Fund Services, Hong Kong
<b>Legal Advisor</b>	Ogier, Hong Kong
<b>ISIN</b>	KYG0133A1673

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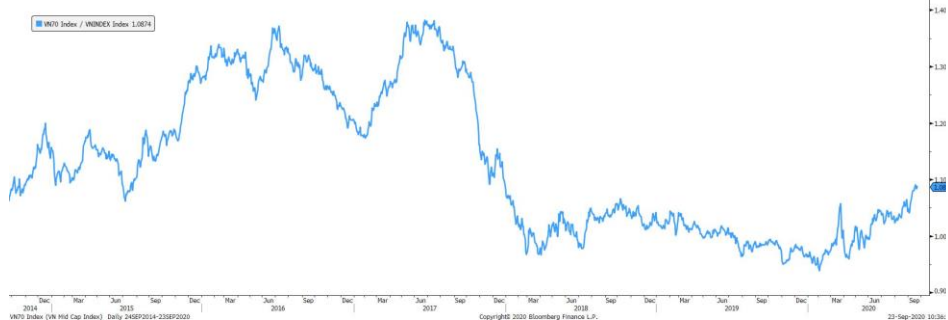
Vietnam continued to show strength despite increased volatility in developed markets. Favorable economic news and bullish sentiment from local investors contributed to strong gains in the broader market. Indices in Ho Chi Minh City and Hanoi rose +2.7% and +6.5% respectively, with small and mid-cap stocks showing similar gains. Our portfolio also rose strongly, gaining +6.0% (NAV USD 1,880), according to internal calculations. This is just around 1% below our all-time high, while the HSX-index is still 25% below its high from early 2018. Despite recent gains, Vietnam shows attractive valuations when compared to other markets in Asia and around the globe, while the valuation of our portfolio is trading at an astonishing discount to the market of roughly 45%. This might explain why we see increased general interest in Vietnam and in our fund again.

### Market Developments

The market continued its upward trend in September, which started on 27<sup>th</sup> July 2020. Maybe more important than the start of the latest rally is the fact that despite foreign selling over the past few months, the upward price pressure continued with little volatility across sectors. But from our perspective, the most important development was the change in leadership which is now broad-based and not like in some developed markets where very few leading stocks are catching all of the interest.

Vietnam's stock market recently celebrated its 20<sup>th</sup> anniversary. While there are always phases where different sectors or market cap segments perform better or worse, we have now witnessed several years where blue chips clearly outperformed the small and mid-cap segment. How things have changed since the market low 6 months ago can be easily seen by the relative performance of the mid-cap index compared to the benchmark index in Ho Chi Minh City. Of course, we hope that this is now just the start of a larger trend which would help the performance of our portfolio tremendously.

Mid-cap index relative to HSX-index over the past 6 years



(Source: Bloomberg)

With value stocks worldwide now historically cheap compared to some of the tech-frenzy driven markets, we see our portfolio as being well positioned within an already inexpensive market in Vietnam. With most of our top 10 positions trading around 6-7x earnings, we, like many other investors, are scratching our heads when seeing large companies in the US trading at 60x, 100x earnings and above - pushed up mostly by day traders and first-time investors. Yes, we saw that before in the tech bubble of 1999 and we all know that this usually ends badly. At first sight, this might sound scary for global markets in general, but the good news is that in 2000/01, following the sell-off after the Nasdaq peaked in March 2000 (the index lost 2/3 of its value within 1 year!), non-tech companies and the real economy weren't much affected. Only 9/11 in 2001 and the recession in the following year brought down the broader market.

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## Dow Jones Industrial Average and Nasdaq performed very different in 2000

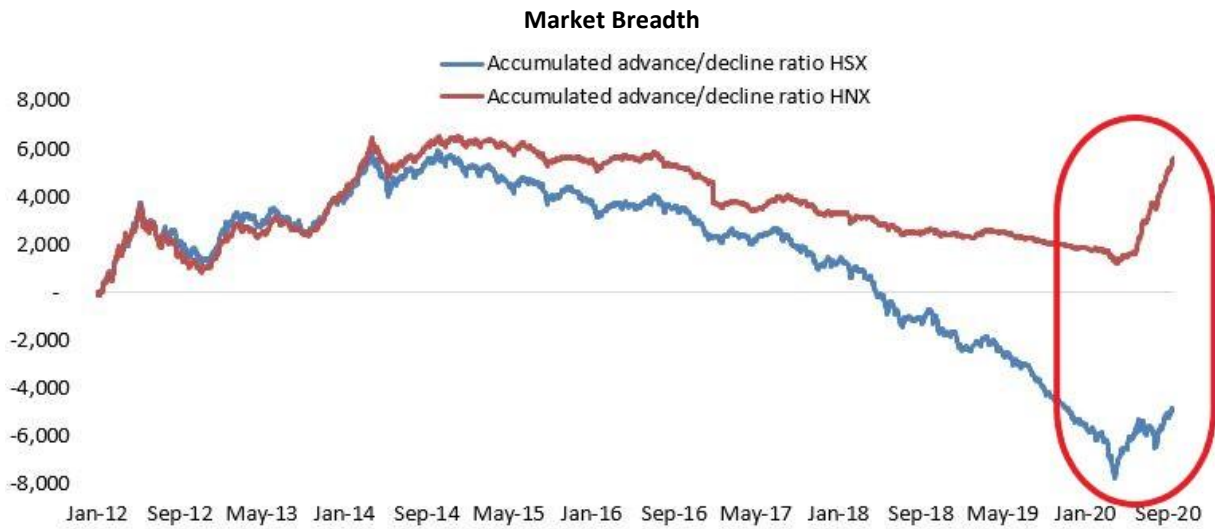


(Dow Jones Industrial Average and Nasdaq 1997-2020; Source: Yahoo!Finance-Verizon)

This observation is very important for us, as the whole frontier market universe is today similarly cheap and under-owned as the Dow Jones blue chips were back in 2000 when tech-stocks were under-represented in the widely followed Dow Jones Industrial Average Index. Even though the risk of a massive correction in the tech sector has risen, attractive markets like Vietnam might perform solidly – or as we hope – with only a slight shift from investors in developed markets into frontier and emerging markets would mean an explosive revaluation of our universe.

Meanwhile, the Advance/Decline-Ratio (market breadth) also shows how the picture has changed this year, as this turnaround in market breadth underlines the healthy advance in prices for the first time in years.

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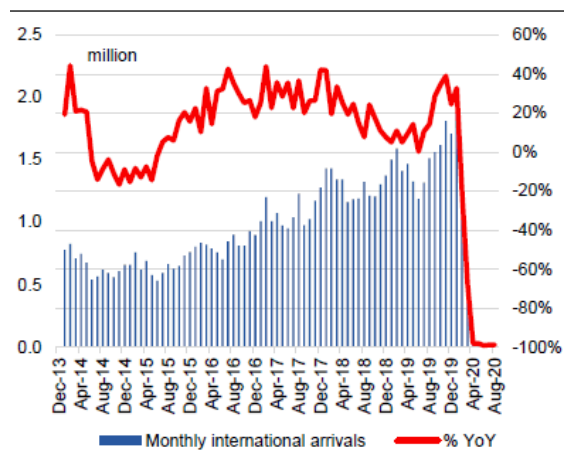


*(Source: Bloomberg, HSX, HNX, AFC Research)*

The positive market picture is certainly supported by the relative better economic outlook for Vietnam compared to almost every other nation in the world, as well as by the successful containment of COVID-19, where Vietnam has seen no local infections for around one month. But unlike other countries, such as Thailand, Philippines or Singapore, Vietnam is now slowly and very carefully re-starting international flights, albeit there will be no positive impact from the international tourist sector for now. The country has recently decided to reopen international flights to and from six Asian destinations – Japan, South Korea, China, Taiwan, Laos and Cambodia. According to the aviation authority, there will be a total of nine inbound flights a week landing in Hanoi and HCM City. Currently, permitted entries to Vietnam are limited to foreign investors, business executives, experts, highly skilled workers, diplomats and international students – international tourists are still not allowed in yet. Passengers must produce documents proving they have been allowed to quarantine in facilities such as diplomatic representative’s buildings, factories, business headquarters, hotels or other similar accommodations, or centralized quarantine facilities managed by the military.

Despite being a tourist destination and the total collapse of international arrivals, Vietnam should show a positive GDP growth of around 2-3% in 2020.

**Figure 9: Monthly international arrivals**



Source: National Administration of Tourism, GSO, VCSC

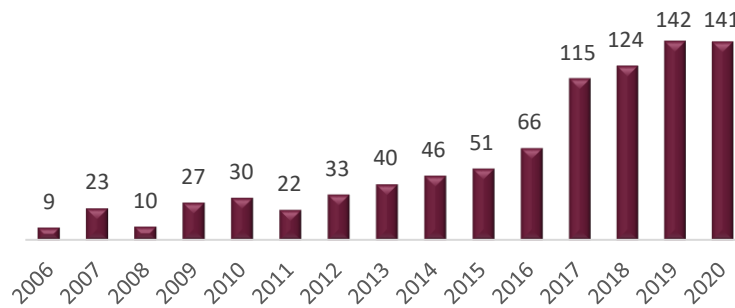
## AFC VIETNAM FUND UPDATE

### Vietnam stock market's 20 year milestones

The Vietnamese stock market officially opened on 28<sup>th</sup> July 2000 with its first three stocks, REE (Refrigeration Electrical Engineering Corporation), SAM (SAM Holdings Corporation) and BBC (Bibica Corporation). Over the past 20 years, Vietnam's stock market has achieved several important milestones:

- Total market capitalization of Ho Chi Minh City Stock Exchange (HSX) surged nearly 3,000 times to around USD 141 bln. Including the Hanoi Stock Exchange and UPCOM, total market capitalization reached around USD 188.4 bln.

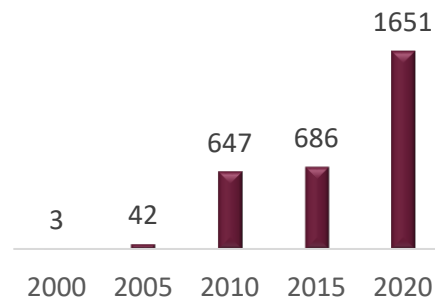
**Market capitalization – HSX (USD bln)**



(Source: Bloomberg, AFC Research)

- Total number of listed companies reached 1,651 (including HSX, HNX and UPCOM)

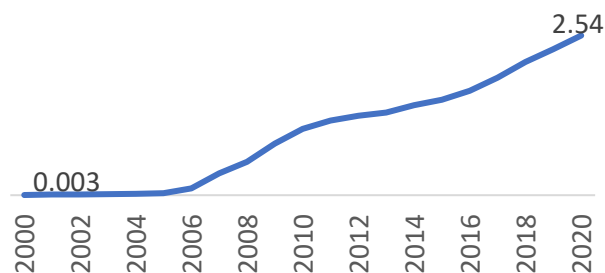
**Number of listed stocks including HSX, HNX and UPCOM**



(Source: HSX, HNX, Vietstock and AFC Research)

- Total number of trading accounts reached 2.54 mln, up from around 3,000 accounts in 2000.

**Number of trading accounts (mln)**

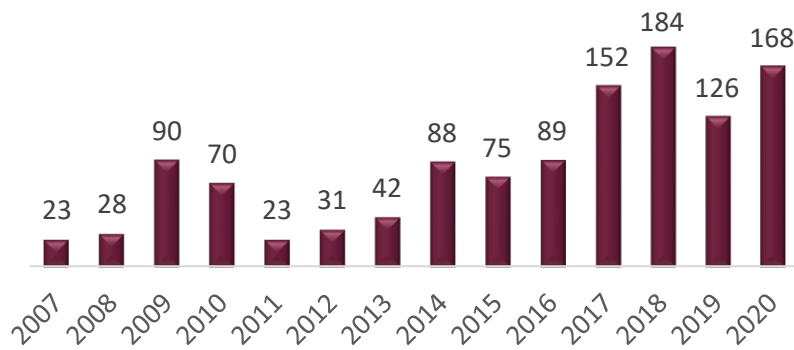


(Source: SSC, HSX, HNX, AFC Research)

## AFC VIETNAM FUND UPDATE

- Average daily trading volume increased 5,000 times to USD 168 mln per day. Liquidity increased sharply which has helped attract more and more international investors to the Vietnamese stock market.

Average daily trading volume - HSX (USD mln)



(Source: Bloomberg, AFC Research)

### MILESTONES



(Source: VN Express)

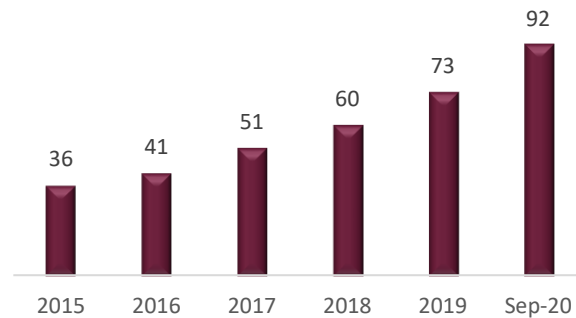
Furthermore, short selling of equities may soon be allowed in Vietnam under a new proposal which is currently being discussed by the Ministry of Finance. This could potentially help Vietnam's aspiration of being reclassified from a frontier market to an emerging market by MSCI.

### Foreign reserves reached another record high

The Vietnamese government recently reported that its foreign exchange reserves surged to a new record high of USD 92 bln and they are expecting foreign reserves to reach USD 100 bln by the end of this year.

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### Foreign reserves of Vietnam (USD bln)

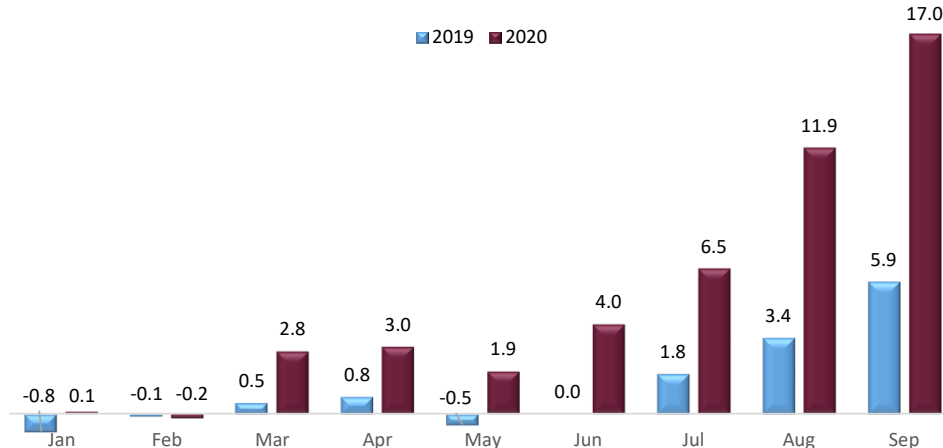


(Source: State Bank of Vietnam, AFC Research)

Unfortunately, foreign remittances to Vietnam are expected to take a big hit in 2020 due to COVID-19, but this negative effect will probably be compensated for by the impressive trade surplus in 2020. We therefore expect the Vietnamese Dong to continue being one of the most stable currencies versus the USD.

According to the General Statistic Office of Vietnam, the total trade surplus in the first nine months of 2020 reached USD 17 bln, mainly due to the strong recovery of exports in the third quarter.

### Accumulated trade surplus (USD bln)

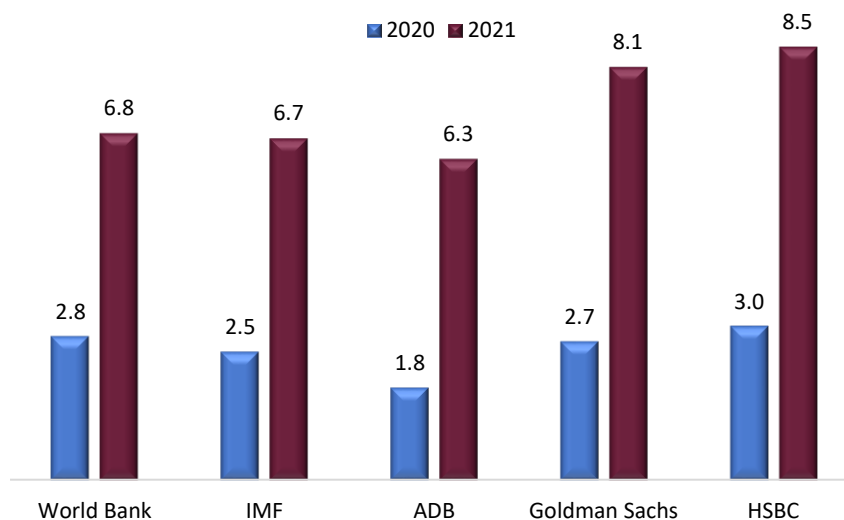


(Source: Custom of Vietnam, GSO, AFC Research)

There are several reasons for the positive development in export growth, one of them is the successful implementation of EVFTA (EU-Vietnam Free Trade Agreement), which has started having a positive impact on the record numbers of exports from Vietnam to Europe in coffee, seafood, etc. But Vietnam has also become a promising alternative to China for US businesses in Asia as both a trading partner and a manufacturing hub. All this also led to optimistic Vietnam GDP growth forecasts for 2020 and 2021 by leading institutions such as World Bank, ADB, IMF or Goldman Sachs.

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GDP growth estimates (%)



(Source: Goldman Sachs, World Bank, ADB, IMF, AFC Research)

## Economy

Macroeconomic Indicators				
	2017	2018	2019	Sep-20
GDP	6.81%	7.08%	7.02%	2.12%
Industrial production (YoY)	9.4%	10.2%	8.9%	2.7%
FDI disbursement (USD bln)	17.5	19.1	20.4	13.8
Exports (USD bln)	213.8	244.7	264.2	202.9
Imports (USD bln)	211.1	237.5	253.1	185.9
Trade balance (USD bln)	2.7	7.2	11.1	17.0
Retail sales (YoY)	10.70%	11.70%	11.80%	0.70%
CPI (YoY)	3.53%	3.54%	2.79%	3.85%
VND	22,755	23,175	23,230	23,182
Credit growth (YoY)	17.0%	13.9%	12.1%	5.1%
Foreign reserves (USD bln)	51	60	73	92

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

## Subscription

The next subscription deadline will be 26<sup>th</sup> October 2020. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

# AFC VIETNAM FUND UPDATE

## Estimated NAV as of 30<sup>th</sup> September 2020

NAV	1,880*
Since Inception	+88%*
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%	+6.0%*				+5.1%*

\*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.*

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