

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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The Vietnamese market continued to perform very well after a brief correction in October. Vietnam still seems to be an excellent bet on a global economic recovery in 2021 on the back of already astonishing economic performance in 2020, at least on a relative basis. The indices in Ho Chi Minh City and Hanoi rose +8.4% and +9.1% respectively, with small and mid-cap stocks showing similar gains, which now brings the indices into positive territory for the year. Although the main index closed above 1,000 for the first time since November 2019, the index is still 17% below its all-time high from early 2018 and almost unchanged compared to 3 years ago. We are also very happy to report that with strong gains in many of our investments we were able to mark a new all-time high NAV in November of USD 2.027, (+7%), according to internal calculations. During the last month we exited some of our initial small-cap positions and increased positions in some of our mid-cap stock holdings, while also entering a few new investments where we are also now taking into account socially responsible investment criteria (ESG).

Market Developments

The correction in October was short lived and with continued positive economic news in Vietnam, as well as encouraging COVID-19 vaccine results, stocks continued to improve mostly from local demand on increasing trading volume. While foreigners have been massive sellers year to date, we are now starting to see a more balanced picture of foreign flows after a full month (October) of net selling every single day (!).

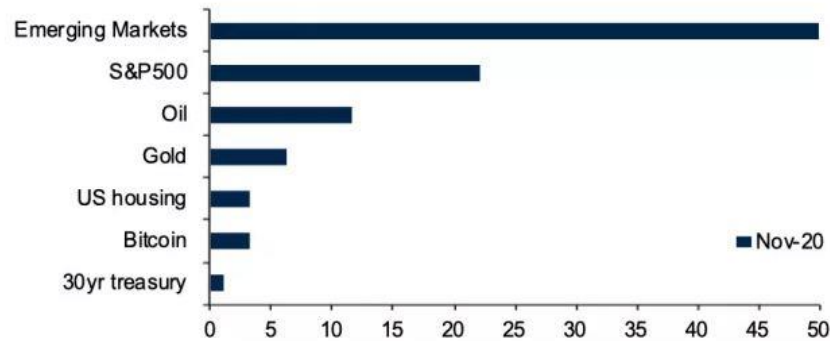
As mentioned above, with some strong moves in the market and in our portfolio, we continued to “modernize” our portfolio to what we see as a necessity in light of a changing investor base and decision-making process. One of the most recognizable trends globally over the past few years has been socially responsible investing. While the concept is not really new (formerly corporate social responsibility—CSR) and started decades ago, it is only in the past few years that global investors have pushed companies and industries to integrate Environmental, Social and Governance (ESG) aspects into their way of doing business, with studies also showing that the long-term effect on portfolio returns are positively impacted. While Vietnam is certainly hard to compare to the Western world, we strongly believe that implementing ESG principles will not only have a growing positive impact on the business culture in Vietnam and its environment, but we are also sure that measuring and including ESG factors in our investment process will benefit the risk and return profile of our portfolio.

Start of a new cycle?

2020 was certainly not a year for the faint-hearted. Panic-selling on the back of COVID-19 was met with unrepresented counter-measures from governments and central banks globally. With vaccines now to be realistically available in sufficient quantities in mid-2021, investor focus is again turning to finding value investment opportunities after the pandemic. Interestingly enough, a recent fund manager survey showed that Emerging Markets are expected to be the biggest winner next year, while at the same time they were the biggest sellers of this asset class in 2020 – and if they follow their own forecasts, they will have to buy back heavily into the sphere next year!

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Chart 1: What asset class do you think will outperform in 2021?

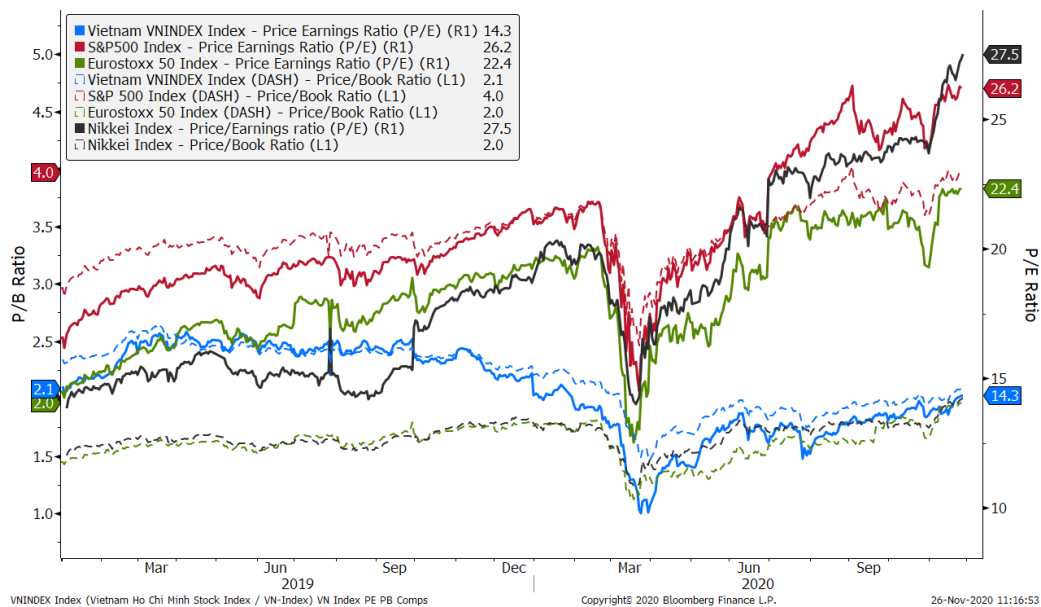


Source: BofA Global Fund Manager Survey

We certainly don't want to challenge this positive outlook as we see the biggest value on a global basis in Emerging Markets, and in countries like Vietnam in particular. It is therefore well worth mentioning that the valuation of our portfolio, investing in probably one of the most interesting markets worldwide, is still very attractive and trades at a 50% discount to the market in Vietnam, and an astonishing 70% discount when compared to markets in the US, Europe or Japan – and that even after our strong performance recently:

- An estimated weighted harmonic average trailing 12 months **P/E ratio** was 7.7x
- An estimated weighted harmonic average **P/B ratio** was 1.1x
- An estimated weighted average portfolio **dividend yield** was 6.7%

P/E and P/B for selected markets since 2019 (dashed lines are P/B)



Although our fund NAV value approximately doubled in USD-terms since inception 7 years ago, our valuation has not changed since then, when our ratios for P/E and P/B were a comparable 6.2x and 0.9x. Our early investors might remember the Hanoi-Index-chart we always presented, which showed clearly that we see multi-year upside potential in this market – and an updated chart shows and confirms that we should still have plenty of upside in the years ahead.

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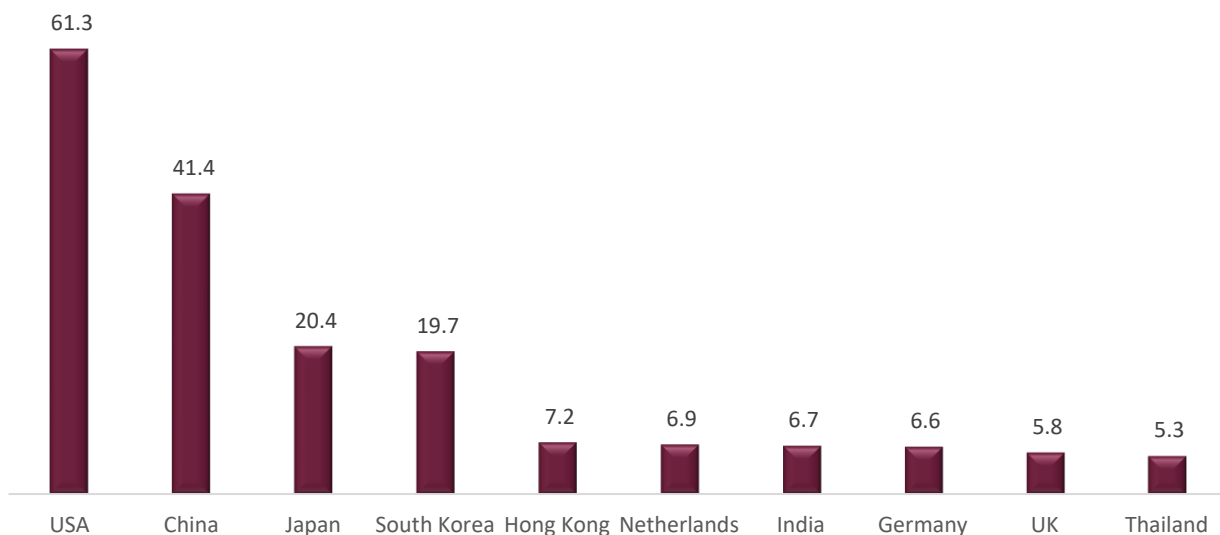


(HNX index from May 2006 to Nov 2020; Source: VietCapital Securities)

Biden’s Presidency is expected to be positive for the Vietnamese stock market

With Joe Biden widely expected to become the 46th President of the USA, renewed hopes are surfacing, that his administration will consider re-joining the Trans-Pacific Partnership Agreement (TPP) which was subsequently changed to CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership). This would be good news for Vietnam and many sectors would benefit from this change, such as for example furniture, shoes, seafood and particularly textiles and garments.

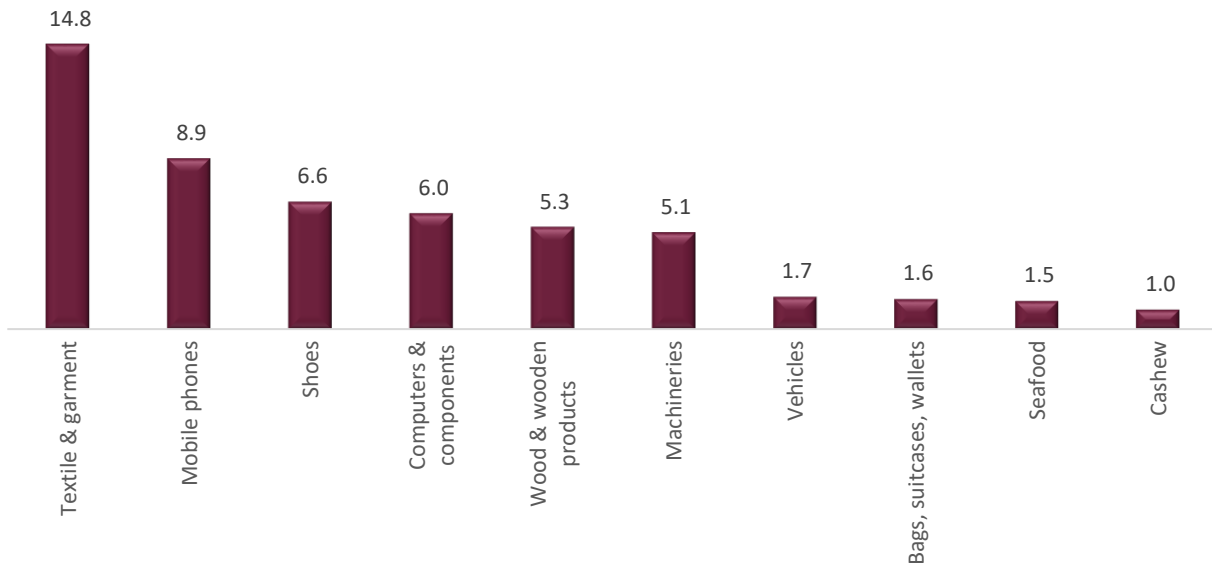
Top export countries of Vietnam in 2019 (USD bln)



(Source: GSO, AFC Research)

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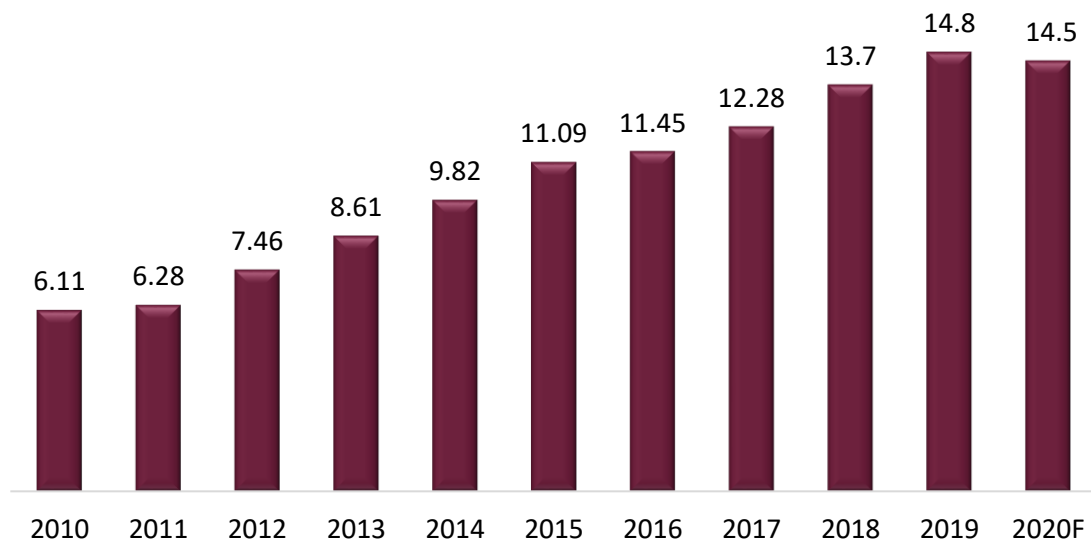
Top export products to the USA in 2019 (revenues in USD bn)



(Source: GSO, AFC Research)

Vietnam was one of the largest textiles and garment exporters to the USA in 2019.

Textile and garment export revenues to the USA (USD bln)



(Source: GSO, AFC Research)

With the USA potentially re-joining CPTPP, President Xi Jinping recently mentioned in a press conference that China is also considering joining the CPTPP. China certainly does not want to be left out and wants to continue playing an important role in Asia. China therefore used the momentum from the Trump administration's withdrawal of its economic presence in Asia and pushed for the Regional Comprehensive Economic Partnership (RCEP) to be signed by all members. On 15th November 2020 this finally happened and all 15 countries signed the RCEP - China, Japan, South Korea, Australia, New Zealand, Indonesia, Thailand, Vietnam, Malaysia, Singapore, Philippines, Myanmar, Laos, Cambodia and Brunei. RCEP is the biggest free trade agreement in the world – ever! This is a big deal. It is the world's biggest free trade agreement, removing up to 90 per cent of tariffs for trade between these 15 economies - involving 2.2 bln people, a combined GDP worth USD 26 trn, 30 per cent of the global economy and 40 per cent of global manufacturing.

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Vietnam is in a very unique situation and will benefit nicely from all these large economic agreements they are part of, such as RCEP, ASEAN, EVFTA or CPTPP. The very stable currency already reflects this positive picture. Just a week ago the Central Bank lowered the reference rate for the Vietnamese Dong for the first time in ten months, with the Dong now trading unchanged for the year. Strong inflows in 2020 also resulted in the biggest ever increase in foreign reserves so far, which jumped from USD 73 bln at the end of last year to currently USD 92 bln.



Source: Caixin Global

With Biden's presidency it is expected that there will be a less volatile relationship in the Asian political landscape and capital flows into the Vietnamese stock market could increase strongly. We are therefore quite optimistic about the 2021 outlook for the Vietnamese stock market. We do not try to forecast how well the stock market will perform next year, but we think it wouldn't be a surprise if the VN-index hits a new all-time high.

Economy

Macroeconomic Indicators				
	2017	2018	2019	Nov-20
GDP	6.81%	7.08%	7.02%	1.81%
Industrial production (YoY)	9.4%	10.2%	8.9%	3.1%
FDI disbursement (USD bln)	17.5	19.1	20.4	17.2
Exports (USD bln)	213.8	244.7	264.2	254.6
Imports (USD bln)	211.1	237.5	253.1	234.5
Trade balance (USD bln)	2.7	7.2	11.1	20.1
Retail sales (YoY)	10.70%	11.70%	11.80%	2.00%
CPI (YoY)	3.53%	3.54%	2.79%	2.43%
VND	22,755	23,175	23,230	23,142
Credit growth (YoY)	17.0%	13.9%	12.1%	6.1%
Foreign reserves (USD bln)	51	60	73	92

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

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Subscription

The next subscription deadline will be 23rd December 2020. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

Estimated NAV as of 30th November 2020

NAV	2,027*
Since Inception	+102.7%*
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%	+7.0%*		+13.3%*

*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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