

## 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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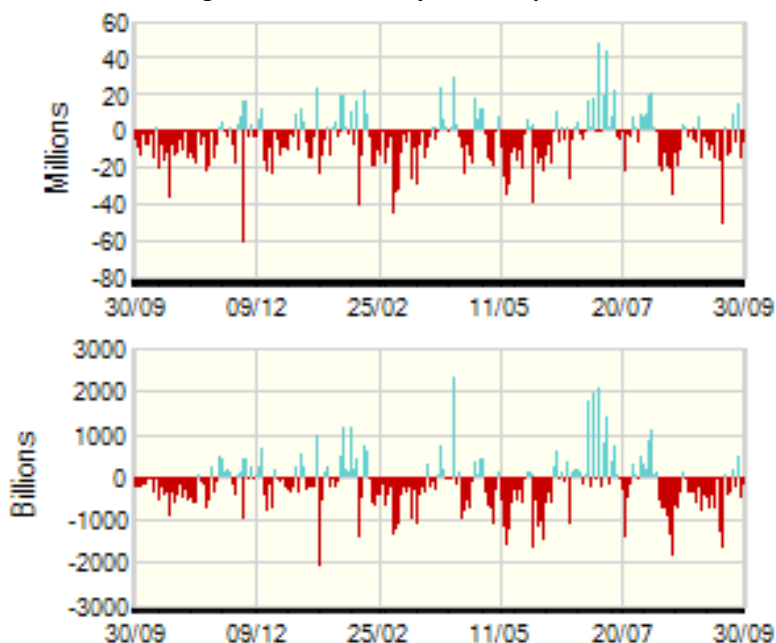
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In comparison to previous months, September turned out to be much quieter than expected, despite higher global volatility caused by the financial difficulties of Evergrande, one of China's leading real estate developers. As expected, Vietnam showed negative economic growth for the third quarter caused by the hard lockdowns in major provinces, but this is seen as a temporary slowdown, given that the country is now slowly reopening after infection rates have already declined. Smaller stocks continued to outperform the main index by a big margin which also helped the performance of our fund. The VN index gained slightly, +0.8%, while our NAV reached USD 3,373, another strong gain of +3.6% for the month, according to internal estimates. The huge outperformance of the fund compared to the index is even more visible when we look at the quarterly performance of Q3/2021, where the fund gained an estimated +10.9%, compared to an index loss of -4.7%.

### Market Developments

After a volatile summer period, the index traded in a narrow range for the first half of the month, before the financial problems of one of China's leading property developers, Evergrande, rattled world markets. Nevertheless, the market was able to end on a positive note. The small-cap index was even able to make new highs and the market breadth improved significantly. Actually, it had already bottomed back in mid-July and is now approaching its high from earlier in the year. Combined with continued high volume on positive days, this results in a perfectly designed bull market, continuously driven by local investors and missed out by foreign investors.

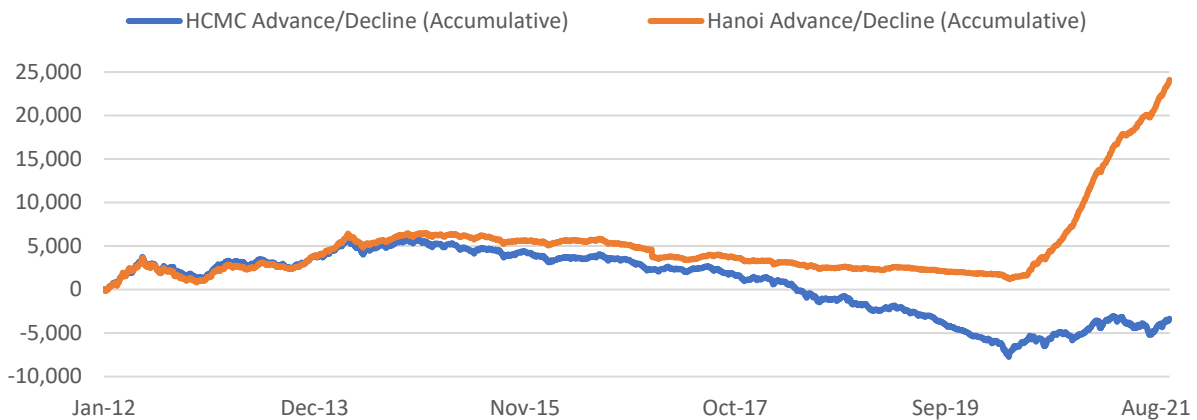
Foreigners sold massively over the past 12 months



(Source: stockbiz.vn)

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## Market breadth



(Source: Bloomberg)

The most important market impulse this year was certainly a change in local investor behavior. Although foreign market participation was never over 20%, in previous years local investors were always trying to catch up with foreign investors and therefore intensified the move of stocks which foreigners were either buying or selling. Since a better part of fund flows was from ETF's which pre-announced the reshuffling of their portfolios on certain dates, domestic investors also tried to front-run the rebalancing of foreign ETF's – and that also partly explains why foreign ETF's have performed so badly over the years.

For example, investors who bought the Van Eck's VNM ETF at its inception in 2009 are still losing money after 12 years! Investors who bought the AFC Vietnam Fund at its inception, less than 8 years ago, more than tripled their money. And still, our assets under management (AUM) are almost 90% lower than the AUM of this ETF. However, the majority prefers sub-optimal, inefficient ETF's over actively managed funds, mostly because of the argument of lower costs?!

## Looking for pennies instead of investing for the long term?



(Source: Bloomberg)

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For the first time in history yields on 5-year government bonds were lower than in the US – yes, we are talking about Vietnamese government bonds!



(Source: Investing.com)

These almost absurdly low interest rates, combined with reduced prospects near term on the real estate market – and probably more lockdown related time to study stock market movements – led to an ever-increasing interest in investing in the stock market. So called F0-investors (investors with no previous investment experience) are opening new trading accounts en-masse and are therefore increasing demand for stocks which easily compensates for foreign selling.

## VN Index and account openings

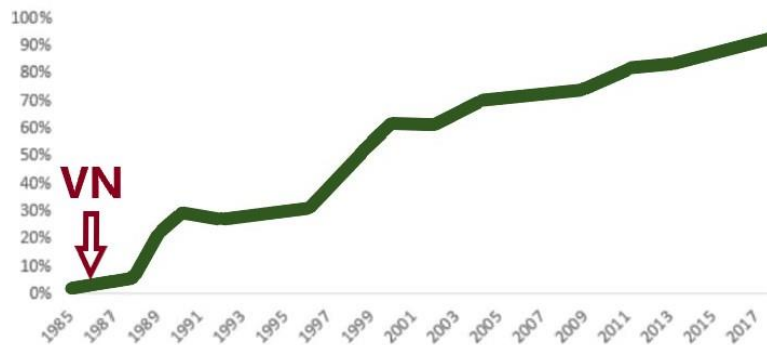


(Source: VSD, Bloomberg, AFC Research)

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For many people, this fact could flag warning signs about a possible overheating in the stock market short-term. While nobody can predict exactly an always possible correction, Vietnam is still in its infancy in the development of its financial markets, so is the participation of investors. Compared to Taiwan for example, a more mature market in Asia, the retail participation rate in Vietnam is still low at only 3.6%, compared to more than 90% in Taiwan. In addition, Vietnam offers attractive valuations and a stable currency. With next years expected recovery in economic and earnings growth, Vietnam trades at a very undemanding 13x forward earnings, 35% cheaper than the US and many other markets in the region. If Vietnam follows other East and South Asian development stories of the past, the stock market will flourish as the economy grows over the next few decades.

### Taiwan and Vietnam brokerage accounts compared to population

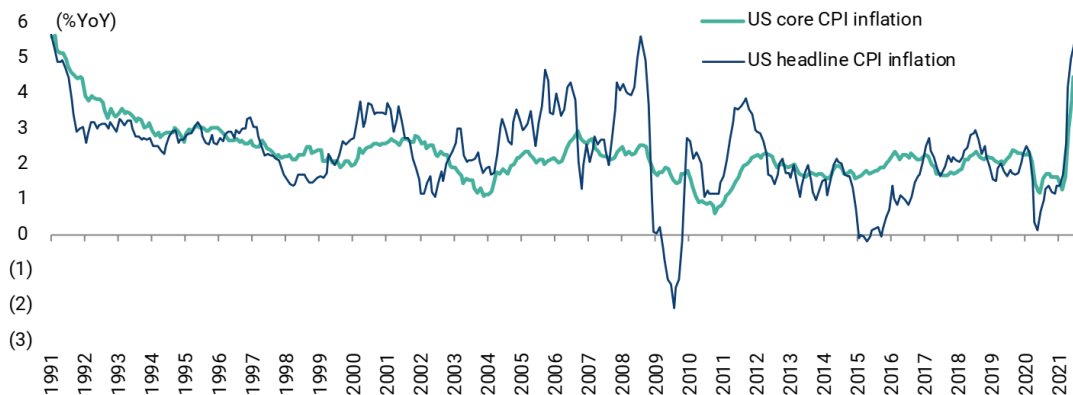


(Source: Yuanta Securities, AFC Research)

### How Vietnam wants to tackle energy inflation in the future

Whenever statistics about surges in inflation are announced (like currently!), officials are usually quick to blame this on increases in energy prices. While this might be true, the underlying reasons are seldom mentioned. Apart from external shocks, free money from central banks around the globe led to all kinds of price inflation, with asset price inflation not the least of which should be mentioned. In the US, the core inflation is meanwhile running at its highest rate since 1991 and all types of energy prices are exploding – from coal, uranium, and electricity to natural gas – and governments and central bankers continue to explain/hope/pray, that all of this is just temporary. If travel on an international scale should resume on further opening for business and leisure purposes, and manufacturing bottlenecks subside, should we really believe that demand for energy and therefore prices will fall again?

### US Inflation



Source: US Bureau of Labor Statistics

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## Energy prices 2021



(Source: Bloomberg)

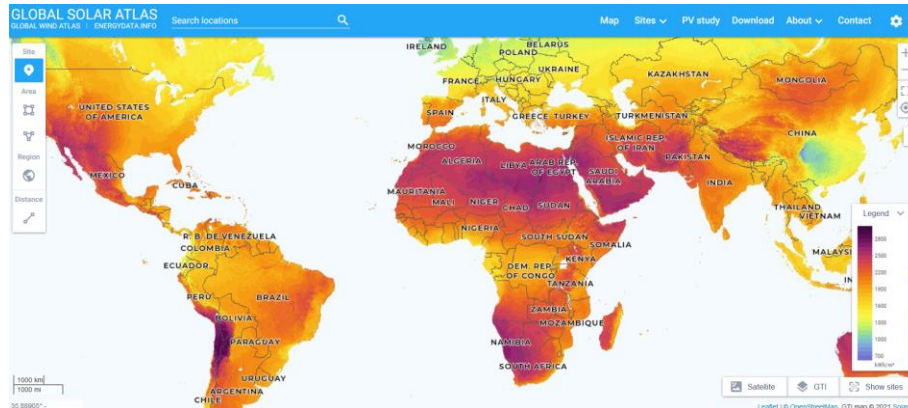
Even if the calming words, which don't offer any help, especially to lower income families who need to pay their bills, would turn out to be true, prices will not come down again. Let's assume that after consumer prices go up from 100 to 110, if inflation is 2% the following year, then consumers will still have to pay 112.20, while officials will speak of "target inflation" and achieved goals helping consumers. But will consumer's incomes rise in a similar manner while getting zero interest on their savings?

With strong energy demand growth, the Vietnamese government must find the difficult balance between securing enough energy for the country while simultaneously reducing the burden on the environment, and make sure that low earning Vietnamese whose energy bills are proportionally higher compared to those in the West, are not getting financially stressed by rising energy prices. One of the solutions is obviously the rising importance of renewable energy in their long-term energy plans.

A new draft for the long-term plan of Vietnam's energy needs, the so-called *Power Development Planning VIII* ("PDP 8") reinforces the Vietnamese Government's current view on prioritizing renewable energy sources to minimize negative impacts caused by electricity production on the environment. Other than a big increase in renewable energy, this includes an increased import of fuels and establishing or increasing transmission and distribution grid links with China, Laos, and Cambodia in order to maximize each country's energy potential. Unfortunately, Vietnam, as other countries, likes to outsource its environmental responsibility by importing electricity from neighboring countries which will reduce its environmental impact by limiting domestic pollution output – at least on paper. Of Vietnam's total electricity generation capacity of about 69 GW, more than 50% came from coal in 2020, with non-hydro renewable sources such as wind and solar making up only 5%. Under the draft PDP 8, Vietnam plans to increase solar capacity to 18.6 GW and wind capacity to 18 GW by 2030.

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Vietnam offers comparable opportunity for solar power to southern Europe

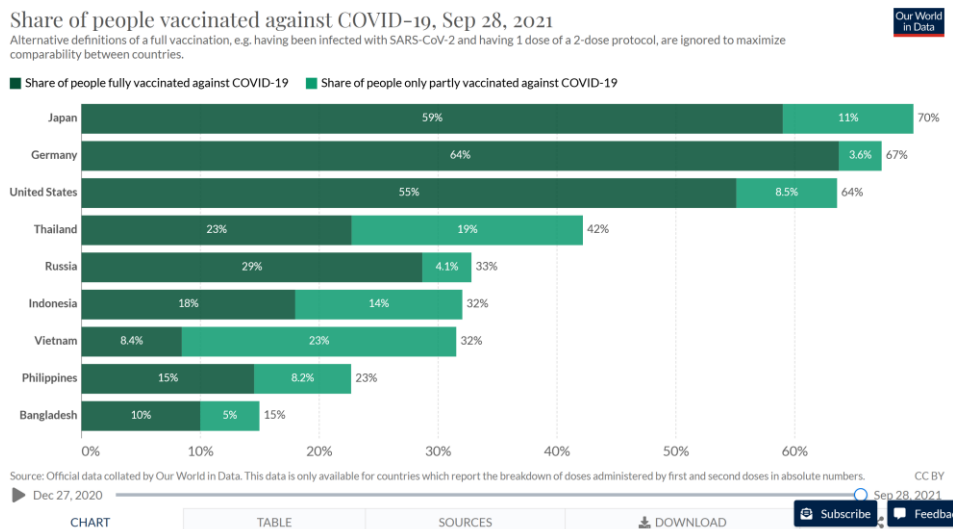


(Source: Solargis)

Governments play all kinds of tricks to fulfill their own or international targets on emissions reduction, but after all we have internationally a trend which is hardly to be stopped and will affect not only our personal lives, but also how we will invest in the future. ESG has already been adopted by many companies, investment managers and increasingly financial regulators. On a negative note, we should add, a possible side effect of reduced investments in conventional energy sources during a time of still growing demand, could lead to higher prices and further inflationary pressure. With high debt levels in most countries around the world and therefore limited ability to raise interest rates significantly, negative real interests are likely here to stay for the immediate future which equates to “creeping expropriation” of individuals savings, while over time it helps indebted individuals and governments.

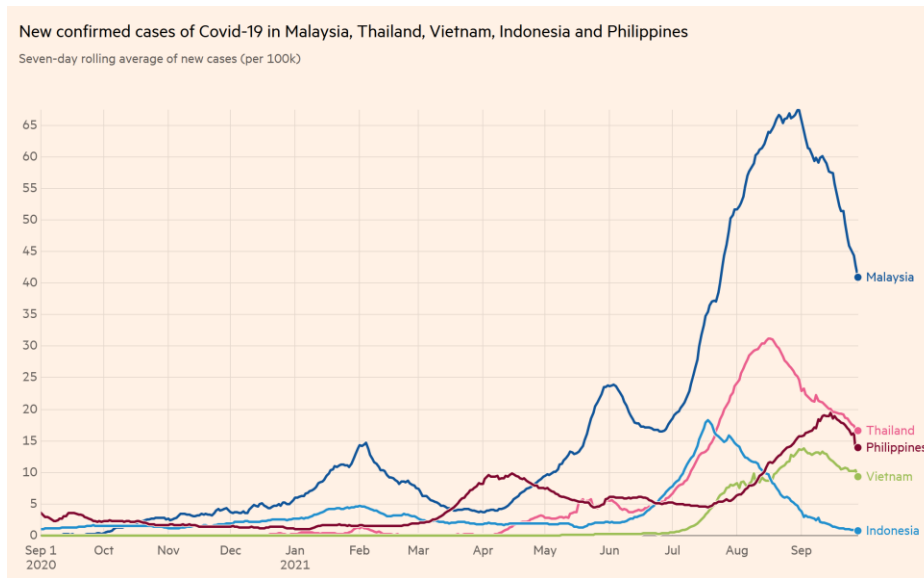
## COVID-19 update

Vietnam, like now many other countries in the region, is shifting away from trying to completely eliminate the virus in the country, instead trying to live with it under a “new normal”. As expected, vaccination rates have steadily improved, with priority given to HCMC as it continues to aggressively roll-out the first dose of vaccines, with an increasing number of people receiving a second dose. People, receiving at least one dose doubled within one month to 1/3 of the population (much higher in major cities), while infection rates started to drop. We expect that by the end of the year Vietnam will have vaccinated at least as many citizens as most European countries, and should have one of the highest vaccination rates worldwide by Q1/2022.





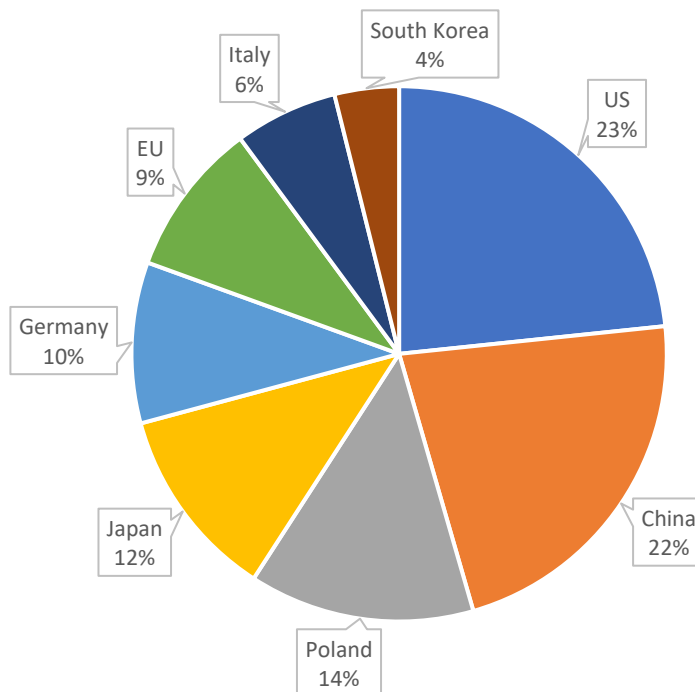
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(Source: Financial Times)

To avoid risking manufacturing companies moving out of Vietnam, we see the government under urgent pressure to continue its commitment to vaccinate fast and open its economy in a controlled and safe way. Therefore, the Vietnamese Government is quite active in trying to secure enough vaccines and has already ordered 150 mln doses from various suppliers; however, it takes time for them to deliver it due to a long waiting list. In addition, the government aggressively tried to secure immediate delivery of vaccines via various international sponsored programs.

### List of vaccine sponsors up to September 2021 (mln doses)

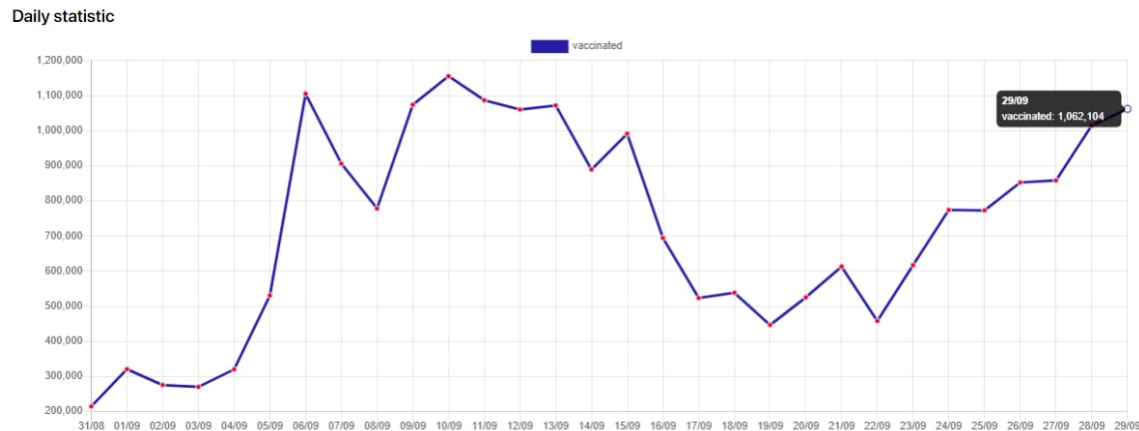


(Source: VnExpress)

## AFC VIETNAM FUND UPDATE

We saw a fast acceleration in the vaccination process in Vietnam and the country manages to provide around 1 mln shots per day to its population and it is no longer just distributed in big cities such as HCMC and Hanoi, but also to small remote villages across the country.

Daily vaccine shots



(Source: Ministry of Health)

Currently around 99% of people over 18 years in Ho Chi Minh City and Hanoi, and well over 70% in other major cities like Da Nang have received at least their first shot of COVID-19 vaccine. Like we stated in our previous reports, we expect Vietnam to be one of the countries with the highest vaccination rates in the world early Q1/2022. To better illustrate the vaccination process, please have a look at this recent video <https://youtu.be/nciGB9DSuOk?t=950> of an expat living in Da Nang, where most foreigners were vaccinated with Astra Zeneca over the past weekend.

### Economy

Macroeconomic Indicators				
	2018	2019	2020	Sep-21
GDP	7.08%	7.02%	7.30%	1.42%
Industrial production (YoY)	10.2%	8.9%	3.4%	4.5%
FDI disbursement (USD bln)	19.1	20.4	20.0	13.3
Exports (USD bln)	244.7	264.2	281.5	240.5
Imports (USD bln)	237.5	253.1	262.4	242.7
Trade balance (USD bln)	7.2	11.1	19.1	-2.1
Retail sales (YoY)	11.70%	11.80%	2.60%	-7.10%
CPI (YoY)	3.54%	2.79%	3.23%	1.82%
VND	23,175	23,230	23,108	22,760
Credit growth (YoY)	13.9%	12.1%	10.5%	7.2%
Foreign reserves (USD bln)	60	73	92	94.8

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



# AFC VIETNAM FUND UPDATE

## Subscription

The next subscription deadline will be 25<sup>th</sup> October 2021. 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 30<sup>th</sup> September 2021

NAV	3,373*
Since Inception	+237.3%*
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%	+3.6%*				+47.7%*

\*According to internal estimates

*\*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.*

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