31st January 2022

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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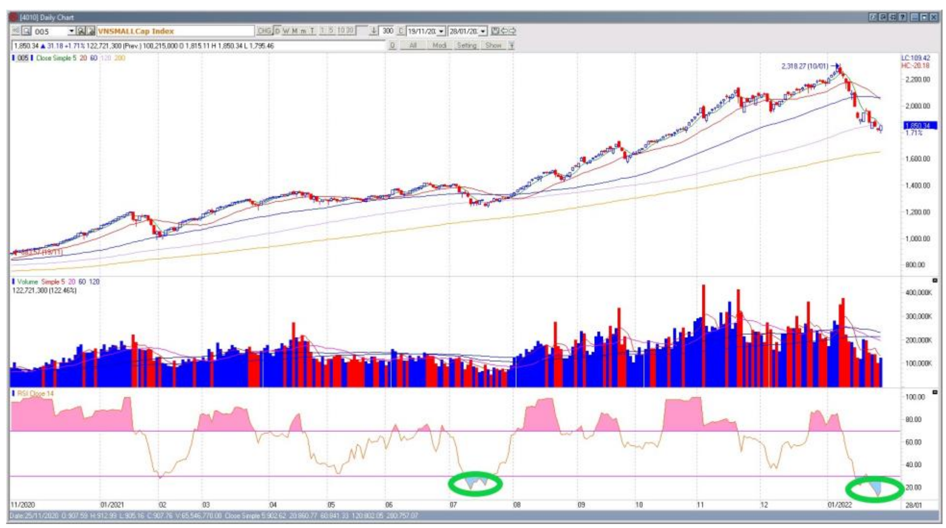
Like most other markets around the world, Vietnam experienced a correction in January. Falling share prices were registered in all sectors, but the hardest hit stocks were previously high-flying smaller companies, especially in the real estate sector. The expected FED-tightening certainly did not help, but it was local market events which led to profit taking from local investors. The index lost -1.3% in January, before the one-week Tet-holiday which starts on 31st January. Mid- and small-caps which peaked out on 10th January, subsequently corrected -16.7% and -22.6% to end the month down -9.3% and -14.8% respectively. Our portfolio also experienced mostly lower prices and corrected -2.6% with a NAV of USD 3,462, according to internal estimates.

Market Developments

January saw a strong reversal in speculative stocks, especially in small caps, after signs of a general market correction had shown up in December 2021. Mainly real estate stocks continued to rise against the rest of the market in early January but when these stocks suddenly experienced a reversal they dragged down the rest of the market with them. Vietnamese investors who favored the speculative real estate sector lately, ignored all signs of fundamental overvaluation as many of the so-called F0 (new, unexperienced investors) simply followed the herd which is driven by social media punters nowadays.

Vietnam Small Cap Index lost almost 20% intra-month



(Vietnam Small Cap Index from Nov 2020 to Jan 2022; Source: Viet Capital Securities)

With this sharp correction a lot of hot air was removed from the market and not completely unexpected, before the most important holiday week of Tet (Chinese New Year).

Stock market activity is still strong with average volume at more than USD 1.2 bln, while foreign trading is now more balanced overall, although with very limited impact. On the other hand, a growing, but still widely ignored game changer in Vietnam is the derivative market. Established in 2017, volume continuously grew over the past few years to around USD 1bln at present, similar to the cash market. The main players in the derivative market are individual investors and trading activity is concentrated mainly in short maturity futures on the VN30 index. This leads to an increasingly important role of the futures market and increases the risks of short-term volatility, but also enables market participants to hedge their bets in falling markets.

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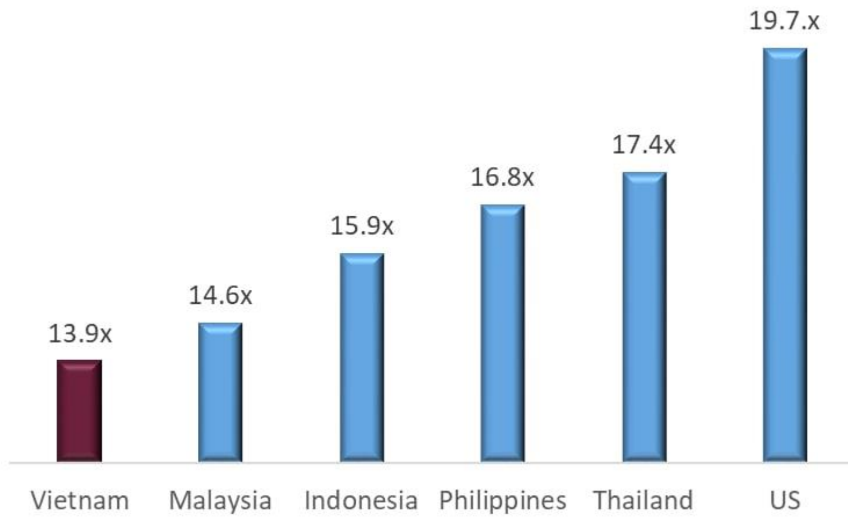
Once the current market correction is over, we expect investors to focus again on fundamentals, especially with the current release of Q4- and year end results. How cheap the market is compared to others in the region is shown below.

2022 forward P/E ratios



(Source: Bloomberg, AFC Research)

Emerging Markets in South East Asia are becoming increasingly undervalued compared to the rest of the world. Unlike during other late bull market cycles in the west, when historically Emerging Markets became more expensive after money managers drove Emerging Markets up dramatically, this cycle looks just the opposite. Not only do they look cheaper, but they also offer higher re-opening potential (COVID-19), as general life there is just starting to normalize.

Emerging Market ETF is trading at the same level as 10 years ago

(Source: Yahoo!finance)

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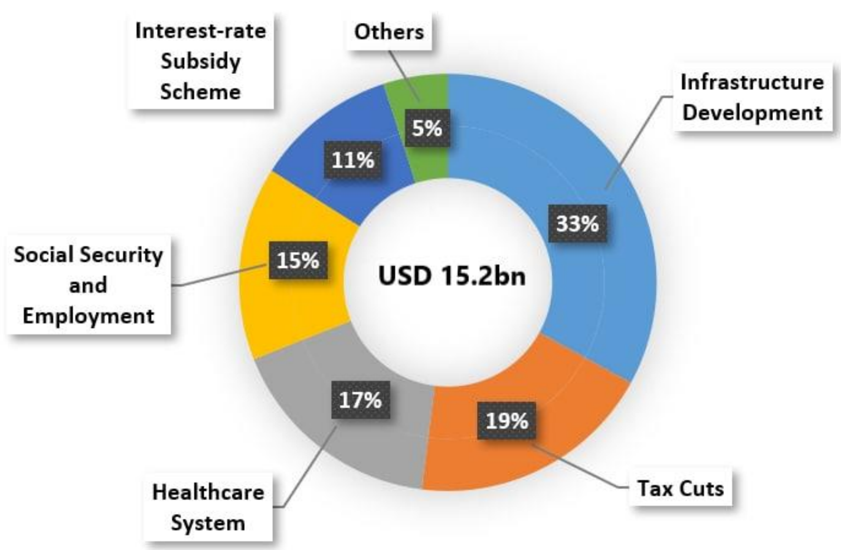
Economic stimulus package

On 11th January 2022, the Vietnamese National Assembly approved a giant economic stimulus package of USD 15.2 bln, equivalent to 4.1% of GDP.

Several key points of the fiscal support measures are as follows:

- A VAT cut of 2% as of February 2022 from 10% to 8% will be applied on goods & services.
- An additional budget for investment and development in 2022 and 2023 of maximum USD7.7 bln, in the following sectors:
  - Healthcare (USD 835 mln to build, upgrade, and modernize the healthcare system and medical centers, among others).
  - Social security, labor and employment (USD 355 mln).
  - Enterprise and household business recovery (USD 1.8 bln for an interest rate cut of 2%/year for selected entities).
  - Infrastructure development (USD 5 bln) — mainly focusing on transportation infrastructure (HCMC Airport, North-South Highway, HCMC and Hanoi Metro).
- Other fiscal support measures include housing rental support for workers (USD 290 mln) and increasing government-backed bonds issued by the Vietnam Social Policy Bank by up to VND38.4 tln (USD1.7 bln) for a lending program to selected priority entities.



(Source: Vietnamese National Assembly)

Obviously, this economic stimulus package is vital for the Vietnamese economy in 2022-2023. According to the package, construction and consumption are expected to be the key beneficiaries. With this support, the Vietnamese National Assembly also set a much higher target for economic growth in 2022 of 6.0% - 6.5%, compared to 2.58% in 2021. Also, in its latest economic forecast, the Asian Development Bank (ADB) forecasts Vietnam's GDP to rebound to 6.5% in 2022 assuming there will be no major future COVID-19 outbreak. Tim Evans, CEO of HSBC Vietnam, believes that growth may even reach 6.8% this year, driven by strong FDI.

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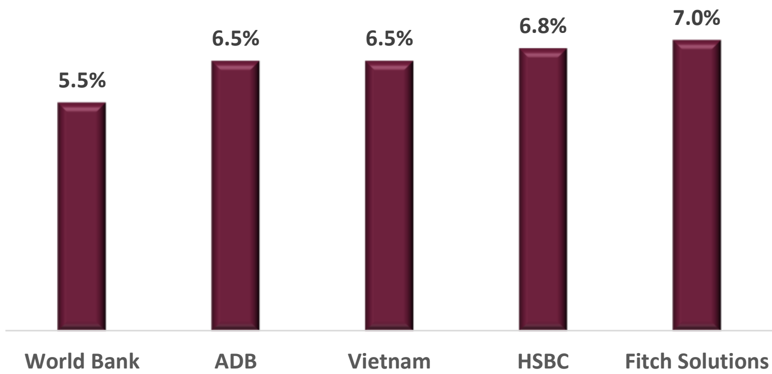
Vietnamese GDP growth forecasts in 2022

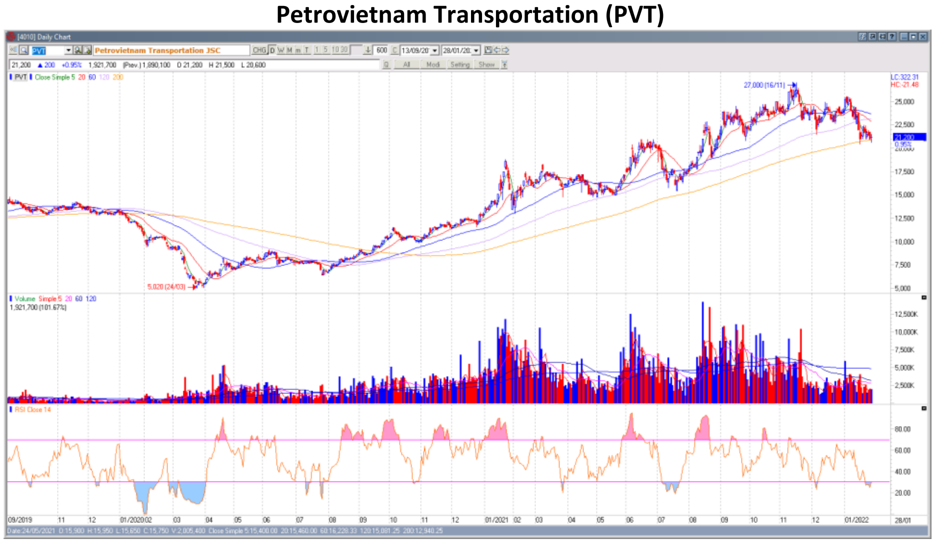


(Source: AFC Research)

Real estate sector

In 2021 we saw a strong inflationary trend worldwide when commodity prices surged, such as energy, steel, urea, and cooking oil, among many others. This trend helped stocks in these sectors in Vietnam to outperform the market. Steel prices increased aggressively in the first half of 2021 which helped many steel companies expand their margins and increase their profits dramatically, which led to strong performance in share prices. The price for urea tripled and pushed share prices of urea producers to all-time highs. Similar gains were experienced in other sectors such as energy, cooking oil, and sea shipping.

Petrovietnam Transportation (PVT)



(Source: Viet Capital Securities)

Particularly, new individual investors (so-called F0 investors) entered the stock market in big numbers and amplified gains in those sectors, as their investment decisions are mainly driven by social media, "insider" tips (which they usually are not as we all know), and inexperienced lemming behavior. One of the sectors which gained a lot of attention in the last 2 months was real estate. This sector has a magic attraction for everybody from first-time home owners to experienced real estate developers – and of course to all kinds of speculators in physical properties and real estate stocks. Real estate prices rose sharply all over the country, from cities to the countryside. In the media the number of articles about land prices and "land fever" increased sharply, which is a good indicator of a hot market. At that time, individual investors, particularly F0 investors, rushed to buy property stocks and pushed them up aggressively in belief that if land prices doubled or tripled, share prices of real estate stocks should increase much more than that, similar to other commodity stocks. This belief was confirmed and supported strongly after the historical land auction of 4 plots of land in Thu Thiem, District 2, Ho Chi Minh City on 10th

December 2021. Of the 4 land plots that were successfully auctioned, the first 3 plots reached a price of VND 470 mln to VND 1 bln (USD 21,000 to USD 44,000) per square meter. Tan Hoang Minh Group, a real estate company, also joined this auction and bought the last lot of 10,650 square meters for an incredible VND 2.4bln (USD 105,000) per square meter, 8.3 times higher than the starting level and clearly a record price on the peninsula.

Thu Thiem Peninsula, District 2, Ho Chi Minh City

(Source: Vietnam Investment Review)

In the aftermath of this auction, real estate stock prices continued to climb to exorbitant levels, valuing many of these stocks at 100-200 times earnings. They also pushed up the index itself while the remaining market hardly moved. Then suddenly, Do Anh Dung, the chairman of Tan Hoang Minh Group decided to cancel the deal (a plot of 10,650 square meters), saying in a statement that he was concerned about the negative consequences for the real estate market, accepting to forfeit his deposit of VND 588 bln (USD 25.5 mln) as a consequence. But rather than "to save the real estate market", it had quite the opposite effect and market participants were shocked. Roughly at the same time, an unrelated event happened and it was revealed that Mr. Trinh Van Quyet, the chairman of FLC, a real estate developer, sold 74.8 mln shares (10.5% of the company) without notifying the SSC (State Securities Commission) in time, triggering a selloff in the market. Most real estate stocks hit the floor on several consecutive days. For example, FLC lost 58% from the peak of VND 24,100, but the stock is currently still trading at a PER of 45x.

FLC Corp.

(Source: Viet Capital Securities)

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This had a broader impact on the overall market, given that investors with margin calls were hardly able to sell their holdings in stocks such as FLC, which went “limit down” for days with almost no volume, although previously they were always among the most liquid stocks on the exchange with tens of millions of shares traded daily. After this announcement, the liquidity of FLC mostly disappeared with very few buyers for a couple of days - the hot money suddenly became cold. As a consequence, in need of liquidity, other stocks were sold and selling spread to the whole market, dragging down the main index by 7% within a few days, and the small cap index lost a staggering 18% in the same period.

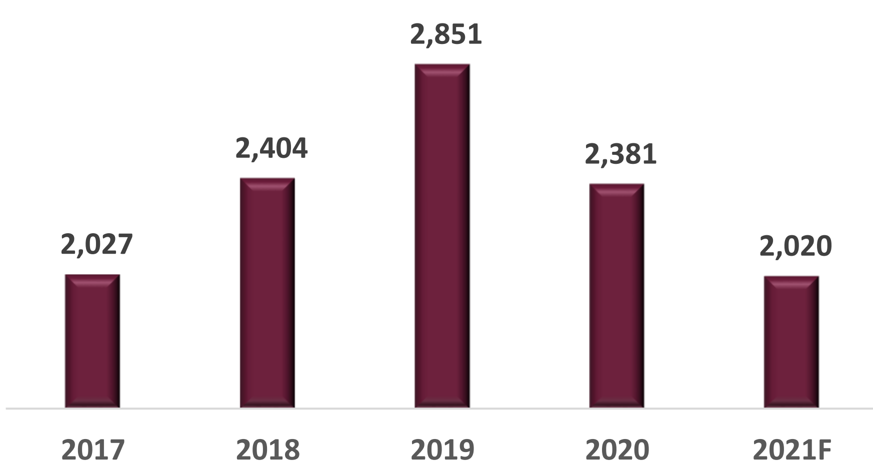
However, these extreme movements were mostly seen in a few small and mid-cap stocks, while larger real estate companies were not that volatile. For example, the share price of VRE, Vincom Retail, did not change much at all over the last 12 months and the market cap is still around USD 3.4 bln.

Vincom Retail (VRE)

(Source: Viet Capital Securities)

VRE, the largest commercial real estate lessor is expected to have a great year with the country opening up again. During the pandemic, most commercial centers were closed under the regulation of authorities. This led to a strong fall in revenues with an uncertain outlook.

Net profit of VRE (VND bln)



(Source: VRE, AFC Research)

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However, with the very high vaccination rate in Vietnam of 80% for the whole country and 99% in big cities such as Ho Chi Minh City and Hanoi, the country is expected to operate normally again very soon. The government also loosened travel restrictions which provided an important boost to the air travel industry and hotels. Only 3 months ago, a negative COVID-19 test was required before you were able to fly; now proof of being fully vaccinated is sufficient.

Tan Son Nhat Airport on 19th January 2022

(Source: AFC Research)

Bui Vien Street in HCMC by night

(Source: Zingnews)

With the upcoming Chinese New Year festivities ("Tet" in Vietnam), February will be a short trading month, given that the first trading day will be on 7th February. Despite an ongoing normalization in many parts of Vietnam already, we expect a further "back to normal" development after Tet, when many workers, will return for work to factories in industrial hubs in the North and South.

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(Source: Phap Luat News)

We wish our readers and investors a Happy Vietnamese New Year of the Tiger - **chúc mừng năm mới 2022!**

Economy

Macroeconomic Indicators				
	2019	2020	2021	Jan-22
GDP	7.02%	2.91%	2.58%	2.58%
Industrial production (YoY)	8.9%	3.4%	4.8%	2.4%
FDI disbursement (USD bln)	20.4	20.0	19.7	1.6
Exports (USD bln)	264.2	281.5	336.3	29.0
Imports (USD bln)	253.1	262.4	332.3	29.5
Trade balance (USD bln)	11.1	19.1	4.0	-0.5
Retail sales (YoY)	11.80%	2.60%	-3.80%	1.30%
CPI (YoY)	2.79%	3.23%	1.89%	1.94%
VND	23,230	23,108	22,782	22,662
Credit growth (YoY)	12.1%	10.5%	13.0%	1.0%
Foreign reserves (USD bln)	73	92	105	105

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

Subscription

The next subscription deadline will be 22nd February 2022. 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 31st January 2022

NAV	3,462*
Since Inception	+246.2%*
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**	-2.6%*												**-2.6%***

***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.
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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