31st May 2023

AFC VIETNAM FUND UPDATE

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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
CIO	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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In May the stock market exhibited a subdued demeanor, characterized by predominantly sideways movement and limited trading volume. Nevertheless, the VN-index managed to increase by+2.48%, and the AFC Vietnam Fund recorded growth of +3.2% to an NAV of USD 3,118, according to internal estimates.

Market Developments

Despite a relatively quiet stock market environment in May, the index managed to gain 26.05 points and closed at 1,075.17, representing an increase of 2.48% and the AFC Vietnam Fund recorded another positive month, slightly outperforming the index with a 3.2% gain. It is worth noting that the AFC Vietnam Fund has significantly outperformed the VN-index and most other funds since its inception date of 23rd December 2013. Over the span of nearly 10 years, the fund has achieved a remarkable 211.8% return (according to internal estimates), outshining the 89.9% return (in USD terms) of the VN-Index. This impressive performance underscores the fund's ongoing ability to outperform the market, primarily attributed to its robust portfolio construction.

AFC Vietnam Fund continues to outperform

(Source: Bloomberg)

Vietnamese Government Stimulus Measures:

The Vietnamese Government, particularly the State Bank of Vietnam, has implemented several measures to stimulate the economy. These actions include:

- Reduction in deposit interest rates: The deposit interest rate has significantly decreased from 10-11% in January to approximately 7-8% in May for 12-month deposits. Additionally, the State Bank of Vietnam purchased around USD 4 bn to bolster foreign reserves and injected over VND 100 trn into the market. These actions have improved banking liquidity and contributed to a significant drop in interbank rates, although lending rates decreased at a slower pace.

- Value added tax (VAT) cut: The National Assembly has agreed with the Government to reduce the VAT by 2%, from 10% to 8%, excluding banking, real estate, and securities services. This policy, effective from July, is expected to stimulate consumption and private investment in the third quarter.

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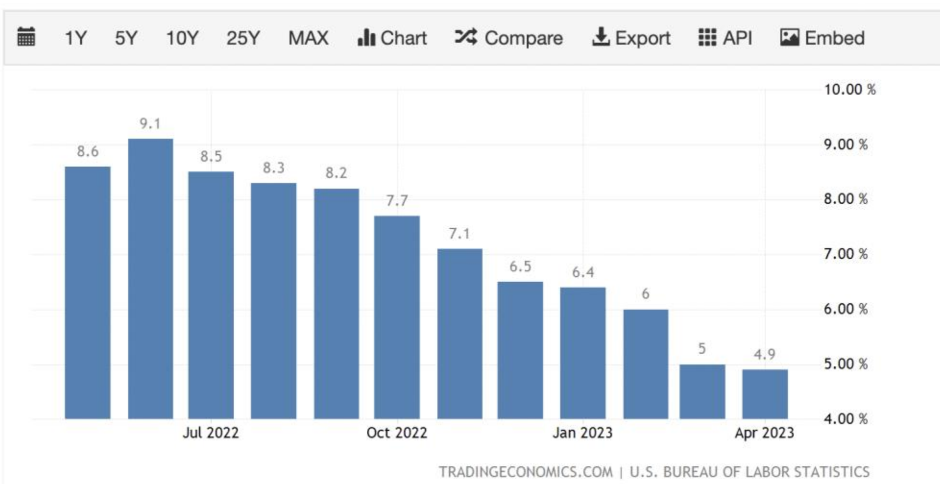
- Real estate sector support: The government has introduced various policies to assist real estate developers and increase liquidity in the sector. Notably, the government has granted "house use right certificates" for condotel projects that were previously ineligible for this privilege.

- The VIII power master plan: The Vietnamese Government approved the VIII power master plan, outlining its long-term vision for energy development until 2050. The plan prioritizes renewable energy sources such as wind power, solar power, and other green energy. By 2050, renewable energy is projected to contribute over 70% of Vietnam's energy needs, aligning with the country's commitments at COP26. Moreover, the master plan facilitates existing renewable energy projects in selling electricity to EVN, the state-owned electricity company. This provision offers a lifeline to projects with billion-dollar investments.

All these government actions have certainly bolstered investor confidence in Vietnam. However, the headlines in May were dominated by concerns surrounding the drama in the US regarding the "debt ceiling expansion" and the potential far reaching consequences if a deal was not reached. The media's repeated emphasis on this issue created apprehension among investors. Fortunately, an agreement was reached just in time by the end of the month, leading to a significant improvement in investment sentiment and strong gains with increased liquidity in the month’s final trading days. Additionally, US inflation has decreased as expected, leading many analysts to speculate that the Federal Reserve may not raise interest rates again in June. With rates potentially reaching their peak, the market appears to have bottomed out, and we anticipate a strong recovery in the second half of 2023 and 2024.

US Inflation (%)



(Source: Trading Economics)

FDI into manufacturing reaches record level

Vietnam has experienced a remarkable surge in foreign direct investment (FDI) flows into the manufacturing sector, reaching the highest level since the onset of the COVID-19 pandemic in the first three months of 2023. Despite the adverse effects of the pandemic, Vietnam continues to attract substantial FDI, playing a crucial role in transforming the country into a prominent global production hub. Over the past five years, since Vietnam revised its 30-year foreign investment attraction strategy, FDI flows into the country have been consistently increasing.

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Prime Minister Pham Minh Chinh Acknowledged This Achievement During a Meeting in Hanoi

(Source: Voice of Vietnam)

According to statistics from the Ministry of Planning and Investment (MPI), the registered FDI in Vietnam from January 2018 to 20th April, 2023, amounted to a total of USD 180 bn, equivalent to 40.3% of the accumulated investment capital over the past 35 years. As of April 2023, Vietnam had attracted 37,065 foreign-investment projects, with a total registered capital of USD 445.87 bn, of which USD 279.8 bn has been disbursed. Over the last five years, the total FDI disbursement reached USD 107.47 bn, accounting for 38.4% of the total disbursed capital over the past 35 years. On average, around USD 19-20 bn of FDI is disbursed annually during the reviewed period. Notably, in 2022, a record amount of USD 22.4 bn in FDI disbursement was achieved, further highlighting Vietnam's increasing prominence in global supply chains, particularly in sectors such as textiles, footwear, and consumer electronics.

Several multinational corporations have expanded their investments in Vietnam. Quanta Computer of Taiwan, a major MacBook manufacturing partner for Apple, recently signed an agreement with the People's Committee of the northern province of Nam Dinh to develop a large-scale computer production project in My Thuan Industrial Park, with an expected investment capital of USD 120 mn. This marks Quanta's ninth factory globally and its first in Vietnam, indicating Apple's continued shift of production to the Southeast Asian nation. Similarly, Foxconn, another key Apple partner, plans to establish a new factory in the central province of Nghe An, expanding its production in Vietnam following successful investments in the northern provinces of Bac Ninh and Bac Giang. Samsung, a leading example of foreign investment in Vietnam, has invested a total of USD 20 bn in the country, while LG's investments over the past five years amount to USD 7.5 bn. LG has consistently added capital to its factories, including LG Display, LG Innotek, and LG Electronics. Additionally, Lego Group of Denmark began construction of a project worth over USD 1.3 bn in Vietnam last year, marking another significant milestone.

The remarkable FDI inflows into Vietnam's manufacturing sector signify its increasing attractiveness as an investment destination and reflect the country's continuous efforts to enhance its business environment and infrastructure.

Small and mid-cap stocks leading the market in the next two years?

In the past two months, there has been a noticeable surge of investment in small and mid-cap stocks, leading to the outperformance of the small-cap index and mid-cap index over the key benchmark. Many of these smaller stocks experienced significant jumps of 50-70% within a short period. On the other hand, large-cap stocks such as banks, consumer goods, and major real estate companies did not exhibit as much movements, despite their decent business performance in the first quarter. The primary factor driving this trend is the limited money supply in the stock market compared to the substantial injections of funds seen in 2020-2021 when central banks worldwide injected billions of US dollars into the economy. As a result, investors, particularly local individual investors, have shown a preference for investing in small and mid-cap stocks, rather than large caps.

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Small and mid-cap index outperformed

(Source: HOSE, AFC Research)

For instance, one of the larger holdings in our portfolio, EVE, experienced a significant surge in May. Its share price increased by 31.2% from VND 14,100 per share to VND 18,500 per share, accompanied by substantial liquidity. The AFC Vietnam Fund, with a 7.7% ownership stake, is currently one of EVE's largest shareholders. The number of traded shares of EVE skyrocketed from around 50,000 shares to over one million a day, with nearly 5% of the company's outstanding shares being traded on 16th May 2023. EVE has compelling fundamentals and a strong balance sheet, being the most well-known bedding brand in Vietnam with its flagship brand, Everon. The company boasts more than 600 sales agencies throughout the country and achieves an annual revenue of VND 1,000 bn. The stock appears undervalued with a price-to-book ratio of 0.8x and a dividend yield of 5.5%.

EVE Share Price increased Strongly in May

(Source: Vietcapital)

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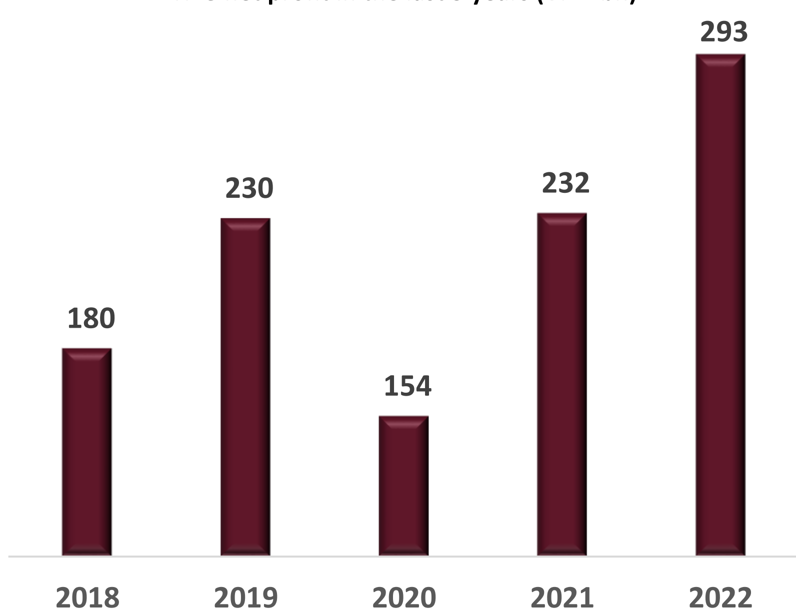
Interestingly, a similar situation occurred during the real estate crisis in 2012-2013. During that time, market liquidity plummeted to its lowest level in over a decade as the State Bank of Vietnam implemented a tightening of monetary policy to control inflation. The AFC Vietnam Fund, which primarily focused on the small and mid-cap segment, experienced considerable success during 2014-2015, when this segment outperformed large cap stocks. Now, a decade later, history appears to be repeating itself. The big cap segment is currently facing limited money supply, while the appeal of small and mid-cap stocks continues to grow. If this trend persists over the next two years, we are confident that the AFC Vietnam Fund will once again be able to outperform the market. As we have previously reported, we anticipate a growth story to unfold over the next five years following the real estate crisis. Consequently, our investment strategy has shifted from high dividend stocks with limited growth potential to strong growth stocks. In the past five months, we have already exited some high dividend stocks and entered some mid-cap stocks with promising growth potential. As an example, we recently reacquired a stock we previously owned, TNG.

TNG is a mid-cap garment company with a total market capitalization of around USD 90 mn. It serves as an OEM clothes supplier for Decathlon, a French sporting goods retailer. Despite a 20% decline in Vietnam's garment export revenue due to weak consumption in the EU and US during the first quarter of this year, TNG still managed to achieve positive results. In Q1, TNG's revenue increased by 5.9% to USD 57 mn, and its net profit also experienced a slight 15.7% gain, amounting to USD 1.9 mn. Currently, TNG is trading at a P/E of 6.6x and P/B of 1.2x, quite attractive for a company with an annual earnings growth of around 20%.

TNG net profit in the last 5 years (VND bn)



(Source: TNG, AFC Research)

The State Bank of Vietnam (SBV) has recently implemented adjustments to several key policy interest rates, effective 25th May 2023, in response to the government's call for interest rate reductions to support the economy.

Decision No. 950/QD-NHNN, dated May 23, 2023

- Refinancing rate: Decreased from 5.5% p.a. to 5.0% p.a. on 31st March 2023.
- Discount rate: Decreased from 4.5% p.a. to 3.5% p.a. on 14th March 2023.
- Overnight rate: Decreased from 6.0% p.a. to 5.5% p.a. on 14th March 2023.

Decision No. 951/QD-NHNN, dated May 23, 2023, in accordance with Circular No. 07/2014/TT-NHNN

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- Deposit rate cap for terms less than one month: Decreased from 1.0% p.a. to 0.5% p.a. on 31st March 2023.
- Deposit rate cap for terms from one month to less than six months: Decreased from 5.5% p.a. to 5.0% p.a. on 31st March 2023.
- Deposit rate cap for term deposits at People's Credit Funds and microfinance institutions: Decreased from 6.0% p.a. to 5.5% p.a. on 31st March 2023.
- Deposit rate for terms of six months and above: To be adjusted by credit institutions based on market demand and supply.

Expected Consequences

According to Vietcapital Securities, the third-largest stock broker in Vietnam, the SBV's decision to lower interest rates aligns with their recent communication, indicating further rate cuts if favorable conditions persist. Vietcapital Securities believes that the rate cut is supported by several factors: (1) domestic inflation is under control, (2) liquidity in the banking system has improved, and (3) the Vietnamese Dong has appreciated against the USD since the beginning of the year.

Weak credit demand from retail customers was observed in Q1 2023, partially attributed to the high-interest rate environment. As the SBV initiated rate cuts in March 2023, there is typically a time lag before the cuts are reflected in lending rates. Vietcapital Securities initially expected the rate cuts in March to gradually improve credit demand rather than produce an immediate impact. With the recent rate cut, they anticipate a stronger recovery pace, supporting their view that credit demand, particularly from retail customers, will rebound in H2 2023. This development enhances the likelihood of achieving the SBV's 14% credit growth target for the year. Overall, the SBV has reduced the policy rate by 100 basis points since the beginning of the year.

Furthermore, the SBV recently adjusted the exchange rate of USD/VND to 23,400, marking the first adjustment since December 2022. This adjustment was prompted by the abundance of USD in the banking system, leading the SBV to accumulate a foreign currency reserve of US$6 bn.

Economy

Macroeconomic Indicators				
	2020	2021	2022	May-23
GDP	2.91%	2.58%	8.02%	3.32%
Industrial production (YoY)	3.4%	4.8%	7.7%	-2.0%
FDI disbursement (USD bln)	20	19.7	22.4	7.7
Exports (USD bln)	281.5	336.3	371.9	136.2
Imports (USD bln)	262.4	332.3	360.7	126.4
Trade balance (USD bln)	19.1	4.0	11.2	9.8
Retail sales (YoY)	2.60%	-3.80%	19.80%	12.60%
CPI (YoY)	3.23%	1.89%	3.15%	3.55%
VND	23,108	22,782	23,663	23,495
Credit growth (YoY)	10.5%	13.0%	12.9%	3.0%
Foreign reserves (USD bln)	92	105	90	96

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

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Subscription

The next subscription deadline will be 26th June 2023. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

NAV as of 31st May 2023

NAV	3,118*
Since Inception	+211.8%*
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**	-2.51%	+1.92%	+5.99%	-5.82%	-5.85%	-3.73%	+2.50%	+1.76%	-10.01%	-10.53%	+1.35%	+6.09%	**-18.84%**
2023	**USD**	+4.70%	-5.71%	+3.80%	+2.17%	+3.2%*								**+8.1%***

***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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