

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

Contact Information

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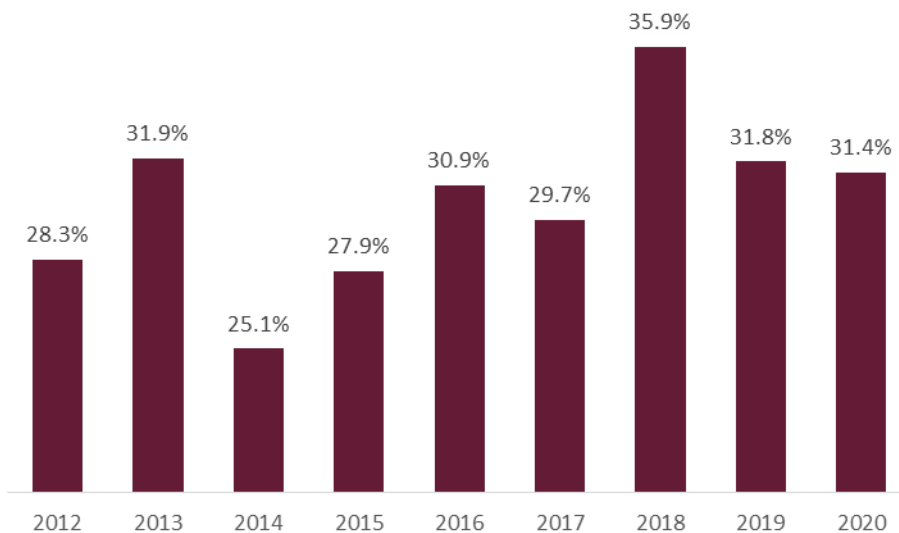
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After being up nearly 5% earlier in the month, profit taking set in and markets experienced a broad correction. Despite Vietnam eking out small GDP growth for the first half of the year, both foreign and local investors reduced their risk ahead of second quarter earnings. The indices in Ho Chi Minh City and Hanoi lost -4.6% and -0.1% respectively (with the two highest-weighted banks pushing the index up 12% at one point), while small and mid-cap stocks showed small losses. Our continued defensive positioning helped the fund avoid bigger losses last month and according to internal calculation, our NAV lost -0.4% (NAV USD 1,618).

Market Developments

The volume on the Vietnamese stock market was relatively high during the month due to increased interest from local investors. Foreigners continued to be net sellers for most of the month, which was easily absorbed by the always more dominant local investor base. In 2020, foreigners sold more than USD 200 mln, but to keep that in context – this is less than the current average daily turnover on the two stock exchanges and just a little more than 0.1 per-mille of total market cap. We should also not forget that during the market collapse between 2008 and 2012 foreigners were buyers most of the time, so any directions to be interpreted from foreign flows are questionable. This confirms our theory that while international money flows are important for Vietnam, as is the case for any other market, it is more important to see growing domestic investor participation in order to create a sustainable stock market.

Foreign market participation rate over the years



(Source: HOSE, AFC Research)

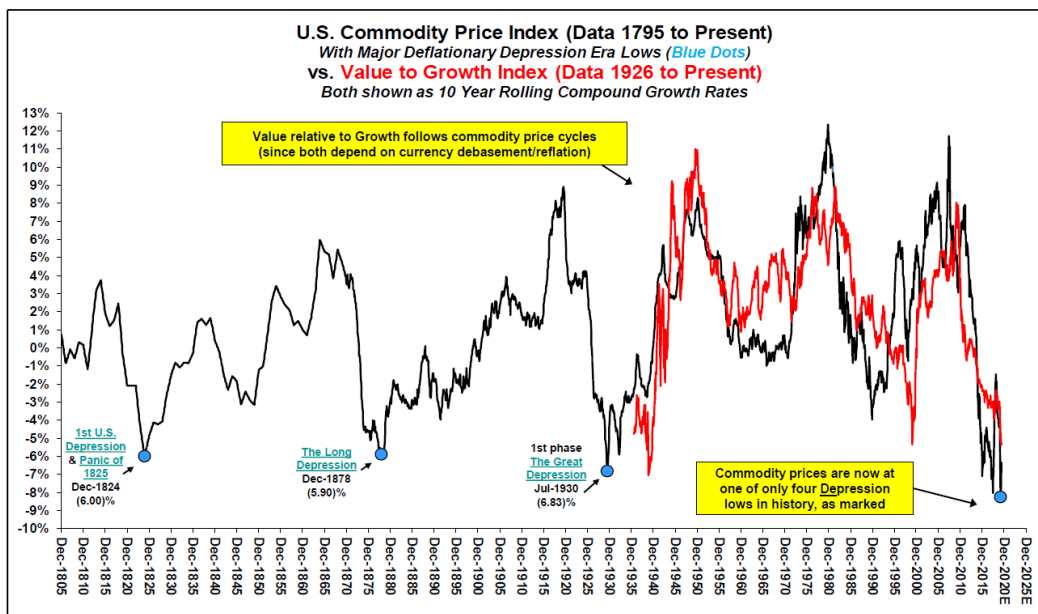
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Monthly price trend and market turnover 2012-2020



(Source: Viet Capital Securities)

Internationally, stock markets recovered strongly on the back of record stimulus programs from governments around the globe with their size and scope easily surpassing the stimulus programs during the global financial crisis back in 2008. Increased liquidity from central banks brought back not only investor confidence, but also many stock indices, which rebounded to within 10% of pre-crisis levels, or in the case of the American technology index, NASDAQ, to a new record high. Given lower earnings for 2020, little earnings visibility for 2021 and stretched valuations in many developed markets, we should finally see a relative outperformance of Frontier- and Emerging markets which have underperformed for several years and which offer much better value on prospects of a reflation economy. The US investment house Stifel showed in a recent study how close to a turning point we are for value investing. With Frontier Funds having lost almost 90% of their assets under management, the turning point should be upon us.



Source: Warren & Pearson Commodity Index (1795-1912), WPI Commodities (1913-1925), equal-weighted (1/3rd ea.) PPI Energy, PPI Farm Products and PPI Metals (Ferrous and Non-Ferrous) ex-precious metals (1926-1956), Refinitiv Equal Weight (CCI) Index (1956-1994), and Refinitiv Core Commodity CRB Index (1994 to present). Value vs. Growth links the Fama/French (Dartmouth/Tuck web-hosted) series (details [here](#), data [here](#)) from 1926-77 and the Russell 1000 Total Return Index 1978 to present.

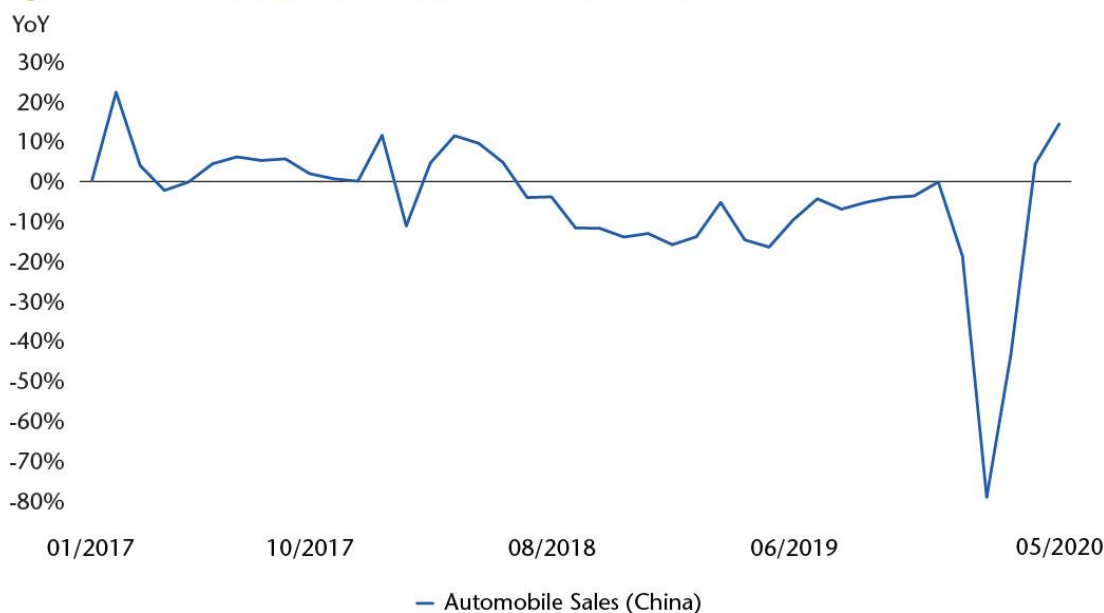
(Source: Stifel, Nicolaus & Company, Incorporated)

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We do not believe that local investors in Vietnam, who are driving the market, have a close eye on those things, but cheaper money certainly helps very speculative-oriented retail investors, clearly seen in the sudden increase in liquidity since May.

After the strong recovery from April to early June we saw the first signs of a necessary and long-awaited correction. With the world turning from overly pessimistic to outright optimistic based on mostly positive news flow of an imminent recovery in the global economy, we would like to highlight the importance of looking beyond the strong headline numbers we see on financial and mainstream news nowadays. Instead of focusing too much on US/European- or Vietnamese numbers, it is worth looking into the recovery of China which was the first country to enter and recover from the COVID-19 crisis. Auto sales, for example, have jumped back strongly to pre-crisis levels, while sales in Europe are still 57% below last year's level. But does this mean that China's car industry has successfully recovered from the crisis already? Honestly, we do not know – and we doubt anybody else is able to tell with only a small amount of certainty. The recent May numbers are certainly encouraging, but could also be mere pent-up demand after the numbers crashed by -80%.

Figure 3. CONSUMERS ARE BACK: AUTO SALES RECOVERING



Source: CEIC

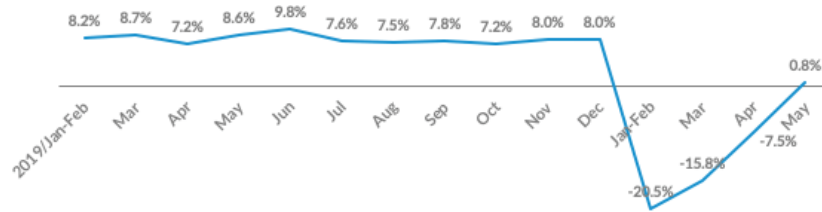
(Source: CEIC, Matthews International Capital Management, LLC)

Those previous disastrous numbers are now also the basis for the sometimes euphoric “recovery numbers” we currently read all across countries and industries. After all, a month-on-month improvement of 100% from -80% means nothing more than the number is still 60% below last year! Keeping this – and the risk of a second wave - in mind, we will only get an idea about the quality of the economic recovery in the months ahead. Current expectations for automobile sales in China have now been increased from -20% to -10% for the full year of 2020. For next year, estimates are looking for an albeit extremely uncertain recovery of +13%. In other words, if the numbers turn out to be correct, there would be no growth at all for 2 years.

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CIW

Monthly Growth Rate of Total Retail Sales of Consumer Goods in China



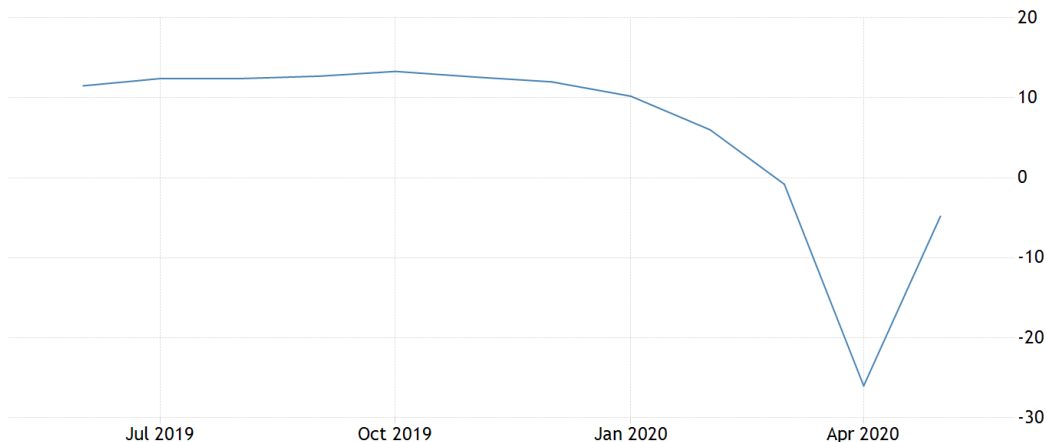
China Internet Watch



Source: National Bureau of Statistics, Jun 2020

The same can be said for the very important retail sales number which reflects probably best the domestic sector as well as the confidence and power of the individual consumer. That is why we will closely watch this number in Vietnam over the coming months.

Monthly Growth Rate of Total Retail Sales of Consumer Goods in Vietnam



SOURCE: TRADINGECONOMICS.COM | GENERAL STATISTICS OFFICE OF VIETNAM

Can Vietnam do better?

With Vietnam soon to reach 3 months without any community infections, daily life has become pretty normal in Vietnam and for many people COVID-19 is already history, at least for the time being. ASEAN countries, with a population of more than 600 mln, have reported far fewer total cases and deaths than compared to just Germany for example, which is not doing bad themself.

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CONFIRMED COVID-19 CASES AND DEATHS IN ASEAN



	Total Cases	New Cases	Total Deaths	New Deaths	Total Recovered	Active Cases
Indonesia	45,029	+1,226	2,429	+56	17,883	24,717
Singapore	41,833	+218	26	0	33,459	8,348
Philippines	28,459	TBA	1,130	TBA	7,378	19,951
Malaysia	8,556	+21	121	0	8,146	289
Thailand	3,147	+1	58	0	3,018	71
Vietnam	349	+7	0	0	326	23
Myanmar	286	0	6	0	192	88
Brunei	141	0	3	0	138	0
Cambodia	129	0	0	0	126	3
Lao PDR	19	0	0	0	19	0
ASEAN	127,948	+1,473	3,773	+56	70,685	53,490

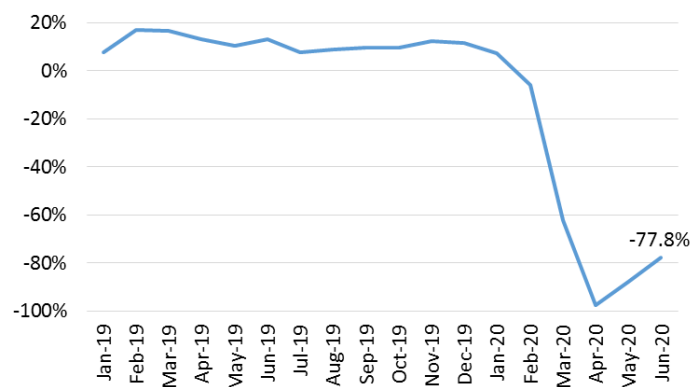
*Source: WHO et. al. as at 7:00PM GMT +8 dated 20 June 2020.

*All totals do not take into account today's data from the Philippines.

(Source: ASEAN Post, WHO)

The normalization of life might also be the main driver of a regional and worldwide outperformance in economic activity. With the slight economic growth of 0.37% experienced in the first 6 months of 2020, Vietnam will certainly be one of the few larger countries to show any growth at all. Like many other countries, Vietnam is also actively trying to revitalize its grounded tourism industry with domestic price incentives. While skeptical at first, we have to admit that these programs worked out in a combined effort between government, tour operators and hotels and finally Vietnam's famous street life has come back within just a few weeks. While in the beach city of Danang, for example, there were next to zero tour buses to be seen at the beginning of June, now the streets are again crowded with many buses carrying Vietnamese tourists, mostly from Hanoi and Ho Chi Minh City, instead of Chinese and Koreans. To a higher extent, these better numbers are only valid for the weekends. With the majority of hotels now open again, occupancy rates at seaside destinations are back to around 80%, but this has only been achieved by heavy discounting for local tourists. Therefore, we are not convinced that hotel operators are really able to make any profits at the moment, but at least local restaurants, taxis and other service providers are back in business, employing people without government subsidies or guaranteed income for local workers. The situation is still gloomy though for all businesses catering to foreign tourists as long as borders remain closed with no relaxations of COVID-related immigration regulations in sight.

Tourism services revenue growth (%; yoy)

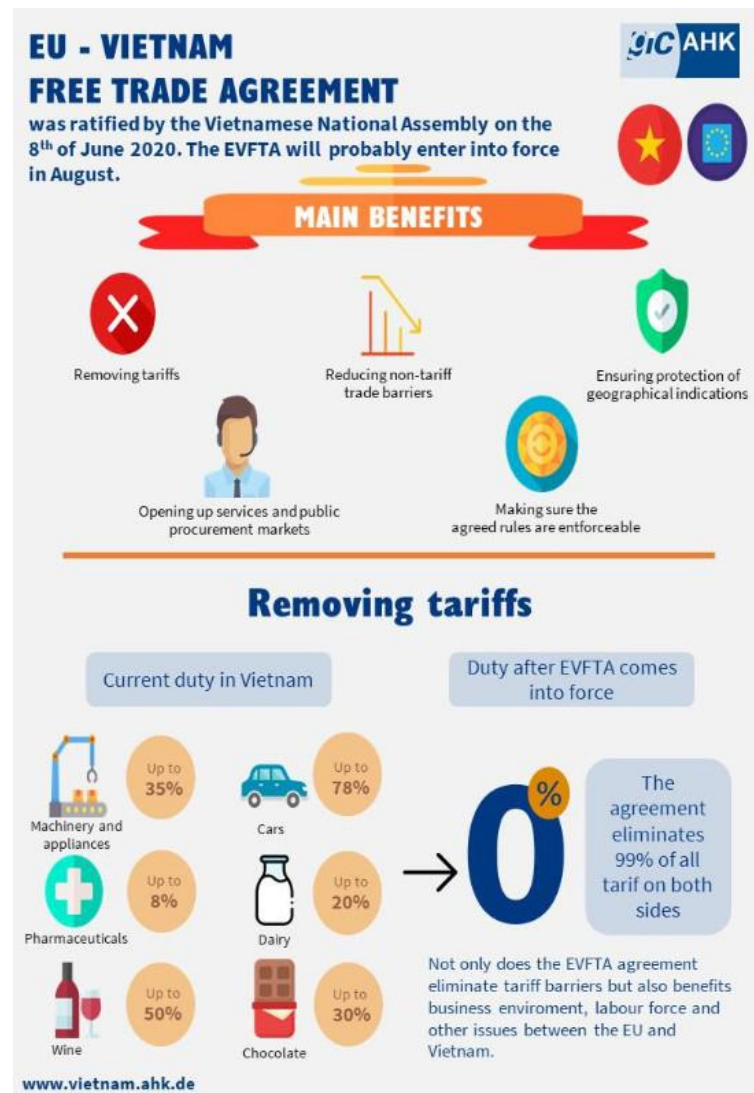


(Source: General Statistic Office Vietnam, AFC Research)

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Vietnam-EU Trade: EVFTA Ratified by Vietnam's National Assembly

Vietnam's National Assembly on 8th June ratified the European Union Vietnam Free Trade Agreement (EVFTA) and the EU-Vietnam Investment Protection Agreement (EVIPA) paving the way for it to take effect sometime in July or August this year. The agreement was unanimously approved with 94.6% of lawmakers in favor of the EVFTA and 95.6% percent in favor of the EVIPA. It will eliminate 99% of tariffs, although some will be cut over a 10-year period, while other goods, notably agricultural products, will be limited by quotas.



The EVFTA is an ambitious pact providing almost 99% of the elimination of custom duties between the EU and Vietnam. As per the Ministry of Planning and Investment, the FTA is expected to help to increase Vietnam's GDP by 4.6% and its exports to the EU by 42.7% by 2025. While the European Commission has forecast the EU's GDP to increase by USD 29.5 bln by 2035.

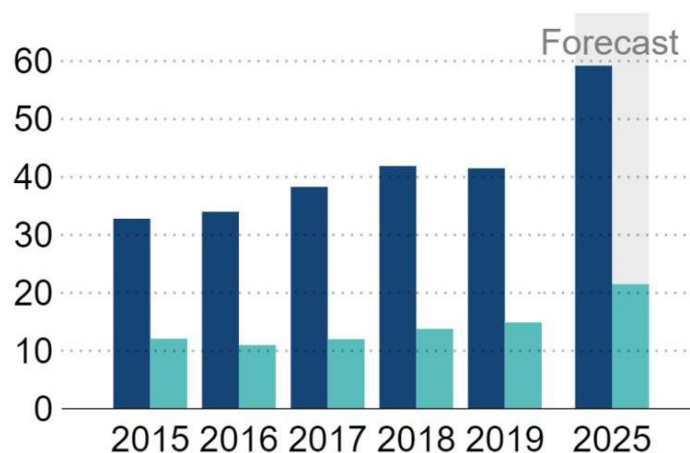
In 2019, Vietnam exported USD 41.5 bln worth of goods and services to the EU, while the value of imports from the region reached USD 14.9 bln, generating a trade surplus of USD 26.6 bln.

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Vietnam's trade with the EU

billions of dollars

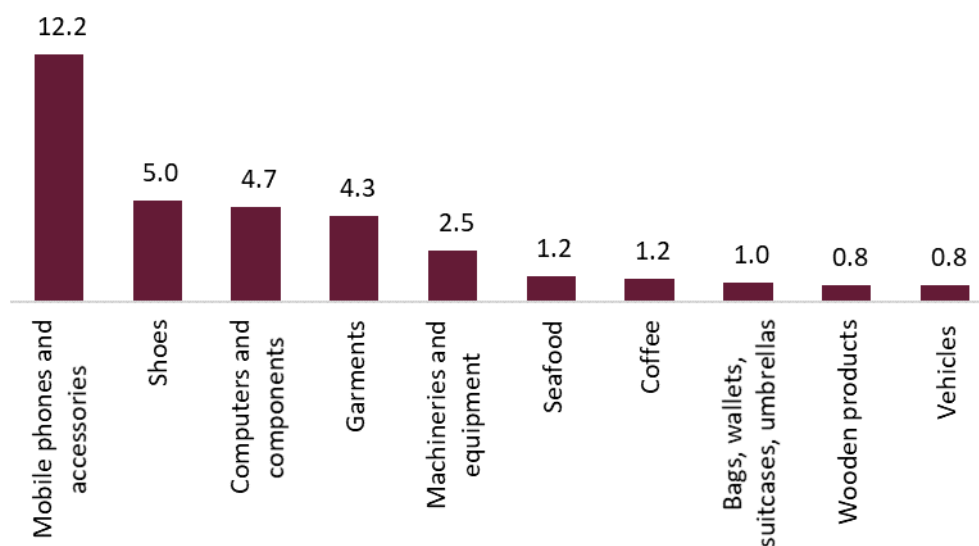
■ exports ■ imports



Source: Vietnam official data

In 2019, mobile phones stood at “1st position” among exports to the EU with USD 12.2bln, followed by shoes (USD 5bln), computers (USD 4.7bln) and garments (USD 4.3bln).

Top export products to the EU in 2019 (USD bln)



(Source: GSO, AFC Research)

These top export sectors to the EU generate thousands of jobs in Vietnam, especially in shoes, garment, seafood and other agricultural products such as coffee. It will help the country to increase workers’ income and therefore consumption is expected to grow strongly. According to the Chairman of the Vietnam Association of Garments, the industry will benefit a lot when import taxes are reduced from 12% to 0% over the next 3 to 7 years. The association estimates that export revenues of garment will increase by 50% over the next 10 years. Seafood is also another beneficiary of this agreement, especially pangasius. Last week, the CEO of Vinh Hoan Corp, the largest pangasius exporter in Vietnam, said to Cafef,

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“pangasius export revenues to the EU is expected to double from currently USD 250 mln to USD 500 mln over the next 3 years after import taxes will be reduced from 5.5% to 0%”. Also, the Vietnamese Coffee and Cocoa Association is confident that export revenues to the EU will jump sharply after import taxes drop to 0% in July/August of this year.

Economy

Macroeconomic Indicators				
	2017	2018	2019	Jun-20
GDP	6.81%	7.08%	7.02%	1.81%
Industrial production (YoY)	9.4%	10.2%	8.9%	2.7%
FDI disbursement (USD bln)	17.5	19.1	20.4	8.7
Exports (USD bln)	213.8	244.7	264.2	121.2
Imports (USD bln)	211.1	237.5	253.1	117.2
Trade balance (USD bln)	2.7	7.2	11.1	4.0
Retail sales (YoY)	10.7%	11.7%	11.8%	-0.8%
CPI (YoY)	3.53%	3.54%	2.79%	4.19%
VND	22,755	23,175	23,230	23,205
Credit growth (YoY)	17.0%	13.9%	12.1%	2.5%
Foreign reserves (USD bln)	51	60	73	84

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

Subscription

The next subscription deadline will be 27th July 2020. 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 30th June 2020

NAV	1,618*
Since Inception	+61.8%*
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%	-0.4%*							-9.6%*

*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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