

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

Asia Frontier Capital Ltd.
www.asiafrontiercapital.com

Mr. Andreas Vogelsanger, CEO
Asia Frontier Capital (Vietnam) Limited
Tel: +66 84435 7472, Fax: +852 3904 1017
av@asiafrontiercapital.com

Registered Office:
c/o Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue, George Town,
Grand Cayman KY1-9005,
Cayman Islands

Hong Kong Office:
Asia Frontier Investments Limited
905, 9th Floor, Loon Kee Building
267-275 Des Voeux Road Central
Hong Kong

Fighting against the headwinds of negative sentiment in international markets due to renewed COVID-19 fears, the virus-free Vietnamese market saw another month of gains, making for a three month long winning streak. The gains were mainly contributed by two stocks, whose combined impact was +3% on the index, while the broader market corrected sharply after recent strong gains (the small-cap index was down -6% in October!). Despite this difficult environment, our portfolio continued to gain, +0.4% (NAV USD 1,888), according to internal calculations. Indices in Ho Chi Minh City and Hanoi rose +2.2% and +1.8% respectively in VND, which continues to remain a very stable currency versus the USD.

Market Developments

After strong gains in recent months, the broader market took a breather, but sentiment still continued its general positive trend. While the market breadth was weaker and gains were not as evenly distributed as before, we saw continued strength in many of our investments despite ongoing overall foreign selling. Meanwhile, MSCI announced an upcoming increase of Vietnam in the MSCI Frontier Market Index which was originally announced back in June 2019. The longer-term inclusion of Kuwait into the benchmark MSCI Emerging Markets index still looks set to go ahead, although it may be delayed again beyond November 2020. The stock market in Kuwait continues to meet all the necessary criteria for re-classification into the MSCI Emerging Markets Index which means it would be eliminated from the MSCI Frontier Market Index, leading to an increase in the weight of Vietnam to 28.76% from 12.5% currently. This is hardly real "news" and shouldn't have a big direct impact in terms of foreign money inflow which would be expected in the range of USD 400-700 mln. As a comparison, when adjusted for a few special deals, the foreign outflow this year is more than USD 1bln, with the market strongly up in the past few months. Though, traders always jump on the bandwagon when momentum builds up, like in this case, and could provide some added tailwinds.

Vietnam 2013, 2020 and the years ahead

We can hardly believe it ourselves, but it has been 7 years since we decided to start our AFC Vietnam Fund. It was during a financial conference in Ho Chi Minh City where two of our initial founders attended because they saw tremendous value in the country's development and stock market - and the idea of the AFC Vietnam Fund was born. Probably set up in record time for a fund in Vietnam, two months after this conference, on 23rd December 2013, the fund was officially launched.

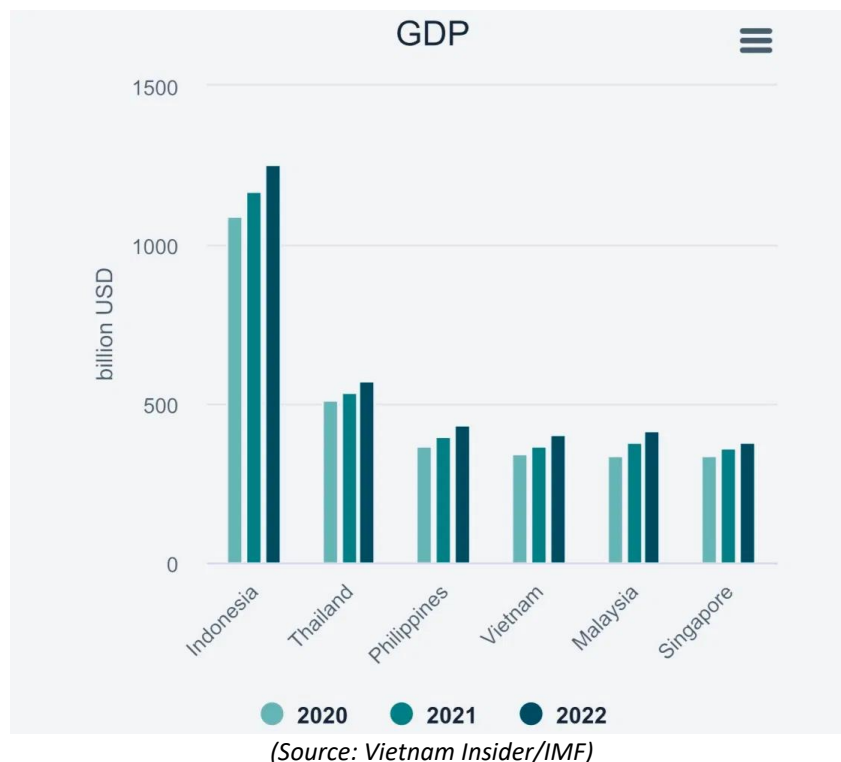
For all investments it is always important to review if the original investment rationale still holds, such as for example its stock price appreciation potential, etc. After all, it is the future which counts when investing in the stock market, not the past. Only when an investor is able to look beyond his individual buying history can life-changing gains be possible. We know many people who made tremendous gains in companies like Apple, Google or Amazon by holding them over many years, but it is much more difficult to find people who made similar gains in trading the same companies over a lengthy period.

AFC VIETNAM FUND UPDATE

We have always seen Vietnam as the single best investment idea on a macroeconomic basis in South East Asia – the “Amazon.com of South East Asia” so to say, as Vietnam continues to take market share from other Asian nations. The growing importance and size of its economy makes it even harder for decision makers at international manufacturing companies to ignore the rising star of South East Asia. With our investment philosophy, where we try to invest in undervalued and less volatile companies, we still see continued potential for Vietnam over the next several years, and hopefully, even decades. It is therefore also important to mention, that our ownership (AFC staff and management) in the AFC Vietnam Fund continues to grow, as our fund manager adds every quarter to his holding in the fund. In other words, we still strongly believe in the enormous potential of Vietnam over the years to come and continue to have “skin in the game”.

We always believed and predicted that Vietnam’s low economic base with its huge amount of human capital, with almost 100 mln people, many of whom are well educated and hard-working, especially in comparison to competing countries, has a long way to grow, similar to the path of China’s economic development 20 years earlier. After all, and despite that Vietnamese do not like to hear this, the country’s political, economic and social culture is probably best compared to China. We were all witnesses to the Chinese (economic) success story in recent decades and – while on a smaller scale – we are still in the beginning phase of a similar success story in Vietnam.

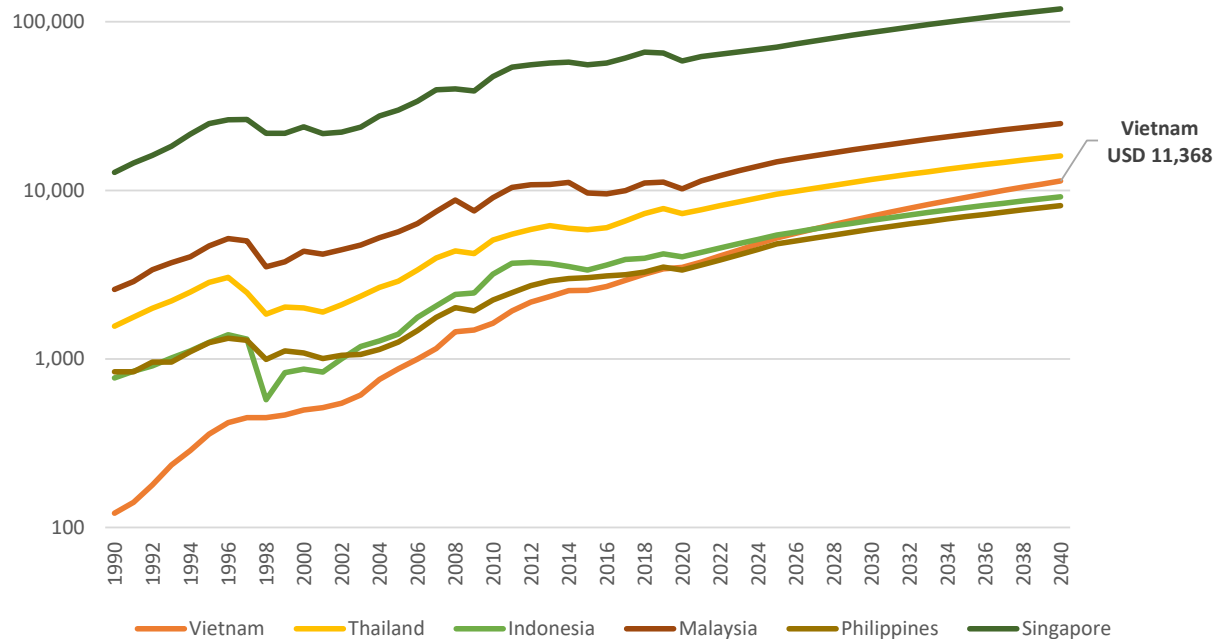
Even though the current numbers are impressive, with Vietnam already closing the gap with some of its main competitors within Southeast Asia in terms of GDP – and that relative outperformance should continue - one should not forget that Vietnam did not play *any meaningful* role in Asia just 20 years ago. Only after the global financial crisis of 2008, a shift of production from other countries into Vietnam accelerated and a very supportive economic policy from the government in Vietnam made sure that large amounts of investments were attracted to the country, while countries like Thailand and the Philippines spent their time and energy on internal politics.



Similarly impressive is the GDP per capita where Vietnam is also getting closer to other countries, but it also shows how much more room it has to grow until it catches up with Malaysia or Thailand.

AFC VIETNAM FUND UPDATE

GDP Per Capita (current USD) and forecasts (1990-2040)



(Source: World Bank, IMF, AFC Research)

Of course, this long-term outlook is based on the assumption that this positive trend will continue in the future, which, while not a precise prediction, the historic evidence and other positive expectations from renowned institutions such as the World Bank, ADB or IMF are supportive of our continued positive stance on Vietnam. As a consequence, despite being “long” of Vietnam for the past 7 years and close to our all-time high in our NAV this month, at current valuations (both absolute portfolio valuations and relative market valuations) we see pretty much the same potential as we did at the launch of AFC Vietnam Fund at the end of 2013 – maybe with the difference being that we are even more convinced today as we see that our investment approach is successful.

Vietnam records highest export growth in Q3/2020

The top three countries in terms of export growth in Q3/2020, namely China, Taiwan and Vietnam, were also among a handful of economies that have brought the spread of COVID-19 under control early on, with Vietnam having reported only 1,177 cases of COVID-19 infection and 35 deaths to date. According to the United Nations Conference on Trade and Development, Vietnam’s exports grew by 10.9% in the third quarter of 2020, followed by China with 8.8% and Taiwan with 6.4%. This is in contrast to many other economies which are still suffering from large numbers of new daily infections and with difficulties in kickstarting their economies, like for example Japan, the United States or the European Union whose exports shrunk by 11.6%, 11.5% and 9.9% respectively in the third quarter.

AFC VIETNAM FUND UPDATE

Export Growth Q3/3030 (yoy)



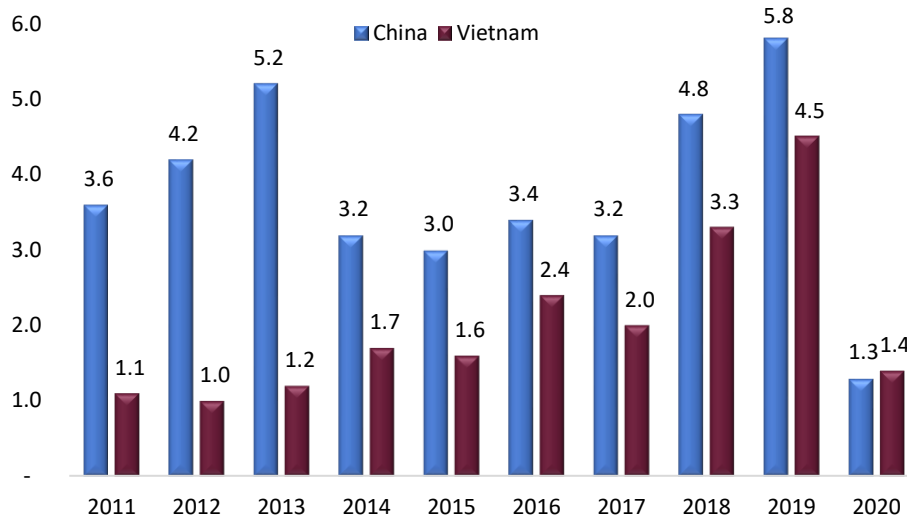
(Source: United Nations Conference on Trade and Development)

Vietnam’s trade recovery has helped revive its economy, following a historic low growth rate of 0.39% in the second quarter. Vietnamese GDP grew by 2.62% year on year in the third quarter and exports remain a fundamental part of the recovery. Economic GDP growth forecasts for 2020 now range between 2% to 3% which makes Vietnam one of the fastest growing countries in the world.

Vietnam continues to benefit most from the trade war between the US and China

Even before the pandemic, Vietnam was considered one of the key beneficiaries of the ongoing trade war between the US and China and many manufacturers moved their production facilities from China to Vietnam in order to avoid the punitive tariffs on exports to the US. With the successful containment of the second COVID-19 wave, Vietnam’s standing as a manufacturing hub continued to improve. If you take the example of South Korea, it shows how this trend in favor of Vietnam over China as a manufacturing hub has changed and Vietnam officially overtook China as South Korea's biggest investment destination.

South Korean FDI (USD bln)



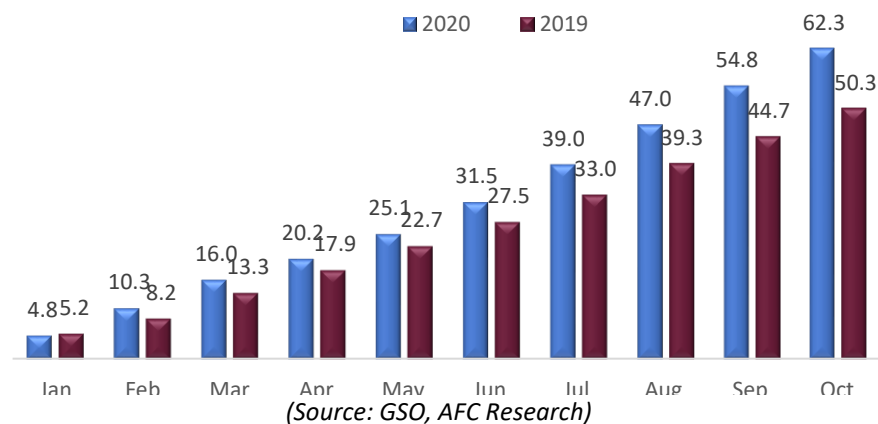
(Source: Export-Import Bank of Korea, Bloomberg)

AFC VIETNAM FUND UPDATE

Samsung Electronics Co. is a good example of a large South Korean company which has increased its presence in Southeast Asia and other regions and at the same time scaling back its production operations in China. A couple of weeks ago, the Vice Chairman of Samsung Group visited Vietnam to meet the Vietnamese Prime Minister, Nguyen Xuan Phuc, to discuss Samsung's investment plans in the country. The Vice Chairman mentioned that he is very pleased with their existing presence in Vietnam and that without these factories their global supply chain might have been disrupted during the pandemic. According to Cafef.vn, Samsung is planning to build a giant R&D center in Vietnam with more than 3,000 skilled engineers by 2022.

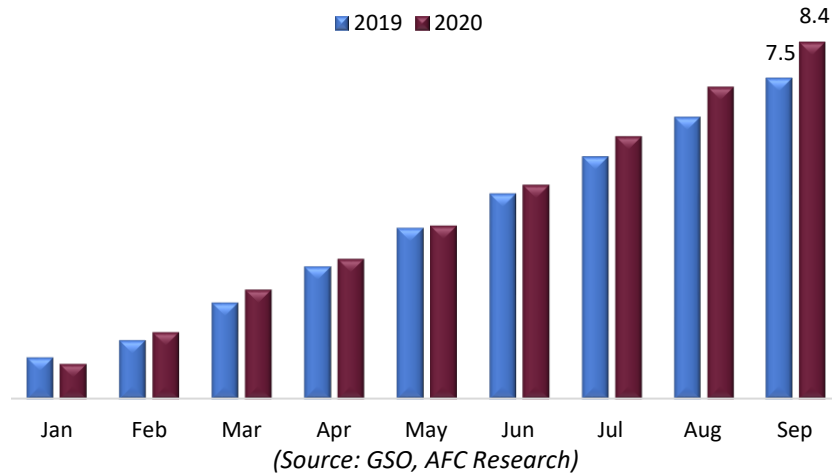
Also, exports to the USA are becoming more and more important, reaching USD 62.3 bln in the first 10 months of this year, growth of 23.8% yoy, which equates to 27.1% of total exports. The country's trade surplus and foreign reserves both reached a new all-time high at USD 18.7 bln and USD 92 bln respectively in the first 10 months of this year.

Exports to USA (accumulated, USD bln)



Some sectors in Vietnam are benefiting substantially from the COVID-19 situation. One of them is the furniture sector as people working from home are ordering new furniture to upgrade and improve their living standards. In the first 9 months of this year, total furniture and other wooden products exports reached USD 8.4 bln, an increase of 11.4 % with the USA as the largest furniture customer with a volume of around USD 4.76 bln, growing by 29.8% yoy, equivalent to 56.8% of total furniture exports.

Furniture exports (accumulated, USD bln)



AFC VIETNAM FUND UPDATE

Phu Tai (PTB), one of the largest furniture companies in Vietnam has grown its exports by 51% in the first 9 months and its consolidated revenues reached VND 4,023 bln, + 3% yoy.

PTB (Aug. 2019 – Oct. 2020)



(Source: Viet Capital Securities)

The fund also holds another furniture company in the portfolio, Duc Thanh Wood (GDT), which a few days ago announced strong order growth of +30% as of end of September 2020. GDT is attractively valued and has a market cap of around VND 640 bln, compared to a net cash position of VND 120 bln and a net profit of VND 74 bln. This equates to a PER after net cash of only around 7x and we believe that they will continue to do very well, given their attractive valuation and strong long-term growth they have showed over the years.

GDT (Aug. 2019 – Oct. 2020)



(Source: Viet Capital Securities)

AFC VIETNAM FUND UPDATE

Economy

Macroeconomic Indicators				
	2017	2018	2019	Oct-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	15.8
Exports (USD bln)	213.8	244.7	264.2	229.3
Imports (USD bln)	211.1	237.5	253.1	210.6
Trade balance (USD bln)	2.7	7.2	11.1	18.7
Retail sales (YoY)	10.70%	11.70%	11.80%	1.30%
CPI (YoY)	3.53%	3.54%	2.79%	3.71%
VND	22,755	23,175	23,230	23,178
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)

Subscription

The next subscription deadline will be 24th November 2020. If you would like any assistance with the subscription process please be in touch with Andreas Vogelsanger.

Best regards,

AFC Vietnam Fund

AFC VIETNAM FUND UPDATE

Estimated NAV as of 31st October 2020

NAV	1,888*
Since Inception	+88.8%*
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%	+0.4%*			+5.5%*

*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.

DISCLAIMER

Investments in equities in Vietnam are subject to market risk, idiosyncratic risk, liquidity risk, and currency exchange rate risk. The fund may use financial derivative instruments as a part of the investment process. This document does not constitute an offer to sell, or a solicitation of an offer to buy shares in AFC Vietnam Fund. We will not make such offer or solicitation prior to the delivery of an offering memorandum, the operating agreement or articles of association, a subscription booklet, and other materials relating to the matters herein. Before making an investment decision, we advise potential investors to read these materials carefully and to consult with their tax, legal, and financial advisors. The materials have not been reviewed by the regulatory authority of any jurisdiction. Investment is open only to accredited investors as defined by the relevant legal jurisdiction of residence and/or nationality. We have compiled this information from sources we believe to be reliable, but we cannot guarantee its accuracy. We present our opinions without warranty. Past performance is no guarantee of future results. © 2020 Asia Frontier Capital Limited. All rights reserved.