

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 |
| 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 |

Contact Information

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July was an uneventful month and the VN-Index traded in a narrow range around the 1,200 level. The index finally stopped its decline, managing to close the month slightly positive with +0.78%. Our portfolio once again outperformed the market and advanced by +2.42% to an NAV of USD 3,272, according to internal estimates.

Market Developments

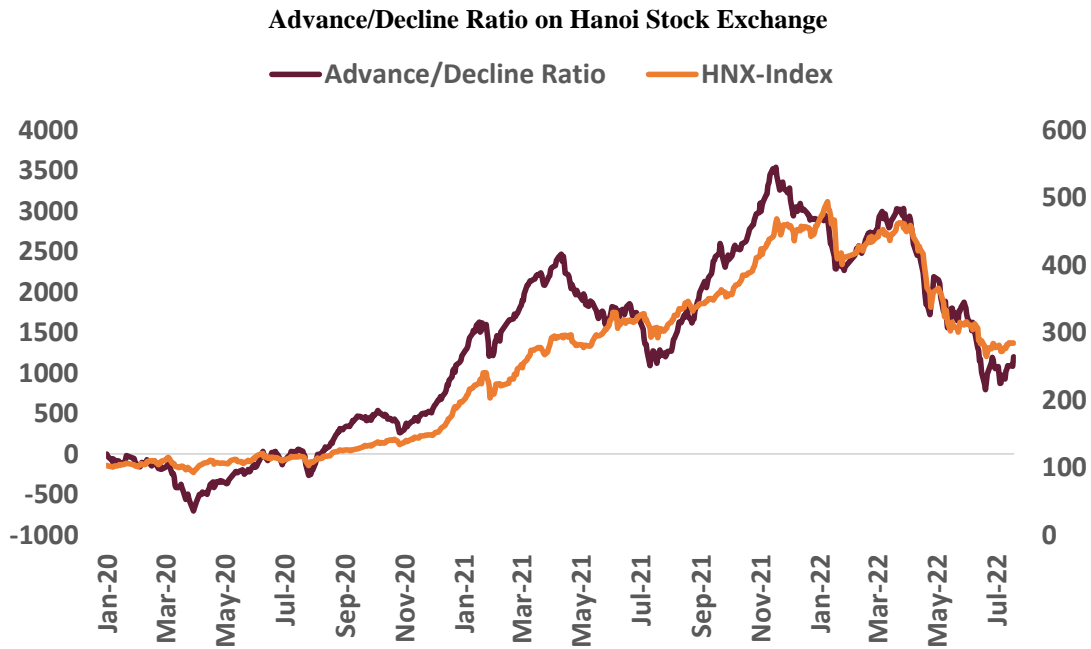
The VN-Index didn't move much in the month of July combined with very low trading volume. The benchmark index closed the month at 1,206.33 points, +0.78%. Due to the fact that the Vietnamese government arrested some high-level real estate and stock market manipulators back in April this year, the VN Index corrected by around 20% and is now trading at very attractive levels with a 2022 forward P/E Ratio of 11.5x and seems to have formed a bottom at the 1,200 level.



Domestic retail investors have been burnt – but don't write them off yet

The Vietnamese stock market was and is still driven by domestic retail investors and over the last 2-3 years this situation was accentuated, given the large influx of small retail investors who opened stock brokerage accounts and became active on the stock market. Many of them are unfortunately not very sophisticated and are "trend followers", investing often based on rumors. Their trading activity can be seen when observing the advance/decline ratio, especially on the Hanoi Stock Exchange, where many small and speculative stocks are listed.

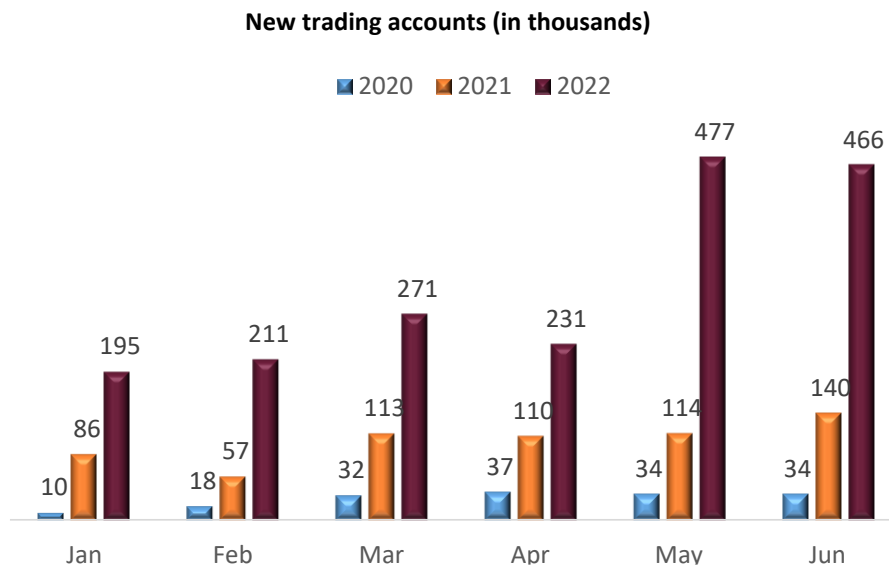
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(Source: Bloomberg, AFC research)

With the outbreak of COVID-19 at the beginning of 2020, declining stocks clearly outnumbered advancing stocks in the short term, but soon advancing stocks took over again and the stock market started to recover. This positive sentiment lasted until April 2022 when the government, stock market, and real estate manipulation investigations and arrests started and both, the advance/decline ratio and the Hanoi Index started to decline. This correction seems to have come to an end now given that short term speculators finished their selling and the balance between sellers and buyers is neutral again.

Even though, most domestic retail investors have probably been burnt over the past few months, the influx of new retail investors opening stock trading accounts hasn't stopped. In the first 6 months of 2022, a staggering 1.8 million new accounts were opened, bringing the total number of trading accounts in Vietnam to 6.1 million. This equates to over 6% of Vietnam's population which is still relatively low when comparing to for example to Taiwan, with a penetration rate of over 90%.



(Source: Vietnam Security Depository)

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Vietnam catches up with the global ESG trends

The past decade has seen a palpable rise in demand for businesses to be transparent about their environmental, social and governance (ESG) performance, including their contributions to local economies. In Vietnam, the framework with regard to environmental, social and other sustainable development issues is fairly new, especially for businesses. However, Vietnam is catching up with global ESG trends and is implementing new laws to tackle ever increasing environmental, social, and governance challenges.

The Vietnamese government recently approved a detailed national strategy on “green growth” up to 2030, with a vision to 2050. Also, the new law on investment from June 2020 describes how to achieve ESG policy objectives for foreign direct investments but also includes guidelines on disclosure of information on the securities market, which sets out certain ESG reporting requirements for public and listed companies in Vietnam.

In parallel with the developments in the state legislation, numerous state bodies, especially the State Securities Commission of Vietnam, as well as non-governmental organizations in Vietnam, have worked gradually to introduce guidance and policies to raise awareness and enhance the ESG practice of Vietnamese businesses. In July 2017, the Ho Chi Minh City Stock Exchange launched the Sustainable Development Index (VNSI) on HOSE. Hereby, all listed companies on the exchange are required to either produce a separate sustainable development report or to include this information in their annual report

The continuous improvements in ESG legislation, policies, and corporate governance have been attracting investment into Vietnamese companies from foreign investors, such as for example the AFC Vietnam Fund who is taking into account ESG criteria when investing in local companies.

Also “green bonds” have become increasingly popular among Vietnamese issuers. As of 2020, Vietnamese companies have issued four green debt issues with an aggregate value of nearly USD 284 mln. Most of the proceeds from green bond issues (57%) are used for renewable energy development – the main industry of Vietnam’s interest, along with the waste treatment and agriculture sectors. In 2021, BIM Land Real Estate, a member of BIM Corporation, successfully completed the issuance of USD 200 mln worth of green bonds that have subsequently been listed on the Singapore Exchange, with the proceeds being used for its greater excellence-certified real estate projects and those of green and environmentally friendly nature.

The biggest difference between now and a few years ago is that ESG was once a mere cost item in the perception of local businesses but now they have seen the fruits of their investments. Many Vietnamese listed companies have made a strong commitment to ESG and are focusing on the transition to for example embrace renewable energy, to continuously improve social standards, and to improve corporate governance. The popularity of ESG-focused investment will raise ESG awareness among local businesses and Vietnamese companies will be incentivized to move towards more sustainable development and growth. Companies with strong sustainable values and robust ESG standards will have much better access to capital in the future.

Vietnam is one of two key partners of Japan in ASEAN in terms of implementing climate change response strategies. At the end of July 2022, the Vietnamese Prime Minister Pham Minh Chinh signed a memorandum of understanding with JBIC (Japan Bank for International Cooperation), about the support with capital, technology, human resources, and governance for Vietnam’s development of its energy industry.

Enterprise earning growth on track

So far, about half of all companies listed on the Ho Chi Minh Stock Exchange have published their results and around 98% of those companies were profitable in the 1H/2022.

We continue to focus on insurance companies which are expected to benefit from an increasing interest rate environment and consumer companies from a strong post COVID-19 recovery. We also see a great opportunity now in the banking sector after most stocks have corrected by around 40-50%. Many bank stocks are now trading at book value (P/B ratios of around

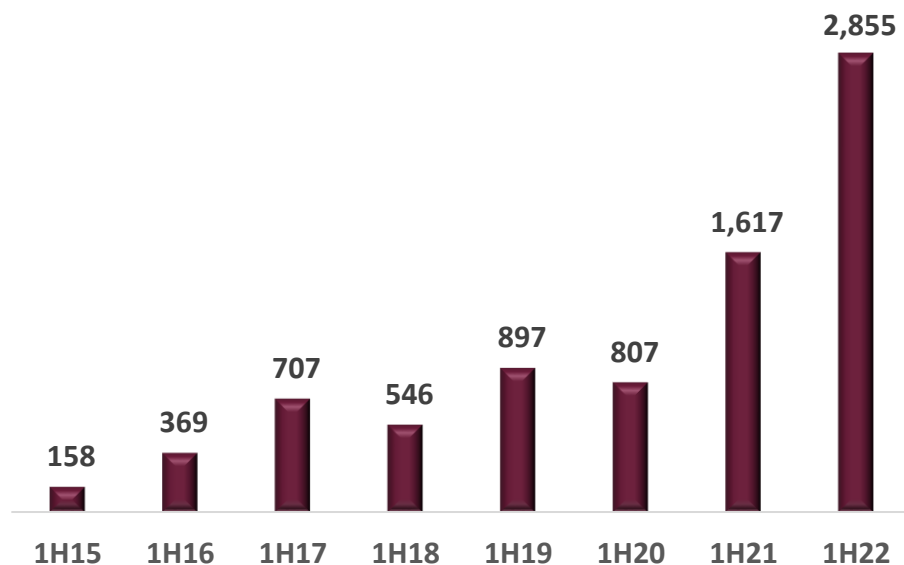
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1x) and forward 2022 P/E ratios of around 5x. As mentioned in our last report, LPB particularly stands out, after the stock corrected and is now trading at around 51% of its peak in June 2021 and LPB is now trading at a 7.3x (forward P/E 4.0x) and P/B ratio of 1.1x. LPB just reported its results with impressive earnings growth of 76% in the first half of 2022.



(Source: Viet Capital Securities)

LPB net profit by first half year (VND bn)



(Source: Vietstock, LPB, AFC research)

We believe that the insurance sector will continue to benefit from the rising rate environment and banks in general will face many difficulties in the short term. However, LPB might be an exception and looks attractive and undervalued at these levels

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in our view, even if we do not exactly know when the stock will rebound and trade again at fair value. But, given that we are quite positive about the economic outlook of Vietnam, we are quite comfortable with the risk reward ratio of this investment.

Economy

| Macroeconomic Indicators | | | | |
|-----------------------------|--------|--------|--------|--------|
| | 2019 | 2020 | 2021 | Jul-22 |
| GDP | 7.02% | 2.91% | 2.58% | 6.42% |
| Industrial production (YoY) | 8.9% | 3.4% | 4.8% | 8.8% |
| FDI disbursement (USD bln) | 20.4 | 20.0 | 19.7 | 11.6 |
| Exports (USD bln) | 264.2 | 281.5 | 336.3 | 216.4 |
| Imports (USD bln) | 253.1 | 262.4 | 332.3 | 215.6 |
| Trade balance (USD bln) | 11.1 | 19.1 | 4.0 | 0.8 |
| Retail sales (YoY) | 11.80% | 2.60% | -3.80% | 16.00% |
| CPI (YoY) | 2.79% | 3.23% | 1.89% | 2.54% |
| VND | 23,230 | 23,108 | 22,782 | 23,354 |
| Credit growth (YoY) | 12.1% | 10.5% | 13.0% | 9.4% |
| Foreign reserves (USD bln) | 73 | 92 | 105 | 110 |

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

Subscription

The next subscription deadline will be 25th August 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 July 2022

| | |
|-----------------|------------|
| NAV | 3,272* |
| Since Inception | +260%* |
| 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% | +2.4%* | | | | | | -8.0%* |

*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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