

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

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Renewed fear of more aggressive U.S. interest rate hikes, and some financial difficulties at Vietnam's fourth-biggest listed property developer, Novaland (NVL), sent the VN-Index sharply lower, down -9.2% (in USD terms) in February. Also, the NAV of our AFC Vietnam Fund closed the month -6% lower at an NAV of USD 2.839, according to internal estimates.

Market Developments



(Source: Viet Capital Securities)

February's market correction was mainly caused by concerns about U.S. inflation and higher than expected U.S. interest rates. But also, news about the financial difficulties of Novaland worried Vietnamese investors. NVL failed to pay back bondholders VND 1tn (USD 42mn) on 12th February 2023 and is now trying to negotiate a restructuring of its bond and to extend its maturity by 2 months. Even though there were already some rumors in the market that NVL had liquidity issues and might fail to repay its bondholders, once this became fact investor sentiment took a hit and triggered some panic selling in the market.

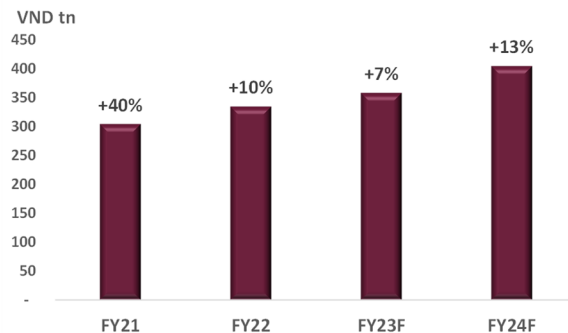
Our view however has not changed and we believe that the Vietnamese market is trading at very attractive valuations with a P/E Ratio of around 10x and hence offers for long term investors a great buying opportunity.

Earnings growth slowed down in Q4 /2022

Earnings growth in the fourth quarter of 2022 slowed down considerably, mainly due to the impact of increasing interest rates and lower export numbers. According to the Ho Chi Minh Stock Exchange, the total net profit of listed companies was VND 66.5 tn, down 28.8% compared to Q4 in 2021. This brings down the 2022 earnings growth for the VN-Index to 10% and the expected earnings growth for 2023 to 7%, whereas the 2023 earnings growth for our portfolio is still expected to reach around 12%.

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VN-Index earnings growth



(Source: Viet Capital Securities, HOSE, AFC research)

Even though higher interest rates are a burden for most industries, the insurance sector is a beneficiary. Hence, the insurance sector, with a weighting of around 20% in our portfolio, reported very strong results in Q4/2022. The net profit of the four insurance companies which we hold jumped by 196% yoy on average, which brought the overall earnings growth for the whole portfolio to 8.7%, in comparison to -28.8% for the VN-Index. But besides the impressive results from the insurance sector, our two holdings in the tourism sector also helped our overall portfolio with an average earnings growth in Q4/2022 of 109% yoy.

China's re-opening

We are invested in two agriculture companies, LTG – Vietnam's largest rice exporter and MPC which is Vietnam's largest shrimp exporter. Since China reopened its borders, prices for agricultural goods produced in Vietnam skyrocketed, due to the sudden massive demand from China. The price of the tropical fruit durian for example jumped last month to a record high of USD 8/kg, while the price of other fruits, such as dragon fruit, custard apples, and jackfruit, tripled yoy, since China's reopening on 8th January 2023 after three years of COVID-19 isolation. But also, other agriculture products such as vegetables and seafood saw strong price increases lately and especially lobster and shrimp prices which are expected to further increase this summer, with the arrival of Chinese tourists. Mr. Dang Phuc Nguyen, General Secretary of the Vietnam Fruit Association, said that 19.2% of Vietnam's agricultural, forestry and fishery products are exported to China. He believes that the Chinese market offers the most potential as an export market for Vietnam this year after its northern neighbor abandoned its "zero COVID" policy.

According to the Lang Son Province Customs Department, exports to China through the border crossing in the northern province are processing smoothly again with over 700 trucks carrying Vietnamese products clearing customs each day. According to a report by the Ministry of Agriculture and Rural Development, China imports nearly USD 10 bn worth of agricultural products from Vietnam each year. Exports to China account for more than half of Vietnam's total fruit and vegetable exports.

Customs clearance for trucks at Tan Thanh border crossing during and after COVID-19



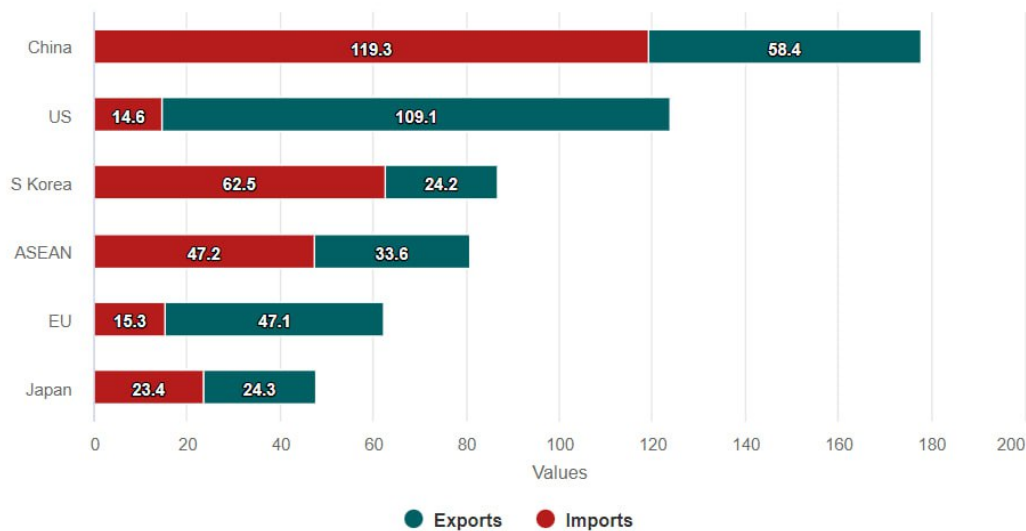
(Source: Vietnamese Government)

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Obviously, China is the largest and most important trading partner of Vietnam with total trade value of USD 177.7bn in 2022, (imports USD 119.3bn, export USD 58.4bn) equivalent to 24.2% of total national trade value. It is expected that with the re-opening of China's borders, trade volumes between Vietnam and China will increase even more in 2023, a factor which is not yet fully priced into Vietnam's GDP growth forecasts this and next year.

China plays an important role in Vietnam trade (USD bn)

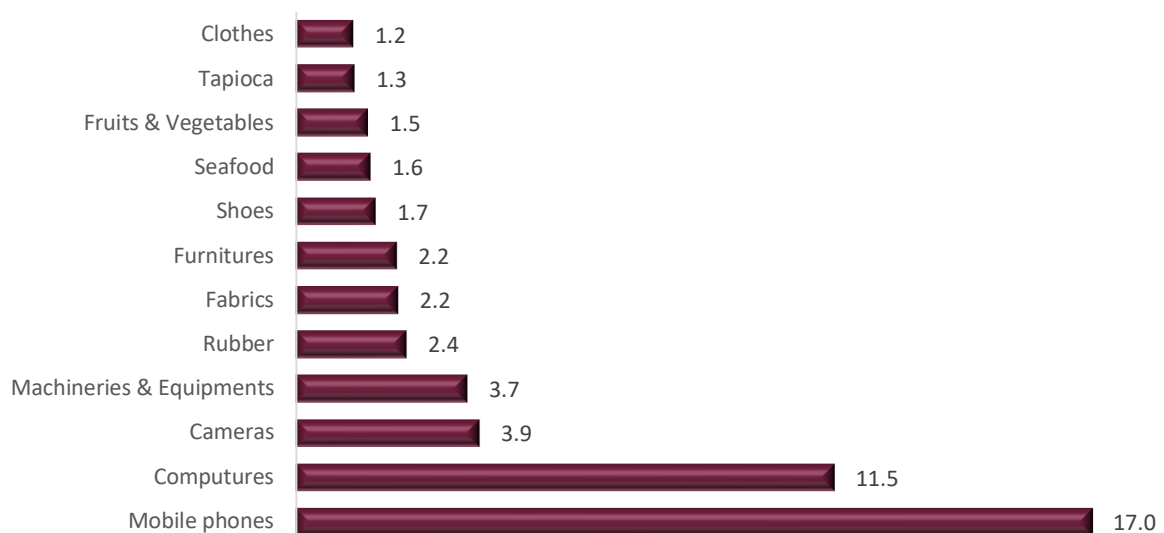
Vietnam's biggest trading partners, 2022



(Source: Bloomberg, AFC Research)

In 2022, mobile phones, computers and cameras were the keys export products to China with revenues of around USD 17 bn, USD 11.5 bn and USD 3.9 bn respectively. Besides industrial products, Vietnam also sold a lot of agricultural products to China such as rubber, seafood, tapioca, fruits, and vegetables with total value of around USD 6.8 bn.

Top export products to China in 2022 (USD bn)

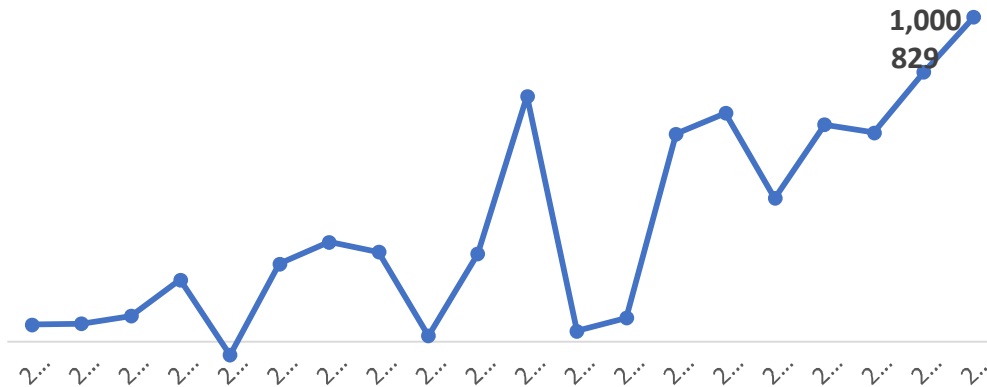


(Source: GSO, AFC Research)

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Our portfolio also benefits from an ever increasingly important agricultural sector with China's re-opening. Minh Phu Company (MPC), one of our top 5 positions, is the largest shrimp exporter in Vietnam with annual revenue of around USD 700m. In 2022, the company decided to switch its main export market from the U.S. to China, due to high shipping cost to the U.S. The strategy worked well, with 2022 net profit of the group reaching its highest level in history at VND 829bn (USD 35.3m), +28.9% yoy. We expect that net profit of MPC will continue to grow around 20% this year, reaching around VND 1,000bn.

Net profit of MPC reached a new all-time high (VND bn)

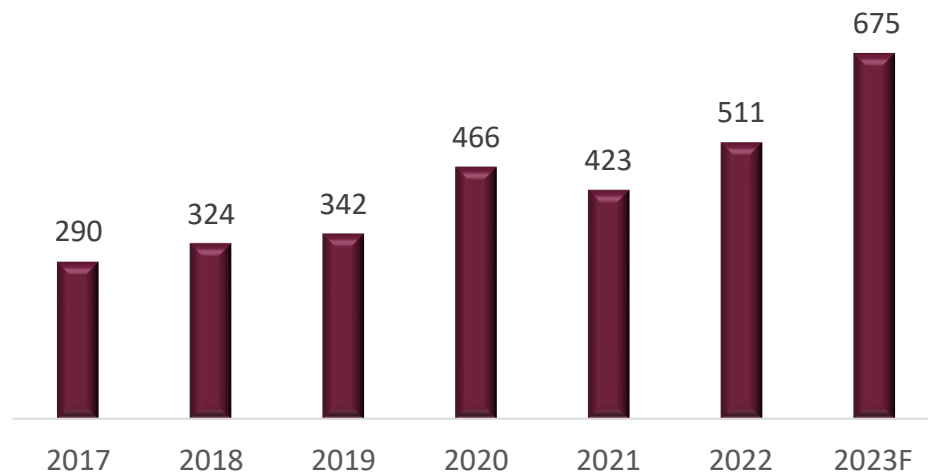


(Source: MPC, AFC Research)

Vietnamese Government deploys a large economic stimulus package to boost growth

In an environment of rising interest rates and inflation, the Vietnamese government decided to deploy an important public investment package to boost economic growth in 2023. The government expects that lower consumption in the U.S. and Europe will create some challenges for its export-oriented economy with the FED continuing to increase interest rates in order to control inflation. The National Assembly therefore approved a total economic stimulus package in 2023 of VND 711tn (USD 30.2bn), an increase of 25% over the budget of 2022. There are many public investment projects in the pipeline for this year, such as for example the North – South Highway project, Long Thanh International Airport in HCMC, Ring Road No. 3 project in HCMC, etc.

Public investment disbursement (VND trn)



(Source: GSO, AFC Research)

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The Vietnamese government estimates that a successful deployment of this package would contribute around 1-2% to GDP growth in 2023 which would help to offset the negative impact of higher interest rates.

The new Long Thanh International Airport is currently under construction about 40 km east of Ho Chi Minh City. The Vietnamese government approved its construction on 4th January 2021 and the first phase is scheduled to be completed by 2025. Once the construction of this new airport is fully completed it will be able to handle over 100 million passengers annually. This project is so far the biggest infrastructure project in Vietnam's history with investment capital of around USD 16 bn (estimated budget in 2014). It will replace the existing Tan Son Nhat International Airport as the city's main airport. The airport is expected to contribute around 3-5% to GDP once completed.

Long Thanh International Airport under construction



(Source: VnExpress)

Economy

Macroeconomic Indicators				
	2020	2021	2022	Feb-23
GDP	2.91%	2.58%	8.02%	8.02%
Industrial production (YoY)	3.4%	4.8%	7.7%	-6.3%
FDI disbursement (USD bln)	20	19.7	22.4	2.6
Exports (USD bln)	281.5	336.3	371.9	49.4
Imports (USD bln)	262.4	332.3	360.7	46.6
Trade balance (USD bln)	19.1	4.0	11.2	2.8
Retail sales (YoY)	2.60%	-3.80%	19.80%	13.00%
CPI (YoY)	3.23%	1.89%	3.15%	4.60%
VND	23,108	22,782	23,663	23,785
Credit growth (YoY)	10.5%	13.0%	12.9%	NA
Foreign reserves (USD bln)	92	105	90	90*

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

*According to internal estimates

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Subscription

The next subscription deadline will be 27th March 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 28th February 2023

NAV	2,839*
Since Inception	+183.9%*
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%	-6.0%*											-1.6%*

*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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