

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

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
One Nexus Way, Camana Bay
Grand Cayman KY1-9005,
Cayman Islands

Hong Kong Office:
Asia Frontier Investments Limited
1805, 18/Floor, Hing Yip Commercial Centre
272-284 Des Voeux Road Central, Sheung Wan
Hong Kong

March was certainly another eventful month! Silicon Valley Bank's collapse and Credit Suisse's forced sale has put financial markets in their worst state of panic since the global financial crisis of 2008. But given that Vietnam's banks are mainly focused on the domestic economy and more traditional in nature, the Vietnamese stock market was less affected. The VN-Index increased by +3.9% in March and the NAV of our AFC Vietnam Fund closed the month +1.8% at an NAV of USD 2,900, according to internal estimates.

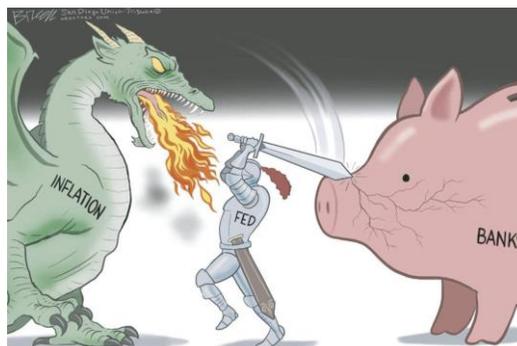
Market Developments

The collapse of U.S.-based Silicon Valley Bank, the biggest bank failure since the global financial crisis, and the emergency rescue of Credit Suisse by Swiss rival UBS, sparked a sell-off in mainly European and U.S. banking stocks as contagion fears spread. This is why the Federal Reserve had to pump around USD 300 bn into the U.S. banking system in order to calm the market. But also, the Swiss government pledged to make as much as CHF 109 bn available and the Swiss National Bank backed this forced takeover of Credit Suisse with a guarantee of CHF 100 bn. The combined sum of 209 bn francs is equivalent to about a quarter of Switzerland's gross domestic product.

The impact on Vietnam's banking system is quite limited, given that its banks are less connected in terms of investments to U.S. and European banks. Also, Vietnamese banks are much more conservative than their European and U.S. peers as they are still focused on very traditional banking services, such as attracting deposits from their customers and then lending these funds out to other customers in the form of loans and mortgages. But the "noise" on social media and the press about the fear of another "banking crisis similar to 2008" also influenced investors in Vietnam, where the stock market is mainly driven by domestic retail investors. The VN-Index therefore weakened around mid of March, but managed to recover after the decisive actions by the Fed and the Swiss National Bank and closed the month in positive territory, up +3.9%.

The root cause of this current banking crisis is the fight against inflation by the various central banks around the world. Global short term interest rates were too low for too long and are now increasing at a rapid pace to bring inflation back under control. The Fed for example, increased interest rates 9 times over the last 12 months from 0% to 4.75%. Given that a lot of money was injected into the banking system during the recent pandemic, banks invested some of these funds in bonds when interest rates were still much lower and are now sitting on sizeable unrealized losses, given that interest rates went up so much. The below cartoon illustrates the challenge central banks around the world are facing currently.

The challenge of fighting inflation without hurting the banks



(Source: The San Diego Union Tribune)

AFC VIETNAM FUND UPDATE

Despite the current turmoil in the banking world, the Vietnamese lender VPBank signed an agreement on 27th March 2023 to sell a 15% stake (USD 1.5bn) to Japan's Sumitomo Mitsui Banking Corporation (SMBC) through a private placement. VPBank's total assets amounted to approximately USD 27bn as of 31st December 2022, with a network of 251 branches national wide. VPBank is also among the best-capitalised banks in Vietnam with a capital adequacy ratio (CAR) of approximately 15% well above the regulatory requirement of 8%, which demonstrates its strong balance sheet, providing headroom for future growth.

Signing ceremony between SMBC and VPBank

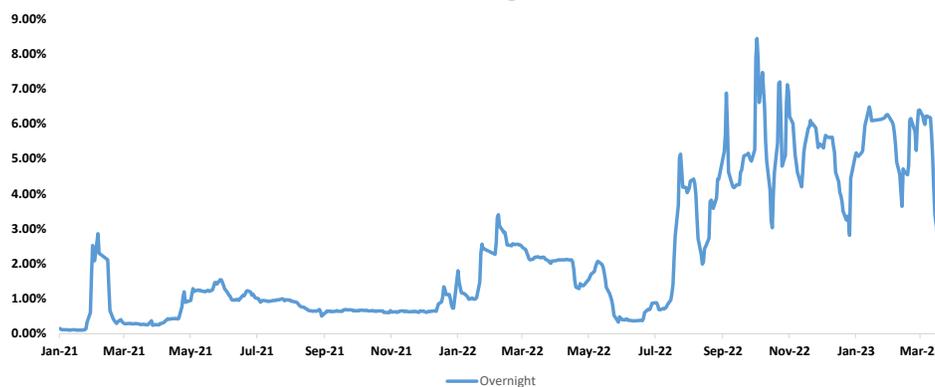


(Source: Cafef)

Vietnamese interest rates

On 16th March this year, the State Bank of Vietnam SBV unexpectedly lowered its discount rate from 4.5% to 3.5% and lending rate from 5% to 4% in order to support certain businesses, especially in the small and medium size segments. And in a surprise move on 31st March 2023, the SBV announced that it will also reduce its refinancing rate to 5.5% from 6%, effective 3rd April 2023. A reduction in the refinancing rate will help banks get cheaper loans from the central bank, which in turn can lower their lending interest rates to businesses. The SBV announced that inflation in Vietnam already eased in February and they believe that the FED will soon halt its rate hiking cycle which would reduce pressure on the Vietnamese dong. At the same time, the SBV also pumped more than VND 52 tn (USD 2.2 bn) into its banking system. This action helped to ease the liquidity crunch of the last few months, which further brought down overnight interbank rates from 8.4% in October 2022 to around 1% in March 2023.

Overnight rate

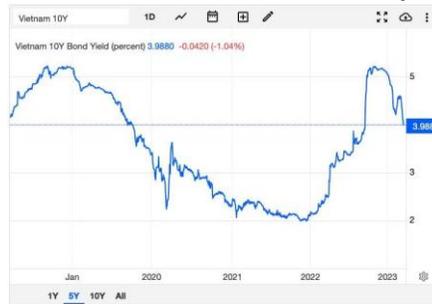


(Source: SBV, AFC Research)

Also, the yield of the 10-year Vietnamese Government bond dropped from around 5.2% to below 4% in the last few months.

AFC VIETNAM FUND UPDATE

Vietnamese 10Y Government bond yield (%)



(Source: ADB)

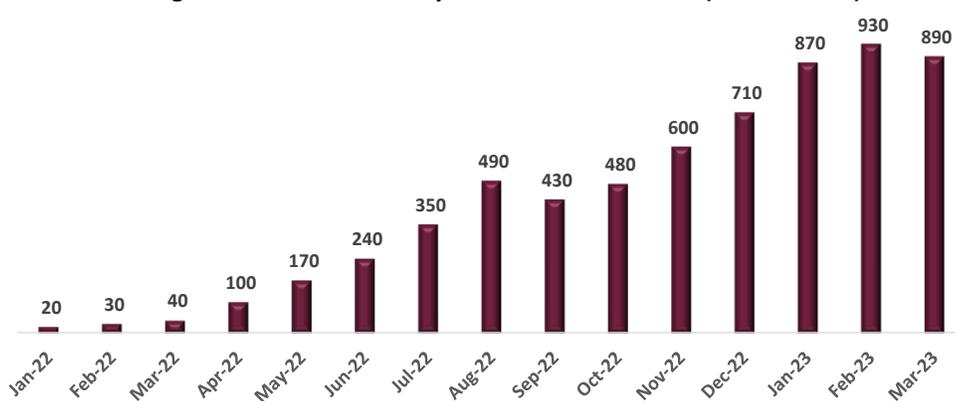
As the SBV balances economic growth while ensuring price stability, there will be an increasing bias to shift towards a more accommodating stance ahead. We therefore believe that the SBV will probably announce a further interest rate cut at the end of next quarter.

Strong recovery in tourism

The Chinese Government has decided to add Vietnam as of 15th March 2023 onto the list of countries to which China's group tours can be conducted. On this news Vietnamese carriers started the race to resume direct routes to China, given that flight tickets are in high demand. It is expected that Vietnam's target of welcoming 8 million international tourists for this year will soon be achieved. When we look back at 2019, the year before the onset of the pandemic, 11 Chinese and three Vietnamese airlines carried nearly eight million passengers between the two countries, with the latter accounting for 4.6 million. According to a survey done in 2019 by the General Department of Tourism, Chinese tourists spent an average of USD 1,022 per trip, higher than some other markets such as Japan, Korea, and Southeast Asian countries. With this level of spending, revenues from Chinese tourists reached about USD 5.9bn in 2019, accounting for 18% of Vietnam's total tourist revenues.

Chinese tourists mainly visit the Central Region of Vietnam and prefer sport activities and entertainment by the sea. It is therefore expected that Nha Trang alone will receive 1 million Chinese travelers in the summer months from March to October. According to General Statistics Office of Vietnam, international tourist arrivals in the first quarter of this year reached 2.7mn visitors, which is around 60% of pre-pandemic levels in the first quarter 2019. A recovery in tourism in Vietnam will of course provide an important contribution to the GDP growth.

Foreign visitors to Vietnam by month after COVID-19 (in thousands)



(Source: GSO, AFC Research)

Vicente Nguyen, our CIO of the AFC Vietnam Fund travelled to Da Nang in March to join an AGM of one of our investments. Da Nang is one of the most important tourist destinations in the Central Region of Vietnam. It was interesting to see how many Korean tourists were around and how well occupied hotels and restaurants were. He stayed at one of the beachfront hotels which was crowded with foreign tourists and even the waiting time to catch an elevator was more than 15 minutes.

AFC VIETNAM FUND UPDATE

A hotel in Danang with full of Korean tourists



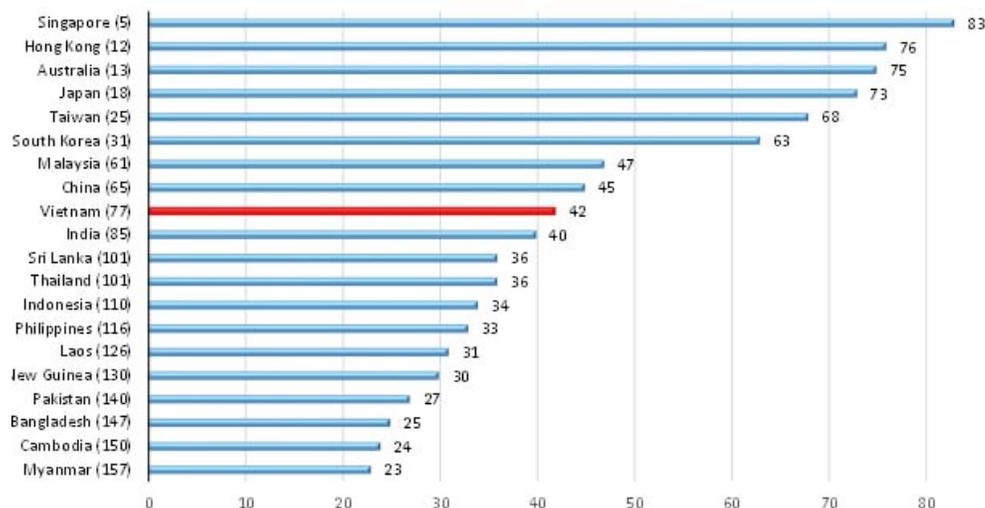
(Source: AFC Research)

Political stability and the corruption perception index

Over the last few months, we have had quite a few calls from investors and some of them even visited us in Vietnam to find out about the current state of the economy and political environment and its outlook. Many of them were concerned with the extent of the ongoing anti-corruption campaign and the political stability of Vietnam in view of recent political changes with the dismissal of the Vietnamese President and two Vice Prime Ministers a few months ago. We of course follow the political situation in Vietnam very closely and believe that political reshuffling and the anti-corruption campaign are very beneficial and necessary in the future economic and political development of Vietnam. In terms of stability, Vietnam, unlike most western countries, is a socialist republic with a one-party system. Vietnam has gradually shifted from a centrally planned to a market economy and has transformed the country from one of the poorest in the world into a lower middle-income country. Vietnam now is one of the most dynamic emerging countries in the South East Asian region. The advantage of this one-party system is that most policies are kept stable throughout the years and rarely change. Key positions of the country such as the President or the Prime Minister, who are elected for a five-year term by the parliament, are only executives who manage and lead the country based on the Communist Party's policies. Even if they would be dismissed and replaced before the end of their term, policies and political agenda will remain the same, unless voted otherwise by the parliament.

According to Transparency International, Vietnam's global corruption perception ranking improved from position 104 in 2020 to 77 end of 2022, overtaking countries such as India, Indonesia, and Thailand. This is certainly a remarkable improvement after a few years of anti-corruption campaigns, and will form an important ingredient in Vietnam's long term success story.

Corruption Perceptions Index 2022



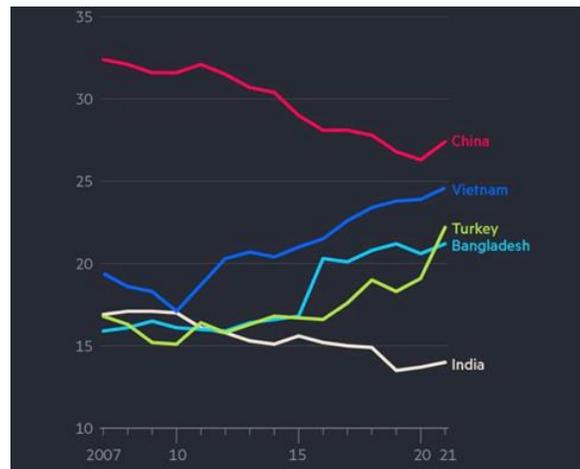
(Source: Transparency, AFC Research)

AFC VIETNAM FUND UPDATE

Vietnam's road to one of the most important global manufacturing hub

Over the past two decades, Vietnam has become a top destination for investment in manufacturing due to its strategic location and advantages in shipping, competitive labor, and production costs. Compared to other Southeast Asian countries, Vietnam stands out with international airports, seaports, and rail links facilitating production flow and transportation. But Vietnam also successfully managed to attract more and more high-tech multinational corporations, such as Samsung, LG Electronics and Apple to just name a few. According to the World Bank, manufacturing contributed nearly 25% of the nation's GDP in 2021, up from around 17% in 2010. It looks very likely that this trend will continue.

Manufacturing value added in GDP (%)



(Source: World Bank, Financial Times)

Economy

Macroeconomic Indicators				
	2020	2021	2022	1Q-23
GDP	2.91%	2.58%	8.02%	3.32%
Industrial production (YoY)	3.4%	4.8%	7.7%	-2.2%
FDI disbursement (USD bln)	20	19.7	22.4	4.3
Exports (USD bln)	281.5	336.3	371.9	79.2
Imports (USD bln)	262.4	332.3	360.7	75.1
Trade balance (USD bln)	19.1	4.0	11.2	4.1
Retail sales (YoY)	2.60%	-3.80%	19.80%	13.90%
CPI (YoY)	3.23%	1.89%	3.15%	4.18%
VND	23,108	22,782	23,663	22,475
Credit growth (YoY)	10.5%	13.0%	12.9%	1.6%
Foreign reserves (USD bln)	92	105	90	93

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

*According to internal estimates

AFC VIETNAM FUND UPDATE

Subscription

The next subscription deadline will be 24th April 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 March 2023

NAV	2,900*
Since Inception	+184.8%*
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%	+1.8%*										+0.5%*

*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.

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. © 2023 Asia Frontier Capital Limited. All rights reserved.