

## AFC VIETNAM FUND UPDATE

<b>Fund Category</b>	Vietnam Public Equities
<b>Country Focus</b>	Vietnam
<b>Subscriptions</b>	Monthly at NAV (five business days before month end)
<b>Redemptions</b>	Monthly at NAV 30 days' notice
<b>Benchmark</b>	VN Index
<b>Fund Manager</b>	Vicente Nguyen
<b>Investment Manager</b>	Asia Frontier Capital (Vietnam) Limited, Cayman Islands
<b>Investment Advisor</b>	Asia Frontier Investments Limited, Hong Kong
<b>Fund Base Currency</b>	USD
<b>Minimum Investment</b>	USD 10,000
<b>Subsequent Investments</b>	USD 1,000
<b>Management Fee</b>	1.8% p.a. of NAV
<b>Performance Fee</b>	12.5% p.a. of NAV appreciation with high watermark
<b>Fund Domicile</b>	Cayman Islands
<b>Launch Date</b>	23 December 2013
<b>Custodian Bank</b>	Viet Capital Securities, Ho Chi Minh City
<b>Auditor</b>	Ernst & Young, Hong Kong
<b>Administrator</b>	Trident Fund Services, Hong Kong
<b>Legal Advisor</b>	Ogier, Hong Kong
<b>ISIN</b>	KYG0133A1673

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The market corrected sharply after rising 8% in the first seven trading days of January. Highly leveraged – many of them new – local investors sold aggressively in the pre-holiday period as news came out about a new COVID-19 outbreak in an electronics factory in the north of Vietnam. The VN-index fell -4.3% this month, with small and mid-cap stocks showing mixed results on even higher volatility, which brought the indices down to a more comfortable investment level. In this emotional environment, where almost every single stock followed the main index up and down, our portfolio was not exempt from this, but our NAV managed to close near the high set in December with an estimated NAV of USD 2,238 (- 2%), according to internal calculations.

### Market Developments

In January, the Vietnamese stock market entered a period of increased volatility. The huge inflows of money from new investors only added to the already positive sentiment we saw at the end of last year. Foreign investors were net sellers, albeit a small margin, compared to the increased trading volume. This latest correction provides us, valuation-wise, with plenty of upside potential given the fact that there is a considerable valuation gap with other markets in the region and we are again seeing accelerating growth, in both the economy and earnings.

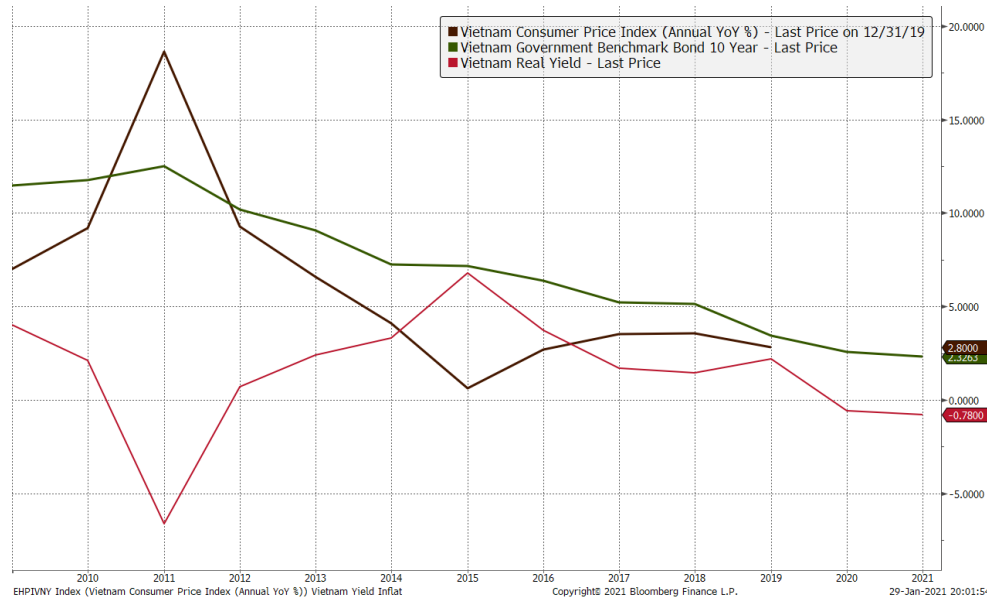
We are seeing tremendous value in both the financial markets as well as in economic developments in Vietnam, and as we have always expected - or hoped - that one day we would see a locally driven bull market frenzy as we are starting to see now since the last few months. While nobody ever knows when or why this is going to happen, we could just be in the initial phase of such a bull market, unless it is derailed by a major global event. Increased volatility and sharp corrections are part of the game, but a new all-time high of the main index would certainly hit the headlines and lure further new money into the stock market. After rallying more than 20% alone in the fourth quarter of 2020, and another 8% in the first seven trading days of the year, the sharp correction we saw after margin stretched local investors panicked was healthy to see. The strong overbought condition was thereby solved with the index falling 17% from the top on January 18. Although the recent new outbreak of COVID-19 in an electronics factory in the north of Vietnam with almost 100 infected people led to renewed fears of a larger scale infection (as has been the case three times in 2020), strong and fast responses from the government will hopefully work again.



(VN Index from Nov 2019 to Jan 2021; Source Viet Capital Securities)

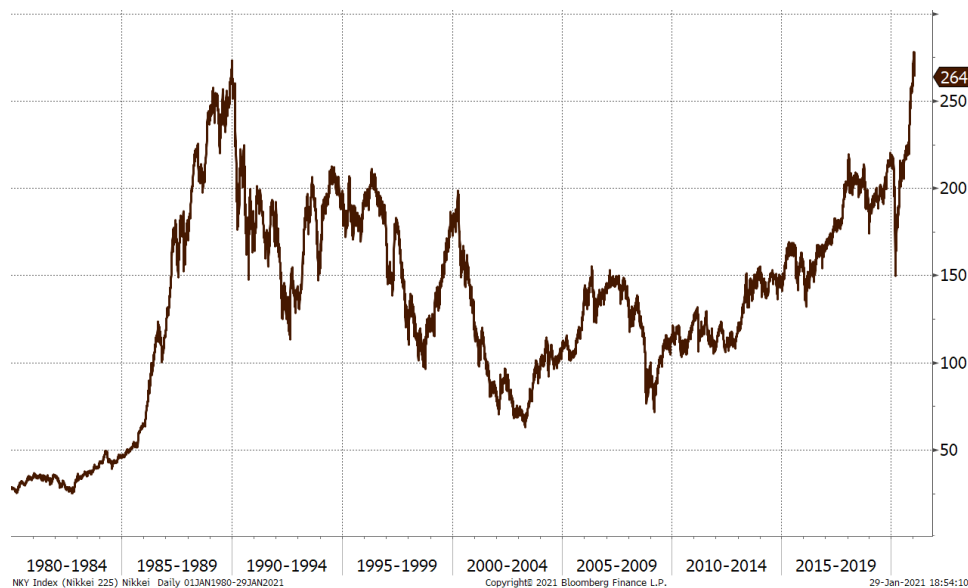
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The positive mood of an already optimistic population in Vietnam is accompanied by the search for yield and investment opportunities – as everywhere in the world. Real estate prices have already risen sharply in recent years with decreasing nominal interest rates at the same time, resulting in a meaningful decline of real interest rates (inflation adjusted interest rates). The sharp stock market recovery since the low 10 months ago, when local investors were cleverly buying up cheap stock from selling foreign investors, obviously led to interest from new investors which started a new investment cycle.



(Source: Bloomberg)

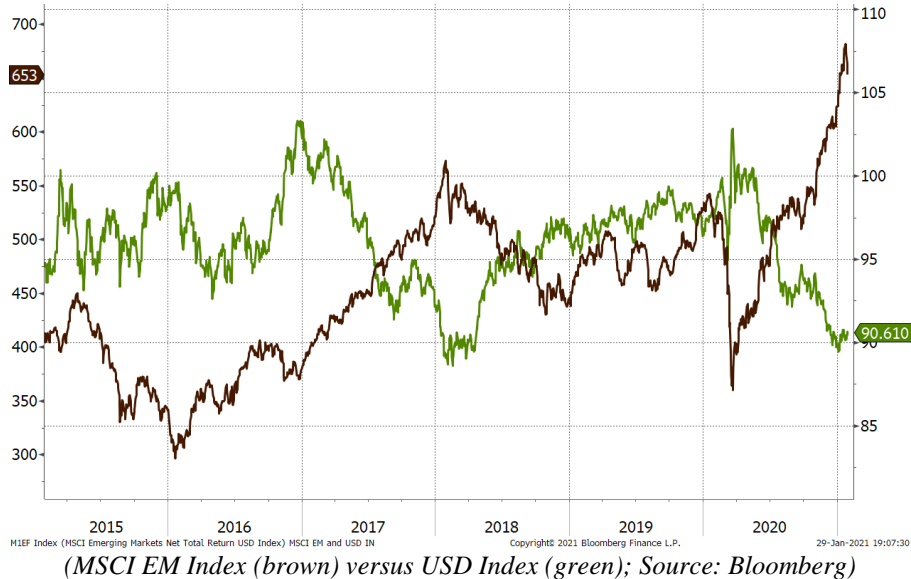
What might not look logical at first, during a time where many businesses are struggling around the globe, the lack of investment alternatives in an extremely low or negative real interest rate environment are strong drivers behind the strength in stock markets recently, not only in Vietnam. As we see strong intentions of many central banks to control bond yields since almost no governments (as well as many in the private sector) would be able to financially withstand a sharp rise in yields, we do not foresee any changes in these policies in the foreseeable future. The Japanese stock market just hit a new all-time high in USD (after more than 30 years!) and is a good example of how cheap money is driving financial markets.



(Nikkei 225 from 1980 to 2021; Source: Bloomberg)

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Another strong argument for Emerging Markets has always been a weakening trend in the USD, just what we are currently seeing.



### ESG findings in our portfolio universe

Vietnam has successfully managed to negotiate numerous free trade agreements (FTA's), such as for example the European Union - Vietnam Free Trade Agreement (EVFTA). This agreement is quite unique because it includes certain environmental, social and governance (ESG) provisions – for example, around property protection, labour rights, and sustainable development. Although environmental, social and corporate governance (ESG) awareness in Vietnam is certainly accelerating, there is still a lot to be done in order to comply with all these new and stringent export conditions. Buyers of Vietnamese goods in Europe are becoming more demanding and are asking for an adoption of international or EU standards, such as for example a sustainable “CE Mark” which must be affixed to many products before they can be sold on the European market. This CE Mark certification confirms that these products fulfil the requirements of relevant European product directives, such as for example European harmonized performance and safety standards. Or, for example, European importers of wood furniture from Vietnam are asking for an FSC certification (Forrest Stewardship Council) which ensures that products come from responsibly managed forests that provide environmental, social and economic benefits. With an increasing importance of sustainable investments, we have integrated ESG analysis into our investment decisions. We would like to explain how we look into these aspects through an assessment of one of our holdings, Sao Ta Foods JSC.

### Sao Ta Foods JSC (FMC)

Sao Ta Foods JSC (FMC) used to be a state-owned company before it was privatized. FMC operates shrimp and catfish farms, processes and trades frozen aquatic products, and exports to Europe, USA, Japan, and other markets.

#### Environment - Resource use

FMC consumes a lot of electricity, especially for their frozen products. Furthermore, their production needs huge amounts of water, pharmaceuticals and plastic for packaging. Waste water management and controls of the use of pharmaceuticals are essential requirements from their buyers in Europe, USA and Japan. Next to those efforts, the company has several programs to preserve the environment, such as environmental training programs for their employees, a forest planting campaign, and joining community activities like the World Environment Day or the Environment Action Month. FMC was recognized as one of the top 100 “Sustainable Development Enterprises” by the Vietnam Chamber of Commerce and Industry (VCCI) in 2020.

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We rate this company slightly below average for “resource use”, as their business is not environmentally positive by nature, but rate them better than comparable companies since they have many positive initiatives and are constantly trying to improve their ecological footprint.

### Environment - Emissions

The company also received several certificates for their environmental management, like for example ISO 14001:2015, BAP 4 (Best Aquaculture Practices 4) and Aquaculture Stewardship Council (ASC). The company conducts yearly air quality tests around its factories and quarterly water tests, ensuring that their results meet all requirements of the government. In 2019, FMC spent VND 1.7 bln on wastewater and solid waste management.

### Water recycling and processing at FMC



(Source: FMC)

We rate FMC for “emissions” slightly above average since they treat their waste products, particularly water, in a much better and more efficient manner than other companies in the sector.

### Social - Workforce

Two thirds of FMC’s workforce is female. The average salary is around VND 9.4 mln per month and has increased around 36% since 2016. This average compensation is about 3x the average salary in this province. Furthermore, the company also spent VND 25 bln for bonuses, welfare and organized many social activities for their employees. FMC organizes monthly staff trainings and an annual offsite meeting for all their employees. The company also provides their employees with free annual health checks, low interest rate loans if needed, and educational support for employees’ children. Since the company is located in a rural area with little to no infrastructure, rooms and canteens were built for their staff. There are also reading rooms with thousands of books, karaoke rooms, game rooms, badminton fields, table tennis rooms, a gym center, and soccer fields.

We rate FMC for “workforce” highly, given their vast variety of social activities and diverse staff incentives.

### Social - Community

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FMC contributed to Khmer community projects, has helped to restore pagodas, and donated money to various local charities, although the total amount is comparably low. The company is located in Soc Trang province in the Mekong Delta, one of the poorest provinces in Vietnam. The company created more than 3,700 jobs in 2019 and will add another 3,000 jobs in the province in 2021, when their new factory with a total investment of VND 280 bln is finished.

We rate FMC slightly below average for “community” given that they financially support many community and charity projects, but they could still increase their spending to do better than their competitors.

### Social - Product responsibility

FMC is SMETA certified. SMETA (Sedex Members Ethical Trade Audit) is the most widely used social auditing methodology in the world, enabling businesses to assess their sites and suppliers to understand and improve working conditions in their global supply chain. Sedex provides practical tools, services, and a community network to help companies improve their responsible and sustainable business practices, and source responsibly.

Their shrimp and catfish farms meet high standards such as BAP 4 (Best Aquaculture Practices 4) and Aquaculture Stewardship Council. Furthermore, they also applied “origin tracking system” for their products. Their products meet many high-level standards such as HACCP, ISO 14001, HALAL, BRC (British Retail Consortium), SEDEX, IFS Food, ISO 14001:2015.



We rate FMC above average for “product responsibility” due to their strictly controlled production process.

### Governance - Management

FMC’s company website is very informative and all corporate activities are captured on their “Investor Relations” section. They are one of very few companies publishing monthly business results and press releases. Management replies to most questions from investors promptly and communicates in an open way which was especially visible during the outbreak of COVID-19.

We rate FMC good for “management” because of their efficient information channels and clear and transparent shareholder communication.

### Governance – Shareholders

The board consists of 5 directors, of which one is female; without an independent director. PAN Group and its subsidiaries own around 64% of the total shares, but they only hold two board seats. The other three seats are filled by executive directors who work at FMC. PAN Group does not get involved in the day-to-day business but they actively consult and support the company whenever needed in order to help them achieve their targets.

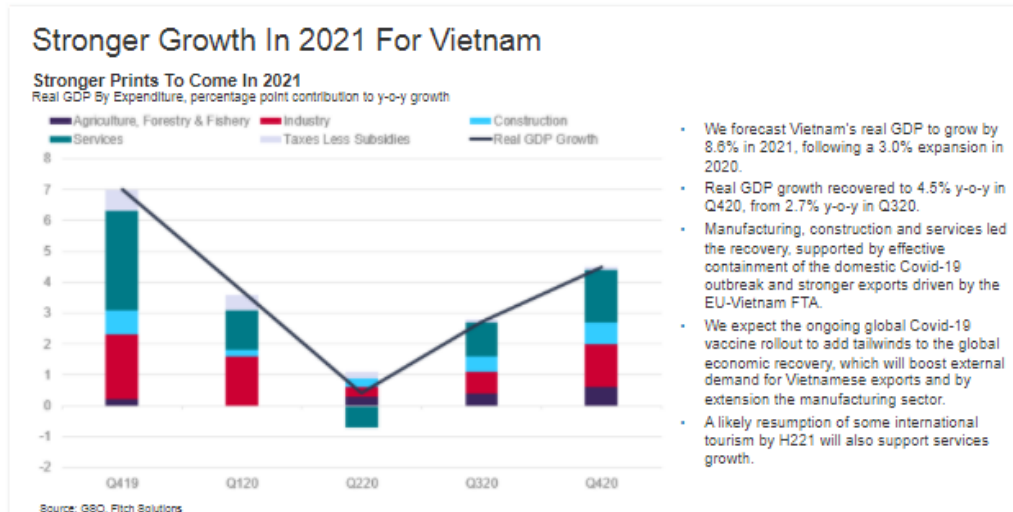
We rate FMC neutral for “shareholders”. Although the majority shareholder is not involved in the daily business operations, they could potentially block management decisions.

Overall, FMC is a good example of one of our funds positions and we rate them overall positive. In analyzing all of our holdings with the same methodology, we are trying to find companies in Vietnam willing to establish higher ethical and sustainable business standards. We will constantly adapt and improve our methods in the future and also try to work closely with these companies together in order to get further information and help them to improve their standards.

**2021 is expected to be a successful year for Vietnam**

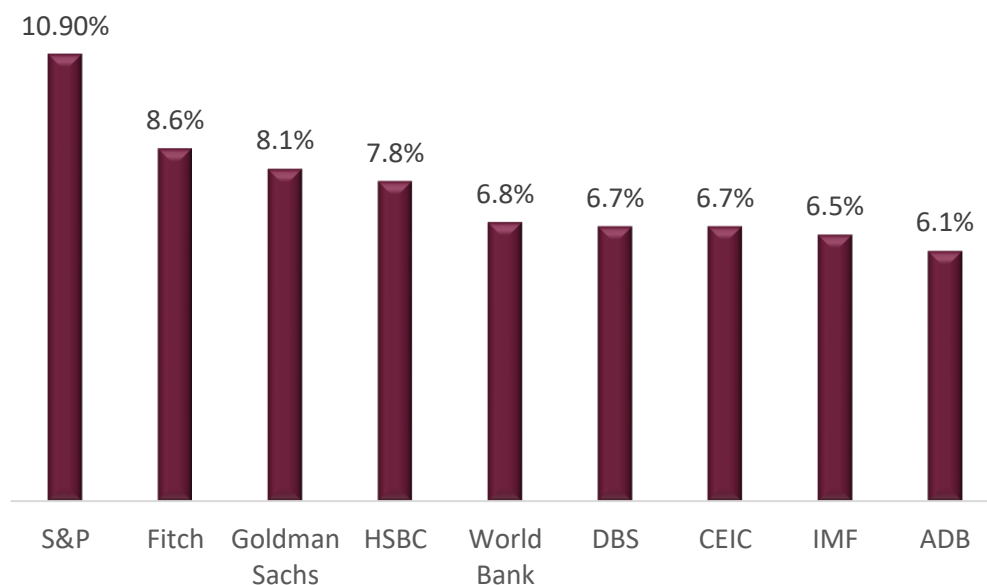
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Vietnam overcame the COVID-19 pandemic very well and became the fastest growing economy in the region in 2020 with a GDP growth of 2.9%. Production and retail sales are recovering strongly, driven by the strong work ethic and rising consumption from the country's nearly 100-million-inhabitants. Vietnam also strictly controlled its border with China, Laos and Cambodia through which many people try to immigrate illegally. According to the IMF, there are only 1,651 cases so far and 35 deaths as of 28<sup>th</sup> January with a minimal lockdown which should further support the economic recovery in 2021, if the recent outbreak is controlled successfully.



Fitch Solutions just made an upward revision of Vietnam's GDP growth forecast from 8.2% to 8.6% for 2021. Vietnam recorded an estimated GDP growth of 4.5% y-o-y in the fourth quarter of 2020, accelerating from 2.7% y-o-y in the third quarter. According to Fitch Solutions, this growth acceleration in the fourth quarter was broad-based across the economy, but was driven by a stronger recovery in the industrial and construction and the services sectors. This was due to effective domestic containment of COVID-19 outbreaks and also strong export growth, supported by the EU-Vietnam Free Trade Agreement (EVFTA). With a global vaccine roll-out underway, Fitch Solutions expects 2021 to herald a year of economic recovery around the world, which should support external demand for Vietnamese exports.

### Vietnam economic growth estimation in 2021 (%)



(Source: Institutions, AFC Research)

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In the first days of January 2021, Foxconn announced their plan to increase their investments in Vietnam by USD 700 mln, adding 10,000 jobs in Bac Giang Province, where they have been granted a license to build a factory to produce laptops and tablets for Apple. As of December 2020, the tech firm has invested USD 1.5 bln in Vietnam, of which USD 900 mln was injected into Bac Giang province, creating jobs for more than 35,000 people.

Also, Intel announced it has invested a further USD 475 mln in Intel Products Vietnam. This new investment is in addition to Intel's USD 1 bln investment to build a state-of-the-art chip assembly and test manufacturing facility in Saigon Hi-Tech Park, which was built in 2006. This takes Intel's total investment in its Vietnam facility to USD 1.5 bln.

Vietnam's government clearly wants to transform its economic growth paradigm with a stronger focus on industrialization and modernization, science and technological development, innovation and high-quality human resources development. The government's focus to attract foreign investment will shift from quantity to quality, with a strong preference for projects with modern technology, high added value, modern governance models, and strong ties to domestic economic sectors. These investments from Foxconn and Intel show that Vietnam continues to attract more and more investment capital as a result of the production switch from China to Vietnam. Although Joe Biden officially became the 46<sup>th</sup> President of the United States, we do not expect the tension between US and China to disappear overnight.

### Vietnamese people prepare a very different TET holiday after COVID-19 – “old traditions are back”

TET is the Lunar New Year for Vietnam and falls on the same day as the Chinese New Year, making it the most important holiday in Vietnam during which the whole country celebrates and businesses remain closed for 7 days. Typically, family members gather to celebrate together on the first day of the year. In previous years, people would rush to leave big cities for their hometowns in the last 2 days of the old year and then leave their families in the first days of the new year in order to travel around the country and meet with their wider families and friends. However, due to COVID-19 things have changed and many companies adapted a “remote working model” and their employees are now working from home. This provides many people the flexibility to leave big cities even earlier, and hence it is expected that we won't see huge traffic jams at bus stations and exit roads in large cities as we have seen in previous years. By how much TET will be impacted by the current new COVID-19 outbreak will depend on the success of the government measure in the coming 10 days.

### Buying bus tickets at Mien Dong Bus Station in Ho Chi Minh City in 2020 and 2021



(Source: AFC Research, Mien Dong Bus Station, Vnexpress)

Also, it is expected that people will spend more time this year with their families, similar to the “old days”. It is also expected that this year many more people will boil the traditional “Chung” cake for TET holidays themselves, rather than buy it in the stores. Given that they plan to spend more time with their close families this year, all family members will gather to boil a cake together. This cake consists of sticky rice, pork, green beans and is boiled in a big pot for about 24 hours. Every family

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member will rotate and share responsibility to watch the pot until it is done and baked to perfection. While it is cooking, they will have plenty of time to drink, sing and play together, sitting around the fire with the pot.

### Chung cake wrapping and cooking during TET holidays



(Source: Zing, vnexpress)

### Economy

Macroeconomic Indicators				
	2018	2019	2020	Jan-21
GDP	7.08%	7.02%	2.91%	2.91%
Industrial production (YoY)	10.2%	8.9%	3.4%	22.2%
FDI disbursement (USD bln)	19.1	20.4	20.0	1.5
Exports (USD bln)	244.7	264.2	281.5	27.7
Imports (USD bln)	237.5	253.1	262.4	26.4
Trade balance (USD bln)	7.2	11.1	19.1	1.3
Retail sales (YoY)	11.70%	11.80%	2.60%	6.40%
CPI (YoY)	3.54%	2.79%	3.23%	-0.97%
VND	23,175	23,230	23,108	23,049
Credit growth (YoY)	13.9%	12.1%	10.5%	12.1%
Foreign reserves (USD bln)	60	73	92	92

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

### Subscription

The next subscription deadline will be 22<sup>nd</sup> February 2021. 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 31<sup>st</sup> January 2021

NAV	2,238*
Since Inception	+123.8%*
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	-2%*												-2%*

\*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.*

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