

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
One Nexus Way, Camana Bay
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

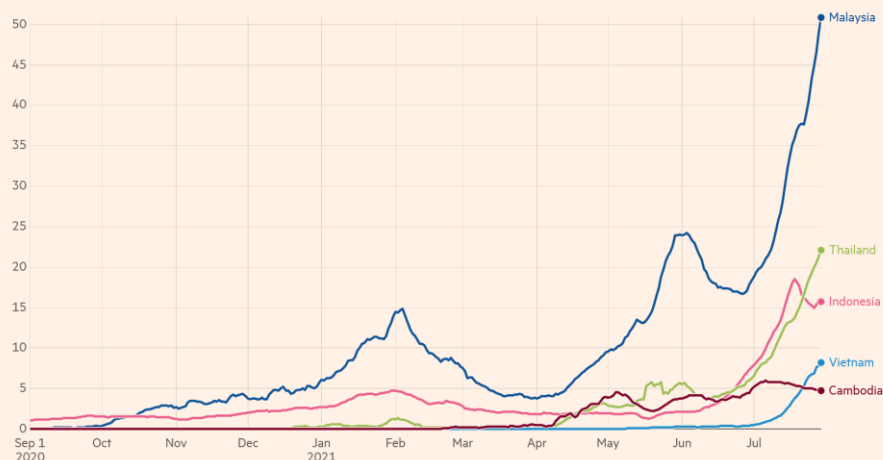
With the market finally correcting after having gained 29% year-to-date, our portfolio ended the month slightly down. Rising COVID-19 cases, especially in the business-hub HCMC, led to profit taking on lower volume, with the index sharply down, -7.0%, its first correction since January this year. After outperforming the index during the rise in the first half of the year, our portfolio also held up significantly better than the index, losing only -1.4% for the month (NAV USD 2,998), according to internal estimates.

Market Developments

Markets took a hit in July after COVID-19 infection rates continued to climb, especially in the economic hub of Ho Chi Minh City, despite the city taking some drastic actions to reduce mobility. Most flights out of HCMC were stopped, several areas of the city went into strict lockdown, and local transportation was suspended among other measures. Many countries which did an excellent job containing the virus in the first 18 months of the pandemic are now the hardest hit countries.

New confirmed cases of Covid-19 in Malaysia, Indonesia, Thailand, Vietnam and Cambodia

Seven-day rolling average of new cases (per 100k)



Source: Financial Times analysis of data from Johns Hopkins CSSE, World Health Organization, UK Government coronavirus dashboard, Government of Peru, Public Health France and the Swedish Public Health Agency. Data updated: July 30 2021 7:26am BST. Interactive version: ft.com/covid19

Since the last correction in January, the VN Index rallied 43% to its latest all-time high on 2nd July at 1,424.28 points. A technical correction was therefore just a matter of time, and with the rising number of COVID-19 cases in Vietnam and other countries, especially in Southeast Asia, it was a welcomed reason for traders to take profits in many stocks which have gained strongly in recent months. We saw this behavior in all previous waves where the market corrected initially, just to come out even stronger when the first shock was absorbed.

AFC VIETNAM FUND UPDATE

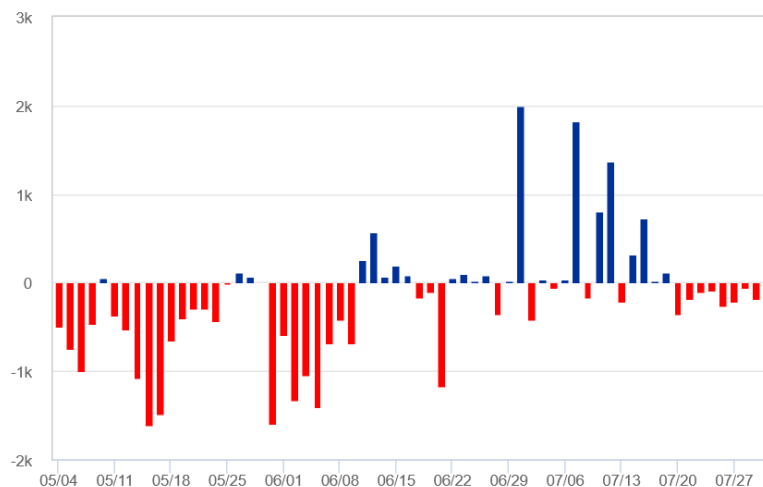


(Source: Viet Capital Securities)

From the top, the market corrected 14%, very similar to what we have seen in each wave since the first COVID-19 outbreak.

correction start	top	low	%
05-03-20	898,43	649,10	-27,8
16-07-20	876,83	779,82	-11,1
18-01-21	1.200,85	998,33	-16,9
02-07-21	1.424,28	1.225,52	-14,0

Transaction value

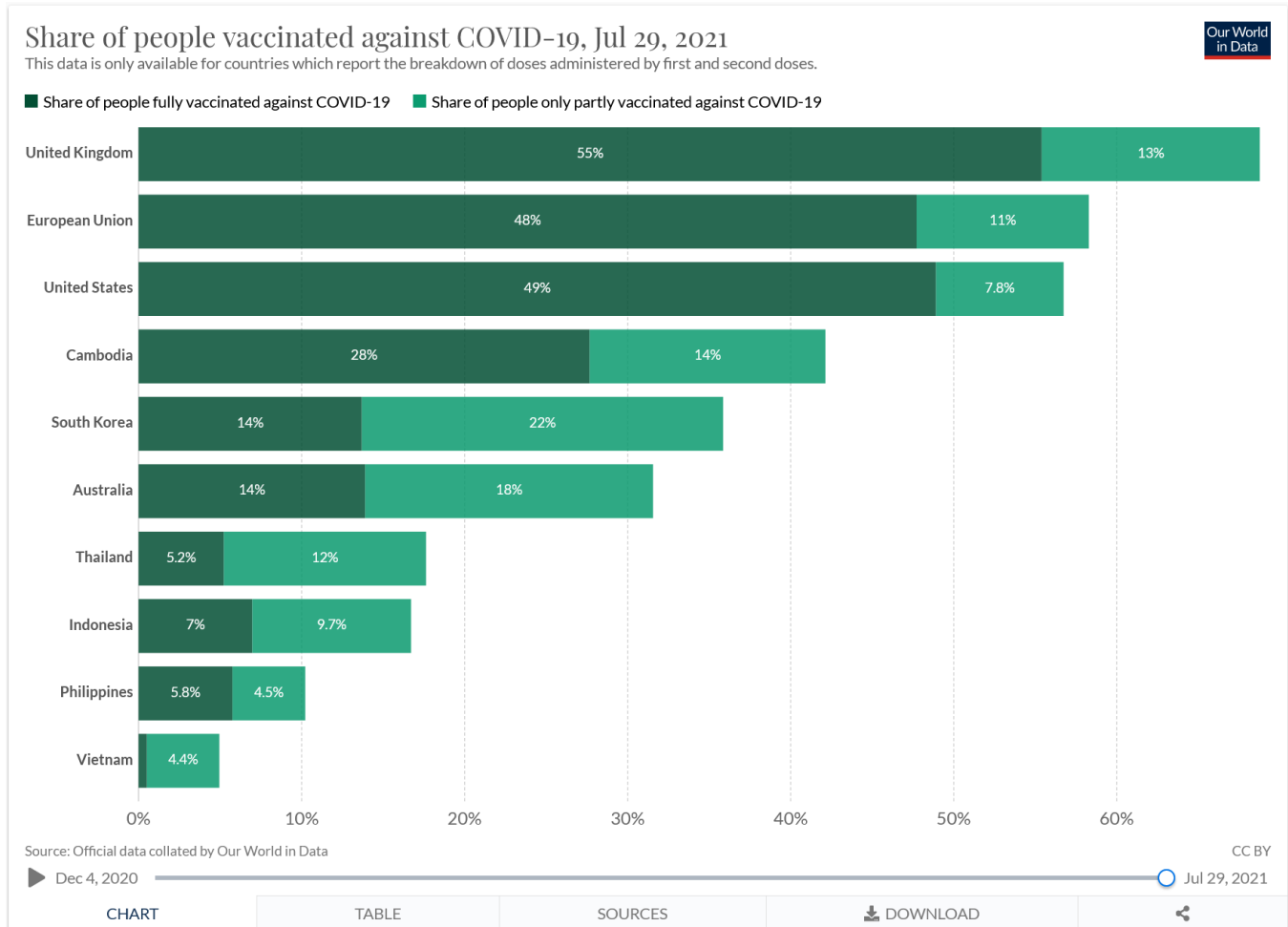


(Source: Vietstock)

What is different this time is the lack of foreign selling, unlike in other waves. While the current surge in COVID-19 cases is certainly a much larger problem to handle, it has also changed the government's strategy of how to deal with it. Being behind the curve in purchasing and administrating vaccines in time, Vietnam, as many other countries in the region, has to admit that their former successful strategy of closing down the country with strict lockdowns does not work anymore. The broader

AFC VIETNAM FUND UPDATE

region has ramped up purchases of vaccines and by the end of the year a significant part of the population should be vaccinated, maybe – and hopefully – faster than many currently estimate, as larger amounts of “leftovers” from other countries will reach Southeast Asia since countries in Europe and North America are already facing problems in reaching out to people willing to get their jabs. According to the government, the country aims to vaccinate 60-70% of the population through year end – and even that goal seems to be a bit too optimistic, but you can be sure, that in a country like Vietnam there will be much less discussion about people participating in vaccination programs than in other countries currently!



(Source: Our World in Data)

Nevertheless, the recent outbreak led the Asian Development Bank to cut its 2021 GDP growth forecast for Vietnam from 6.7% to 5.8%. While still strong, certain parts of the economy are being affected for the first time, namely the production sector. Overall, we saw very strong second quarter earning numbers from our portfolio companies which should continue through the remainder of the year, although comparisons will get tougher in the third quarter with the current outbreak not yet under control. Knowing about the importance of the manufacturing sector, both the government and companies are trying to minimize the impact of the current situation and are coming up with practical solutions such as a stay-at-work policy, opposite to the work-from-home we know in the West. While this is a solution for many big companies, small and medium size enterprises find it hard to adopt this measure and have ceased operations temporarily. In Vietnam, people call this solution “3in1” which means workers will “eat”, “rest” and “work” at the factory. For example, Sao Ta Foods (FMC), one of our portfolio company, applied this solution for their workers in order to maintain production. In 2Q 2021, the company reported a net profit increase of 46%.

AFC VIETNAM FUND UPDATE

“3in1” at FMC factory



(Source: FMC)

This approach is also practiced in other sectors like banks, or at multinational conglomerates like Samsung:



(Source: VOV - Voice of Vietnam)

Despite the recent correction, Vietnam showed an outstanding performance in the first 7 months of the year. Its economic development backed by a committed government to bring the country forward has led to strong economic activity and stock market inflows from domestic investors. As you can see from the chart below, our fund has a very low correlation to other indices in the region – for example the AFC Vietnam Fund outperformed the index in Vietnam by more than 10% year to date – and also outperformed the relatively weak emerging markets which suffered due to the weak Chinese stock market performance.

AFC VIETNAM FUND UPDATE



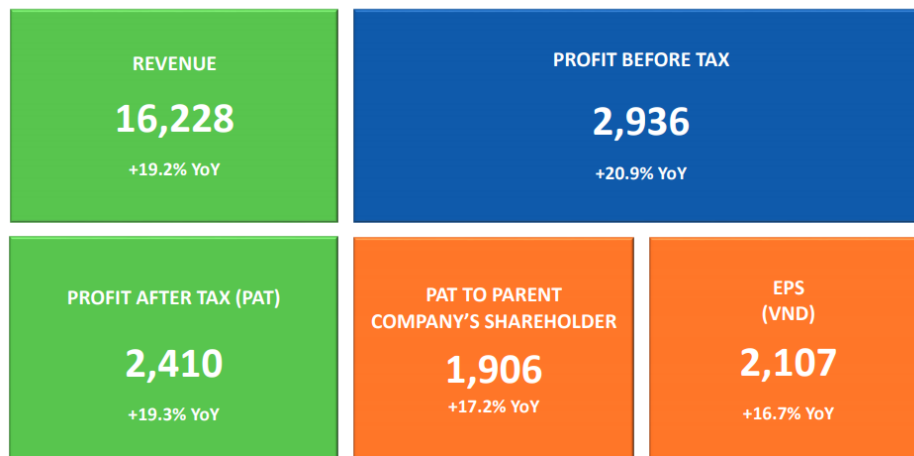
(Source: Bloomberg; AFC research estimates)

The stock exchange of Vietnam successfully launched the new Ho Chi Minh Stock Exchange trading system, developed by FPT

In the first 6 months of 2021, the trading system of the Ho Chi Minh City Stock Exchange (HOSE) often crashed during trading session due to the extremely high trading volume. The old system carried out a maximum of 999,999 orders per day; this has not been sufficient on most trading days in 2021 and HOSE had to stop its trading system in the afternoon. This situation created a lot of very unhappy customers and HOSE had to find a quick solution and therefore hired FPT, a leading software provider in Vietnam to fix this problem by building a new trading system. On 5th July 2021, after only 100 days of intensive work, the mission was completed and the new platform can now handle 3-5 mln orders per day. FPT is considered to be the leading IT company in Vietnam which is listed on HOSE since 2006. FPT reported a record high profit in the first half of 2021. This was even helped by the impact of COVID-19, which forced a lot of businesses to move to online sales, and hence revenues from software development and IT services increased strongly. FPT's revenue reached VND16,228 bln (+19.2%), and profit before tax jumped to VND2,936 bln (+20.9%). Profits from IT services increased by 35.1%, equivalent to around 44% of total group profit in 1H 2021.

Financial performance of FPT in 1H-2021 (VND bln)

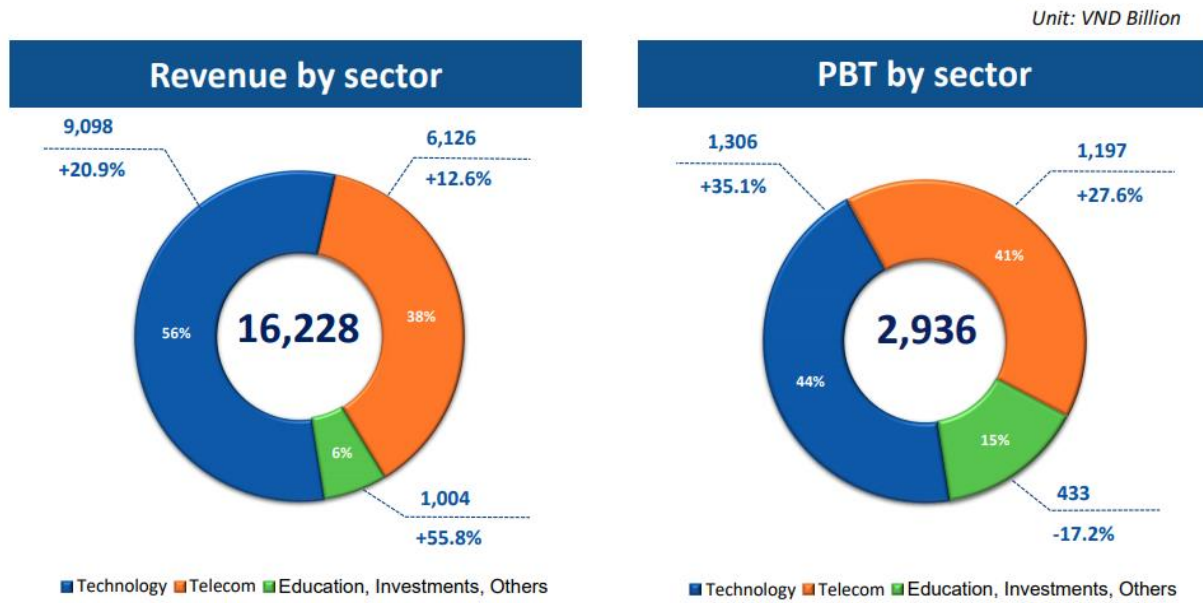
Unit: VND Billion



(Source: FPT)

AFC VIETNAM FUND UPDATE

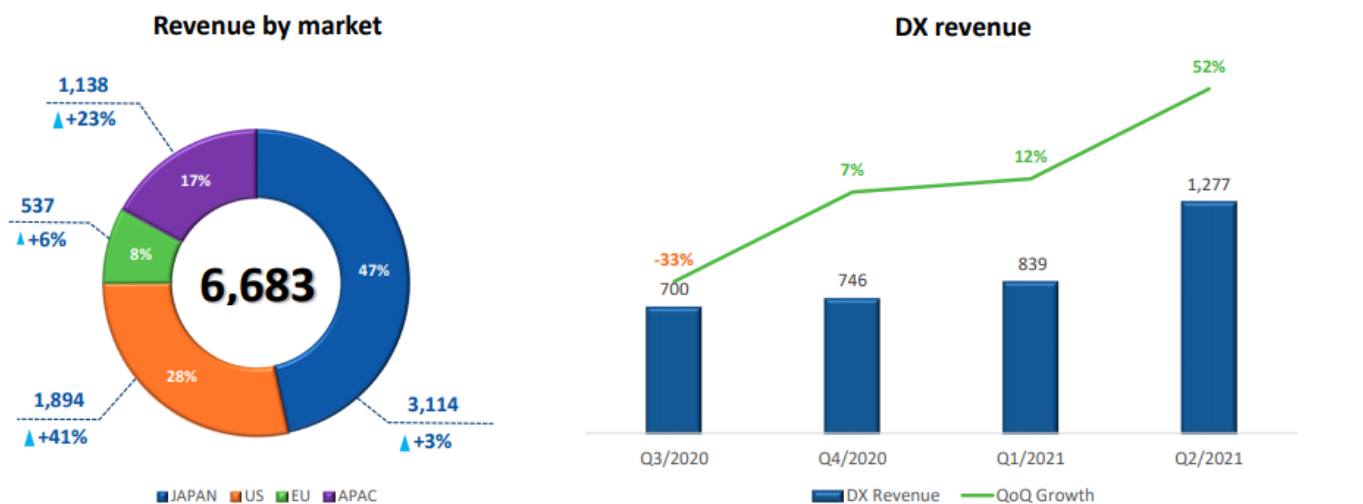
Revenue and before tax profit by sector of FPT (VND bln)



(Source: FPT)

It is interesting to note that revenues accelerated across all markets, but with particularly strong growth in the USA (+41%) thanks to strong demand from large clients. The USA is the second largest market for FPT at the moment with 28%, after Japan with 47%. DX (digital exchange) revenues continued to improve with Q2 2021 increasing by 22% YoY and 52% compared to Q1 2021. DX revenues for the first half of the year increase by 19.3% YoY thanks to high growth rates in low code, cloud, and blockchain technology services.

Global IT service performance



(Source: FPT)

FPT saw strong demand from international clients with 11 large transactions of a value of more than USD 5 mln each.

AFC VIETNAM FUND UPDATE

Global IT service performance

01 Signed Revenue

- Signed Revenue for H1/2021 posted VND 8,342 (+36.8%)

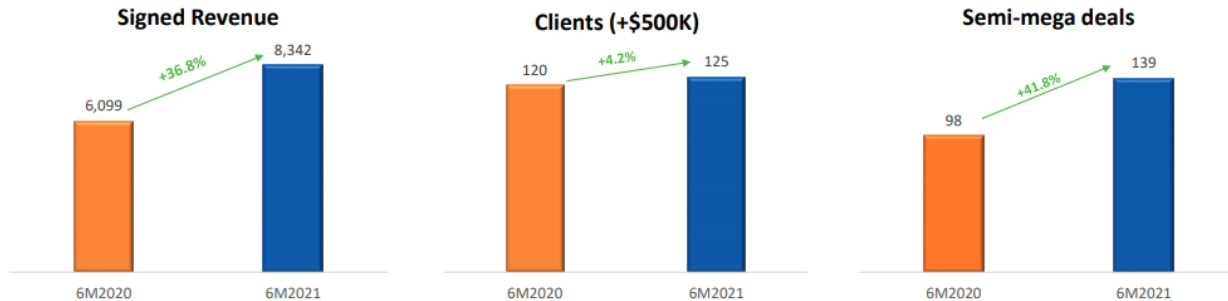
02 Clients

- Number of clients with revenue from \$500k: 125 (+4.2%)
- Number of clients with revenue from \$1 million: 58 (-10.8%)

→ Clients' merger and restructuring consolidate the number

03 Deals

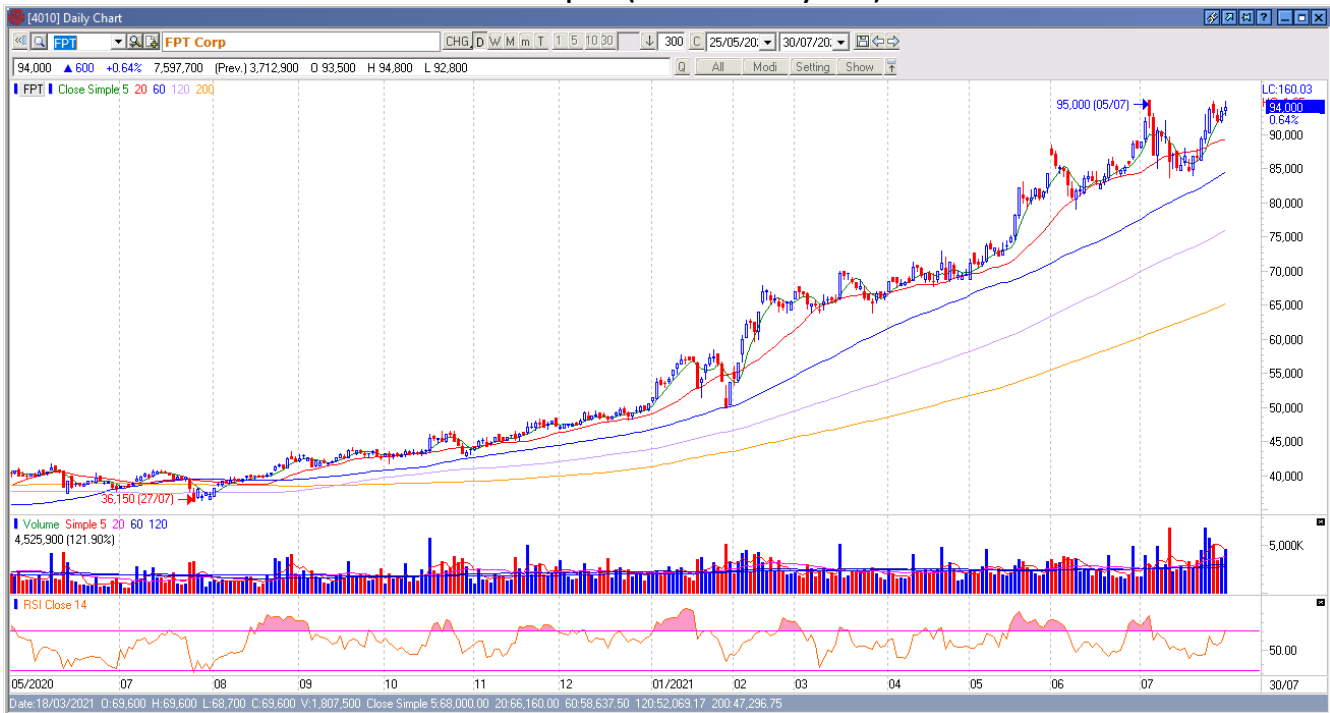
- Semi-mega deals (\$500k+): 139 (+41.8%)
- Mega deals (\$1 mn+): 50 (+25%)
- Large deals (\$5 mn+): 11 (+450%)



(Source: FPT)

FPT's stock price also outperformed the VN-Index in 2021 with a gain of 79.2% compared to 14.9% for the VN-Index. FPT is currently trading at 19 times forward earnings in 2021, which is comparatively cheap for a global information technology company of its size. This is also the reason why the FOL (foreign ownership limit) of FPT is always full and foreign investors have to pay a premium of around 7-15% compared to market price if they want to buy the stock. We have been holding FPT since the start of the fund and are expecting further growth of our holding in the future.

FPT stock price (June 2020 – July 2021)



(Source: Viet Capital Securities)

AFC VIETNAM FUND UPDATE

Vietnamese media pays more and more attention to ESG (Environmental – Social – Governance)

It is interesting to observe that the Vietnamese press is starting to write more and more about the importance of ESG (Environmental – Social – Governance) and also Vicente Nguyen, our fund manager who has received many interview requests to comment about ESG standards and investment opinions from offshore investors such as the AFC Vietnam Fund. To include ESG criteria in the investment process is a new concept in Vietnam and most companies and investors do not know much about it. One of the recent interview requests we received was from an online investment news portal, asking us to comment about the “social responsibilities” of *Bach Hoa Xanh*, a grocery chain in Vietnam, which belongs to Mobile World Group (MWG), listed on the Ho Chi Minh City Stock Exchange.

Boycott campaign on social media and online news portal against Bach Hoa Xanh



(Source: vnexpress)

Ho Chi Minh City started to lockdown the city for 14 days, from 9th to 23rd July, and extended further until 1st August and talks of a further 2 weeks extension. During that period, all traditional food markets had to close and only supermarkets like Bach Hoa Xanh were allowed to open and sell food and other essential goods, but unfortunately, the company could only meet around 30-40% of consumer demand. The supply shortage and additional costs related to COVID-19 measures led to a sharp increase in cost of goods and companies such as Bach Hoa Xanh had to increase the prices in order to cover the additional costs. But this was met with strong criticism from consumers, especially on social media, who accused Bach Hoa Xanh of being cruel and not caring about its social responsibilities, asking them to keep the selling prices unchanged. The CEO of Bach Hoa Xanh tried to explain that they have no choice but to adjust prices due to skyrocketing costs, but communities on social media called for a boycott of all their products. When we were interviewed about this story, our fund manager tried to explain that a company such as Bach Hoa Xanh cannot survive in the long term if the company is forced to sell products below cost price. The social responsibility of a financially sound companies, such as Mobile World Group (MWG), the mother company of Bach Hoa Xanh is shown through their charitable contributions such as for example building schools, organizing blood donations among their employees, offering scholarships to students, providing support to underprivileged people, and contributing to the government vaccine fund for the benefit of the whole country. But social responsibilities of a company are also shown by taking care of its own employees in terms of gender equality, fair compensation, equal career opportunities, etc. But, besides social responsibilities, an enterprise which is adopting ESG principles in its business model also has to care for example about environmental aspects, such as greenhouse gas emission reduction and high corporate governance principles. It is certainly a challenging task to adopt a high level of ESG standards in a country such as Vietnam, and Bach Hoa Xanh is a good example of what kind of headwinds some of these companies are facing, even if they are trying to do the right thing. But we are convinced that ESG is becoming much more popular, in particular among listed companies.

Economy

AFC VIETNAM FUND UPDATE

Macroeconomic Indicators				
	2018	2019	2020	Jul-21
GDP	7.08%	7.02%	7.30%	5.64%
Industrial production (YoY)	10.2%	8.9%	3.4%	7.9%
FDI disbursement (USD bln)	19.1	20.4	20.0	10.5
Exports (USD bln)	244.7	264.2	281.5	185.3
Imports (USD bln)	237.5	253.1	262.4	188.0
Trade balance (USD bln)	7.2	11.1	19.1	-2.7
Retail sales (YoY)	11.70%	11.80%	2.60%	0.70%
CPI (YoY)	3.54%	2.79%	3.23%	1.64%
VND	23,175	23,230	23,108	22,995
Credit growth (YoY)	13.9%	12.1%	10.5%	5.5%
Foreign reserves (USD bln)	60	73	92	94.8

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

Subscription

The next subscription deadline will be 25th August 2021. 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 July 2021

NAV	2,998*
Since Inception	+199.8%*
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%	-1.4%*						+31.2%*

*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.

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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