AGCM China Stars Fund

ASIA GROWTH CAPITAL MANAGEMENT

October 3, 2023

Central banks and US Treasury market weigh on investor sentiment

During the month of September, the NAV of AGCM China Stars Fund RC1 SEK decreased by -3.5%.

Major equity markets around the world declined in September on fears of central banks, especially the Federal Reserve, going “higher for longer” as inflation remains above target. The price of oil has complicated the picture, having risen 30% in the past quarter. The recent dramatic increase in US government bond yields has led to a renewed focus on the health of the US Treasury market. Interest payments on the USD 33 trillion federal government debt have in less than two years doubled as a percent of government tax receipts, from 8% in 2022 to now 15%. This ratio continues to worsen with rising debt levels and higher interest rates when the existing debt is rolled over. Non-US investors have been net sellers of US Treasury bonds since 2014, and the demand from traditional domestic buyers remains weak. There is clearly a risk of further upward pressure on US Treasury yields in the coming months given the massive US government deficit that needs to be financed.

After an intense two weeks with 28 meetings in Hong Kong and Tokyo with some of Asia’s largest listed companies, we remain optimistic on the outlook for the region and our fund holdings. The growth outlook generally remains good and key valuation metrics are in many cases close to ten-year lows. Asia will most likely continue to be the main driver of economic growth in the World.

Tokyo Electron, one of the World leaders in semiconductor manufacturing equipment, sells to chip makers such as Intel, Samsung Electronics and TSMC. We were surprised to learn from Tokyo Electron’s management that this year, Chinese semiconductor companies account for 40% of Tokyo Electron’s total revenues, up from 25% last year. US export restrictions of advanced semiconductors have only accelerated China’s efforts to build up its own semiconductor industry, reducing its reliance on foreign suppliers. So not only have the US chip vendors lost export revenues from one of their largest markets, they will soon also have new competition as Chinese chip makers catch up. They are indeed catching up, according to our contacts at Samsung, Hynix and sector analysts.

We also met with our long-time friends at CRL, one of China’s largest real estate developers. They continue to grow at a healthy clip, earnings up by 28% in the first half of this year. Foreign analysts often underestimate the replacement demand in China. In other words, the desire for more space and higher quality is a huge long-term driver of the sector. CRL’s management indicated 11% revenue growth for the full year 2023 and we estimate a 30% growth in earnings per share. The government’s campaign to de-risk the sector continues. The stronger players become stronger and the weaker are weeded out. CRL is focused mainly on tier-1 and tier-2 cities, in other words the mega cities and provincial capitals in China. That is a segment in which we find the best opportunities, especially during this period of profound investor concerns and bargain valuations.

Alibaba announced it has filed with the Hong Kong Stock Exchange to list Cainiao, its logistics business with 24-hour delivery service in China. The move is the first step in Alibaba’s restructuring into six separate business units to unlock shareholder value and improve operational efficiency. We expect further similar steps later this year.

Gustav Rhenman
Chief Investment Officer

AGCM China Stars Fund

Monthly Report

September 2023

Performance

As of 30/09/2023	1 month	YTD	2 year	Since launch August 28, 2017
AGCM China Stars Fund RC1 SEK	-3.5%	+1.1%	+5.9%	+31.1%
AGCM China Stars Fund RC8 SEK	-3.5%	+1.5%	+7.0%	+36.0%
AGCM China Stars Fund RC9 SEK	-3.9%	+1.0%	+6.0%	+34.6%

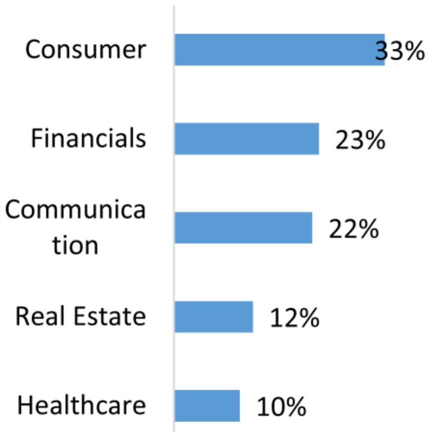
Top 5 holdings

As of 30/09/2023

Company name
Alibaba Group
China Mobile
Tencent Holdings
Midea Group
JD.com

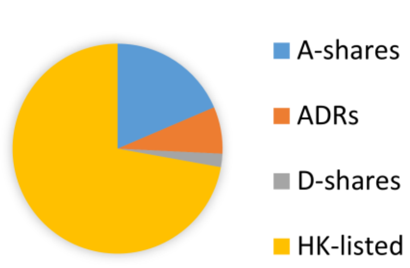
Industry breakdown

As of 30/09/2023



Market breakdown

As of 30/09/2023



About Asia Growth Capital Management

Asia Growth Capital Management AB (AGCM) is a specialized investment management company managing investment funds investing in listed equities in Asia. The company was founded in Sweden in 2013 by a group of investment professionals and executives with extensive experiences from a wide range of different industries. The Chief Investment Officer has twice before been awarded by Lipper (Thomson Reuters) for managing the best performing Asia Fund among all regulated Asia funds registered for marketing in any EU country.

Fund Facts

Portfolio manager:	Gustav Rhenman
Inception date:	28-August-2017
Fund size:	SEK 143 million
Number of holdings:	37
Management fee (RC1):	1.35% + 10% perf. Fee
Fund management Company:	FundRock Management Company S.A.
NAV:	(RC1) SEK 131.1
	(RC8) SEK 136.0
	(RC9) SEK 134.6
Minimum subscription:	n.a.
ISIN code:	SEK RC1 LU 1608617111
	SEK RC8 LU 1608617384
	SEK RC9 LU 1608617467

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Risk information: Money you invest in the Fund can both increase and decrease in value. Historic performance is no guarantee of future return. Saving in funds should be viewed in a long-term perspective, which then may potentially offer a better return than traditional savings in fixed income. We recommend that you read the KIID and prospectus available at www.agcm.se before you make an investment. You can also request such information via e-mail to info@agcm.se.

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