AGCM Asia Growth Fund

August 4, 2018

Trade conflict continues to pressure Chinese equity markets

During the month of July, the NAV of AGCM Asia Growth Fund RC SEK share class decreased by -3.9% and the WP EUR share class by -1.7%. The ongoing trade conflict between the US and China have weighed heavily on Chinese financial markets and the Chinese currency has depreciated as a consequence. The Shanghai Composite Index has fallen 20% in the past six months and is now one of the cheapest equity markets globally. Both the MSCI China index as well as China's mainland A-share index now trade on a 12-month forward price to earnings ratio of around 11, a 30% discount compared with the S&P500 and a price to book level of 1.6, on this metric a 50% discount to the S&P500. We do not foresee a quick resolution of this trade conflict, but to us it seems like an overreaction that since January, Chinese equities have lost around USD 2.5 trillion in market value largely due to concerns by investors that US tariffs would put a dent in the USD 500 bilion of Chinese exports to the US. Even stocks of companies with practically no US exports have fallen sharply. The share price of Chinese tech giant Tencent for example, has fallen 27% since its January peak without any significant changes to its business outlook.

There are good reasons to be bullish from a bottom-up fundamental perspective. We are still waiting for the bulk of 2Q-reports but so far the results have been quite encouraging. Our core holding Baidu delivered another solid report, revenues growing +32% and net income +45% for 2Q year over year. Despite a significant beat of analyst expectations, the share price is now lower than late last year. South Korean internet technology company Naver grew revenues by 21% and net income by 83% in 2Q. Hikvision, the global leader in surveillance solutions also delivered a solid Q2-report with revenues growing +23% and net income by +34%. Despite the strong report, the share price fell on expectations by some investors that revenues could be negatively impacted by new US regulations, largely a misunderstanding according to our interpretation of the regulations.

In an apparent effort to avoid further antagonizing the US, Beijing continued to play down its technological ambitions for China. At a semi-annual briefing on China's industrial developments, the Ministry of Industry and Information Technology made only muted references to the "Made in China 2025" program, despite describing it just six months earlier as having witnessed a raft of "significant and symbolic achievements". Ministry spokesman Huang Libin said in an interview that it was a long-term strategy that needed to be treated objectively and without bias by the global community, adding that many countries, including the US, had developed similar programs. A telling example of how quickly technology companies in China are catching up with its US peers can be found in the smartphone market. In the second quarter this year, Huawei overtook Apple's position as the world's second largest supplier after Samsung. While Apple grew sales by 0.7% in 2Q year over year, Huawei grew by +41% to 54.2 million phones in the quarter.

On the economic policy front, China's State Council announced that it will adopt a more proactive fiscal policy and speed up the spending of 1.35 trillion yuan (about USD 200 billion) for local governments, mainly on infrastructure. Banks have been told to increase their lending and the PBOC has adjusted the Renminbi exchange rate downwards, presumably to offset negative effects from US-imposed trade tariffs. These efforts are intended to ensure that China reaches its economic growth targets despite the ongoing trade conflict with the US.

Gustav Rhenman, Chief Investment Officer

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Monthly Report

July 2018

ASIA GROWTH CAPITAL MANAGEMENT

Performance

As of 31/07/2018	1 month	3 month	YTD	1 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-3.9%	-4.3%	+1.7%	+12.2%	+47.4%
AGCM Asia Growth Fund WP EUR	-1.7%	-0.8%	-1.0%	+5.4%	n.a.
AGCM Asia Growth Fund RC USD	-2.1%	-4.8%	-5.3%	+3.6%	n.a.

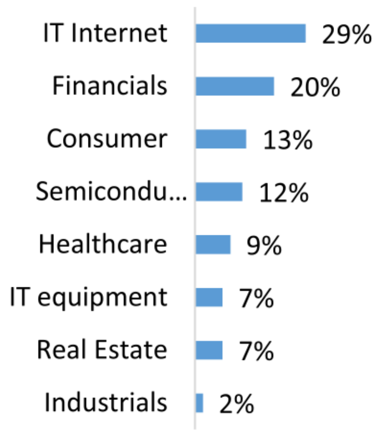
Top 5 holdings %

As of 31/07/2018

Company	Weight
Alibaba Group	9.0%
Tencent Holdings	8.3%
Samsung Electronics	5.3%
China Overseas Land & Investment Ltd	5.0%
AIA Group	4.9%
Total	**32.5%**

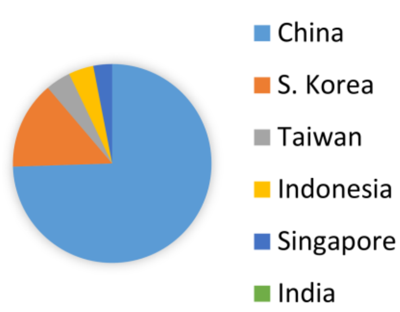
Industry breakdown

As of 31/07/2018



Geographic breakdown

As of 31/07/2018



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:	03-Oct-2014
Fund size:	SEK 1098 million
Number of holdings:	35
Management fee (RC):	1.85%
Fund management Company:	SEB Fund Services Luxembourg
NAV:	SEK 147.4
	EUR 124.3
	USD 151.0
Minimum subscription:	n.a.
ISIN code:	SEK RC LU 1091660909
	EUR WP LU 1163023143
	USD RC LU 1338434852

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