AGCM Asia Growth Fund

ASIA GROWTH CAPITAL MANAGEMENT

September 2, 2023

Strong earnings reports but bad press and weak equity markets

During the month of August, the NAV of AGCM Asia Growth Fund RC SEK decreased by -4.0% and the WP EUR share class by -6.4%.

Asian equity markets were mostly weak during August. Especially Chinese equity markets came under pressure due to a barrage of negative media reports in Western financial media on the state of China's economy. The journalists' common theme was that China's reopening after Covid has stalled, exports are falling, and the real estate sector is collapsing. Bloomberg ran a story the other day titled "Why Xi Jinping is running China's economy cold". Well, facts tell a different story. China's economic growth is not only high, it's on an uptrend. GDP grew by +4.5% in Q1 and +6.3% in Q2. This translates to +5.5% for the first half of this year, in line with the government's since long communicated target. The manufacturing sector was sluggish early this year but is accelerating, as confirmed by yesterday's strong PMI numbers from Caixin. China's trade surplus in July grew to a colossal USD 80.2 billion, higher than June's USD 70.6 bn. China remains by far the World's largest exporter with a 14% global share. Each year, China's trade surplus beats the record from previous year. IMF recently published a research report on the asset side of China's economy noting ”At USD 12.5 trillion, China's government has the largest stock of financial assets in the World".

More importantly, the service sector is booming. It is the largest part of the economy and the biggest employer. In the first half of this year, per capita spending on services rose +13%. Domestic tourism revenues increased +96% year-on-year. Personal income grew +8% year-on-year in real terms in 2Q, an increase from +4% growth in 1Q. Chinese household bank balances have increased by 7.1 trillion USD from the start of 2020, a 63% increase. This increase is more than the GDP of Japan and more than China's total retail sales in 2019. These savings will be highly supportive for a continued rebound in consumer spending, equity markets and the real estate sector. The real estate sector is undergoing a government-orchestrated restructuring since August 2020, a process which will continue a few more years. The weak and over-leveraged players will go out of business and the strong will become even stronger. The names we own in the sector are thriving. Poly, China's largest real estate developer with a 3.8% market share grew revenues in 1H this year by +24% year-on-year and eps by +14%. CRL grew eps by +28%.

The half-year financial reports from our holdings were surprisingly strong. Tencent, grew earnings per share by +31% in the first half year-on-year. Advertising revenues rose sharply from a higher monetization of video accounts. Baidu's results also beat expectations with a +43% increase in earnings per share. On August 31, Baidu received government approval for its ChatGPT rival, Ernie Bot. One million downloads in the first 19 hours. Baidu's driverless taxi business has accumulated 3.3 million safe rides in ten cities around China. It aims to be in 65 cities by 2025. Our largest holding Alibaba reported eps growth of +77% in its fiscal 1Q ending in June. Comparing its calendar first-half year earnings this year with the same period last year, earnings per share grew by +37%. White goods and consumer electronics giants Haier and Midea, reported similarly solid financial results for the first half of 2023. Midea grew earnings per share by +14% and Haier grew earnings per share by +13%.

On the political front, relations between the US and China are improving. On the Biden administration's initiative, several high-ranking US officials have visited Beijing during the summer. After Secretary of State Blinken's visit in June, the turn came to Treasury Secretary Yellen, and last week Commerce secretary Raimondo. Gina Raimondo echoed her colleagues by telling the Chinese delegation “It is profoundly important that we have a stable economic relationship, which is to the benefit of both of our countries”.

Singapore

Singaporean banks saw earnings jump in the second half of the year. DBS reported net profit +45% year-on-year to a record SGD 5.3 bn (USD 3.9 bn) as net interest margins widened by 0.96 percentage points in the second quarter compared to a year ago, benefiting from rising US interest rates. Fee income grew +7% in the quarter led by higher wealth management fees and card transactions. Asset quality remained stable with non-performing assets basically unchanged. UOB, one of the other three major domestic banks in Singapore grew earnings by 38% year-on-year to SGD 2.1 billion from strong retail business after the consolidation of Citigroup’s consumer banking franchise in Southeast Asia. As Citigroup retreats from Southeast Asia, the Singaporean banks are filling the void. DBS recently bought Citigroup’s retail business in Taiwan and is now the largest foreign bank on the island. UOB previously acquired Citigroup’s consumer businesses in Malaysia, Thailand, Indonesia, and Vietnam and significantly scaled up its retail franchise with lucrative cross-selling opportunities.

Indonesia

Bank Mandiri in Indonesia reported a strong set of results in the 2023 interim report with a net profit growth of 25% year-on-year to 25 trillion rupiah (USD 1.75 billion). The strong result was due to a combination of Indonesia’s strong credit demand in the booming economy, and higher margins. The net interest margin expanded to 5.6%, one of the highest in Asia as the loan mix and re-pricing strategy worked in Mandiri’s favor. Cost efficiency improved through digitalization of operations. Asset quality showed continued improvement. Management raised the earnings guidance for the current year.

South Korea

The shares of semiconductor giant Samsung Electronics rallied on the news the company had signed a deal with Nvidia to supply high-bandwidth memory chips (HBM3) and will start to ship as early as in October. It was an especially welcome announcement since Samsung has had to scale down production lately of its key memory products to reduce inventories and stabilize prices. This deal with Nvidia is significant for Samsung since Nvidia will be one of the main early beneficiaries of the boom in artificial intelligence and could become a fast-growing customer. With its leading position in memory technology, Samsung is well placed to also find good growth opportunities in AI-applications. South Korean equity markets were also a bit weak in August, the Kospi index retreating 3%.

Vietnam

Vietnam’s equity market ended the month where it started but economic data has lately turned for the better. Retail sales remain resilient, growing +8% in August year-on-year, with continued recovery in tourism, consumer goods, food, and services. Foreign tourist arrivals rose to 81% of pre-Covid levels in August, with arrivals from China back to 44% of pre-Covid levels. Exports, which took a nosedive in 2022, has improved sequentially since February. Trade balance rose to a surplus of USD 3.8 billion in August and is on a strong uptrend since mid-2022. Foreign Direct Investment continued to improve in August, surging by +24% from a year ago. Over the first 8 months of 2023, registered FDI from China and Hong Kong jumped +68% year-on-year, largely a consequence of Chinese manufacturers moving production to Vietnam to reduce labor costs and to benefit from lower trade barriers. US President Joe Biden will visit Vietnam in mid-September and is expected to sign an agreement to deepen the bilateral relations, strengthening the ties in investment, trade, research, and environmental conservation efforts.

Gustav Rhenman
Chief Investment Officer

AGCM Asia Growth Fund

Monthly Report

August 2023

ASIA GROWTH CAPITAL MANAGEMENT

Performance

As of 31/08/2023	1 month	YTD	2 year	5 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-4.0%	+7.0%	+13.6%	+30.8%	+96.1%
AGCM Asia Growth Fund WP EUR	-6.4%	+1.0%	-0.5%	+23.0%	n.a.

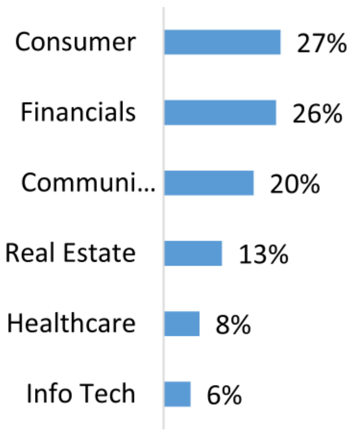
Top 5 holdings %

As of 31/08/2023

Company	Weight
Alibaba Group	8.8%
Tencent Holdings	5.7%
Samsung Electronics	4.6%
China Mobile	3.9%
China Resources Land	3.9%
Total	**26.9%**

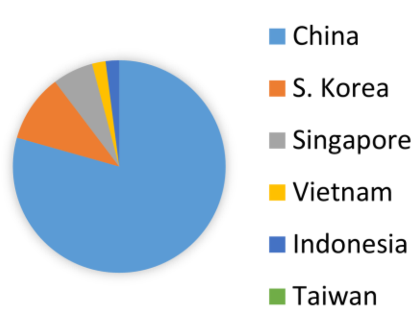
Industry breakdown

As of 31/08/2023



Geographic breakdown

As of 31/08/2023



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:	03-Oct-2014
Fund size:	SEK 715 million
Number of holdings:	37
Management fee (RC):	1.85%
Fund management Company:	FundRock Management Company S.A.
NAV:	SEK 196.1 EUR 150.6
Minimum subscription:	n.a.
ISIN code:	SEK RC LU 1091660909 EUR WP LU 1163023143

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