AGCM Asia Growth Fund

January 3, 2024

Extreme valuation differences. Will they reverse in 2024?

During the month of December, the NAV of AGCM Asia Growth Fund RC SEK declined by -3.5% and the WP EUR share class -0.7%.

After a strong run-up in US equity valuations in 2023 (S&P500 +24%) and declining markets in China (MSCI China -13%), valuation differences between the World's two largest equity markets have reached extreme levels. Largely due to fiscal and monetary policy excesses, major US equity indices have reached lofty levels, the S&P500 at 22 times current year earnings and the Nasdaq at 35 times earnings. In stark contrast, after a year of declining prices, Hong Kong's Hang Seng index now trades at only 8.7 times earnings and the Shanghai composite index at 11 times earnings. As an example, EV-automakers Tesla and BYD have similar yearly revenues of around USD 100 billion. BYD continues to outgrow Tesla both in terms of revenues and net income. While Tesla has a market cap of USD 800 billion, trading at 80 times earnings, while BYD's market cap is only USD 80 billion and is trading at 20 times earnings. Tesla trades at ten times sales, while BYD trades at one times sales. This means investors are paying 5-10 times more for a US company that is growing slower. Put differently, BYD trades at an 80-90% discount to Tesla.

We could make a long list of similar Western-Asian peer comparisons telling the same story. Because money has for years been flowing to a market which investors consider to be the "cleanest dirty shirt", the US, and out of emerging markets, valuation gaps have become extreme. We are firm believers of the ten trading rules formulated decades ago by Merrill Lynch's legendary strategist Bob Farrell. Rule number one, markets tend to return to the mean over time. Rule number two, excesses in one direction will lead to an opposite excess in the other direction.

What could spark a reversal of the current extreme valuation gaps? What could cause markets to turn around and go the other way, where Asian equities outperform Western markets? History indicates that when the Federal Reserve enters a rate-cutting cycle, that is when the USD weakens, and emerging market equities begin to outperform. This could become a key investment theme in 2024, unless of course geopolitics gets in the way again.

In mid-December, China's government held its annual Central Economic Work Conference. Key priorities for economic policy in 2024 to maintain a GDP growth rate of around 5%, include a proactive fiscal policy and a prudent monetary policy with strengthened coordination of policy tools. Guidance will be given to financial institutions to increase support for technological innovation, green transformation, and to maintain a stable renminbi exchange rate. Continued efforts will be made to develop a "modern industrial system" with scientific and technological innovation. This is code language for becoming less dependent on foreign technology, less vulnerable to US high-tech export restrictions, and moving the export industry higher up in the value chain. Efforts will be intensified to develop the digital economy, accelerate the development of artificial intelligence, and support applied and cutting-edge research in the corporate sector. Consumption will be promoted in areas such as tourism, entertainment, sports events, smart homes, and trendy Chinese consumer products.

China's buildout of 300 GW of solar and wind electrical generation capacity in 2023, was double that of its 2022 total and the largest single year deployment of capacity in history. In China, every two out of five new cars sold last year was electric. The fourth quarter numbers are not final yet but BYD likely surpassed Tesla as the World's leading EV producer in 2023. China's carbon emissions are likely to start falling this year.

South Korea

South Korea's Kospi index rose +6% in December, ending the year with a +20% return, outperforming the region thanks to the AI-related semiconductor rally this year. Automakers Kia and Hyundai also had a good year, especially in the US electrical vehicle segment. South Korea posted a third consecutive month of export growth with a +5% year-on-year increase, as chip exports jumped +22%, sustaining the positive momentum in previous months. Prices of memory chips stabilized towards the end of the year. The Korean chip makers are according to analyst reports planning to end previous production cuts as prices recover. Research analysts at CLSA expect DRAM and NAND average selling prices to rise by 25% in 2024 and 15% 2025 from stronger demand and inventory restocking. Samsung Electronics' foreign ownership level reached 54%, amid expectations of a positive earnings development this year.

Singapore

Singapore avoided recession by growing by 1.2% during the year, Prime Minister Lee Hsien Loong said in his New Year's address, which will likely be his last. Lee has served as the country's Prime Minister since 2004 and has announced his plans to hand over the reins to his deputy Mr. Lawrence Wong in 2024. Lee confirmed the official forecast of GDP growth of 1 to 3 percent in 2024.

Indonesia

In 2024, Indonesia will hold regional, parliamentary, and presidential elections. President Joko Widodo's budget for this year, his final year in office, targets expenditures of 3,325 trillion rupiah (USD 216 billion), an increase of 6.5% from last year. Civil servants will see an 8% salary hike this year with the objective to create a more effective administration and to promote consumption. Other pro-growth policies include a VAT tax removal in the first half of this year on new home purchases. Subsidies for low-income families to cover other administrative expenses related to home purchases will also be introduced. Bank of Indonesia, the central bank, has extended the 100% loan-to-value limit for property and autos until the end of this year. Credit card re-payment rules have been relaxed and interest rates have been capped at 1.75% per month. The central bank also reduced the macro prudential liquidity buffer for banks from 4% to 1% which will free up liquidity for lending. Bank of Indonesia forecasts GDP growth in the range of 4.5-5.3% in 2024.

Indonesian miner, Aneka Tambang, has sold shares worth USD 467 million in two of its subsidiaries to a unit of the World's largest electric vehicle battery maker, China's Contemporary Amperex Technology (CATL). The sales are part of an agreement to set up joint ventures to develop an electric vehicle industry in Indonesia. The government of Indonesia, which has the World's largest nickel reserves, has set a target of producing some 600,000 EVs by 2030.

Vietnam

Vietnam's equity market index rose +2% in December, concluding the year with a +12% return in local currency. Vietnam's GDP grew +6.7% year-on-year in Q4 2023, bringing 2023 full year GDP growth to +5.0%, short of the government's target of +6.5%. The service sector was the primary driver, growing +7.3% and contributing 62% to GDP growth. Retail sales rose +10%, of which tourism grew +52%. Exports declined 4% year-on-year and imports dropped by 9%. Foreign Direct Investment (FDI) registrations soared +32% in 2023, mainly driven by investments from China, Hong Kong, Singapore, and Japan. During the month, Vietnam hosted Chinese President Xi Jinping in his first state visit to the country since 2017. The two governments signed 36 cooperation agreements, covering economics and foreign affairs, security and defense, maritime and railway transportation. Vietnam's government announced an increase in the minimum salary by +6% from 1 July 2024, aiming to support domestic consumption.

Gustav Rhenman, Chief Investment Officer

AGCM Asia Growth Fund

Monthly Report

December 2023

Performance

As of 31/12/2023	1 month	YTD	2 year	5 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-3.5%	-7.8%	-4.3%	+35.2%	+69.0%
AGCM Asia Growth Fund WP EUR	-0.7%	-6.7%	-9.8%	+31.1%	n.a.

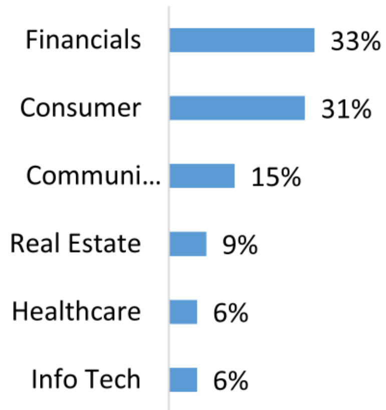
Top 5 holdings %

As of 31/12/2023

Company	Weight
Alibaba Group	8.7%
Samsung Electronics	4.6%
China Construction Bank	4.6%
JD.com	4.2%
Trip.com	4.1%
Total	**26.2%**

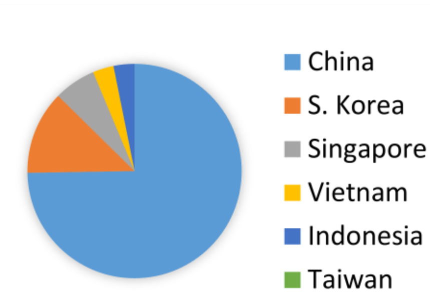
Industry breakdown

As of 31/12/2023



Geographic breakdown

As of 31/12/2023



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 526 million
Number of holdings:	37
Management fee (RC):	1.85%
Fund management Company:	FundRock Management Company S.A.
NAV:	SEK 169.0 EUR 139.2
Minimum subscription:	n.a.
ISIN code:	SEK RC LU 1091660909 EUR WP LU 1163023143

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