AGCM China Stars Fund

April 4, 2022

Politics weigh on markets but corporate fundamentals remain strong

During the month of March, the NAV of AGCM China Stars Fund RC1 SEK decreased by -4.6%. Investors focused on the consequences of sanctions on Russia, elevated inflation readings in the West, and increasingly hawkish language from the Federal Reserve and even the ECB. The largest contributor to global economic growth, China, is in a very different position. Policymakers there aim for 5.5% GDP growth in 2022 and they rarely miss their targets. Just as Covid restrictions in the industrious province of Guangdong were lifted, new restrictions were introduced in Shanghai. Today, a three-day Covid mass testing of 25 million Shanghai residents starts. More policy support will likely be needed to reach the growth target. The leaders in Beijing have many options given the nation's strong balance sheet, massive trade surplus, and low inflation.

After steep market declines in the first two weeks of March, Chinese equities rallied when the nation's highest regulatory body, the Financial Stability Development Committee (FSDC), announced that more support to the economy and to capital markets will be coming soon. A range of measures were mentioned, such as relaxed credit conditions for real estate developers and home buyers, and higher limits on equity investments allowed for insurance companies. The FSDC also said that regulation of the large technology and platform companies is almost complete and "will end soon". This should alleviate some concerns of investors in Alibaba, Tencent and Baidu.

We spent most of the past month going through annual reports from our holdings. Financial results for 2021 were mostly good. The three large Chinese banks we own reported net profit growth of 10-12% year-over-year in 2021, the strongest growth since 2013. Despite some margin pressure, fee income recovered, and the asset quality keeps improving, hence lower provision charges. We like these banks at 0.6x price to book value and dividend yields around 7%. In the coming years, we believe that international investors will discover that Chinese banks are in fact safer, not riskier, than their Western peers. The investments banks we own look even better. China's leading investment bank, CICC, reported earnings growth of 47% in 2021, and has now tripled earnings in three years. Growth remains strong across all business areas, be it brokerage, investment banking, private equity, or wealth management. At current revenue growth rates CICC is on course to overtake Goldman Sachs in about eight years.

Last week, Alibaba announced it will increase its already massive share buyback program from USD 15 billion to USD 25 billion. This corresponds to over 8% of the company's market capitalization. After the long decline in Alibaba's share price, the stock is now trading at 13 times earnings. Using some of its 120 billion cash pile for buybacks makes perfect sense and increases the likelihood of a substantial rerating.

Some Western media speculated that the US could impose sanctions on China if it were to evade the sanctions on Russia. We believe such an outcome is highly unlikely. It would mean disaster for both the US and EU from disrupted supply chains, even higher inflation, and lower growth. China has no appetite for a trade war either and is now working hard to make sure they comply with US regulations. Russia only accounts for 2% of China's exports, while exports to the US amounts to 17% (USD 576 bn) and Europe 16% (USD 518 bn). In terms of imports, China only takes 3% of its total imports from Russia.

Gustav Rhenman, Chief Investment Officer

AGCM China Stars Fund

Monthly Report

March 2022

Performance

As of 31/03/2022	1 month	YTD	2 year	Since launch August 28, 2017
AGCM China Stars Fund RC1 SEK	-4.6%	-0.7%	+15.6%	+24.4%
AGCM China Stars Fund RC8 SEK	-4.6%	-0.6%	+16.8%	+28.0%
AGCM China Stars Fund RC9 SEK	-5.1%	-0.9%	+15.6%	+27.5%

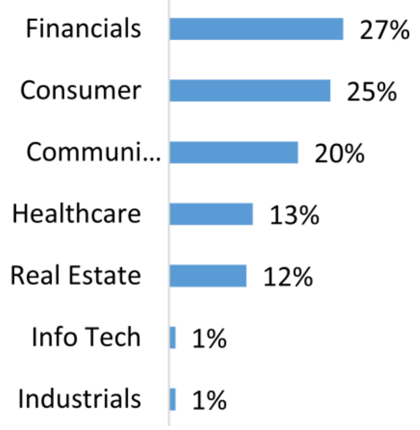
Top 5 holdings

As of 31/03/2022

Company name
Alibaba Group
China Mobile
Tencent Holdings
Midea Group
ICBC

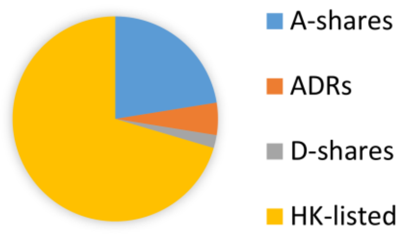
Industry breakdown

As of 31/03/2022



Market breakdown

As of 31/03/2022



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 142 million
Number of holdings:	37
Management fee (RC1):	1.35% + 10% perf. Fee
Fund management Company:	FundRock Management Company S.A.
NAV:	(RC1) SEK 124.4
	(RC8) SEK 128.0
	(RC9) SEK 127.5
Minimum subscription:	n.a.
ISIN code:	SEK RC1 LU 1608617111
	SEK RC8 LU 1608617384
	SEK RC9 LU 1608617467

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