AGCM Asia Growth Fund

ASIA GROWTH CAPITAL MANAGEMENT

November 3, 2022

Western investors fail to credit China's economic-growth commitment

During the month of October, the NAV of AGCM Asia Growth Fund RC SEK decreased by -8.8% and the WP EUR share class by -9.1%. While Western equity markets were mostly up in October, it was a tough month for the Chinese equity markets with Hong Kong's Hang Seng index down -15.3% in SEK and the China Enterprise index fell -17.0%.

It is ironic that the world's second largest economy with the highest growth, largest trade surplus, lowest inflation, and strongest national balance sheet, was sold down by international investors even though its stock market is trading at only 9 times earnings and with expected earnings growth far better than the US and Europe. The IMF projects China's economy to grow by 4.4% next year and market consensus estimates for the Chinese equity market expect +15% growth in earnings per share in 2023. China now accounts for 61% of global manufacturing capex and has been the world leader in filing international patents for the third year running. Private sector is acknowledged as an essential driver for China's growth, contributing to 60% of GDP, 80% of job creation and 90% of companies. Xi Jinping's government has a very high standing in China, according to US research institute Edelman Trust Barometer, with an approval rating of over 91% in this year's survey.

The steepest decline in the Hong Kong market came the day after the conclusion of China's 20th Party Congress. Foreign investors seemed alarmed that some well-known technocrats were not included in the top 24 Politburo leadership cadre, such as Vice Premier Liu He and PBOC governor Yi Gang. We find these concerns overdone. Yes, the new appointees are people mostly well known by Xi, but it does not mean they are less pro-business or less competent. Li Qiang, the current Shanghai party chief has been promoted to number two in the party hierarchy and is expected to be named Premier at the legislative session in March. Li has been widely regarded as a business-friendly, pro-growth and liberal party official with successful governance experiences in affluent regions of Zhejiang and Shanghai. The new Politburo lineup is dominated by technocrats with background in science, technology, engineering, and economics, highlighting China's technological ambitions and economic focus.

The two-hour long speech by Xi Jinping at the Party Congress was dominated by economic growth and development, technology and education, fight against poverty, rather than by national security. Here are some quotes by Xi: "We must unswervingly encourage, support, and guide the development of the non-public sector." "We will work to see that the market plays the decisive role in resource allocation and that the government better plays its role." "We will make appropriate reductions to the negative list for foreign investment, protect the rights and interests of foreign investors in accordance with the law, and foster a world-class business environment that is market-oriented, law-based and internationalized."

Many of our holdings reported strong financial results for the third quarter of 2022. Home appliances leader Haier grew revenues +9% in the quarter and earnings increased by +20% compared with a year ago, with resilient domestic consumption and improving operating efficiency. One of the largest Chinese insurers PICC Property & Casualty reported a strong third quarter with gross written premiums up by +12% and earnings up +101% y-o-y. China's four largest banks, ICBC, CCB, BoC and ABC, reported average earnings growth of +6.5% for the third quarter, further accelerating from the first half. They on average have a dividend yield of over 10%.

The South Korean equity market rebounded in October with the Kospi index up +6%, as the government stepped up efforts to support the markets by resuming and expanding corporate bond purchase via a stabilization fund. Samsung Electronics outperformed as investors start to look for a bottom of the cycle for the memory chip makers. On the Q3 earnings call, Samsung was optimistic about a memory chip demand recovery in 2H23, driven by data centers and smartphones. Additionally, Samsung's improving positions in foundry business could further drive substantial profit upside and rerating of the stock. We also continue to like Korean banks, which trade near historical low valuations at 0.4 times Price-to-book ratio and commit to improve shareholder returns with over 7% dividend yield. Fundamentals remain strong on back of rising rates, well managed asset quality and downside risk protection from the pre-emptive provisions over the past few years.

Singapore saw core inflation picking up to 5.3% in September fueled by higher prices for food, services, retail, and other goods, while headline consumer price index increased by 7.5%. Inflation for electricity and gas remained elevated at 23.9%. For the full year headline inflation is expected to remain high at 6% and core inflation at 4% according to authorities. UOB, one of the nation’s top three banks, reported a strong set of Q3 results with operating profit rising 32% y-o-y to 1.8 billion SGD. The strong improvement came on the back of double-digit growth in interest income with 28 basis points widening margins, improving asset quality, and declining credit cost. The domestic and North Asian markets were the driving forces of the strong earnings growth. The Singaporean government also set the target for net-zero emissions by 2050 and to reach peak emissions by 2030. The achievement of the goal is predicated on advances in new technologies such as clean hydrogen and carbon capture.

Bank Indonesia started to raise interest rates as late as August this year by 25 basis points, while it has since intensified rate hikes in the subsequent meetings by a cumulative 125 basis points. The policy rate now stands at 4.75%. The rapid rate hikes became necessary as the headline inflation rate spiked to 6% y-o-y in September following increases in fuel prices, but eased slightly in October to 5.7% while core inflation data came in at 3.3%. Nominal credit growth strengthened further to 11% y-o-y in September supported by strong demand from the private corporate sector. GDP growth is expected to remain robust after recording 5.4% in Q2 underpinned by strong domestic demand from retail sales and recreation as well as net exports.

In Vietnam market, external pressures continued to weigh on stocks as US inflation remained at high levels and the Fed doubled down on hawkish statements. The State Bank of Vietnam raised its policy rates by another 100 basis points last week, after a similar move in September, to curb inflation and defend the Vietnamese Dong which has weakened 9% against USD year-to-date. Property sector continued to underperform due to rising rates and tighter regulation on the corporate bonds issuance, while consumer goods sector showed more resilience with buoyant retail sales. Despite the external pressure, Vietnamese economic outlook remains robust, with GDP expected to grow over 8% this year. Inflation has remained moderate at 4%, as the country is largely self-sufficient in energy and food, and energy prices are regulated. The Vietnamese market looks increasingly attractive with the valuation multiple reaching historically low level at 9 times Price-to-earnings ratio, while the earnings growth outlook projected at over 20%.

Gustav Rhenman
Chief Investment Officer

AGCM Asia Growth Fund

Monthly Report

October 2022

Performance

As of 31/10/2022	1 month	YTD	2 year	5 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-8.8%	-11.1%	-7.7%	+9.6%	+57.1%
AGCM Asia Growth Fund WP EUR	-9.1%	-15.3%	-10.4%	+3.8%	n.a.

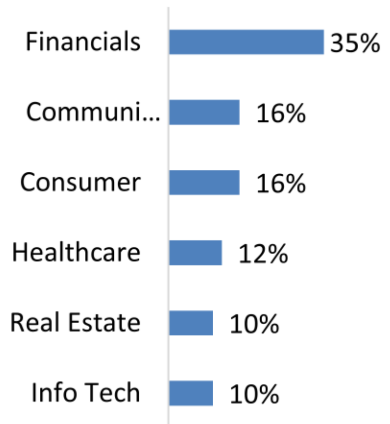
Top 5 holdings %

As of 31/10/2022

Company	Weight
Samsung Electronics	7.4%
China Mobile	5.3%
Alibaba Group	5.1%
China Resources Land	4.1%
Tencent Holdings	3.8%
Total	**25.7%**

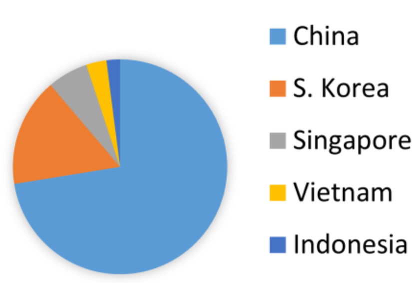
Industry breakdown

As of 31/10/2022



Geographic breakdown

As of 31/10/2022



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:	03-Oct-2014
Fund size:	SEK 683 million
Number of holdings:	42
Management fee (RC):	1.85%
Fund management Company:	FundRock Management Company S.A.
NAV:	SEK 157.1 EUR 129.9
Minimum subscription:	n.a.
ISIN code:	SEK RC LU 1091660909 EUR WP LU 1163023143