AGCM Asia Growth Fund

March 2, 2023

Xi Jinping’s top five priorities for China’s economy in 2023

During the month of February, the NAV of AGCM Asia Growth Fund RC SEK decreased by -6.9% and the WP EUR share class by -4.3%. Equity markets were weak globally in February, affected by high US inflation numbers and therefore renewed fears of a tighter-for-longer monetary policy by the Federal Reserve. For Asia’s part, the China weather-balloon incident and comments by US Secretary of State, Anthony Blinken, in a CBS interview that China was “considering providing lethal support to Russia”, raised investor concerns about heightened tensions between the China and the US. China’s leaders have categorically rejected these accusations.

Geopolitics aside, China is in the early stage of a major economic recovery due to the full re-opening after Covid combined with an increasing impact from massive monetary and fiscal stimulus introduced last year. The Chinese PMI numbers released on March 1 by the National Bureau of Statistics surprised the market on the upside, with the manufacturing PMI at a ten-year record high. As for the important real estate sector, sales of new residential apartments during February rose for the first time in 20 months. The 100 largest real estate developers in China grew sales by 15% in February year-over-year.

A document released by the Chinese government summarized Xi Jinping’s top five priorities for China’s economy in 2023. Investors should take notice. The first of Xi’s top priorities is to boost the domestic demand through incentives for consumption, combined with accelerated investments in infrastructure. Second, to accelerate the construction of a “modern industrial system”, meaning a more self-sufficient manufacturing industry, less sensitive to any foreign interference such as export restrictions on advanced semiconductors. Third, continued reforms to make the state-owned companies even more efficient, improve the conditions for the private sector, and provide a level playing field for private and state-owned companies. Fourth, prevent and defuse major economic and financial risks. The fifth and final of Xi’s priorities this year is to attract more foreign capital by opening up more sectors in the economy to foreign investors. This bodes well for improving foreign relations through diplomacy.

On February 24, China´s Central bank PBOC published its 4Q22 Monetary Policy Report. It is clear from the report that the PBOC has turned quite optimistic on the outlook for the economy this year, and at the same time less worried about inflation. We defer from the report that monetary policy in 2023 will continue to be loose, possibly with further cuts of home mortgage rates and bank deposit rates.

For the fourth year in a row, China filed the largest number of international patent applications globally boosting the World’s total filings to a new high, according to the 2022 report from the World Intellectual Property Organization. China filed 70,015 patents, the US came second with 59,056 applications, Japan was third with 50,345, followed by South Korea with 22,012.

Several of our holdings reported strong 4Q financial results. Alibaba’s results surprised the market on the upside, with solid earnings growth of 14% year-over-year. Profitability continues to improve with effective cost savings across business lines, including its fast-growing logistics arm Cainiao and its cloud division. We foresee a robust recovery in consumption and believe there is a huge upside in Alibaba’s core business areas in the longer term.

South Korea

South Korean equity markets remained flat in the month of February in local currency. Our key holding in the region, Samsung Electronics, expects its memory chip inventory to peak in 2Q23. Prices on chips will likely bottom out in 2Q and start to recover in 2H23. Samsung launched its flagship Galaxy S23 smartphone this month, and saw robust demand for the premium model GS23 Ultra. It also gained market share in India at the expense of Chinese brands. The foundry business revenue surpassed its NAND revenue for the first time and is narrowing the gap with TSMC in both scale and technology. Shinhan Financial Group announced a new shareholders' return policy, increasing the shareholders' return ratio to 30-40%. We expect to see a higher dividend payout and substantial share buybacks this year. Telecom operator SK Telecom reported solid results, operating profit +12% year-on-year. It is one of the most active Korean companies in terms of investments in artificial intelligence, metaverse, data centers and cloud.

Singapore

The major banks in Singapore reported stellar earnings growth supported by decade-high net interest margins. DBS' net interest income increased by 40% despite muted loan growth of 4%. Expense growth was moderate and special asset impairment provisions declined on the back of resilient asset quality, resulting in net profit growth of 20% to 8.2 billion Singapore dollars. Management guided for moderate interest rate increases and no cuts are envisaged for 2023. China's reopening is beneficial to the operating environment in the region and will underpin double-digit fee growth. UOB also reported strong earnings momentum with 18% net profit growth before one-off acquisition costs. Retail banking showed strength with double-digit growth in card fees and wealth management with assets under management reaching 154 billion Singapore dollars. The retail bank added more than 800,000 new bank customers, mostly sourced via digital channels. In addition, the completed acquisition of Citigroup's Thailand and Malaysia banking businesses enlarged UOB's customer base by 1.3 million. We are expecting high double-digit net profit growth in 2023 from DBS and UOB, both banks trading at single P/E multiples.

Indonesia

Indonesia's leaders have set a goal to double the per capita GDP to 10,000 USD by 2045 which would bring the country close to the high-income economy threshold. The plan is supported by the country's successful increase in the exports of nickel, which surged tenfold in five years after it forced buyers to set up refining operations onshore. Indonesia benefits from surging demand for nickel from the electrical-vehicle industry, and by stepping up domestic nickel processing, it is capturing a larger share of the global value chain. President Joko Widodo looks at Taiwan and South Korea as role models on how the middle-income trap can be avoided by building manufacturing and raising the value-added of the process. Indonesia is rich in natural resources such as nickel and copper and has previously extracted the minerals to export for processing. This model is changing as the plan is to process domestically a wide range of raw materials from nickel, copper, oil, gas and timber. Building onshore processing capacity could attract investments amounting to half of the country's GDP. The structural change has already had a large positive impact on the nation's current account.

Vietnam

Vietnam's equity market fell -4.7% in February in local currency. Vietnamese exports rose +11% in February as factories resumed production after the Lunar New Year holiday. China will likely be the key driver of Vietnam's exports this year, which will help cushion the fall in exports from a potential US and EU slowdown and weaker intra-ASEAN trade. Also retail sales grew +13.2% in February, mainly driven by tourism revenue (+94.7%), accommodation and food services. Foreign visitor arrivals recovered to 46.8% of their pre-pandemic peak in January 2020, led by China (+246%), Taiwan and South Korea. China tourist arrivals used to account for 32% of total foreign arrivals in 2019, and China tourism receipts accounted for 1.4% of Vietnam's GDP before the pandemic. Vietnam's earnings growth outlook remains the strongest in the Southeast Asian region

Gustav Rhenman, Chief Investment Officer

AGCM Asia Growth Fund

Monthly Report

February 2023

Performance

As of 28/02/2023	1 month	YTD	2 year	5 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-6.9%	+3.2%	-1.2%	+24.5%	+89.3%
AGCM Asia Growth Fund WP EUR	-4.3%	+4.1%	-4.6%	+20.8%	n.a.

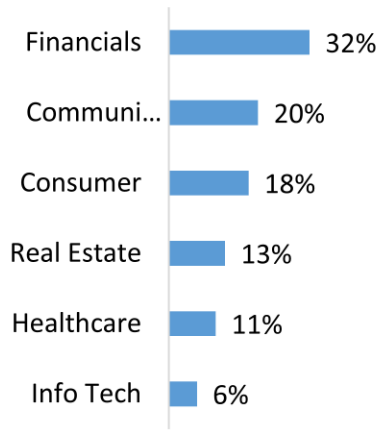
Top 5 holdings %

As of 28/02/2023

Company	Weight
Alibaba Group	6.2%
China Mobile	5.6%
Tencent Holdings	5.0%
Ping An Insurance	4.3%
Samsung Electronics	4.0%
Total	**25.1%**

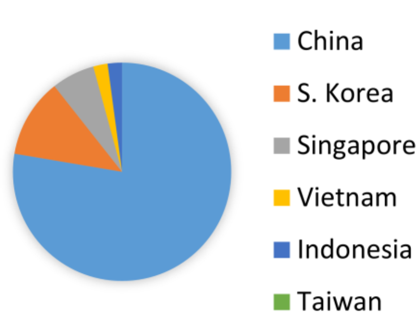
Industry breakdown

As of 28/02/2023



Geographic breakdown

As of 28/02/2023



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 831 million
Number of holdings:	41
Management fee (RC):	1.85%
Fund management Company:	FundRock Management Company S.A.
NAV:	SEK 189.3 EUR 155.2
Minimum subscription:	n.a.
ISIN code:	SEK RC LU 1091660909 EUR WP LU 1163023143

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