

# AGCM Asia Growth Fund



ASIA GROWTH CAPITAL MANAGEMENT

June 1, 2023

## China recovery continues, corporate earnings keep improving.

During the month of May, the NAV of AGCM Asia Growth Fund RC SEK decreased by -1.1% and the WP EUR share class by -3.4%.

We continue to see sequential economic recovery well on track in China and upbeat earnings reports especially from the Chinese tech sector this month.

In contrast to the expectation that Europe and the US will potentially go into recession this year, China is recovering. China's retail sales rose +18% year-on-year in April, led by restaurant, apparel, automobile and jewelry. China's exports grew +9.5% year-on-year in April, primarily driven by Southeast Asian countries and emerging markets. China's travel boom gathers pace. During the five-day "Labor Day" holiday, domestic tourism revenues exceeded 2019 levels and around 274 million people travelled over the period, 19% higher than 2019 level. The consumption and service-led recovery should continue to accelerate into the rest of the year, and the government is expected to further introduce policies to support employment, real estate, manufacturing, and consumption.

Our portfolio companies in the Chinese tech sector all reported solid 1Q 2023 results and encouraging growth outlook. Alibaba Group reported revenue growth of +2% and adjusted profit growth of +38% year-on-year in the quarter. The company announced plans to spin off the cloud computing business and distribute it to Alibaba shareholders as stock dividend within 12 months. It also plans to list the online grocery business Freshippo and the logistics business Cainiao respectively within the next 6-18 months. On top of that, Alibaba has a share buyback program with USD 19.4bn in balance, equivalent to 9% of its current market cap. The group is trading at 9 times Price-to-Earnings, and the core ecommerce asset is valued at below 4 times Earnings.

Tencent Holdings reported revenue growth of +11% year-on-year in 1Q and adjusted profit growth of +27%, with a broad-based rebound in its video gaming, online advertising and fintech segments. China's dominant search engine Baidu grew revenues by +10% year-on-year in 1Q and adjusted earnings by +48%, driven by a strong recovery in the digital advertising business. The managements of these tech giants have all communicated upbeat guidance on the growth outlook, eased regulatory environment, and stepped-up efforts and investments in artificial intelligence, especially generative AI. China's digital economy is already the second largest worldwide, accounting for 42% of China's GDP in 2022. Growing at double digit, it will continue to be a major driving force for China's economic growth and transition in the coming decades.

China's first domestically manufactured large passenger jet C919 successfully completed its maiden commercial flight from Shanghai to Beijing at the end of the month, a milestone in China's bid to challenge the Boeing-Airbus duopoly in the global aircraft industry. China's car exports rose by nearly +60% in the first quarter and the country surpassed Japan as the world's largest automotive exporter. The trend has been visible for a while as China exported 3.1 million vehicles last year to overtake Germany to become the world's second-largest auto exporter right behind Japan. China's New Energy Vehicle exports grew almost three times, being the main growth driver and increasingly gaining momentum in the global market.

## South Korea

South Korea equity market rose 3% in local currency in the month of May. The overseas investors have been net buyers of more than USD 9 billion in the Korea market so far this year. Our core holding Samsung Electronics led the rally, as foreign investors expect that the global semiconductor industry is bottoming out, and chip demand will improve significantly driven by artificial intelligence-related investments. Samsung Electronics is also perceived as a potential beneficiary from China's ban on its U.S. rival Micron Technology's products. South Korean government also introduced its first blueprint on research and development of the semiconductor industry for the next decade, aiming to support the local players to produce faster, more energy efficient and higher capacity chips to maintain its global dominance. In the meantime, a potential upgrade to the MSCI's classification as a developed market in late June also helps draw more attention to South Korea stock market.

## Singapore

When the reporting season is over for the first quarter 2023, we see that the top three banks all reported record net profit despite flattish loan growth. Non-interest income growth was stronger than expected underpinned by higher wealth management fees. Assets under management have continued to grow even during the challenging period last year as Singapore solidifies its position as a regional wealth management hub. The banks' executives signal a positive outlook for key Asian markets with strong long-term prospects. DBS reported net profit growth of 43% year-on-year in 1Q 2023 to SGD 2.57 billion which took the Return on Equity to a new high of 18.6%. Net interest margin widened by 66 basis points to 2.12%, and the bank benefited from inflows of flight-to-safety deposits. The balance sheet remained healthy with the tier-1 capital ratio improving by 40 basis points to 14.4%.

## Indonesia

The Indonesian economy continues to show resilience on the back of strong domestic activities providing solid fiscal finances. The government balance showed a surplus of IDR 235 trillion, corresponding to 1.1% of GDP for the first four months of the year. Fiscal revenues increased by 23% from the beginning of the year up through April, with the largest tax contributions coming from manufacturing (27%), trade (20%), and mining (15%). Government expenses expanded by 2% year-on-year, and are significantly higher, up by 21%, compared to the pre-Covid 2019 level. China's BYD, the world's largest electric vehicle maker, has taken a step towards building its second assembly plant in Southeast Asia by signing a preliminary agreement with the Indonesian government. The Chinese carmaker plans to build an ecosystem to explore development opportunities in Indonesia. Southeast Asia will become a key growth market for global EV companies because of its dense population and the rising demand for green vehicles, and companies like BYD have been increasingly welcomed to build plants there.

## Vietnam

Vietnam market grew 2.6% in local currency in May. The State Bank of Vietnam, the country's central bank, further cut policy rates by 50 basis points this month, after a similar move in March, aiming to achieve the credit growth target of 14% in 2023. The rate cuts are supported by Vietnam's well-controlled inflation and stable currency. Also, the Deputy Prime Minister reiterated that Vietnam would maintain its 6.5% GDP growth target this year, driven by the accelerated public investments offsetting a slowdown in the private sector. Tourism recovery continues, as Vietnam welcomed 4.6 million international arrivals in the first five months of 2023, reaching 63% of the 2019 level, driven by the return of Chinese tourists. Tourism contributed 9% to Vietnam's GDP before Covid.

## Gustav Rhenman

Chief Investment Officer

# AGCM Asia Growth Fund

Monthly Report

May 2023



ASIA GROWTH CAPITAL MANAGEMENT

## Performance

As of 31/05/2023	1 month	YTD	2 year	5 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-1.1%	+2.9%	-2.7%	+21.7%	+88.7%
AGCM Asia Growth Fund WP EUR	-3.4%	-0.8%	-10.8%	+14.4%	n.a.

## Top 5 holdings %

As of 31/05/2023

Company	Weight
Alibaba Group	8.3%
Samsung Electronics	5.2%
Tencent Holdings	5.0%
China Mobile	4.5%
JD.com	4.1%
<b>Total</b>	<b>27.1%</b>

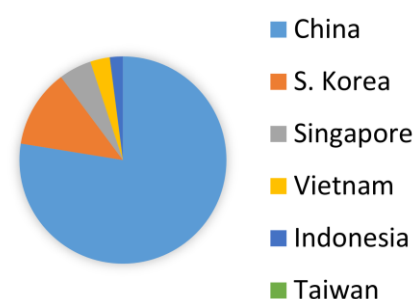
## Industry breakdown

As of 31/05/2023

Financials	28%
Consumer	24%
Communi...	19%
Real Estate	12%
Healthcare	9%
Info Tech	7%

## Geographic breakdown

As of 31/05/2023



## 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

<b>Portfolio manager:</b>	Gustav Rhenman
<b>Inception date:</b>	03-Oct-2014
<b>Fund size:</b>	SEK 785 million
<b>Number of holdings:</b>	41
<b>Management fee (RC):</b>	1.85%
<b>Fund management Company:</b>	FundRock Management Company S.A.
<b>NAV:</b>	SEK 188.7 EUR 147.9
<b>Minimum subscription:</b>	n.a.
<b>ISIN code:</b>	SEK RC LU 1091660909 EUR WP LU 1163023143

## Disclaimers

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**Risk information:** Money you invest in the Fund can both increase and decrease in value. Historic performance is no guarantee of future return. Saving in funds should be viewed in a long-term perspective, which then may potentially offer a better return than traditional savings in fixed income. We recommend that you read the KIID and prospectus available at [www.agcm.se](http://www.agcm.se) before you make an investment. You can also request such information via e-mail to [info@agcm.se](mailto:info@agcm.se).