AGCM Asia Growth Fund

ASIA GROWTH CAPITAL MANAGEMENT

February 1, 2024

Premier Li Qiang puts a floor under China's equity markets

During the month of January, the NAV of AGCM Asia Growth Fund RC SEK decreased by -4.0% and the WP EUR share class by -4.7%.

A highly significant development for equity investors unfolded on January 22 when Chinese state media reported that Premier Li Qiang has instructed his government to implement "more forceful and effective measures to stabilize financial market confidence". In November last year, Xi Jinping appointed Li Qiang as the head of the Central Finance Commission, the key agency for developing China's financial system. In this capacity, and as second in command after Xi, one can assume that what Li Qiang says, his administration will deliver. Separately, the State Council announced that it has decided to step up the already ongoing medium- and long-term fund injections in the capital market to "strengthen stability and promote a healthy development of the market". Another obvious, but not explicitly communicated objective, is to boost domestic consumer sentiment and consumption, which tend to follow from rising equity markets. China did the same thing successfully in 2015 when it put together a "national team" of institutional investors who bought into the stock market, making a healthy profit buying at the bottom.

The following day, January 23, Bloomberg ran a story, citing "unnamed sources" that Chinese policymakers are seeking to mobilize 2 trillion yuan (USD 280 billion), mainly from offshore accounts of state-owned enterprises, as part of a fund to buy shares. It is unclear how reliable this story is, but the news alone should unnerve some US-based hedge funds with large short positions in China. According to Bank of America's January global fund manager survey, "Short China equities" is deemed to be the most crowded trade of all only after "Long Magnificent Seven" which is now the most crowded trade. Betting against China's government is rarely a lucrative proposition.

So now there are three compelling arguments for Chinese equity markets. First, after three years of falling prices, Chinese equities are trading at, or close to, previous record low valuations. Second, China's top leadership has decided to intervene and support its equity markets using a range of tools. Not for the short-term but for the medium and long-term. Third, as inflation comes back down, the US Federal Reserve will begin cutting interest rates during 2024. This normally leads to a weaker US dollar and in turn rallying emerging market equities.

The Hong Kong court order to liquidate the troubled developer Evergrande weighed on the Hong Kong market. China's real estate market is undergoing a government initiated downsizing and de-leveraging program which began already in 2018. The rationale for downsizing this industry is to free up capital and resources for the ten growth industries in the Made in China 2025 program. China's government views these new industries as key vehicles to grow China's economy and to increase export revenues. Industries include electrical vehicles, commercial jets, industrial robotics, nuclear energy, semiconductors, consumer electronics, shipbuilding, high-speed trains, pharmaceuticals, and much more. The downsizing of the real estate sector has come a long way and we expect it to bottom out and resume healthy growth well within two years. The highly fragmented real estate industry will consolidate. The financially strong developers like China Resources Land are prospering and remain great investment opportunities, and the less financially strong like Evergrande will be acquired or dissolved.

China's largest EV maker BYD said its 2023 net profit increased by +75-86% year-on-year to RMB 29-31 billion.

South Korea

The South Korean government is stepping up efforts to boost shareholder returns and stock valuations, after witnessing similar efforts made in Japan where the Tokyo Stock Exchange successfully attracted foreign capital and brought about a revaluation of the stock market. With over 30% of the voting population invested in the equity market, raising market returns has become a priority for the South Korean government, particularly ahead of the general elections in April. In the proposed "Value Up" program, publicly listed companies will be obligated to disclose valuation improvement measures. The Korean KOSPI index is trading at only 0.88 times price-to-book value. Two-thirds of the listed companies trade below 1.0 times book value, automotive at 0.6 times and financials at 0.4 times. Samsung Electronics reported largely in-line Q4 2023 earnings, where revenues declined by -4% year-on-year in the quarter, while operating profit fell -34%, narrowing from the previous quarter. The company said that DRAM business turned profitable in the quarter, and it expects memory business to become profitable in Q1 2024. Inventory has normalized due to industry-wide capex cuts and increasing demand, prices are rising, and AI-related high bandwidth memory chips are growing exponentially, driving the recovery to accelerate in the autumn.

Vietnam

Japan and the US recently joined China, Korea, and India, to form a comprehensive strategic partnership with Vietnam. More than 56% of Japanese companies target Vietnam for business expansion in the next 1-2 years, according to a recent survey. Japan accounted for 18% of Vietnam's total FDI registrations (USD 6.6 bn), ranking second among countries in 2023. Fitch Ratings forecasts Vietnam's GDP to grow around 7% in the medium term. It believes FDI inflows will remain robust driven by Vietnam's cost competitiveness, educated workforce and numerous free trade agreements. More than ten universities across Vietnam have introduced courses in integrated circuit design and technology to meet the increasing demand for skills in those fields. Vietnam needs an additional 50,000 highly skilled engineers by 2030 to serve the growth of its semiconductor sector. In addition, our portfolio company Vinamilk, Vietnam's largest dairy product producer, reported strong Q4 2023 results. Net profit surged +24% in the quarter, driven by market share gains and thriving export sales.

Singapore

China and Singapore will open up for visa-free travel next month to encourage cross-border exchange. Citizens from China and Singapore will be able to travel to the other country and stay for up to 30 days without requiring a travel permit. Chinese tourist arrivals remain well below the pre-pandemic level of 3.6 million yearly visitors. The revival of tourist flows from China to Singapore of this magnitude would give a substantial boost to the economy.

Indonesia

The post-pandemic recovery continues with a sharp drop in inflation and robust loan growth in the banking sector. Inflation eased from more than 6% in the prior year to 2.6% at the end of 2023 despite a fuel price hike. System loan growth remained at double digit, up by 10.3% in 2023. The loan to deposit ratio in the banking system remained low at 85% allowing for further support of the economy via credit expansion. Household consumption and fixed asset investments remain solid and underpin a GDP growth of around 5% expected this year.

India

India's largest financial group, HDFC Bank, reported that net income increased by +2% quarter-on-quarter to 172 bn Indian rupee (USD 2 bn). Asset quality remained stable with gross non-performing assets of 1.26%. Capital adequacy was robust with a Tier 1 core equity ratio of 16.3%. One of the other major Indian private sector banks, ICICI Bank reported +24% rise in profit after tax to 103 bn Indian rupee quarter-on-quarter. The quality of loan book improved with non-performing loans declining from 3.1% to 2.3%.

Gustav Rhenman, Chief Investment Officer

AGCM Asia Growth Fund

Monthly Report

January 2024

ASIA GROWTH CAPITAL MANAGEMENT

Performance

As of 31/01/2024	1 month	YTD	2 year	5 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-4.0%	-4.0%	-13.9%	+16.9%	+62.3%
AGCM Asia Growth Fund WP EUR	-4.7%	-4.7%	-16.7%	+13.7%	n.a.

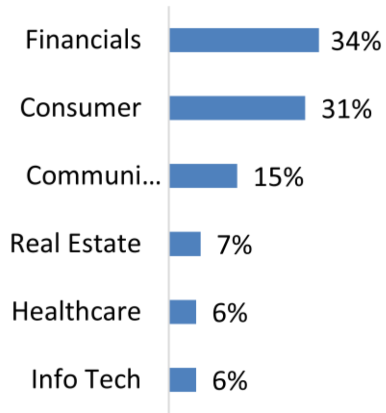
Top 5 holdings %

As of 31/01/2024

Company	Weight
Alibaba Group	8.6%
China Construction Bank	4.9%
Ping An Insurance	4.7%
Samsung Electronics	4.6%
Trip.com	4.5%
Total	**27.3%**

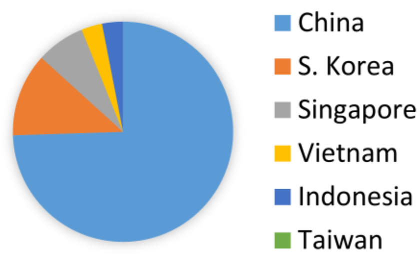
Industry breakdown

As of 31/01/2024



Geographic breakdown

As of 31/01/2024



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 501 million
Number of holdings:	37
Management fee (RC):	1.85%
Fund management Company:	FundRock Management Company S.A.
NAV:	SEK 162.3 EUR 132.6
Minimum subscription:	n.a.
ISIN code:	SEK RC LU 1091660909 EUR WP LU 1163023143

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