AGCM China Stars Fund

October 4, 2022

Record low equity valuations and accelerating economic stimulus

During the month of September, the NAV of AGCM China Stars Fund RC1 SEK decreased by -3.7%. Equity markets around the world declined in September, the S&P500 -8.6%, EuroStoxx50 -6.4% and the Hang Seng index -11.5%, all in local currencies. Tightening monetary conditions in the US and Europe continue to pressure financial markets. Quantitative tightening by central banks proved easier said than done. Bank of England was the first central bank which had to reverse course and launch an emergency bond purchase program.

Despite concerns for European and US corporate earnings in the coming quarters, we are relatively optimistic on the outlook for Asia and our fund holdings. We find three reasons for optimism. First, due to concerns by Western investors over China's economy, Chinese equity markets are oversold, now trading close to 20-year lows on key valuation metrics. Second, China's economy continues to do better than most, and massive economic stimulus has been rolled out ahead of the 20th National Congress of the CPC in mid-October. The announcements of growth promoting packages have come at an accelerating pace, and China's positive growth-rate differential relative to other major economies is likely to be even larger in 2023. Since China runs a massive current account surplus and has never engaged in zero-interest rate policies or quantitative easing, policy makers have a lot of flexibility. The growth-promoting measures now rolled out will provide a floor for corporate earnings growth.

The third reason for optimism, is that two policies which have dampened economic growth, will be modified for the better. The on-going campaign to prevent overbuilding and reduce financial risk in China's real estate sector is a government initiative launched in August of 2020. The large, partly state-owned developers are not the problem, but there are tens of thousands private real estate developers, some of which have pursued overly aggressive growth- and financing strategies. The "three red-line policies" from 2020, aiming to improve the financial health of the real estate sector by reducing developers' leverage and increasing liquidity, was harsh but effective. Unfortunately, this program coincided with the Covid pandemic with rolling lockdowns, further slowing the sales of new homes. The cooling of the real estate sector went too far too fast, and the government is now in the process of easing these restrictions. A series of new stimulus measures were recently introduced, including reduced mortgage rates, lowered down-payment requirements, and eased home purchase restrictions related to residency (hukou). Nearly 30 provinces in China have rolled out measures to guarantee funding and accelerate the completion and delivery of stalled real estate projects.

Also, the central government has announced support initiatives to accelerate construction and delivery of overdue real estate projects through policy bank loans. Thanks to the various support measures, China's housing completion area reached 48.3 million square meters in August, an increase of 42% compared to July, and back to the same level as in August of last year.

To modify China's zero-Covid policy will take time, but there are signs that the leadership is moving to a gradual easing. Perhaps as a pilot case, Hong Kong lifted its quarantine restrictions for foreign visitors effective September 26. In China's 100 largest cities, "only" 158 million people were living with some level of Covid restrictions as of September 28, compared to 306 million people on September 1, according to CLSA China Reality Research.

Gustav Rhenman, Chief Investment Officer

AGCM China Stars Fund

Monthly Report

September 2022

Performance

As of 30/09/2022	1 month	YTD	2 year	Since launch August 28, 2017
AGCM China Stars Fund RC1 SEK	-3.7%	-0.7%	+2.9%	+24.5%
AGCM China Stars Fund RC8 SEK	-3.7%	-0.3%	+4.0%	+28.5%
AGCM China Stars Fund RC9 SEK	-4.2%	-0.3%	+2.7%	+27.5%

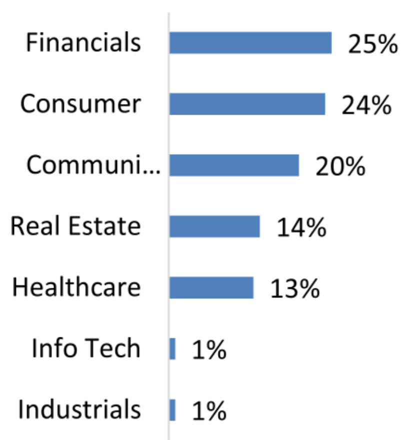
Top 5 holdings

As of 30/09/2022

Company name
China Mobile
Alibaba Group
Tencent Holdings
Midea Group
Sinopharm Group

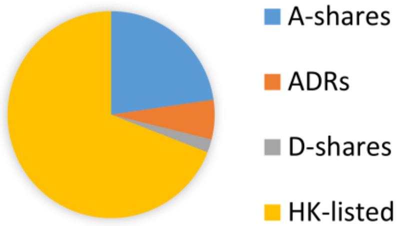
Industry breakdown

As of 30/09/2022



Market breakdown

As of 30/09/2022



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 139 million
Number of holdings:	37
Management fee (RC1):	1.35% + 10% perf. Fee
Fund management Company:	FundRock Management Company S.A.
NAV:	(RC1) SEK 124.5
	(RC8) SEK 128.5
	(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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