AGCM Asia Growth Fund

January 5, 2019

Weak finish in 2018 but China is set to outperform the West in 2019

During the month of December, the NAV of AGCM Asia Growth Fund RC SEK share class decreased by -8.9% and the WP EUR share class by -7.3%. This means we gave back the gains made in November, taking valuation levels back to the previous lows in late October. The largest declines in December were in the healthcare sector, largely due to fears of new rounds of government mandated price cuts on certain generic pharmaceuticals.

The year 2018 was challenging not just for Chinese equities but for the entire Emerging Markets space with MSCI's benchmark down 17 percent for the full year, corresponding to a USD 3.8 trillion decline in market value. This represents the largest drop in market capitalization since the 2008 financial crisis. The decline began when investors became concerned of an escalating trade war between China and the US, tighter central bank policies and in some market segments, stretched valuations.

As we have pointed out before, our fund holdings are dominated by domestic Chinese consumption stories, with very little export dependence. In other words, the actual exposure to tariffs and trade barriers is marginal. The growth in earnings of our fund holdings are largely driven by the appetite of the Chinese consumer, for housing, household electronics, autos, financial services, pharmaceuticals, online shopping, communication services, travel and entertainment. The growth in private consumption in China has been very resilient for decades, rising at a high and steady pace throughout the years along with rapidly rising disposable incomes. Due to the ongoing trade dispute with the US, China's manufacturing sector slowed during the final quarter of last year. However, China's service sector, which now accounts for well over half of the economy, is booming. A few days ago, China's non-manufacturing PMI for December was announced, rising to 53.8 from an already impressive 53.4. It seems as if government stimulus aimed at boosting the private consumption is already effective.

In a letter to investors on January 2, Tim Cook, the CEO of Apple guided for significantly lower revenues in 4Q 2018 blaming a weak Chinese economy. In reality, the weak demand for iPhones in China is not due to a weak economy, but rather to Apple's aggressive pricing strategy. Domestic Chinese vendors like Xiaomi and Vivo, offer very similar products but at one third of Apple's high prices.

Chinese economic fundamentals and stock market valuations look increasingly attractive relative to other major markets. Not only are valuations of Chinese equity markets (the Hang Seng, MSCI China and CSI300) substantially lower after the decline in 2018. China's massive tax cut discussed here last month, will have full effect as of January 1 and will provide a powerful boost to consumption and services in the coming year. The outlook for a trade deal between the US and China continues to improve. According to a Trump tweet on December 30, trade negotiations with China are progressing very well. Similar positive comments were made by Xi Jinping in Chinese media after his annual New Year message. In early January, senior trade representatives from both countries will meet to continue the negotiations. We expect a deal to be presented by late February or early March and that should be well received by financial markets. After all, it was fears of a protracted trade war between the World's two largest economies that sparked the massive sell-off in Chinese equities last year. So, the combination of down-beaten valuations, upcoming stimulus and a deal on trade bodes well for Chinese stock market outperformance in 2019.

Gustav Rhenman, Chief Investment Officer

AGCM Asia Growth Fund

Monthly Report

December 2018

Performance

As of 31/12/2018	1 month	3 month	YTD	2 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-8.9%	-12.5%	-14.5%	+12.1%	+23.9%
AGCM Asia Growth Fund WP EUR	-7.3%	-10.6%	-15.2%	+7.3%	n.a.

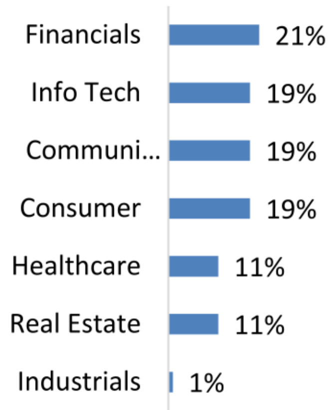
Top 5 holdings %

As of 31/12/2018

Company	Weight
Tencent Holdings	8.0%
Alibaba Group	7.8%
AIA Group	5.3%
Baidu Inc	5.3%
Samsung Electronics	5.3%
Total	**31.7%**

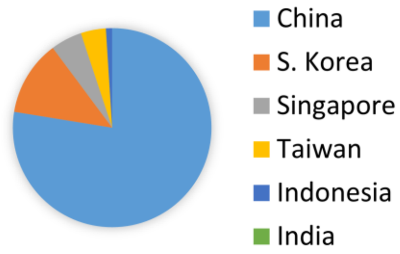
Industry breakdown

As of 31/12/2018



Geographic breakdown

As of 31/12/2018



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 932 million
Number of holdings:	35
Management fee (RC):	1.85%
Fund management Company:	FundRock Management Company S.A.
NAV:	SEK 123.9 EUR 106.5
Minimum subscription:	n.a.
ISIN code:	SEK RC LU 1091660909 EUR WP LU 1163023143 USD RC LU 1338434852

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