AGCM Asia Growth Fund

ASIA GROWTH CAPITAL MANAGEMENT

January 4, 2023

Stars have aligned for emerging Asia. Growth in China reaccelerates.

During the month of December, the NAV of AGCM Asia Growth Fund RC SEK decreased by -1.4% and the WP EUR share class by -1.6%. For the full year 2022, AGCM Asia Growth Fund RC SEK increased by +3.7% and the WP EUR share class by -2.8%.

Equity markets globally suffered last year from radically tighter monetary policies, disrupted global distribution chains and rising commodity prices. However, a series of positive developments took place in China in December. The most significant was the dramatic policy pivot by the leaders in Beijing, of China's restrictive and costly zero-Covid strategy. The National Health Commission announced that from January 8, China will no longer require inbound travelers to quarantine on arrival. All that is required by inbound travelers is a negative Covid test within 48 hours of departure to China. The government also changed the Chinese name of Covid-19 from "coronavirus pneumonia" to "coronavirus infections" motivated by Omicron's growing prevalence and milder symptoms. This and several other steps of easing restrictions will provide a meaningful boost to economic activities, not least in the service sector. We expect major upward revisions of projections for both China's GDP and corporate earnings in 2023. This should contribute to meaningful fund inflows from foreign investors and a boost to Asian equity market valuations as the growth rate differential between Asia and the West widens further.

Also important for technology stocks was the announcement in December by the CSRC (China Securities Regulatory Commission) that it will promote cooperation with the US on audit supervision of Chinese companies listed in the US such as Alibaba, JD.com and Baidu. The issue of Chinese companies having to submit to US government inspections has been an ongoing dispute between Beijing and Washington for years. The risk of delisting from the US exchanges has weighed on the valuations of Chinese ADRs (American Depositary Receipts). This statement by the CSRC indicates that Beijing is now willing to agree to the US requirements, and this should alleviate investor concerns of ADRs delisting in the US.

Publicly listed Chinese SOEs (state-owned enterprises) should benefit from the new guidelines issued on December 5 by the Shanghai Securities Exchange aimed at helping listed SOEs "return to reasonable valuations", in other words higher valuations. The new guidelines aim to improve the communication by SOEs to investors, increase transparency and support the use of employee stock ownership programs to promote growth and quality development. Real estate developers will benefit from the decision by China's central bank, the PBoC, to guide financial institutions to support mergers and acquisitions in the property sector and further improve credit access.

It seems that the stars have finally aligned for equity markets in emerging Asia and China in particular. Equity markets in the US and Europe will face continued headwind in 2023 from increasingly tight monetary policies, of which the negative impact has yet to work its way through the economy. In our opinion, analyst estimates for the earnings in US and European equity markets are still overly optimistic and we expect major downward revisions in the coming quarters. China on the other hand, which is the main growth driver in Asia, should see upward revisions of GDP as Covid-restrictions are gradually phased out. Other Asian economies will benefit from an increase in trade and travel. Another important factor for what the US financial industry refers to as Emerging Markets, is the value of the USD. Historically, there has been a strong correlation between the performance of Emerging Markets and the value of the US dollar. The US Dollar Index peaked at 114.1 on September 26, a 20-year high, and has since been on a downtrend. A falling US Dollar index has historically been positive for Emerging Markets. Furthermore, we see continued diplomatic efforts by the Chinese to improve bilateral relations.

Two fund holdings, Chinese investment banks CITIC and CICC, both beat Goldman Sachs in the global IPO rankings in 2022. By mid-December, Chinese companies had raised 45 percent of the global IPO proceeds of USD 208 billion. Six out of the World's top ten IPO banks in 2022 are now Chinese. Investment banks are highly correlated to the financial market performance and activity so 2023 could be another good year for CICC and CITIC now when China re-opens and the economy re-accelerates. China's total trade surplus amounted to USD 70 billion in November. The full year trade surplus is expected to reach another all-time high in 2023 of close to USD 800 billion, corresponding to around 4.4% of GDP.

The South Korean equity market ended the year 2022 sharply down with the KOSPI index -25% in local currency terms, pressured by global monetary tightening and economic recession concerns. Korea's exports fell 9.5% in December from a year earlier, as the global economy cooled and demand from China still weak. But a revival in China's outbound travel and domestic demand should boost Korea's exports, tourism and FDI inflows in 2023. The Korean banks remain among the cheapest listed financial companies in Asia. The governor of Korea's Financial Services regulator Bokhyun Lee held a meeting with analysts in early December, to discuss investor concerns and seek advice on how the regulator can help to reduce the so-called 'Korea discount' on the listed banks. The regulator indicated it will allow the banks more autonomy on shareholder return policies and allow higher dividend payout ratios. The dividend yields for the banks are already in the 7-10% range at a 25% payout ratio. We continue to see an attractive risk reward relationship in several Korean blue chips with improving corporate governance and benefitting from favorable policies and easing inflation. The KOSPI index is trading at only 0.9 times Price-to-Book and 9 times Price-to-Earnings Ratio.

Vietnam's economy grew by 8% in 2022, the fastest pace since 1997. The service sector remained the primary growth driver, supported by the strong reopening recovery in domestic consumption and retail sales. In 2023, Vietnam's economy will feel the impact of a weaker demand from its US and European customers, although partially cushioned by China's reopening. Still, Vietnam's GDP is expected by the IMF to grow by over 6% in 2023. The Vietnamese stock market has had a tough year has now become one of the cheapest among ASEAN markets currently trading at a 10 times Price-to-Earnings Ratio.

Singapore's leading telecom operator Singtel has signed a strategic partnership with Telkom Indonesia and Indonesian energy company Medco Power for its first data center project in Indonesia. The hyperscale data center marks the first foray by Singtel into the data center market in Indonesia, the largest digital economy in Southeast Asia. Indonesia's demand for digital and cloud services is expected by industry experts to grow exponentially and reach 130 billion USD by 2025. The data center will be located in Batam, a key economic zone in western Indonesia, close to key potential clients in Singapore.

Telkom Indonesia disclosed its new corporate strategy for improved profitability and growth. The main driver will be the convergence of fixed broadband and mobile services. The merger between fixed broadband-to-home service provider Indihome and its mobile operator Telkomsel, is expected to be earnings accretive to Telkom's shareholders. The fixed broadband services of Telkomsel will be revamped to attract the low-income rural population and the addressable market will expand from currently 300,000 subscribers to a potential 10 million.
A second pillar of the strategy is to focus on mobile revenue share rather than number of subscribers. As Telkomsel abandons the unlimited data plan, the ARPU is projected to improve faster than the decline in the number of mobile subscribers.

Gustav Rhenman, Chief Investment Officer

AGCM Asia Growth Fund

Monthly Report

December 2022

ASIA GROWTH CAPITAL MANAGEMENT

Performance

As of 31/12/2022	1 month	YTD	2 year	5 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-1.4%	+3.7%	+10.2%	+26.5%	+83.4%
AGCM Asia Growth Fund WP EUR	-2.6%	-2.8%	+1.8%	+18.8%	n.a.

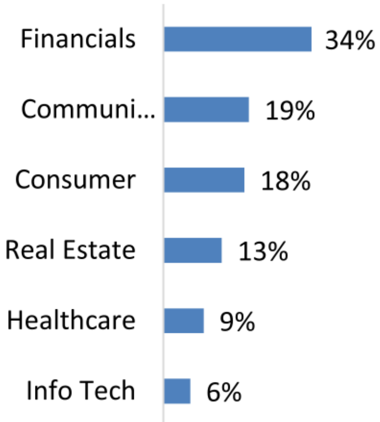
Top 5 holdings %

As of 31/12/2022

Company	Weight
Alibaba Group	7.2%
China Mobile	5.2%
Tencent Holdings	5.0%
China Resources Land	4.8%
Ping An Insurance	4.7%
Total	**26.9%**

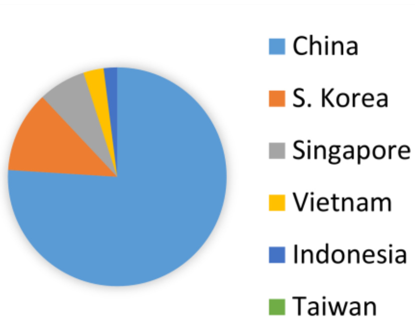
Industry breakdown

As of 31/12/2022



Geographic breakdown

As of 31/12/2022



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:	03-Oct-2014
Fund size:	SEK 802 million
Number of holdings:	42
Management fee (RC):	1.85%
Fund management Company:	FundRock Management Company S.A.
NAV:	SEK 183.4 EUR 149.2
Minimum subscription:	n.a.
ISIN code:	SEK RC LU 1091660909 EUR WP LU 1163023143

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