

# AGCM China Stars Fund



ASIA GROWTH CAPITAL MANAGEMENT

September 2, 2023

## Strong earnings reports but bad press and weak equity markets

During the month of August, the NAV of AGCM China Stars Fund RC1 SEK decreased by -3.2%. Chinese equity markets came under pressure in August due to a barrage of negative media reports in Western financial media on the state of China's economy. The journalists' common theme was that China's reopening after Covid has stalled, exports are falling, and the real estate sector is collapsing. Bloomberg ran a story the other day titled "Why Xi Jinping is running China's economy cold". Well, facts tell a different story. China's economic growth is not only high, it's on an uptrend. GDP grew by +4.5% in Q1 and +6.3% in Q2. This translates to +5.5% for the first half of this year, in line with the government's since long communicated target. The manufacturing sector was sluggish early this year but is accelerating, as confirmed by yesterday's strong PMI numbers from Caixin. China's trade surplus in July grew to a colossal USD 80.2 billion, higher than June's USD 70.6 bn. China remains by far the World's largest exporter with a 14% global share. Each year, China's trade surplus beats the record from previous year. IMF recently published a research report on the asset side of China's economy noting "At USD 12.5 trillion, China's government has the largest stock of financial assets in the World".

More importantly, the service sector is booming. It is the largest part of the economy and the biggest employer. In the first half of this year, per capita spending on services rose +13%. Domestic tourism revenues increased +96% year-on-year. Personal income grew +8% year-on-year in real terms in 2Q, an increase from +4% growth in 1Q. Chinese household bank balances have increased by 7.1 trillion USD from the start of 2020, a 63% increase. This increase is more than the GDP of Japan and more than China's total retail sales in 2019. These savings will be highly supportive for a continued rebound in consumer spending, equity markets and the real estate sector. The real estate sector is undergoing a government-orchestrated restructuring since August 2020, a process which will continue a few more years. The weak and over-leveraged players will go out of business and the strong will become even stronger. The names we own in the sector are thriving. Poly, China's largest real estate developer with a 3.8% market share grew revenues in 1H this year by +24% year-on-year and eps by +14%. CRL grew eps by +28%.

The half-year financial reports from our holdings were surprisingly strong. Tencent, grew earnings per share by +31% in the first half year-on-year. Advertising revenues rose sharply from a higher monetization of video accounts. Baidu's results also beat expectations with a +43% increase in earnings per share. On August 31, Baidu received government approval for its ChatGPT rival, Ernie Bot. One million downloads in the first 19 hours. Baidu's driverless taxi business has accumulated 3.3 million safe rides in ten cities around China. It aims to be in 65 cities by 2025. Our largest holding Alibaba reported eps growth of +77% in its fiscal 1Q ending in June. Comparing its calendar first-half year earnings this year with the same period last year, earnings per share grew by +37%. White goods and consumer electronics giants Haier and Midea, reported similarly solid financial results for the first half of 2023. Midea grew earnings per share by +14% and Haier grew earnings per share by +13%.

On the political front, relations between the US and China are improving. On the Biden administration's initiative, several high-ranking US officials have visited Beijing during the summer. After Secretary of State Blinken's visit in June, the turn came to Treasury Secretary Yellen, and last week Commerce secretary Raimondo. Gina Raimondo echoed her colleagues by telling the Chinese delegation "It is profoundly important that we have a stable economic relationship, which is to the benefit of both of our countries".

**Gustav Rhenman** Chief Investment Officer

# AGCM China Stars Fund

Monthly Report

August 2023



ASIA GROWTH CAPITAL MANAGEMENT

## Performance

As of 31/08/2023	1 month	YTD	2 year	Since launch August 28, 2017
AGCM China Stars Fund RC1 SEK	-3.2%	+4.8%	+13.3%	+35.9%
AGCM China Stars Fund RC8 SEK	-3.2%	+5.1%	+14.4%	+40.9%
AGCM China Stars Fund RC9 SEK	-3.6%	+5.1%	+14.0%	+40.1%

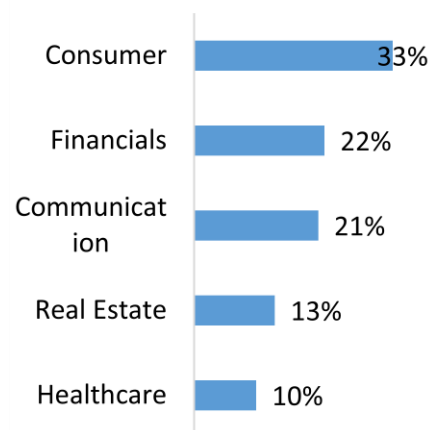
## Top 5 holdings

As of 31/08/2023

Company name
Alibaba Group
China Mobile
Tencent Holdings
Midea Group
JD.com

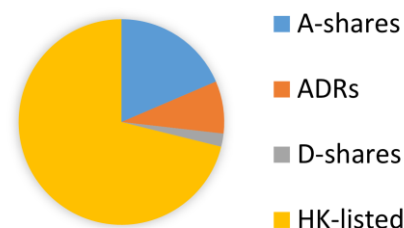
## Industry breakdown

As of 31/08/2023



## Market breakdown

As of 31/08/2023



## 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

Portfolio manager:	Gustav Rhenman
Inception date:	28-August-2017
Fund size:	SEK 149 million
Number of holdings:	37
Management fee (RC1):	1.35% + 10% perf. Fee
Fund management Company:	FundRock Management Company S.A.
NAV:	(RC1) SEK 135.9 (RC8) SEK 140.9 (RC9) SEK 140.1
Minimum subscription:	n.a.
ISIN code:	SEK RC1 LU 1608617111 SEK RC8 LU 1608617384 SEK RC9 LU 1608617467

## Disclaimers

**According to Personuppgiftslagen (PUL):** AGCM can use such personal data which has been given to the company by the registered person or which the company has sourced from other sources (name, e-mail and telephone number) to, via e-mail or telephone, give information about and market its products and services, including direct marketing. The personal data is used mainly in relation to people who orally or in written form have indicated interest to AGCM. If you want to receive information about which personal data about yourself the company is handling, you can in writing, signed by yourself, make a request to Asia Growth Capital Management AB, Birger Jarlsgatan 10, 5 tr, 114 34 Stockholm. You can also make a request in writing to the same address that you wish not to have your personal data used for purposes of direct marketing. Request for correction of personal data can also be made to the same address.

**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).