

# AGCM Asia Growth Fund



October 3, 2023

## Central banks and US Treasury market weigh on investor sentiment

During the month of September, the NAV of AGCM Asia Growth Fund RC SEK decreased by -4.9% and the WP EUR share class by -2.2%.

Major equity markets around the world declined in September on fears of central banks, especially the Federal Reserve, going “higher for longer” as inflation remains above target. The price of oil has complicated the picture, having risen 30% in the past quarter. The recent dramatic increase in US government bond yields has led to a renewed focus on the health of the US Treasury market. Interest payments on the USD 33 trillion federal government debt have in less than two years doubled as a percent of government tax receipts, from 8% in 2022 to now 15%. This ratio continues to worsen with rising debt levels and higher interest rates when the existing debt is rolled over. Non-US investors have been net sellers of US Treasury bonds since 2014, and the demand from traditional domestic buyers remains weak. There is clearly a risk of further upward pressure on US Treasury yields in the coming months given the massive US government deficit that needs to be financed.

After an intense two weeks with 28 meetings in Hong Kong and Tokyo with some of Asia’s largest listed companies, we remain optimistic on the outlook for the region and our fund holdings. The growth outlook mostly remains good and key valuation metrics are in many cases close to ten-year lows. Asia will most likely continue to be the main driver of economic growth in the World.

Tokyo Electron, one of the World leaders in semiconductor manufacturing equipment, sells to chip makers such as Intel, Samsung Electronics and TSMC. We were surprised to learn from Tokyo Electron’s management that this year, Chinese semiconductor companies account for 40% of Tokyo Electron’s total revenues, up from 25% last year. US export restrictions of advanced semiconductors have only accelerated China’s efforts to build up its own semiconductor industry, reducing its reliance on foreign suppliers. So not only have the US chip vendors lost export revenues from one of their largest markets, they will soon also have new competition as Chinese chip makers catch up. They are indeed catching up, according to sector analysts and our contacts at Samsung and Hynix.

We also met with our long-time friends at CRL, one of China’s largest real estate developers. They continue to grow at an impressive pace, earnings up by 28% in the first half of this year. Foreign analysts often underestimate the replacement demand in China. In other words, the desire for more space and higher quality remains a solid long-term driver of the sector. CRL’s management indicated 11% revenue growth for the full year 2023 and we estimate a 30% growth in earnings per share. The government’s campaign to de-risk the sector continues. The stronger players become stronger and the weaker are weeded out. CRL is focused mainly on tier-1 and tier-2 cities, in other words the mega cities and provincial capitals in China. That is a segment in which we find great value, especially during this period of profound investor concerns about the outlook for the industry.

Alibaba announced it has filed with the Hong Kong Stock Exchange to list Cainiao, its logistics business with 24-hour delivery service in China. The move is the first step in Alibaba’s restructuring into six separate business units to unlock shareholder value and improve operational efficiency.

## South Korea

Samsung Electronics sees signs of a recovery in the downstream demand, especially from PC and handset customers seeking to replenish component inventories. Samsung increased the scale and scope of its memory chip production cuts in Q3 2023, expecting to reach a normalized inventory level by the end of this year. The prices for major memory chips seem to have bottomed thanks to production cuts. Samsung is also ramping up its capacity for the high bandwidth memory chips used in Nvidia's AI-related products, which will drive growth in the next few years. In the banking sector, the top Korean banks are now trading at record low valuations, 0.3-0.4 times price-to-book value, with an attractive dividend yield ranging between 6-9%. Korean analysts expect the banks to announce more shareholder-friendly policies. South Korea reported better-than-expected exports in September, down by 4% year-on-year, easing from a -8% drop in August. Exports to the US increased +9% year-on-year, while exports to China also increased for the second month in a row.

## Vietnam

Following US President Joe Biden's two-day visit to Hanoi in early September, Vietnam upgraded its relationship with the US to "comprehensive strategic partnership", which is the highest level in Vietnam's three-tier diplomatic hierarchy, strengthening bilateral ties in industries including semiconductor supply chain and manufacturing. However, China and Hong Kong remain the largest investors, accounting for 35% of the total newly licensed investment projects year-to-date. Realized foreign direct investment over first 9 months 2023 reached a five-year high. Vietnam's real GDP growth rose to +5.3% year-on-year in Q3 2023, driven by improving exports, a pick-up in foreign direct investment (FDI) and rising public infrastructure spending. Exports returned to growth in September for the first time in a year, rising +4.6% year-on-year, led by textiles and electronics.

## Singapore

Singaporean telecom operator Singtel has reached an agreement with investment firm KKR to sell a 20% stake in Trustwave, Singtel's regional data center for USD 205 million. KKR's acquisition will fund Singtel's expansion of the regional data center business in Singapore, Indonesia, Thailand and Malaysia. The South-East Asian data center market is expected to grow fast from increased data consumption, enterprises transitioning to the cloud and rising investments in artificial intelligence.

## Indonesia

Indonesia has launched South-East Asia's first high-speed rail linking Jakarta with the city of Bandung. The train can carry 600 passengers at a speed of 350 km/h. The high-speed rail is a part of Indonesia's decade long infrastructure investment boom in roads, ports, and airports. The Indonesian inflation rate remains well under control with a drop of one percentage point in the Consumer Price Index to 2.3% in September, now in the lower end of Bank Indonesia's target range of 2-4%.

## India

Google in a partnership with Hewlett Packard will start manufacturing in India of its Chromebook, a low-cost alternative to a PC. The Indian government has intensified its efforts to attract foreign manufacturers through various investment subsidies and other incentives. These efforts are bearing fruits as multinational companies are looking to for diversification of production. Adani Group announced it is planning to build 10 GW of integrated solar manufacturing capacity by 2027 with support of the government's production-linked incentive scheme. Being a top ranked module supplier, Adani is now taking the step to build the World's first fully integrated and solar manufacturing ecosystem in Gujarat creating 13 000 green jobs. The facility will encompass the entire solar manufacturing process from metallurgical silicon to PV modules.

**Gustav Rhenman**, Chief Investment Officer

# AGCM Asia Growth Fund

Monthly Report

September 2023



ASIA GROWTH CAPITAL MANAGEMENT

## Performance

As of 30/09/2023	1 month	YTD	2 year	5 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-4.9%	+1.7%	+8.5%	+32.7%	+86.5%
AGCM Asia Growth Fund WP EUR	-2.2%	-1.2%	-2.5%	+24.3%	n.a.

## Top 5 holdings %

As of 30/09/2023

Company	Weight
Alibaba Group	8.7%
Tencent Holdings	6.0%
Samsung Electronics	4.4%
ICBC	4.1%
China Resources Land	4.1%
<b>Total</b>	<b>27.3%</b>

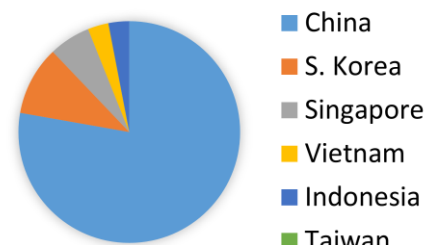
## Industry breakdown

As of 30/09/2023

Financials	29%
Consumer	28%
Communi...	21%
Real Estate	8%
Healthcare	8%
Info Tech	6%

## Geographic breakdown

As of 30/09/2023



## 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

<b>Portfolio manager:</b>	Gustav Rhenman
<b>Inception date:</b>	03-Oct-2014
<b>Fund size:</b>	SEK 627 million
<b>Number of holdings:</b>	37
<b>Management fee (RC):</b>	1.85%
<b>Fund management Company:</b>	FundRock Management Company S.A.
<b>NAV:</b>	SEK 186.5 EUR 147.3
<b>Minimum subscription:</b>	n.a.
<b>ISIN code:</b>	SEK RC LU 1091660909 EUR WP LU 1163023143

## Disclaimers

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**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).