

# AGCM Asia Growth Fund



November 2, 2023

## A one trillion-yuan stimulus package. US-China relations improving.

During the month of October, the NAV of AGCM Asia Growth Fund RC SEK decreased by -2.9% and the WP EUR share class by -4.8%.

Most equity markets in the World fell in October. Growing concerns among investors of a coming recession and the prospects of a serious imbalance between supply and demand for US Treasury bonds contributed to an upward pressure on bond yields. Western equity markets remain at risk from a double whammy of downward earnings revisions in the coming quarters combined with a decline of elevated valuation multiples.

Asia's largest economy looks relatively better. After many years of tight monetary and fiscal policies, China continues to ease to secure its 5% GDP growth target. On October 25, the government announced a 1 trillion CNY (USD 138 billion) stimulus program focused on infrastructure. These funds will be transferred to local governments, with half of the sum intended for use this year and the remaining half to be used in 2024.

It seems Xi Jinping will accept Joe Biden's invitation and attend in person at the Asia-Pacific Economic Cooperation (APEC) meeting that the US will host in San Francisco, beginning November 11. Foreign ministers Wang and Blinken met in Washington last Friday to discuss current issues. A positive meeting between the two Presidents in mid-November could provide a boost to Chinese equity markets since investor concerns about escalating tensions between China and the US remain a key reason why the MSCI China index is trading at close to historic valuation lows. Judging from recent events and comments by leading officials, we believe both sides seek better relations.

Corporate financial reports so far confirm the picture of a stable Chinese economy. Our two holdings in the home appliances industry, Midea and Haier, have grown to become by far the World's largest players in this sector. The two companies reported similar numbers, revenue growth of 6-7% in the first 9 months this year, with net profit growth of 13%. China's largest pharmaceutical distributor Sinopharm grew revenues by 9% in 9M23, net profit up by 4%. China Telecom grew revenues by 7% in 9M23 and net profit by 10%. Hengrui, China's leading pharmaceutical manufacturer with an increasingly innovative R&D pipeline, reported revenue growth of 7% in 9M23, and net profit growth of 10%. Hengrui has agreed to grant an exclusive license for its DNA damage response PARP1 inhibitor HRS-1167 to Germany's Merck Group for EUR160 million plus estimated milestone payments of up to EUR1.4 billion.

At a recent event, real estate giant Vanke's Chairman Yu Liang, said he believes China's real estate sector is "oversold" and that "the upward recovery forces are already in the making". He said the reasonable housing demand is about 1.0-1.2 billion square meters per year, while the construction volume this year is less than 700 million sqm. Yu Liang expects the market to accelerate from here, driven by pent-up demand and improving home buyer sentiment. Consensus estimates for Vanke this year indicate net earnings of around 20.2 billion RMB, a slight increase compared to last year. The stock now trades at an attractive 4.5 times earnings and an 8% dividend yield.

In an interview with Warren Buffett's partner Charlie Munger published on October 29th, the 99-year-old Munger said China's economy has "better prospects over the next 20 years than almost any other big economy" and that "the leading companies in China are stronger and better than practically any other, and cheaper". We agree.

## Indonesia

Bank Indonesia surprised the market with a 25 basis-point hike to 6.0% to stabilize the Rupiah. The rate hike came despite relatively low inflation which is well within the central bank's target range of 2-4 %. The central bank remains optimistic about the domestic economy and expects growth to remain solid amid strong consumer confidence and steady investments. The GDP growth forecast for 2023 was maintained at between 4.5% and 5.3%. Growth is expected to strengthen in 2024, driven by increased government spending ahead of the upcoming national elections, higher salaries for civil servants, and development of Nusantara, the future capital of Indonesia. The country is planning to move the capital from Jakarta to Nusantara on the island of Borneo in August next year.

Bank Mandiri reported a net profit of IDR 39 trillion (USD 2.5 bn) for the first nine months of 2023, an increase of 27% year-on-year. The bank is gaining market share in lending, now at 14.7%. We expect the high earnings growth to continue for many years based on the country's young and growing population with low banking penetration and the rising middle-income class as a driver of a structural shift in domestic consumption. Bank Rakyat also increased net profit after tax to IDR 44 trillion (USD 2.8 bn), up 12% year-on-year. The bank is a top player in micro finance which now accounts for 47% of total loans. This unique competence to lend to 37 million borrowers, take deposits from 166 million micro deposit accounts and offer savings and banking products through 15 000 units and 74 000 financial advisors, provides a solid moat.

## India

HDFC Bank, India's largest private sector bank and a global top 10 actor, continues to grow rapidly. On a stand-alone basis, revenue increased by 16% quarter-on-quarter and net profit was up 34% to 168 billion Rupee (USD 2 bn) during the same period. The Group is well consolidated with tier 1 capital of 17.8% and is at the same time highly profitable with a return on equity of 16.2%. The bank has consistently grown profits at a high double-digit pace over the past decade. The Group has 91 million customers, 177 000 employees at more than 8 000 branches in India. HDFC Bank is well positioned to grow earnings at a high pace for many years to come as India is in the early stage of a catch-up phase with developed economies. Last year India's GDP grew by 7% and yet the per capita GDP figure only amounts to 3% of the EU average.

## Vietnam

Vietnam saw stronger exports in October, growing at 6% compared with a year ago, led by consumer electronics and machinery. China and South Korea were the key drivers of exports, shipments to the US and ASEAN also rebounded in October after multi-month declines. Foreign Direct Investments also surged, fueled by a fivefold rise in pledges for new projects. Pledges from China and Hong Kong rose to a year-to-date high, accounting for 40% of the total. Singapore and South Korea were the second and third largest investors. S&P Global Market Intelligence forecasts Vietnam's GDP per capita to grow from USD 4,150 in 2022 to USD 5,000 in 2025 and USD 7,300 in 2030, driven by a well-educated labor force, FDI inflows, continued diversification into new industries, and domestic infrastructure spending.

## South Korea

Samsung Electronics expects an ongoing recovery in the memory market to accelerate in 4Q and 2024 due to customer inventory normalization and increasing demand from AI applications. Samsung is also ramping up R&D in the 2-nanometer fabrication process, aiming to catch up with TSMC in the cutting-edge foundry technology. Korea's leading EV battery maker Samsung SDI demonstrated strong sales and profitability compared with industry peers, thanks to its high exposure to premium EVs. It recorded revenue growth of 11% year-on-year with an 8.3% margin. It currently supplies batteries to BMW, Stellantis and Audi, and recently announced an agreement with Hyundai Motor for the first time to power Hyundai's EV production in Europe.

**Gustav Rhenman**, Chief Investment Officer

# AGCM Asia Growth Fund

Monthly Report

October 2023



ASIA GROWTH CAPITAL MANAGEMENT

## Performance

As of 31/10/2023	1 month	YTD	2 year	5 year	Since launch Oct 3, 2014
AGCM Asia Growth Fund RC SEK	-2.9%	-1.3%	+5.5%	+44.9%	+81.1%
AGCM Asia Growth Fund WP EUR	-4.8%	-6.0%	-8.9%	+34.2%	n.a.

## Top 5 holdings %

As of 31/10/2023

Company	Weight
Alibaba Group	9.2%
Tencent Holdings	6.3%
Samsung Electronics	4.7%
ICBC	4.6%
China Resources Land	4.3%
<b>Total</b>	<b>29.1%</b>

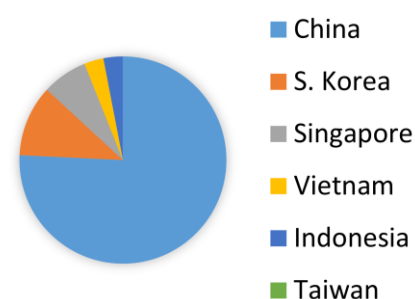
## Industry breakdown

As of 31/10/2023

Financials	30%
Consumer	29%
Communi...	20%
Real Estate	8%
Healthcare	7%
Info Tech	6%

## Geographic breakdown

As of 31/10/2023



## 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 586 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 181.1 EUR 140.2
<b>Minimum subscription:</b>	n.a.
<b>ISIN code:</b>	SEK RC LU 1091660909 EUR WP LU 1163023143

## 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).