

AGCM China Stars Fund



ASIA GROWTH CAPITAL MANAGEMENT

January 3, 2024

Extreme valuation differences. Will they reverse in 2024?

During the month of December, the NAV of AGCM China Stars Fund RC1 SEK declined by -4.6%.

After a strong run-up in US equity valuations in 2023 (S&P500 +24%) and declining markets in China (MSCI China -13%), valuation differences between the World's two largest equity markets have reached extreme levels. Largely due to fiscal and monetary policy excesses, major US equity indices have reached lofty levels, the S&P500 at 22 times current year earnings and the Nasdaq at 35 times earnings. In stark contrast, after a year of declining prices, Hong Kong's Hang Seng index now trades at only 8.7 times earnings and the Shanghai composite index at 11 times earnings. As an example, EV-automakers Tesla and BYD have similar yearly revenues of around USD 100 billion. BYD continues to outgrow Tesla both in terms of revenues and net income. While Tesla has a market cap of USD 800 billion, trading at 80 times earnings, while BYD's market cap is only USD 80 billion and is trading at 20 times earnings. Tesla trades at ten times sales, while BYD trades at one times sales. This means investors are paying 5-10 times more for a US company that is growing slower. Put differently, BYD trades at an 80-90% discount to Tesla.

We could make a long list of similar Western-Asian peer comparisons telling the same story. Because money has for years been flowing to a market which investors consider to be the "cleanest dirty shirt", the US, and out of emerging markets, valuation gaps have become extreme. We are firm believers of the ten trading rules formulated decades ago by Merrill Lynch's legendary strategist Bob Farrell. Rule number one, markets tend to return to the mean over time. Rule number two, excesses in one direction will lead to an opposite excess in the other direction.

What could spark a reversal of the current extreme valuation gaps? What could cause markets to turn around and go the other way, where Asian equities outperform Western markets? History indicates that when the Federal Reserve enters a rate-cutting cycle, that is when the USD weakens, and emerging market equities begin to outperform. This could become a key investment theme in 2024, unless of course geopolitics gets in the way again.

In mid-December, China's government held its annual Central Economic Work Conference. Key priorities for economic policy in 2024 to maintain a GDP growth rate of around 5%, include a proactive fiscal policy and a prudent monetary policy with strengthened coordination of policy tools. Guidance will be given to financial institutions to increase support for technological innovation, green transformation, and to maintain a stable renminbi exchange rate. Continued efforts will be made to develop a "modern industrial system" with scientific and technological innovation. This is code language for becoming less dependent on foreign technology, less vulnerable to US high-tech export restrictions, and moving the export industry higher up in the value chain. Efforts will be intensified to develop the digital economy, accelerate the development of artificial intelligence, and support applied and cutting-edge research in the corporate sector. Consumption will be promoted in areas such as tourism, entertainment, sports events, smart homes, and trendy Chinese consumer products.

China's buildout of 300 GW of solar and wind electrical generation capacity in 2023, was double that of its 2022 total and the largest single year deployment of capacity in history. In China, every two out of five new cars sold last year was electric. The fourth quarter numbers are not final yet but BYD likely surpassed Tesla as the World's leading EV producer in 2023. China's carbon emissions are likely to start falling this year.

Gustav Rhenman, Chief Investment Officer

AGCM China Stars Fund

Monthly Report

December 2023



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Performance

As of 31/12/2023	1 month	1 year	2 year	5 year	Since launch August 28, 2017
AGCM China Stars Fund RC1 SEK	-4.6%	-11.0%	-7.6%	+25.9%	+15.4%
AGCM China Stars Fund RC8 SEK	-4.6%	-10.6%	-6.6%	+29.0%	+19.8%
AGCM China Stars Fund RC9 SEK	-4.6%	-11.2%	-7.6%	+26.2%	+18.4%

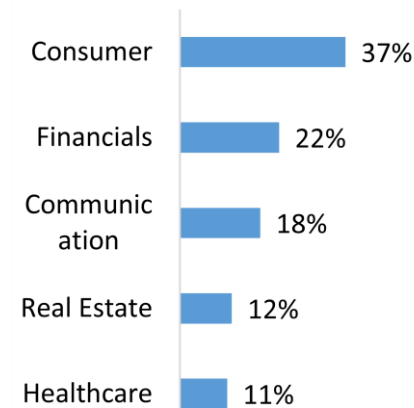
Top 5 holdings

As of 31/12/2023

Company name
Alibaba Group
JD.com
Midea Group
Baidu Inc
China Construction Bank

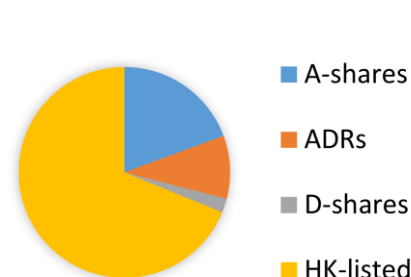
Industry breakdown

As of 31/12/2023



Market breakdown

As of 31/12/2023



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 122 million
Number of holdings:	37
Management fee (RC1):	1.35% + 10% perf. Fee
Fund management Company:	FundRock Management Company S.A.
NAV:	(RC1) SEK 115.4 (RC8) SEK 119.8 (RC9) SEK 118.4
Minimum subscription:	n.a.
ISIN code:	SEK RC1 LU 1608617111 SEK RC8 LU 1608617384 SEK RC9 LU 1608617467

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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 before you make an investment. You can also request such information via e-mail to info@agcm.se.