朱雀基金 Rosefinch Fund
(T) (021) 2030 5888 (F) (021) 2030 5999 (W) www.rosefinchfund.com
(A) 3303 Kerry Parkside, 1155 Fangdian Road, Pudong, Shanghai 201204, China

Rosefinch Outlook 2021-06

China April PPI rose the fastest pace in over three years at 6.8% YoY while April CPI was +0.9% YoY. United States April CPI rose +4.2% YoY which is the fastest pace since Sep 2008. We noticed different market reactions after the respective data releases: China A-share market experienced a temporary sell-off and then CSI300 recovered steadily to close +4% for the month, whereas US stock market continues volatile side-way trading and closed flat for the month. This difference reflects the more favorable market perception of Chinese policy responses during the pandemic period.

With the inflationary pressure building, we see significant policy responses in China to stabilize pricing, especially upstream commodity prices. The government stepped up verbal intervention and warned commodity traders against price fixing, hoarding, or any speculative activity that drive up prices in iron ore, steel, copper, coal, aluminium, etc. The policy is having some impact already, with the May Manufacturing PMI at 51 which is slightly below April level of 51.1. Overall, we'd expect the second half growth rate to gradually slow down, with inflation data holding or drifting lower during the period. On the international front, there's still a lot of policy uncertainty, especially the Fed's monetary policies.

For investment strategies, instead of guessing when FOMC will reduce QE, we are thinking more about the medium to long term structural changes in China. We noticed that under current industry regulations, we're moving from prioritizing efficiency towards emphasizing fair competition and sustainable developments.

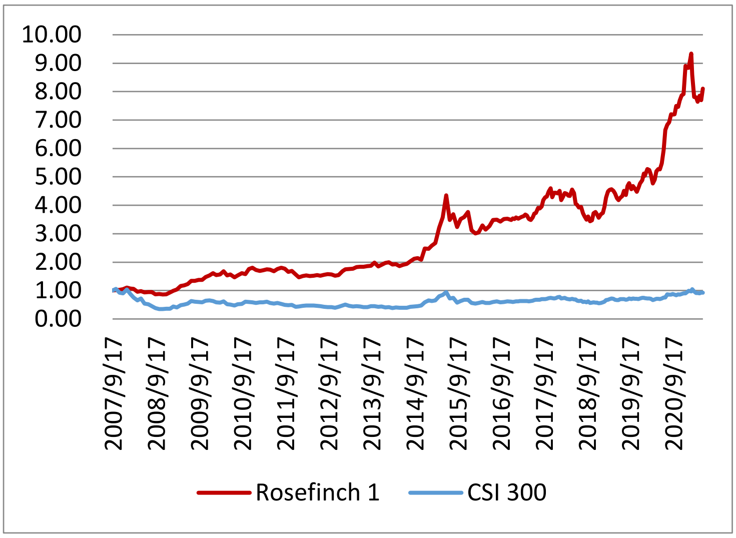
Both the proposal of 2060 Carbon Neutrality and stricter anti-monopoly regulations on major e-commerce platforms reflect such shifts in industry policies. We will actively track impacts at each industry value chain level and adjust our investment approach accordingly.

In the second half of this year, as the economy decelerates, companies with sustainable profit growth will be hard to find. We will adjust our investment allocation according to changes in the industry value chains. Our base case scenario is a return to a structurally slow bull market on China A-share market. Our main investment theme is therefore digging up structural growth opportunities.

Photovoltaic industry is a field we have been following extensively. With the backdrop of China's commitment for Carbon Neutrality by 2060, we see a very high certainty in long-term industry-wide demand. However, due to significant capacity expansion in certain links of the photovoltaic supply chain, we are seeing some mismatches between the supply capacities and current industry demands. These mismatches are causing different business cycles at key links, which will inevitably lead to a redistribution of margins across the industry value chain. At the same time, we're seeing continued technological improvements which put pressure on capacities built by outdated technology. These dynamic changes will present very unique investment opportunities across different parts of the industry value chain. We're proactively tracking and following such changes for our investors.

In addition, we see relatively reasonable valuation and clear growth trends in industries like agriculture, finance, electronics manufacturing, internet, biopharmaceutical, etc.

Performance



Source： Rosefinch， 9/17/2007-5/28/2021

Return (2021) %	-9.01
Return (1Y) %	54.15
Return (3Y) %	83.11
Return (5Y) %	157.77
Return (Since Inception) %	710.59
Annualized Return (Since Inception) %	16.25
Maximum Drawdown %	-30.87

Source: Rosefinch, as of 2021/5/28

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Contact us

www.rosefinchfund.com

www.rosefinch.cn

Rosefinch Fund Management Co., Ltd.

Addr: 3303 Kerry Parkside, No. 1155 Fangdian Road, Pudong, Shanghai 201204, China

Tel: +86 021-2030 5888

Fax: +86 021-5030 1572

E-mail: panyz@rosefinch.cn