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The Best Season of The Year is Spring

A-share correction brings opportunity for Absolute Return investors.

The FED's more hawkish comments caused USD and US yields to rally, while causing global equity sell-off. VIX had almost doubled in January already as DOW dropped -3.4%, S&P500 had its weakness Jan since 2008 at -5.9%, and NASDAQ had its weakest Jan since 1972 at -10.7%. The geopolitical conflicts are spilling over into the energy sector with Brent up 19% in Jan, Russia MOEX index was down 14% at one point.

China saw +8.1% growth in 2021, but chose to loosen monetary conditions in face of ongoing global uncertainty and soft domestic economy. China's focus on domestic circulation did not make its market immune to global risk-off sentiments. The lingering Covid-induced interruptions also added to the market woes as SSE50 -4.8%, CSI300 -6.7%, and GEM -14.3%. Some global investors are concerned about the impact of continued Zero-Covid policy on Chinese economy as well as potential policy risks. Market saw some position liquidation by global names, while HK stocks saw active short-selling activities.

On the policy front, central government has been calling for coordinated efforts across agencies to support reasonable economic growth. Official press had identified the stable macro-economic conditions "not only a matter of economic policy, but one of political will." Government agencies are asked to collaborate in areas of macro, micro, structural, technological, reform, regional, and social policies. This reflects the commitment from the government to ensure steady growth in order to achieve

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economic stability. In response, the state council held meetings to discuss tax and fee reduction initiatives; PBOC proactively cut various benchmark rates; all agencies are asked to be more proactive in delivering impactful policies. As the economy enters into slower growth period, China must steadily push for high-quality development. **The financial market will perform a pivotal role in the efficient resource allocation as the eco-system move towards Carbon-Peak by 2030 and Carbon-Neutral by 2060.** There will be a virtuous circle among technological innovations, vibrant enterprises, and financial markets. Build a robust and active capital market is therefore an important step in supporting the high-quality transformation of the Chinese economy.

The A-share sell-off in Jan reflected market worries about US hiking cycle and China slowdown. The reasoning may have over-estimated the severity of US tightening measures, and certainly misinterpreted the independent policy considerations of Chinese government and central bank. **Indeed the multi-year trend of high-quality economic development is well underway in China, therefore the A-share over-correction in January provided an excellent "bottom-up" opportunity for absolute return investors. The best season of the year is Spring!**

In China, the pressing issue of technological innovation is not only for development, but for survival. Long-term active investors are like pioneers and entrepreneurs, we look at the world from different perspectives to create value and push for a better tomorrow. Looking back, Rosefinch has been fortunate to accompany some great entrepreneurs and companies in the 3060+ related industries. To contribute as investor, it's important for Rosefinch to excel both in capabilities and in core values. **The more effective and advanced capital market becomes, the more aggregate knowledge and wisdom can be shared, multiplied, and perfected.**

3060 will have lasting impact on economic output and structure

China's 2021 GDP was 114 trillion RMB, which is a nominal growth of +11% vs 2020's 102 trillion RMB, and a real growth rate of +8.1%. US 2021 GDP was 23 trillion USD, with nominal growth of 10% vs 2020, and real growth of +5.7% which is a new 38-year high. China was 70.5% of US economy in 2020, and now 76.9% in 2021. China is steadily catching up to the US. Looking ahead, IMF lowered most countries' 2022 GDP forecast: US revised from 5.2% to 4%; China from 5.6% to 4.8%. There were a few risks cited: slow immunization, US monetary tightening, disruptions in supply chains, tight labor-market and the induced inflationary pressure, slowdown in China real estate market. China's overall economic growth may indeed slow to 5-5.5% area vs the previous expectation of above 6%. The Chinese central government has emphasized promotion of high-quality reform, high-efficiency reform, and power-reform to create a greener, more efficient, and more open economy. **The near-term policy goal for 2022 is to support economic stability, cautious on policy with tightening effects, and front-load positively impactful policies.**

"Green energy" and the 3060 themed developments will play a crucial role in China's economic transformations. To push for the new energy revolution, China must plan and build large wind or solar farms, increase efficiencies in existing fire generating plants, as well as the new energy distribution electric grids to incorporate the green energy into the energy network.

According to Rosefinch research, China's Carbon-Peak by 2030 and Carbon-Neutral by 2060 goals will have lasting impact on China's economic output and structure. **Looking forward, sectors related to the new energy will contribute 3.5 trillion RMB or 2.7% to the 2025 GDP, and 5.7 trillion RMB or 3.6% to the 2030 GDP.** The main contributions will come from a few areas: the transition from traditional energy to manufactured energy, especially photovoltaic sector to answer global demand in clean energy; the new demand on new energy cars and the value-add to traditional fuel cars. In addition to the GDP contribution, the adjustment in energy infrastructure will have positive impacts on environment protection, energy security, manufacturing development, supply-side inflation, RMB internationalization and exchange rates.

Other sectors will also have interesting opportunities as focus shift towards more innovation. China's digital economy has been sizeable but not strong; its growth fast but not superior. The new government focus will be to leverage on the huge database and diverse applicable environment to increase the deep integration of digital economy and the traditional economy. This will help the traditional economy to upgrade and create new ecosystem of higher quality growth. On the biopharmaceutical industry, government has called on growth in key areas such as Traditional Chinese Medicine, Vaccination, genetic drug, cellular drug, AI medical equipment, new medical equipment material, new cosmetical material, etc. Regulators are asked to speed up new product development process, prioritize high-value product approvals, and encourage global R&D deployments.

<u>Chinese manufacturing industry faces unprecedented opportunity</u>

Globally in 2022, China may be the only major economy that has loose monetary policy with relatively low interest rates. The liquidity conditions will be supportive for risk assets such as equity market. As opportunity cost decreases, the forecasts for Chinese real estate and related assets are also lowered. This will channel more capital towards high-grade debts and equity markets. The domestic household savings allocation is also undergoing transformation. China's urban population is shifting assets from real estate towards financial assets either directly through stock purchase or indirectly through wealth products such as mutual funds and trust products. Currently both A-shares and HK-shares are at attractive valuation levels compared to major global markets. Historically, when measured across the last 10 years, CSI300 is ranked at 70.8%; SSE50 is at 75.8%; GEM is at 63%; while CSI500 is near the lows at 2.9% with EPS at double the 2019 level, which makes it more attractive.

Historically, there were a few major energy transformations that had huge impacts on the financial markets. First was the industrialization that transformed the energy from plant based agricultural power conversion to the industrial age carbon energy complex. Now we're entering into the new age of transformations into the new wind, solar, hydrogen, and other renewable energy sources. **In this global**

new energy transformation, the progressive Chinese manufacturing sector faces unprecedented opportunities.

For Rosefinch research analysts, the challenge is not so much worries about end demands, but the competition among the suppliers and the shifts in supply-demand balances. After all, in the long term, supply shortages are temporary and excess capacity is the usual norm. Within the photovoltaic sector, for example, the companies are competing across major issues like capital base, organization, R&D, supply-chain management, raw material cost, quality of production, brand promotion, delivery capacity, etc. It is important for the companies to build up their capabilities, but it's also challenging to do. **From Rosefinch's perspective, it's relatively clear on who the major winners will be, and they will be well positioned to embrace new technology and new applications.**

The market dynamism comes from the relentless pursuits of future profits. Highly efficient capital market is a ruthless battleground: every country or region or company will see their own shortfalls and developmental opportunities. The market pushes the best companies and entrepreneurs to race forward, and also forces investors to continuously learn and run full speed just to keep up. For passive investors, it may be the IT investment that reduces the per unit cost for precise index replication; for quant investors, it may be through AI's deep learning and new strategy developments to keep the edge; and **for the active equity investors, they must have professional insights and foresights in order to choose the right beta and create the right alpha over time.**

At Rosefinch, we pride ourselves at building in-depth knowledge of the industries that we cover. Our team of 100 staff and 40 analysts strive to sustainably create value for our investors, our team members, and our shareholders. By utilizing our extensive market expertise and executing our disciplined investment process, we look forward to partner with like-minded long-term investors for the exciting and rewarding journey ahead.