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Our Vision: To Sustainably Create Value

"Success depends more on riding the right theme than having individual intelligence; and it's more important to be at the right time than having specific tools." – Mencius.

<u>The new framework is one of high quality development; we support companies with the true entrepreneur spirit!</u>

Since the start of the year 2021, as of Dec 27th, DOW was +16%, NASDAQ +19%, S&P500 +24%, SSE +4.3%, GEMS +13.3%, HSI -14.8%, Hang Seng Technology index -35%, and NASDAQ Golden Dragon China index -38.6%. This wide dispersion amongst equity indices is more prominent than ever before. It's worth taking a look at the history of Chinese A-shares. The total market capitalization of China A-shares was less than 10 billion RMB when it started in 1990; it went up to 10 trillion RMB by end of 2006; and by 2015 it stood at 50 trillion RMB. By mid-December 2021, there were 4662 A-share companies with total market cap of 92.4 trillion RMB, in line with China's status as the 2nd largest economy in the world. The first 15-years of A-share development was quantitative growth in fits and starts, while the second 15-years was more of a qualitative transformation that cemented A-share market's role in the financial system. The top 20 listed companies today are very much different from those financial, petrochemical, and heavy industry companies 15 years ago. Now we see more new energy, advanced manufacturing, and consumer companies in the top tier, reflecting Chinese economy's structural improvement and industry advances.

In global market, FED announced in Dec meeting to reduce monetary loosening policies with potentially 3 rate hikes coming in 2022. BOE also moved policy rate from 0.1% to 0.25% which is the first rate hike amongst major CB's since the start of pandemic in early 2020. ECB had a more cautious tone, promising to continue bond purchase activities when the Pandemic Emergency Purchase Program expires in early 2022. BOJ kept monetary policy unchanged at -0.1%, while PBOC decreased RRR by 0.50%, and raised FX Reserve Ratio by 2%. In this backdrop, we see USD becoming more volatile, with long bond rates dropping and strong US equity markets.

IMF research showed that global public and private debt rose 28% in 2020 to a total of 226 trillion USD. The global Debt to GDP ratio is now 256%, with developed countries' government debt to GDP ratio increasing from 70% in 2007 to 124% in 2020. IMF highlighted the challenge as finding the right fiscal and monetary policy mix in this high debt, inflationary environment.

China's economy is poised to become the largest in the world in coming years. Looking at the historical examples, we note that what helped US to achieve its top economy status was the entrepreneur spirits by the many entrepreneurs that drove tech innovation, social progress, and national contributions across many industries. In China, the key challenges of weak demand, shocked supply chain, and soft expectations. The focus next year is about stability and steady growth, with particular attention to safe supply chains for food, energy, and strategic materials. The old playbook of "real estate & infrastructure spending + government + indirect financing" is being replaced by the new and higher quality playbook of "tech innovation – industry – financial market."

Rosefinch's vision is to "sustainably create value" for our investors, our staff, and our shareholders. First of all, we must identify the big theme of our times. In the last 14 years, Rosefinch has grown into a sizeable asset manager with industry research and investment framework. We're now actively engaging in the theme of 3060+, and finding the right market-leading companies with the true entrepreneur spirits. **As we identify more of these future stars and grow with them, we become more confident that our vision of "to sustainably create value" will indeed be valuable and sustainable to the society.**

Covid is morphing into flu; the pharmaceutical policy response needs to change according to the shifting environments.

The Covid-induced city-wide lock-down in Xi'an again showed our ability to dynamically control the Covid-spread is the most important public health topic. Dr Zhang WenHong said: now is the most difficult moment in our fight to fight the Covid virus. The global view is that we can gradually return to normal life as the world improves our ability and confidence in dealing with the virus. Rosefinch Health team believes the Europe & US policy may be relying on self-test with Pfizer pill, where most infected patients can avoid serious symptoms, thereby avoid taking up too much medical resources, and morph the Covid into another flu.

Recently, the whole biopharmaceutical sector, especially the Hong Kong shares had large drops. The trigger points were the results of 1st round of pricing negotiations by the National Healthcare Security Administration, and the risk of Biden government listing Chinese biotech companies in sanction list. These events caused investor to question the logic of drug innovation business model in China and the logic of internationalization of Chinese drugs. And once the secondary market questions the logic, it will lead to contraction in the primary market and cause drop in funding liquidity for future new drug developments. New drug development is a high-risk business, and must have high reward to justify risk capital investment. If the pricing mechanism of finished product is not sufficiently rewarding, then the patent or data protection become meaningless. As Chinese economy shifts towards more technological innovation and higher quality developments, biopharmaceutical sector is a great candidate where Chinese products can contribute to global higher-quality living. **If the global environment is becoming more complex and unfriendly, the pharmaceutical policy response must also change according to the shifting environment.**

The four stages and three themes of carbon-neutrality; innovation is the best engine for development

One of China's 2035 goal is to grow per-capita GDP to the average level amongst developed countries. To reach this goal, the average annual growth rate needs to be between 4-5% in the next 15 years. It's therefore reasonable and indeed necessary to achieve 5% growth in a normal year. When a single quarterly growth rate dips below 4%, it'll be important to increase counter-cyclical policy measures. The December 8-10 Central Economic Work Conference in Beijing highlighted the policy priorities for next year. With CCP's 20th congress taking place next year, it's important to maintain steady and healthy economic environment, stable social environment, and positive political environment. The policy driver will be economic stability, with preference on front-loading of stimulus policies, and more caution on constricting policies.

The Rosefinch TMT research team sees some mega internet companies have accumulated huge cash surplus and impressive penetration across the industry value chain. Some recent surprise dividend payment announcement is a sign that the company understands better its business boundaries, which may reduce profitability or efficient, but will also reduce policy risk. Digital economy is and will be the key theme going forward, and the financial market is taking up more central role in the economy. How will financial market support the real economy, and how will the digital economy integrate with the traditional economy will be core questions to answer.

We also want to highlight carbon-neutrality as the key theme going forward. China's policy has clarified that its important to build up power-capacity for the new energy first before phasing out traditional energy capacities. The new energy capacities will be exempt from energy quotas for the local government, giving them more freedom in pursuing such structural changes. One byproduct of Carbon-neutrality approach is carbon credits. In Europe, Carbon-credit was 30 EUR per ton last year – and it went above 90 EUR per ton in Dec 2021. Goldman estimated that if Europe charges carbon-footprint-

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tax on Chinese exports, it'll add about 35 billion USD or just under 8% of China's total export value to EU. Photovoltaic sector can be an active part of China's energy transformation. For example, if we just deploy solar panels on 1% of global desert, it may satisfy our current basic electricity needs; or if China add solar panels to all rooftops, it will generate 10 trillion KWh. Based on today's technology and cost level, photovoltaic energy can take up the crucial role of energy transformation. It is also an area where China has strong competitive advantage: China's photovoltaic sector is technologically superior with a complete supply chain. According to International Energy Agency, currently the photovoltaic energy cost is cheaper than most new coal-fire or gas-fire electricity generation stations. Photovoltaic energy therefore is a great value for electricity-generation. In the last year, the photovoltaic industry chain were not prepared for the surging demands from the 3060+ initiatives, resulting in sharply higher silicon cost and assembly costs, which in turn decreased demand. The future industry developments must hold back upstream cost increases, remove low-quality production capacity, and promote photovoltaic applications across the board. The key point must be the lower cost of the photovoltaic industry, only when it's cost-effective can the photovoltaic industry take on the role in energy transformation. We believe in the next 40 years of achieving carbon-neutrality, there will be four phases and three key themes. The first three phases will work towards building new electricity infrastructure that utilizes the new energy. We expect this to be done between 2040-2050. The final phase is to incorporating green hydrogen energy into the carbon-reduction initiatives. The three themes that benefit from the 3060+ are: photovoltaic, energy storage, and hydrogen energy. These themes have tremendous potential under the overall 3060+ policy target. We will go into them in more details in subsequent research publications.

Success depends on riding the right theme; A-share is the arena for the structural long bulls.

As we close the year, investors usually talk about the past year's performance and next year's opportunities. On the one hand, China's domestic asset management market has huge potential and higher expectations. As economy transforms, the financial market should also focus on the household's long-term capital. On the other hand, from investment perspective, "success depends on riding the right theme than having individual wisdom; and it's more important to pick the right time than having specific tools." These were words from Chinese philosopher Mencius. The right theme in the right time will come from higher quality developmental themes like dual circulation; carbon-neutrality; digital economy; bioscience, etc. These themes will drive the market for the next 3-years, 5-years, and beyond. A-share market is the arena for the structural long bulls. As an investment management company, we focus on products and companies. We look at company's strategic vision, and how it contributes to social well-being. It's important to start with the right companies, and then go into industry analysis, corporate competitions, valuation models, etc. We are also consciously growing our capacity before our AUM size, so our growth is always orderly and effective. We look forward to working with you in 2022 ahead!

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