

Embrace the Growing Pains — Let Them Come



Dear Investors,

“We know the past but cannot control it. We control the future but cannot know it.” Standing at the threshold of a new year, this remark by Claude Shannon, the father of information theory, feels more profound than ever.

The year 2025 marked a dual breakthrough in the restructuring of the global order and the transformation of technological paradigms. Global markets advanced amid volatility and change, as the surge of AI, shifts in geopolitics, and the rotation of economic cycles intertwined to form a complex yet magnificent landscape.

The current rally in overseas capital markets can be traced back to October 2022, with the launch of ChatGPT. Its core driver has been the surge in AI capital expenditures by the “Magnificent Seven” tech giants. Entering 2026, market expectations for such spending have climbed to an astonishing USD 500–600 billion.

Behind this massive figure lies **a profound transition of AI from the virtual to the physical world**. The Atlantic has described the U.S. reindustrialization process, driven by AI, as encompassing large-scale data center construction, the restructuring of semiconductor supply chains, and the global export of cutting-edge technologies—painting a future where technological strength is deeply intertwined with national competitiveness.

Scaling laws continue to advance, and progress in the technology sector remains exciting. We believe that China’s computing power supply will very likely expand further in 2026, though **it may still fall short of the growing demand from domestic models. As such, computing power remains a key area of focus**. Overseas, China’s supply chain continues to demonstrate clear comparative advantages, and along the trajectory of technological advancement, opportunities within China’s supply chain remain abundant.

This urgent demand for infrastructure is now extending from computing power manufacturing into the energy sector. Jensen Huang has likened AI to a “five-layer cake”: at the base lies not chips, but energy. Without electricity, there are no data centers, and without data centers, no “AI factories.” Above energy come chips and systems, infrastructure and software, AI models, and applications.

The exponential growth in computing demand is not only driving a surge in electricity consumption at data centers, but also triggering a revolution in power supply architectures. NVIDIA's single rack power consumption may leap from hundreds of kilowatts to 1 megawatt, fundamentally reshaping energy supply models. Elon Musk has described energy as the only true “hard currency,” suggesting that future global competition will center on the ability to acquire and convert energy.

China holds unique advantages in this domain: rapidly declining costs of renewable energy, a well-developed power market, and technological innovations in long-distance transmission are opening both domestic and international opportunities for energy transition enterprises. Coupled with policies aimed at curbing excessive competition, these factors are creating tangible opportunities for related companies.

A similar industrial logic is emerging in commercial aerospace and space-based solar power. Despite existing technological and cost bottlenecks, the underlying market dynamics reflect a global demand for China's formidable manufacturing capacity and cost-reduction capabilities. While domestic competition remains intense, the global competitiveness of Chinese manufacturing is irreplaceable. From a long-term perspective, investors should **focus on companies transitioning from “China champions” to “global champions,”** capturing the resonance between “China supply” and “global demand.”

That said, **while the technology sector as a whole may not yet exhibit widespread bubble characteristics, vigilance is still required against localized overheating.** In an environment of high valuations, elevated market shares, and strong margins among leading players, shifts within the industry could lead to significant divergences in expectations. Investors should maintain a forward-looking perspective, focusing on companies that sustainably create social and economic value, and avoid blind momentum chasing. The phase of indiscriminate investment in technology assets may have ended; going forward, selection will become increasingly rigorous. Only those companies capable of converting technological prowess into real profitability will endure.

Beyond AI, China has also achieved landmark breakthroughs in innovative pharmaceuticals. The industry has entered a “co-creation” era, where domestic innovative drug solutions have evolved from being “optional” to becoming “essential” components of multinational pharmaceutical pipelines. Benefiting from advances in biotechnology, breakthroughs in translational medicine, and efficiency gains from AI and automation, **new targets, therapies, and frontiers are continuously emerging on a global scale.** Based on the cycle of technological revolutions, this trend is likely to persist for years—albeit through a long and winding path, with a clearly upward trajectory.

Over the medium to long term, the barriers to innovative drug development will inevitably rise, particularly in global clinical development. **A deep understanding of clinical needs, coupled with forward-looking or differentiated innovation, will be essential for long-term survival.** Meanwhile, multinational pharmaceutical companies are shifting their business development strategies toward longer-term value considerations, becoming

more open and active. This includes strengthening synergies with core therapeutic areas to enhance competitive moats, securing positions in emerging technology platforms, and mitigating patent cliff risks through licensing and M&A to build pipelines of potential blockbuster drugs.

However, the business model and valuation characteristics of innovative pharmaceuticals inherently involve significant short-term volatility. Periods of market dislocation may present rare and compelling entry points for high-quality companies—moments that long-term investors can find particularly rewarding.

To align with the times is to respect the cycles. On one side, AI technology is advancing at a breathtaking pace; on the other, the global environment is becoming increasingly complex. On one side lies the vitality of market economies and entrepreneurial spirit; on the other, the arduous task of deepening structural reforms. As the opening year of China's 15th Five-Year Plan approaches, both breakthroughs and frictions are inevitable. Risk premiums in capital markets may remain low, while AI and the energy revolution compete for attention—making short-term volatility in 2026 unavoidable.

The year 2026 will be critical for China's efforts to break free from deflationary pressures. The Central Economic Work Conference has set the macro tone as “seeking progress while maintaining stability and improving quality and efficiency,” with more proactive fiscal policy and moderately accommodative monetary policy to continue.

At present, we are witnessing a shift from “investing in things” to “investing in people.” Through initiatives such as the “two RMB 10 trillion” programs, transfer payments to lower- and middle-income groups are being increased, and gaps in public services between urban and rural areas are being addressed. As Professor Liu Shijin (刘世锦) has suggested, building a “consumption powerhouse” should stand alongside the goals of becoming a “manufacturing powerhouse” and a “financial powerhouse.” This is not only essential for macroeconomic balance, but also for fostering a more supportive environment for technological innovation.

In essence, human history may be a grand exercise in survivorship bias. From the industrial revolutions of the past two centuries to today's generative AI, progress has often been driven by a small group of pioneers whose repeated attempts ultimately shaped the course of history. Today, **China possesses a vibrant ecosystem of market participants and entrepreneurs—one of its most valuable assets in global competition.**

As investors, Rosefinch Fund Management remains committed to humility, curiosity, and continuous exploration. We strive to understand industries from the perspective of long-term structural trends, to grasp the core competitiveness of outstanding companies, and to empathize with exceptional entrepreneurs. Only in doing so can our valuation be grounded, and our conviction strong enough to act decisively with foresight.

Rosefinch has been fortunate to grow alongside China's economic rise and the expansion of its technology enterprises. This brings with it a profound sense of responsibility—to improve ourselves while creating value for

our clients. In the year ahead, as the tides of change surge forward, opportunities and challenges will coexist. We will continue to deepen our industry expertise, stand on the shoulders of giants to assess the future objectively, and maintain both acuity and discipline amid market complexity—“pruning the weeds and nurturing the flowers.”

On this journey, however long, we will walk alongside you, patiently awaiting the fragrance of value.

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