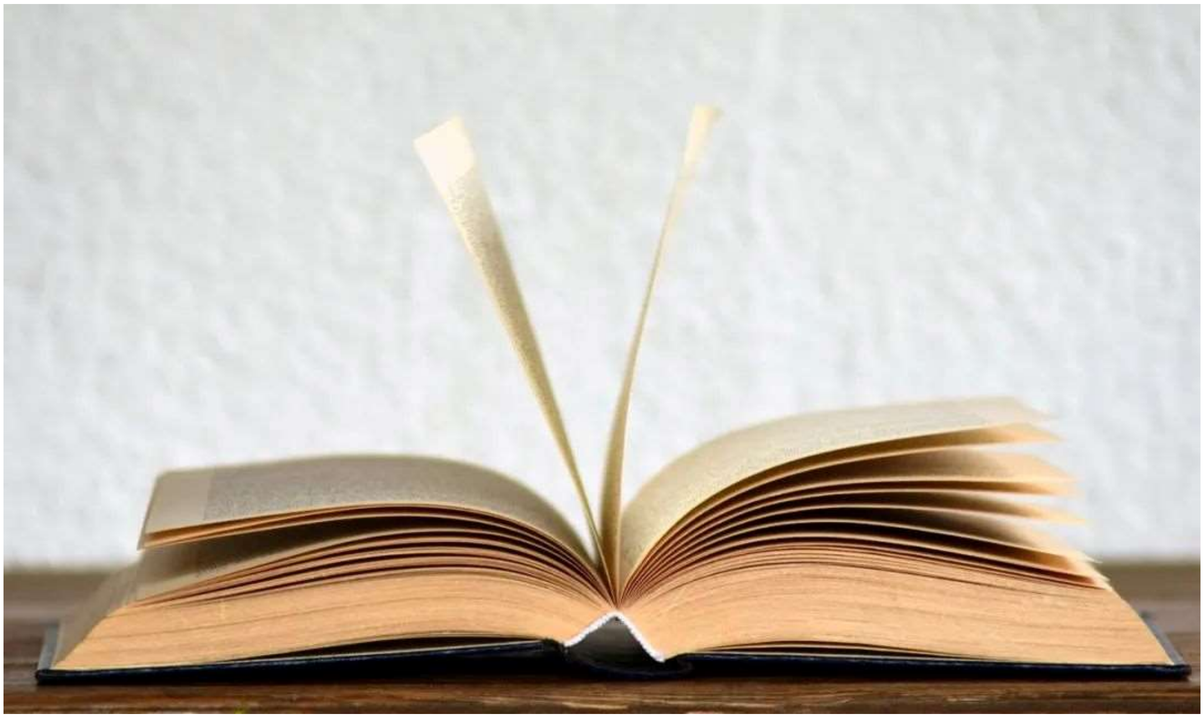
Rosefinch Research | 2022 Series # 34

CIO Thoughts – 2022 October



We invited Rosefinch Co-CIO Mr. Yuejun Liang to share his thoughts for our 3Q investor report. We asked: what are the differences between now and the sell-off in April this year? Where are we in the market cycle – where is the pendulum now? With the changing macro environment, how to find the investment opportunity? Please find his thoughts below:

Mr. Yuejun Liang

During the 3rd quarter, after the May-June recovery, the market entered into another downward trend. We had already reduced our total exposure in late-June, so with the market level coming lower, there are more compelling value investment opportunities. We therefore revised higher our total exposure by the end of

September. **Right now, we believe the correction that started from July 2022 has largely run its course.** Both SSE50 and CSI300 have reached new lows for the year, SSE composite and Chi-Next are also approaching their respective April lows.

From the macro fundamental perspective, the April low was on a number of shocks including severe supply chain interruptions due to Shanghai Covid restrictions, global energy shocks from Ukraine conflict, inflationary pressure, and accelerated FED hikes. While the September macro picture is also challenging, they are not as shocking as April. In the latest data releases, we're starting to see impacts of various monetary policy tools. The September social financing and credit growth continued from the August uptick, showing signs of sustained improvement. Both the quantity and quality of the growth have improved. We see continued and active support from government policies in the 4Q, which should stabilize real estate financing and continue the recovery in social financing and credit growth.

From valuation perspective, as of Sep 30th, the total A-share's PE(TTM) is 16.2 vs end-of-April's 15.2. A-share's daily volume contracted to as low as 600 billion RMB. The last time volume was this low was back in 2021 in March/April period. Back then, market saw sharp selloff after the Jan/Feb 2021 rally. The main causes of the low volume back then were lack of market confidence and general sidelining of investors. While the current correction still has some uncertainty in terms of timing, the risk is more manageable at current levels. The completion of the 20th CCP party congress has removed some uncertainties, with more stabilizing economic policies expected ahead.

The global situation remains complex as Ukraine conflict continues and inflationary pressures remain. With further FED hikes, non-USD depreciates, and US mid-term election gets underway, there are much geopolitical risk. In this environment, we can see China calling for stabilizations and responsible behaviors in the global stage. The onshore market has reacted to the range of global risks, without which A-share is unlikely to be near April lows right now.

Overall, we see China's current monetary and fiscal policies as more stimulative, providing relatively large liquidity to the capital market. The low onshore equity market level is more of a reflection of myriad of uncertainties. **In this situation, Rosefinch's approach is to focus on bottom-up analysis and capture structurally attractive long-term investment opportunities that don't overly rely on market-timing.**

When we look at the various investment opportunities, the best structural ideas are those related to the 3060-theme of Carbon-Peak by 2030 and Carbon-Neutral by 2060. The 3060-theme has firm demand-increases in coming years, many extends for multiple decades. We also see very active supplier capital expenditures, which is in sharp contrast to general lack of capital investments in the economy. There are therefore many investment opportunities in the market.

For Rosefinch, we will continue applying our industry value-chain research approach, and position for the long-term trend in the 3060-theme area. **We noticed that given the recent market corrections, many companies underwent substantial adjustments which give them very attractive valuations not for 4Q but also for 2023. We're now in a very attractive area for long-term investment and have started to increase our portfolio exposures accordingly.**

We hope that by sharing Rosefinch's views, in a small way, we add value to your day.