

Rosefinch Research | 2023 Series # 10

Practice Advancing with Focus



US financial market remains fragile.

Every global rate hike cycle has its victims. In March, we saw a run on the Silicon Valley Bank which triggered a series of global aftershocks, with Credit Suisse its most prominent victim so far. After SVB, FDIC quickly took over and promised to repay all depositors; FED rolled out Bank Term Funding Program; and SNB orchestrated the take over of CS by UBS. Thankfully, the SVB closure did not turn into another Lehman-moment. FED did continue hiking in March, albeit by just 25 bps. The high interest rate's pressure on the US financial system remains. And even if risk appetite returns, the SVB episode will leave a lingering shadow on the US financial conditions.

Aside from the twin goals of inflation and employment, risk management has become a more important topic. After almost 30 years, the US and European central banks are again seeking the right balance between price stability and financial stability. If the balance is not achieved, their respective economies will sink into stagflation. As for China, the US and European recession will bring downward pressure on exports. And with US and European assets' risk premium rise, China has more room to deploy fiscal and monetary policies to support domestic demand.

Recently, China announced another 0.25% cut on the RRR, which released about 500 billion RMB of medium to long term capital. The China monetary policy report for 4Q22 clearly highlighted the goal to steady sustainable support for the real economy. So far from the Jan and Feb data, economy is still in a weak recovery mode. Market is now looking at long-term strategic outlooks of different sectors, especially

in light of the geopolitical situations. The recent headlines about ChatGPT4 and Tesla's PLAN3 brought up new worries about the intense competition within the various industries.

Intense Competition is the rule for the advancement of manufacturing industry.

From Rosefinch's perspective, the industries with huge growth potential in medium to long term will naturally attract various resources: **intense competition therefore is the rule and not the exception for manufacturing business.** Competition is an effective and essential mechanism to reduce or remove lagging companies. Competition is the raw energy for the market.

Take one industry that Rosefinch follows closely as an example: photovoltaic industry. In the evolution of the PV industry, there were multiple episodes where excess capacity existed. In each case, those companies that embraced competition worked incessantly to upgrade their production, management, and service offerings. The result speaks for itself as market leaders became world leaders, and they also became true leaders in technological innovation. **The best companies can grow quickly in competitive environments – we can even say there's no growth without competition!**

When it comes to the shifting sands of geopolitics, it's worth noting that the fundamental logic of globalization lies in leveraging each other's strength, serving the global society's advancement, and sharing the benefits of globalization. Companies that engage globally are also developing a "global local" approach, where they service the local communities and improve local employments. At the same time, companies must also be prepared to face global competition and restrictions. The key to long-term success is the company management team's spirit of "practice advancing with focus."

At Rosefinch, we focus on discovering core and critical companies who are driving the mega trends of 3060 and digital economies. While the asset prices are reflecting a lot of the external uncertainties, we'd focus on the industry research where we stand with the industry visionaries to search for the future development direction. In time of high uncertainty, we'd focus on what we can control: identify the best entrepreneurs' vision and skills, evaluate the relative competitiveness of the companies, and invest where we have a 60%-70% chance of winning. Our investment is measured in life cycle of companies, and not necessarily the shifting macroeconomic environments.

The great manufacturers must become global manufacturers.

In the latest China data, the Feb manufacturing PMI was 52.6%, or up 2.5% from Jan. The data supports the theme of recovery in manufacturing activities. Premier Li Qiang highlighted that "at any time, China must not lack manufacturing." In his recent news conference, Premier Li shared 3 main focus areas for the government: 1) establish development thoughts focused on people as the center; 2) concentrate resources to have high-quality development; and 3) continue to deepen economic reforms. As the central government's focus shifts away from the roughly 5% GDP economic number towards quality of life for the people and quality of economic activities.

Premier Li went on a fact-finding trip with the first stop in Hunan Province's major manufacturing centers of Zhu Zhou and Chang Sha. During the trip, he stressed that real economy, especially manufacturing is the foundation of China's economy. Even as overall situations change, we must remain resolute in expanding our manufacturing prowess. This means focusing on upgrading, optimizing, and greening the manufacturing activities; increasing domestic independence of high-tech industries; developing new emerging industries; and accelerating domestic manufacturing and domestic branding.

In March, Europe announced the "Net-Zero Industry Act." Rosefinch believes EU is still steadfast in its push towards carbon-neutral. The Net-Zero Industry Act is more of a push for more control on the supply chain, and not specifically targeting at China. This may be viewed as European response to the US Inflation Reduction Act. Based on historical data, European and US PV installed capacity is about 30% of total, though accounting for the most profitable markets. Given the current trend of de-globalization, the supply restriction policies, and the expected recessions, market is becoming more concerns about the PV global demands. The PV industry suffered headwinds before: it went through expanding domestic demand, developing advanced manufacturing capacity, and reducing cost. This time, the challenge is that after price-parity, domestic manufacturers must move abroad and become global players in terms of logistics and management. Some of the PV market leaders have actively prepared for this scenario by establishing European or US partnerships and practicing global supply chain management. Following the "going abroad" movements from natural resources and construction sectors, China's strong manufacturing sectors must face the same calling. **Only by meeting and overcoming the global manufacturing challenge can China's strong manufacturers become the respected global titans in our global developments.**

In April 2020, Chinese government listed data elements separately in the market-oriented factors for the first time. In the era of digital economy, Rosefinch believes that since the production is mainly based on the development and utilization of data, then the core resource is data. As a new factor of production, data has become as important as labor, capital, and land; but it has its own particularity, which means two firsts for human beings: instead of obtaining resources from nature, humans are generating their own resources; and these resources become more valuable as they are used.

The technology represented by AI has further improved the production efficiency function. Generative AI is driving the rapid adoption of AI, which increasingly looks like a next-generation all-purpose technology. The traditional industries are waiting to be "revolutionized by AI", just like waiting to be "revolutionized by Internet" in the past. This has triggered a sense of urgency for global companies to quickly formulate their AI strategies. Nvidia, for example, has announced that it is continuously improving the design of software and hardware in response to the development needs of AI, and providing new business models. The AI industry is developing towards higher computing power, lower overall cost, and lower usage threshold.

The U.S. Department of Commerce once again announced that 28 Chinese companies, including CPU chip core companies, have been included in the entity list. Vice Premier Liu He emphasized in his survey at the beginning of the month that the development of the integrated circuit industry must take advantage of the new national system and make good use of both government and market forces. China is entering the age of AI with a large amount of data, world-class persistent entrepreneurs, excellent artificial intelligence scientists, and a government that actively supports AI development.

Long-term research and accumulation of expertise are pre-conditions and foundations of investment.

Rosefinch believes that in view of the current market performance with frequent theme rotations, investors should be prepared in the following aspects:

- 1) **Make a forward-looking plan.** We have been monitoring artificial intelligence and satellite fields which have fairly certain growth directions. Their stock price performances exceeded our expectations recently. This serves as a reminder that once we are certain about the future outlooks, actively position for it.
- 2) **Be patient and maintain independent judgment.** For forward-looking technical fields, screening out excellent targets requires deeper industrial chain coverage capabilities, filtering prospective companies from subtle differences, and once you spot them, move firmly and then wait patiently for the market to reach the same conclusions.
- 3) **Be respectful of the market.** If you miss the move, sum up your experience and learn from it. In the process of each round of thematic changes, it is actually the process of the market screening outstanding companies. What's sad is not to miss one opportunity, but to dwell on it and then miss the whole future. So be respectful of the market and learn from the market.

In order to judge if a tree will become the sequoia of tomorrow, we must start by studying the forest. Long-term research and accumulation of expertise are the premise and foundation of investment. At the same time, we must also be mindful of our blind spot and remain vigilant so that we do not miss opportunities in our most familiar fields.

At Rosefinch, we work continuously to improve the quality of our research team. We're shifting from the common model of "key stars make the organization" to the Rosefinch model of "the organization makes the stars." By building up our capability, expanding our eco-system, and promoting our interactions, we hope to further enhance the organization as well as our team members' personal development goals.

As Rosefinch continues to grow, our vision remains the same: we want to empower our shareholders, staff, and investors to sustainably create value. How can we help you to create value today?

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

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