Annual Review and Outlook by Jian Zhao, PM of Environmental Protection Industry Fund

From 2022 Annual Report

Looking ahead to 2023, our Fund sees more opportunities than risks in the market overall. First, the external environment is gradually improving on a marginal basis. On February 1, the Federal Reserve announced a 25bp interest rate increase, raising the target range for the federal funds rate to 4.5%-4.75%, and expected that there will still be room for two more interest rate increases in the future. In General, the Fed's interest rate increase is coming to an end, which is bullish for risk assets. Although the Russia-Ukraine conflict is still ongoing, the impact on upstream commodities has been very weak. Second, with strong domestic policies, the economic growth is expected to gradually rise again. From Q4 of 2022, a number of policies have been implemented by the central and local governments one after another. With the new government in place, more policies are expected to be landed during the Two Sessions. Moreover, the number of people infected with COVID-19 epidemic has been peaking all over the country, people’s travel is recovering rapidly, and consumption is expected to be better than the last year. In general, GDP growth in 2023 is expected to be higher than the 3% in 2022. In addition to economic policies, capital market reform has also taken another step. In early February, the CSRC and the stock exchanges sought public comments on the draft rules of the main systems involved in the full implementation of the registration system for the issuance of shares, including the Administrative Measures for the Registration of Initial Public Offerings of Shares, which is expected to be fully implemented in the middle of the year. The implementation of a full registration system is conducive to the long-term healthy development of the capital market and the boost of investor confidence. Third, the overall liquidity is abundant. In the process of economic recovery, the overall liquidity is still rather easy; in addition, foreign capital is expected to flow back and become a part of Chinese assets. Fourth, the overall market valuation is not high. After the adjustment in 2022, except for some sectors, the valuation of most of the market sectors is not very high, and the cost performance is in a fairly appropriate position.

Our Fund remains relatively bullish about the new energy and environmental protection sectors in 2023. First, in the context of global energy scarcity and energy transition, the overall new energy demand is expected to exceed expectations continuously with demands remain high in both medium and long term. The growth rate of demand in new energy vehicles, energy storage, and photovoltaic industry in 2023 is expected to exceed 30%. Second, in the new energy-related industry chain, Chinese companies are gradually growing into global leaders, with some leading companies significantly outperforming their competitors within the industry in terms of profitability.

In the next stage, our Fund will adhere to a bottom-up stock selection strategy, as well as a relatively balanced portfolio formation strategy, so as to look for high-quality companies with clear business models, outstanding competitive advantages, relatively definite trend of growth, and relatively reasonable valuations in new energy and other pan-environmental protection fields. We will primarily focus on new energy vehicles, energy storage, photovoltaics, and other related sub-industries.