Annual Review and Outlook by Chao Dong, PM of Contrarian Investment Fund

From 2022 Annual Report

Looking back at the year 2022, the capital market fluctuated repeatedly amidst various ever-changing factors, which was rather like the "Chaotic Era" in the novel "The Three-Body Problem." Factors like the development of the domestic COVID-19 epidemic, the trend of global geopolitical conflicts, and the liquidity environment were akin to several of the "suns" in the three-body civilization. With repeated and drastic changes, these factors are leading the capital markets into great fluctuations in different directions. For example, just about the development of the COVID-19 epidemic, there were several rounds of roller coasters: the situation of COVID-19 epidemic control was stable at the beginning of 2022, but the market was significantly affected by the COVID-19 epidemic by April. In July, the market rebounded sharply when the epidemic was under control. After that, the epidemic situation was uncertain in Q4, and the prevention and control were suddenly lifted at the end of the year......

With the rapid and dramatic changes in external factors, such as the Russia-Ukraine conflict, hikes and slumps of global commodity prices, interest increases of the Fed, and the adjustment of domestic real estate policies, there have been great volatility and adjustments in the capital markets in 2022. In our opinion, it is very promising. On the one hand, as the COVID-19 prevention and control are lifted and rapid peaking of the number of infected people, the impact of the epidemic on the economy will diminish little by little based on overseas experiences. The economic activities affected by the ongoing epidemic in the past three years are bound to recover gradually and steadily. At least, the repetitive huge impacts in 2022 will not happen again; From a macroeconomic perspective, there was a weak overall recovery trend in 2022. Spurred by the lifting of COVID-19 epidemic prevention and control, adjustment of real estate policies, and potential effect of stable growth policy, the economy will improve moderately from the low in an earlier stage. Of course, the weakening trend of exports and the decline in real estate investment are the variables that restrain the potential economic recovery, which still need to be observed for their impacts. Finally, the liquidity environment is expected to be relatively mild and stable. With the overseas interest rate increase cycle gradually coming to an end, the liquidity environment is expected to be relatively mild in the context of a weak economic environment recovery.

Against the big picture of relatively stable external variables, including epidemic trend, macroeconomy and liquidity environment, we are hopeful to see a relatively stable period of capital market in 2023. Investment opportunities will also be more diversified compared with that of the past two years.

Specifically, the key investment directions to focus on in 2023 include:

1) In the manufacturing sector, we maintain our high expectations on medium and long-term investment lines, including energy structure transition, replacement of high-end products with domestic products, digital and intelligent transformation, and integration of traditional industries. In particular, energy transition (new energy and traditional energy), replacement of high-end

products with domestic products (semiconductors, etc.) and military industry are what we believe to be the directions with the most certain boom and the most investment opportunities in the short and medium term, and will be the key sectors for the portfolio deployment. Centering on the new energy sector, more attention needs to be paid to the structural opportunities that come with the technological changes, competitive landscape changes and industrial cyclicality in new energy and other sectors in 2023;

2)Relevant cyclical assets benefiting from the macroeconomic recovery. In particular, there may be hope to see the synergy effect between improved demands and the inventory cycle in some areas due to the ongoing destocking. On the other hand, as property sales and investment are still in the downward cycle, it may restrain the strength of the recovery of cyclical products in the related investment chain. Generally, we believe that there will be investment opportunities for structural cycle improvement in industries with some macroeconomic correlation, such as industrial metals, real estate, real estate completion chains, building materials, chemicals, chip design companies, and automobiles;

3)Consumer services industries that have been heavily impacted by the COVID-19 epidemic over the past two years are likely to have sustained operational reversals in 2023, including liquor, duty-free products, education, etc;

4)Other relevant assets that fit the contrarian investment style.