

## **Annual Review and Outlook by Xiang Ma, PM of China Universal POEs Vitality Fund**

From 2022 Annual Report

Looking ahead to 2023, there are many positive factors in the Chinese economy. The 20<sup>th</sup> National Congress of the Communist Party of China reached a consensus on high-quality development. The Central Economic Work Conference at the end of the year had determined a policy direction that is beneficial to the economy, and the adjustment of the COVID-19 epidemic prevention policy has further released the potential of domestic demand. In terms of the overseas situation, although the Russia-Ukraine conflict is still ongoing, its impact on the global supply chain has passed its peak. Based on expectations, commodity prices will not get out of control just like the last year. The Fed's interest rate increase has not stopped, but its end is predictable within the year, and its suppression of the global market will pause as well.

We are optimistic about the stock market in 2023. This is not from an expectation of revenge spending after the COVID-19 epidemic has passed its peak, or from an obsession with strong economic growth in China, or from a belief that our high-quality transformation can be achieved overnight. Our optimism derives from confidence in long-term growth. In general, we tend to believe that China's economy will recover steadily in 2023. "Stability" means durability, which gives us the confidence in healthy growth for the next year, the year after the next year, and even longer thereafter. Returning to the origin of stock valuation, market value is equivalent to the discount of future earnings, while declines in stock value reflect investors' concerns about the long-term outlook, as was the case with two sharp pullbacks in 2022. Looking forward, what we should expect most is not about how much GDP growth can be resumed, but how the enterprises riding out the storm in various adversities can regain an upward momentum, and how to recover investors' confidence in economic growth and corporate profits and make evaluations and discounts based on long-term growth.

Based on the analysis above, we believe that we have a favorable market in this year for growth stocks:

I. For the stably growing sectors with steady and sustainable features, such as pharmaceuticals, consumer, Internet industries or the like, their fundamentals will experience a bottom reversal, their valuation system will be reshaped and then return, and their allocation is highly cost-efficient in 2023.

II. In big science sectors, including computer, new energy, military, semiconductor, new materials and some other industries, opportunities always come with challenges. China's high-quality development and strategic security and the progress of these industries are inseparable. They often had surprisingly well performances in the past few years, and there will be endless industrial and investment opportunities for a rather long time to come. The challenges lie in the rapid changes in the technological industry: we have to catch up with the internationally advanced level in some respects, while the difficulties and hardships therein, combined with the ever-changing

international situation, are bound to cause industrial fluctuations and bring ups and downs in companies. In some fields, we have to explore the trend of international cutting-edge technologies. The risks from path selections and iterative destruction therein will inevitably cause highs and lows in relevant companies for them to develop their own specialties. There are lots of sub-industries in big technology sectors, which will be further differentiated this year:

1. We will be relatively cautious about industries that have risen greatly in the past 2 years and have witnessed a surge in the number of investors and industrialists ;

2. We will pay more attention to industries that are going through a downturn and are reshuffling, such as semiconductors, but we will also wait for their industry cycles to show clear signs;

3. We take a positive attitude towards newly emerging topics, such as Information technology application innovation, industrial software, and new photovoltaic technologies. We will take more research efforts, plan first and move later to discover new leading industries.

III. We cannot make a once-and-for-all judgment on sectors with cyclical features and price elasticity, because the slope of economic recovery this year is still uncertain, and we need to further observe the output gap level and price elasticity. Therefore, we will reverse the trend and arrange some cyclical growth stocks in positions with low performance and valuation, but we will control the total positions.

There should be opportunities in the stock market in 2023. We will step up our research and investigation efforts, highlight the key points and seize opportunities to the best of our ability, and we will strive to make positive contributions to the net value of the fund.