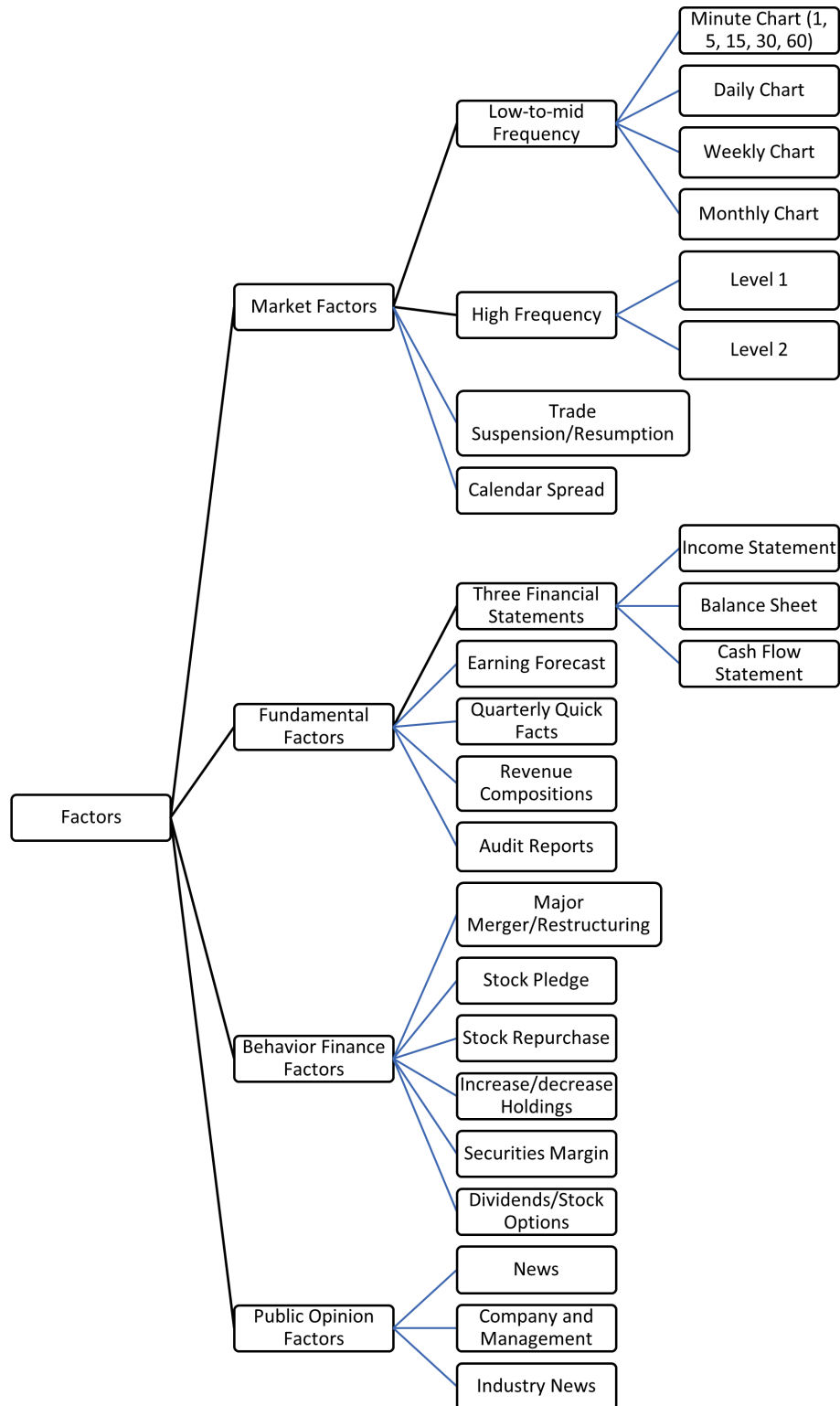




Institutional investors often ask about our investment philosophy for due diligence purpose. In this article, we systematically introduce the Goldenwise's stock selection system to facilitate everyone's understanding of our method and make our investment process transparent to investors.

In short, we neither use traditional fundamental research method, nor do we use the traditional quantitative method. The method we mainly implement is a quantamental method with our quantitative research aspect focusing on the behavior finance factors.

I believe everyone should have already understood our fundamental research method (i.e. value investing). And our quantitative method can be illustrated by the following figure:



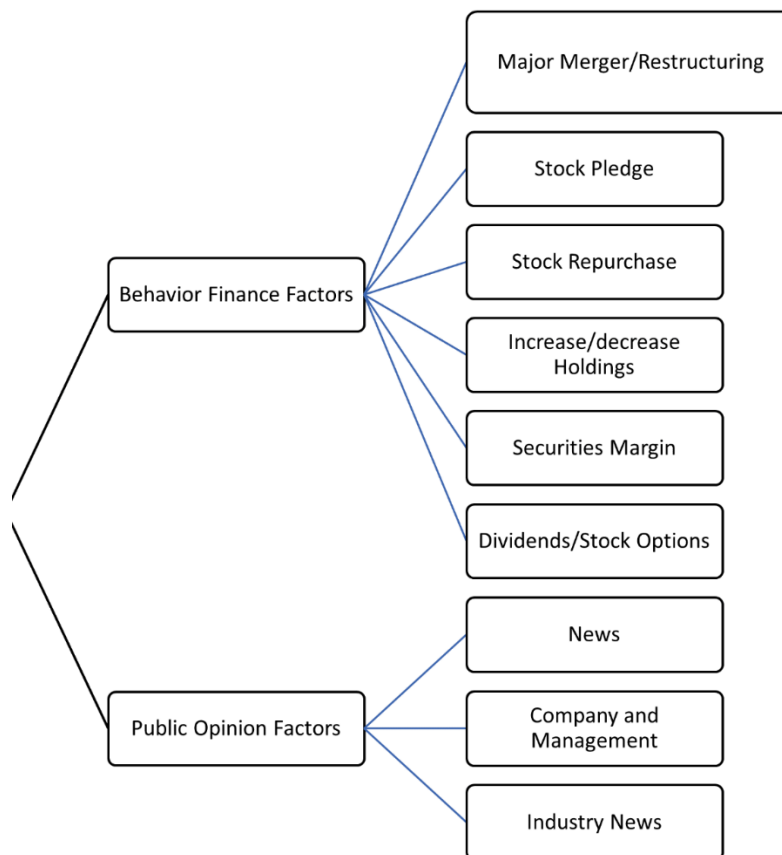
The above quantitative factors can be divided into three categories: volume and price factors (i.e. trading volume and price); fundamental factors (financial data); behavioral finance factors (news, public opinions, strategic investment, share holding increase or decrease, analyst recommendations, etc.)

Based on our experience of investing in the global market, it is difficult for using the price/volume factors to generate excess returns in the U.S. market in recent years. However, it is still effective in the Chinese market. As time pass by, the effectiveness of price/volume factor continues to diminish. Using fundamental factors may not as effective as using simple value investing method. In our opinion, those fundamental factors can only be used as a tool for efficient stock selection or a method of diversification. On the other hand, we believe using behavioral finance factors can improve our investment process. As different investment companies use different ways to research behavioral finance factors and the methods are still evolving in global markets, competition is relatively small.

Choosing among three different types of quantitative factors makes the quantamental strategies of each company different. Unlike traditional price/volume factor investing, the return correlations of different companies' strategies are low.

In our investment philosophy, investment is the trust of the people who manage money. Also, we believe the fundamental factors are far more important than price/volume factors. Therefore, for our

quantitative research, we only focus on studying the behaviors of smart people in the financial market, that is, the behavioral finance factors listed below:



For example, using this method, we uncovered opportunities such as Shede Spirits Co., Ltd. (the controlling shareholder has changed to Fosun Group), Center International Group Co., Ltd. (Longi Green Energy Technology Co., Ltd. made strategic investment to the company), Beijing Tongrentang Co., Ltd. (management changes), Beijing Wandong Medical Technology Co., Ltd. (Midea Group Co., Ltd. made strategic investment to the company), and Centre Testing International Group Co., Ltd. (Management changed, placement of professional managers into the top management team). Also, we are currently buying two Hong Kong companies (the names will be disclosed after our purchase completed). The logics of investing in those two companies are similar to the listed examples above. Using our quantitative system, we can immediately dig out the information that meets our requirements the best from the massive news feeds/databases. Then, our fundamental team can follow up quickly with thorough analysis. This process improves synergy between our quantitative and fundamental teams, combing each team's best potential. As a result, our holdings include both medium and long-term high-quality companies and short-term event-driven stocks.

In the hedge fund industry, there is another investment company whose method is similar to ours, namely Marshall Vace. Marshall Vace is a Europe investment company which manage more than USD \$50 billion assets using quantamental method. Their introduction is as below:

Marshall Wace

Founded in 1997, the company is a well-known European hedge fund company specializing in global long/short equity. Marshall Wace has offices in London, New York and Hong Kong.

The company offers two distinct investment methods, which can reinforce each other. First, the long/short equity investment based on stock analysis and research. Second, the more advanced and systematically structured Alpha generating Marshall Wace TOPS. Through MW TOPS, analysts can analyze the stocks in the market and make decisions through information flow.

Marshall Wace's quantitative research system, which based on behavioral finance, leverages the investment ideas recommended by experienced sell-side analysts.

The Chinese market is relatively immature, the mismatch between information and stock prices exists due to information transmission/interpretation delays and daily stock price movement limits. Especially in response to some events such as changes in controlling rights and strategic investments, the stock price cannot reflect those events immediately. In other times, market may overreact to such information due to the herding effect or exaggeration from the media. In such market, the ability to screen and filter information in a timely and effective manner is crucial. It usually requires a combination of quantitative and fundamental methods to achieve good results. The research may include

but not limited to public opinion analysis, natural language processing of information, big data, and fundamental research. We focus on quantamental analysis and will use it as our core strategy in the future. We believe this strategy, which based on the combination of fundamental research and behavioral finance, will have good prospects in the Chinese market.