

Linear Capital 2024Q4 Newsletter

Feb 5, 2025

Dear Friends & Partners,

Thank you for being supportive along the way. We are very glad to present this letter to summarize our thoughts and recent activities.

--- Observation and Insights ---

Prologue: Crossing the "darkness before dawn", with hearts toward the rising sun

In our previous quarterly letter (Q3 2024), we described the market downturn and pessimism at that time as the "darkness before dawn". Now, with the end of Q4 2024, looking back over these three months, policy interventions and market reactions started to show positive signs. The three major markets - the real estate, stock, and foreign exchange markets - have generally reached a "halt in decline" situation by the end of 2024. For example, daily trading volume in the stock market gradually recovered from around RMB500 billion to nearly RMB1 trillion. However, a complete reversal of sentiment and a definitive rebound will still require more time and continuous effort.

At this moment, we have already entered January 2025. At this key juncture, we would like to briefly review the main developments in Q4 2024 and share with our LPs our outlook for 2025 and beyond.

Part 1: Macroeconomic review and outlook

1. Policy implementation and market stabilization outcomes in Q4 2024

1) Real estate market

- **Review:** Under the combined effects of multiple policies such as the relaxation of purchase restrictions, adjustments to down payment ratios and interest rates, etc., the real estate transaction volume in first-tier and some second-tier cities saw a slight recovery by the end of 2024, and overall housing prices began to stabilize. Third-tier and fourth-tier cities remain under pressure, but the rapid decline seen in Q3 has eased somewhat.
- **Subsequent observations:** If fiscal and monetary policies continue to provide support, coupled with the gradual easing of local government debt pressures, the real estate market is expected to stabilize further and maybe show gradual improvement in 2025. However, the likelihood of a significant "volume and price increase" is relatively limited.

2) Stock market

- **Review:** In Q4 2024, the A-share market experienced a structural rebound, with technology, consumer, and some big finance sectors standing out in performance. Market pessimism about the "lost xx decades" was somewhat corrected.
- **Subsequent observations:** The global liquidity environment remains influenced by factors such as the U.S. presidential election and geopolitical issues. There was some return of foreign capital in Q4, but establishing a long-term and stable trend of capital inflows will require clearer signs of a recovery in China's economic fundamentals.

3) Foreign exchange market

- **Review:** By the end of 2024, the RMB exchange rate remained relatively stable, and various counter-cyclical adjustment tools were used around the National Day Holiday to prevent further depreciation.
- **Subsequent observations:** International market confidence in China's economic growth and policy continuity will directly affect the medium-term to long-term direction of the RMB exchange rate. If China's internal economic momentum strengthens in 2025, the exchange rate is expected to remain stable within a range, or even show gradual appreciation. At the same time, it is clear that the government is highly determined to stabilize the exchange rate.

In addition, both the stock and foreign exchange markets will continue to be indirectly affected by U.S. economic and political policies, as well as the uncertainties surrounding China-U.S. relations. For example, if President Trump were to implement a new round of tariff hikes, it remains to be seen whether the Chinese government would adjust its

policy stance on the current exchange rate. However, it can be said that the trend of "halt in decline" has largely been established.

2. Stimulating consumption: the government's next key focus

- **Q4 results:** Some cities have already piloted the issuance of consumption vouchers, encouraged promotions in the automotive and home appliance sectors, and improved the cultural and tourism market environment. These measures have achieved some positive results during the year-end shopping season.
- **2025 outlook:** If the effects of economic "support" continue, and residents' expectations for future income and employment become more stable, the momentum for a consumption rebound will be further unleashed. This is expected to become a key area that policymakers will focus on in 2025. With the real estate, stock, and foreign exchange markets having successful "halt in decline", rebuilding consumer confidence will inevitably become the top priority. China cannot rely solely on exports to address current economic pressures. Although inertia means that exports remain a relatively easy focus in the short term, if domestic consumption fails to recover quickly, the sustainability and vitality of economic growth will be significantly limited.

3. Subjective view on the likelihood of China's economic rebound in the next 1-5 years

The following probability distribution is largely based on personal feelings and predictions. The future is full of uncertainties, and I belong to the relatively cautiously optimistic group.

Time Frame	Rebound Probability	Brief Interpretation
Within 1-2 years (short-term)	50%	The 2025-2026 period is the key observation window where a rebound is most likely to occur.
Within 3-5 years (medium-term)	40%	If the economic recovery in the short term does not meet expectations, the rebound may be delayed until 2027-2029.
More than 5 years (long-term)	10%	The likelihood of an extremely pessimistic scenario is low, but we still need to be cautious of external black swan events or internal structural issues.

Based on the actual performance in Q4, the market "halt in decline" has been preliminarily validated. In an optimistic scenario, the probability of a noticeable rebound within 1-2 years remains at 50%.

Part 2: Positive signals at the micro level

1. High-tech enterprises: the "new forces" breaking through against the trend

As an early-stage fund focused on frontier tech, our core mission is to "cherry pick" the most promising and outstanding companies amidst the wave of technological innovation. In our previous Q3 letter, we mentioned that many tech teams demonstrated resilient innovative energy during the "darkness before dawn". The recently concluded Q4 has once again confirmed this: especially in innovation-driven cities like Hangzhou, young entrepreneurs have consistently delivered impressive results.

The following high-tech companies, which received significant attention and praise from both domestic and international media in Q4, left a particularly strong impression:

1) Game Science

- **Representative work:** Black Myth: Wukong, which is regarded as world-class AAA work.

2) Unitree Tech

- **Focus:** Smart robotic dogs
- **Progress:** Commercial testing has been conducted in new scenarios such as logistics and security, capable of performing various inspection and transportation tasks. Compared to overseas competitors, it still has a cost advantage, while its performance is impressive.

3) DeepSeek v3

- **Field:** World-class AI large language models
- **Progress:** Significantly optimized the cost and speed of model training, with performance in multiple benchmark tests close to international top level, while the investment is only 5% of what Meta spends to train an open-source model of the same scale.

4) Rokid AI AR Glasses (Linear Portfolio)

- **Product:** AI Glasses
- **Q4 progress:** Launched a newly upgraded version of the hardware, further reducing

mass production costs, and began collaborations in both domestic and international B2B scenarios (such as industrial training and museum exhibitions). It has also started exploring the C-end entertainment device market.

5) Coohom (Linear Portfolio)

- **Business:** The world's largest home decoration rendering service and 3D model library, also providing simulators for global models.
- **Q4 progress:** Signed content supply agreements with multiple gaming companies and VR/AR studios, continuously enriching the 3D material library, and planning to further expand into overseas markets.

6) DeepRobotics

- **Business:** Mass-producible, reasonably priced quadruped robots (similar to Boston Dynamics products).

The common characteristics of these enterprises include:

- Young entrepreneurs and founding teams with strong technical backgrounds;
- Passion for innovation and with international perspectives;
- Effective use of China's supply chain and talent density advantages;
- Achieving a "win-win" in both technology and cost.

Part 3: Looking ahead to 2025 - seizing the dual opportunities of "policy + innovation"

1. Policy aspect: from "halt in decline" to "expanding domestic demand and stabilizing growth"

As the fiscal pressure on some local governments gradually eases (for example, we understand that provinces like Guangdong have shown improved fiscal performance in Q4), we anticipate more positive actions in 2025 in the following areas:

- Further tax and fee reductions or social security benefits to encourage companies to increase wages and expand employment;
- Deepening the coordination between monetary and fiscal policies to alleviate local

debt issues and unlock more investment and consumption potential.

2. Technology and industry: moving toward globalization 2.0

- **Domestic market recovery:** If domestic demand receives a substantial boost in 2025, the demand for technological products and services will also increase.
- **Overseas expansion:** The new generation of entrepreneurial teams generally possesses an international mindset, and 2025 may see more companies that are "born global". They will leverage China's supply chain advantages and cross-border collaboration opportunities to provide innovative, cost-effective products to global customers.

3. Investment strategy: focus on core technologies and team execution

- **Steady positioning:** Given the ongoing uncertainties in the macro environment, we will closely monitor policy and market trends, carefully selecting deals with high technological barriers, large market potential (especially overseas), and outstanding team execution capabilities.
- **Balance of short term and long term:** In the short term, we favor technology applications that can be quickly implemented in scenarios of consumer recovery; in the long term, we will focus on deep innovations such as AI software, AI hardware, accelerated computing, high-end manufacturing, and frontier tech that may have a disruptive impact on industrial structures.

Conclusion: moving toward a new milestone

From the “darkness before dawn” described in Q3 2024 to our Q4 review at the start of 2025, we find ourselves navigating the very bottom of this period. Although our time at this low point may not be brief, the downward trend has essentially been halted, and both policy and market forces are seeking a new equilibrium. Accompanying this development, more young tech entrepreneurs in Q4 once again proved their resilience and creativity, continuously producing world-class innovations at lower costs and with greater speed.

Looking ahead to 2025, we still face multiple challenges, including global volatility

and geopolitical risks. However, a stronger economic recovery in China over the next one to two years remains a reasonable expectation. For young teams that possess core technologies and a global vision, now is a golden opportunity to showcase their capabilities; and for us, with a focus on early-stage frontier technology investment, this may well be the ideal moment to uncover high-quality opportunities that are both promising and attractively priced.

Let us embrace the brand-new year of 2025 together and forge ahead to unlock more possibilities.

Best regards,

Harry

--- Investments ---

We closed 4 new deals in Q4 2024. Please see below for details.

- **Sapient**
 - Sapient focuses on developing advanced algorithms with natural intelligent agent architectures and modular designs. By combining technologies such as Meta-Learning, Tree Search, Neural Turing Machine (NTM), and Monte Carlo Tree Search (MCTS), Sapient addresses the challenges of scalability, planning and reasoning capabilities, complex task solving, and training costs in large-scale language models (LLMs).
- **ArrayX (阵列格物)**
 - ArrayX is dedicated to leveraging next-generation AI to reshape segmented 2C (consumer) scenarios. Currently, it is exploring the social and mental health sectors, using AI to enhance matching efficiency in the dating space and effectively address the mental growth challenges faced by adolescents.
- **Whatif**
 - Whatif is developing a small-scale intelligent robot aimed at providing emotional companionship, social interaction, and daily life documentation. The goal is to

create a robot that is not only highly functional but also stylish and engaging, making it an integral part of users' lives. By leveraging China's supply chain advantages, the company aims to make emotionally supportive robots with limited functionality widely accessible and attractive on a global scale.

- **Everdent (久痕)**
 - Everdent was initiated by Wang Yuan, former Vice President of NetEase and head of the NetEase Research Institute, and offers a personal data-centered office assistant and platform.
 - For the first time, AI based on large models provides the ability to understand various forms of unstructured data and integrate both structured and unstructured data to produce output. A significant portion of office workers' and knowledge workers' tasks involve consolidating information and generating content, and AI can now provide assistance that previous technologies could not offer.
 - The founder and core team were involved in developing several successful products at NetEase, including Cloud Music, Yanxuan, and Shufan, from the ground up. They are long-time trusted partners.

Highlights of Holdings

- Linear's portfolio company [Deep Principle](#), a scientific AI chemistry and materials enterprise which Linear led the seed round investment, completed Seed+ round financing, exclusively invested by Hillhouse Ventures.
- Synthetic biology company [NewPro](#) completed a multi-million dollar seed round financing, exclusively invested by Linear Capital.

--- Other things you may be interested in ---

Content and Media Reports about Linear Capital

- We continued to post interviews and analysis focused on AI applications, as well as [opinion pieces](#) and [interviews with portfolio companies and influencers](#) written by Linear team, with the purpose of broadcasting our investment philosophy and stories.
- At the end of 2024, we published a review article [Taking Gems From Fire — Linear Capital 2024 Year-End Review](#).
- Linear's angel-round portfolio company Horizon Robotics was listed in HongKong Stock Exchange at the end of October. Linear Capital was interviewed by influential industry media platforms including [36Kr](#), [LatePost](#), and [IPO Insider](#), which is known for its professional IPO coverage.



- Linear Capital's Founder and CEO Harry Wang was interviewed by 36Kr's "Waves", expressing Linear's [thoughts on the current state](#) and [prospects of USD funds](#) in China.
- Linear Capital's Founder and CEO Harry Wang was again named among the [2024 Top 50 Early-Stage Investors and 2024 Top 20 AI and Big Data Industry Investors in China](#) by Chinaventure.com.cn. At year-end, Zero2IPO released its 2024 China Private Equity Investment Annual Rankings, with Linear Capital continuing to be listed among the [2024 Top 30 Early-Stage Investment Institutions in China](#).

Events We Hosted and Joined

- In mid-October, Linear Capital held its [2025 AGM in Hangzhou](#). In November, we co-hosted [a sharing session for overseas expansion businesses with Airwallex in Hangzhou](#). In December, we jointly organized an overseas expansion-themed sharing session with Linkloud community.

Best regards,

Linear Team