Linden Rose Investment

First Quarter of 2017

Letter to LRI Clients

Dear partners:

For the quarter ended March 31st, 2017, the return for Linden Rose Investment (LRI) Portfolio was 15.94% on a consolidated basis versus 6.07% for S&P 500 index, which represents a relative performance of 9.87%. Due to the difference in timings of deposits/withdraws and putting the cash to work, some accounts were up more than 15.94%, some less than that. In the long run, we believe the performance of all portfolios will converge. One thing is for sure that this kind of relative performance may not sustainable. We would like to remind our investors to keep realistic expectations, as we will have some quarters that our relative performance could be negative. Our focus is not on short-term performance, but rather long-term and sustainable growth of our clients' portfolios. Our goal is to beat the benchmark by 3-5% annually in the long run.

The Purpose of our Letter

The primary objective of this letter is to provide details of our long-term investment philosophy behind the investment selection process. We expect our partners to fully understand the nature of our investment process as long-term portfolio returns are the fruits of this philosophy. Over the short term, the stock market is irrational and unpredictable (though some may think otherwise). Over the long term, however, the market adequately reflects the intrinsic value of companies. Investment returns will eventually follow if the stock selection process is sound and rational. We treat you the way we would want to be treated if our roles were reversed. It is crucial that we are in the same boat with you, our dear clients. Remember, we are partners.

A Thousand Miles Begins With a Single Step (千里之行始于足下)

LRI was founded in Texas on January 14th, 2016. At the beginning, It took us three months to prepare documents and obtain Certificate of Registration from Texas State Securities Board. The first client (a close friend and a big thank you) came on board in

April 2016. Since I had no financial related degree, nor formal financial working experience, lots of guts and trust are needed from our dear clients to let us manage their hard-earned cash. I am so grateful to our clients for the trust and we worked very hard to fulfill our responsibilities. It also took us three months analyzing the first potential investment. Then we spent another three months to optimize the process and research workflow. So far, we have analyzed 16 companies deeply in details. I quit my IT job and started working for LRI full time since September 1st, 2016. Feng Peng fully joined LRI since January 1st, 2017, after he quit his CFO position of a public company. We also obtained Certificate of Registration from New Jersey Security Board in February 2017. We have a big dream and realizing the dream needs lots of determination, commitment and focus. We are 100% committed to our partners and we are laser focused on our work.

Investment Process

We are value investors. We treat a stock as the partial ownership of a real company. We buy a stock when the price is much lower than its intrinsic value. What is the intrinsic value? The intrinsic value is the sum of all future discounted cash flow (DCF) of a company. All value investors talk about intrinsic value, but I seldom see they really calculate it. Yes, future is hard to predict, DCF calculation is hard to be perfectly accurate. But we are determined to do the work. Even though no one can perfectly predict the future, we try our best to come up with a rough number of a company's value. Otherwise, how can we tell whether a stock is undervalued?

Here is our investment process:

1) Follow our research workflow to do a deep analysis on the company.
2) Review and discuss the company. Can the company pass our checklist test?
3) Use historical data and our deep understanding to do a 5-year cash flow projection and calculate the intrinsic value of the company.

4) Build a portfolio based on the degree of undervaluation and other factors.
5) Continuously monitor and adjust the portfolio based on key factors to optimize the portfolio.

Investment Philosophy

We are focused investors. Every time we complete research work on one company, we always ask ourselves one question: can we put 100% of our money into this one company and still sleep well? If the answer is no, we move to the next. If we were travelers coming from the future, we'd rather own one stock than ten stocks. The reason is obvious: if we know beforehand we will have a return of 15% a year in one stock, why do we own ten stocks to get 12% return a year? But the problem is no one can accurately predict future. Let's say stock A is undervalued by 45% and stock B is undervalued by 50%, can we confidently say B will definitely have a better return than A? We cannot. If we like both A and B and could not decide which one is surely better, we diversify. We diversify not for the diversification's sake. We diversify only because we cannot predict future 100% correctly. We diversify because we know our limit.

We focus on great companies. Warren Buffett always says: “Time is the friend of the wonderful company, the enemy of the mediocre”. Since we focus only on the long term, the choice is pretty obvious. If we can buy gems at reasonable prices, why do we spend time on so-so companies? We treat a stock as a company, as a business. We are not stock analysts, we are not macroeconomic analysts, we are business analysts. We do our research on the companies one by one. We focus on one company a time, then decide whether the company should be part of our portfolios.

It is interesting that when we look at the companies in our current portfolios, we find a pattern: almost everyone is a monopoly in its own industry. Apple captures 80+% smartphone profit share. Facebook is a global social network service company, a natural monopoly. Chinese people spend so much time on Wechat and QQ and

Tencent's influence can be felt everywhere in China. Amazon is the global e-commerce company, plus AWS, the #1 global player in the fast-growing cloud business. Alibaba is the #1 e-commerce platform in the world and owns the world's #1 online payment system Alipay, and Aliyun is the #1 cloud platform in China… JD is the #1 B2C e-commerce business in China and has the best logistics system in the world. Netease is the #1 email service provider and #2 online gaming company in China. What is even more amazing is these big companies are still growing at an amazing rate. Who said elephants can't dance? If we look at last year's revenue numbers, Tencent grew 48%, Netease grew 67%, JD grew 44%, Alibaba grew 53%, Amazon grew 27% and Facebook grew 54%. Yeah, Apple is not growing as fast as the other six for now, but Apple is entering into wearable and transportation businesses in the long run…When you are the only company in the world who can put hardware, software, and services together to give users the best user experience, together with $246 billion cash in hand, the sky is the limit in the long run for Apple.

Investing is like rolling a snowball. What you need is a long slope with very thick wet snow. I believe all companies mentioned above have both features: long slope ahead with thick snow. We just let them keep rolling and become bigger and bigger (focus on long term and let the money compound).

Conclusion

We live in a great era. Technology is changing the world at a fast pace. We are fortunate we are able to find and understand those fast growing companies. Now you understand why we feel so excited about our portfolios. We can not wait to get out of bed every morning to tap dance to work for you. We are continuously learning everything about our companies and future potential opportunities. We are constantly trying to optimize our portfolios for higher quality, more upside and lower risk. We really appreciate the opportunity to work for you. Without your support, we won't have the chance to work on the thing we'd love to do.

If you have any questions about your accounts, please feel free to contact us. You can either call us at (973) 841-7158 or email us at bing@lindenroseinvestment.com. If you know any friends who need investment advisory services, please refer them to us.

Stay hungry, stay foolish!

Thank you very much!

Yours truly,

Binglin Li	Feng Peng
Managing Partner	Managing Partner

April 6, 2017