Linden Rose Investment

Second Quarter 2017

Letter to LRI Clients

Dear Partners:

For the second quarter of 2017, the return for the Linden Rose Investment ('LRI') Portfolio was 13.12% on a consolidated basis versus 3.15% for the S&P 500 index. For the first half of 2017, LRI's return was 31.15% versus 9.35% for the S&P 500 index, which represents a relative performance of 21.81% above the S&P. Due to different timings of deposits/withdrawals and the timing of investment decisions, some accounts were up more than 13.12% in the second quarter, and some less than that. In the long run, we believe the performance of all client portfolios will converge. We would like to remind our investors that this kind of relative performance may not be sustainable. Past performance is not a guarantee of future performance and we may have some quarters with flat or negative relative performance. We would like our investors to maintain realistic expectations.

Quarterly Return

Quarter	LRI	S&P 500 Index
Q1 2017	15.94%	6.07%
Q2 2017	13.12%	3.15%

About Our Clients

In the second quarter of 2017, we continued to gain new clients and some existing clients put additional capital in their accounts. We are very grateful to our clients for their trust in LRI. We focus on providing our clients with the best service and the greatest value --- which is our company's mission. Our respected clients have put their hard earned money in our hands. Your trust will urge us to work hard for you.

About The Market

We firmly believe that the two major global economies, China and the United States, will continue to grow for a long time. Based on this assumption, we identified what we believe to be some outstanding companies and bought their shares what we believe are reasonable prices. We plan to hold these positions for a long time rather than frequently trade them (As Warren Buffet's Right-Hand Man, Charlie Munger calls it, 'sit on your ass investing'). We try to ignore the noise of the market, and focus on the operation of these companies. We will likely only sell them when their valuations are too high or our investment thesis was wrong. Buying a stock is buying a part of the company. We focus on the long term free cash flow of these companies, not fluctuations of the stock prices. We hope that our clients can understand and accept our "inactive" style and focus on the long-term as well, rather than checking daily fluctuations of the stock prices and making investment decisions for the wrong reasons.

Since we generated over a 30% return for the first half of the year, a significant part of the portfolio is in so-called high-tech stocks, which were very volatile recently. Therefore, our clients might have some concerns such as:

1. High-tech stocks rose so rapidly recently, is there a bubble like the year 2000?
2. Shall we take some profit and swap the high-tech stocks for some cheaper oil or financial stocks?

First of all, when we pick stocks, we did not target any specific industry. Other than staying out of pharmaceuticals and commodities, we have no industry or size preference.. If possible, we'd love to own small cap companies. Because in general, small companies have greater growth potential. Our current portfolio is the result of continuous research, comparison and screening. It is a combination of the least risks and most growing potential upside within our circle of competence.

Second, people familiar with 2000 IT bubble know that at that time as long as the company name was related to IT, the stock price soared. Many of them had no business model and zero sales. Today's high-tech companies have solid growth and real profits.

Third, in the short term, the stock market is not predictable. Let's use the NBA as an analogy. Assume that we are the owner of Chicago Bulls. Selling the best performing stocks in our portfolio and buying relatively low priced oil stocks or financial stocks is somewhat similar to selling Michael Jordan due to his outstanding performance and buying an unknown player. We know it's hard to find a great player like Jordan and it's hard to find a great company too. The most likely result of selling Jordan is to get him back at a higher price; similarly, the most likely result of selling a great company is to buy it back at a higher price! Moreover, if we sell a stock, we will lose the opportunity of compounding your funds, and our clients might end up paying 7+% for the capital gain tax at the year end. And are we certain that we can have 7+% gain from oil stocks or financial stocks in the second half of 2017?

Conclusion

By investing R&D in technology, our companies bring big changes to the world, greatly improve operation efficiency and change the lifestyle of regular people. They keep innovating, constantly widening and deepening the moat, and creating value for their shareholders. We are so excited to have the opportunity to invest in these great companies in our era. We will keep learning, understanding and applying value investing for our trusted clients. 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

August 6, 2017

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