Linden Rose Investment

Fourth Quarter 2019

Letter to LRI Clients

**Annual Return**

| Year | Linden Rose Investment | S&P 500 Index |
|---|---|---|
| 2019 | **57.82%** | 31.49% |
| *2018* | *-14.22%* | *-4.38%* |
| *2017* | *55.51%* | *21.83%* |
| *2016 2nd Half* | *18.38%* | *7.82%* |
| *Since Inception* | ***149.23%*** | *65.15%* |

**Dear Partners:**

For the year of 2019, the consolidated return of Linden Rose Investment ("LRI") exceeded 50% again as in 2017, reaching 57.82%, and the return of the S&P 500 index was 31.48% during the same period. The annual return of LRI significantly outperformed the S&P index by 26.34% in 2019. We are very pleased with the results, but apparently, any one year return over 50% is exception rather than normal. Our partners should not expect this kind of performance to repeat any time soon. We focus on the long-term return of our portfolio, not just a sharp increase in investment returns in one or two years. From its inception on July 1, 2016 to the end of 2019, the consolidated return of LRI was 149.23% (equivalent to an average annual compounded return of 29.81%), and the return of the S&P 500 index was 65.1% (equivalent to the average annual compounded return of 15.4%). When we founded LRI in mid-2016, we set a goal to achieve a long-term average annual return that beats the S&P 500 index by about 3-5%. So far, we have achieved this goal for the time being. We are satisfied with the investment performance of the past three and a half years and will continue to work hard as always.

What a great change in one year! At this time last year, due to the Sino-U.S. Trade War, the stock market had very high volatility, especially the Chinese companies listed in the U.S. market, many of which had fallen by 50%. Stockholders were in a low mood, busy selling stocks, and putting money into CDs or buying government bonds. In the 2018 annual letter, we said:

*"On the surface, we have a relatively big decline in 2018, but in the long run, 2018 gave us a good opportunity to initial new positions and adjust existing positions (I hope this will still be correct if we look back three years later). If we carefully review the companies we have, the current portfolio is in the best shape since LRI was founded. Only Pinduoduo is at the stage of tremendous growth and not yet profitable, while other companies in our portfolio are basically cash cows and their moats are expanding rapidly."*

Today, a year later, the prices of the stocks in the portfolio, such as Alibaba, Apple, Facebook, Google, and Pinduoduo have all risen sharply. Only Tencent has seen a smaller increase. We didn't expect that it only took one year instead of three years to prove we were right.

Looking back on 2019, it was not an easy journey. The impact of the Sino-US Trade War has been haunting "investors" in the market. Especially in September 2019, there were rumors that White House officials were considering delisting Chinese companies listed on the U.S. stock exchange. This made the investors holding Chinese stocks more worried. Since the beginning of the Sino-US Trade War in March 2018, we have firmly believed that a long-term trade war is not in the interests of both countries. When the largest and the second-largest economic powers are fighting, the rest of the world would suffer as well. Therefore, the trade war is not in the interests of the people of the rest of the world either. We always think that the leaders of China and the United States are intelligent enough to eventually sit down and find a solution acceptable to both sides. A few days ago on January 16, 2020, the first phase of the trade agreement signed by President Trump and Vice Premier Liu He also confirmed that our judgment two years ago was correct.

In fact, we do not pay much attention to these macro issues. From the perspective of long-term value investors, the trade war is just some noise on our way forward. We focus on our investment targets and strive to find great companies with good business models and great corporate culture. Why do you worry about the delisting of Chinese companies? If you think the stock you have is a piece of paper, and its value goes to zero with the delisting, you will of course be worried; if you don’t understand your investment target, and think that the public company is more valuable than the private company, you will of course be worried; if you don’t know the company’s management, and think that during the delisting process, the management will privatize the company at a very low price, you will of course be worried... But we think differently. When buying any stocks, we assume that the stock market will be closed for 10 years, and we will not sell the stock for 10 years. It doesn't matter if the stock market is open or not. It doesn't matter if the company is public or private. Because we invest in part of the ownership of the company. When we invest, we invest in people, we invest in the company's CEO and team. If you are not confident that the management will give you a fair and reasonable price during privatization, why do you even buy the stock? We have done our homework before investing in any company, and when the rumors of delisting appear , we can have the peace of mind and stay calm. Dear partner, the result of the investment is just a number, but behind the numbers, there are so much hard work and sweat behind it ...

Last year, we discussed a company in our annual letter - Pinduoduo. One year has passed, how is Pinduoduo doing?

When we wrote the annual letter last year, Pinduoduo's 2018 annual results were not reported yet. We said that "*We expect that the GMV for the whole year of 2018 may exceed RMB 400 billion*", and the actual result was 471.6 billion RMB.

Last year we mentioned that "*assuming the GMV reaches RMB 1 trillion in 2020*". This number now looks too conservative! In the third quarter of 2019 report, Pinduoduo's GMV of the past 12 months has reached RMB 840.2 billion, and it is almost certain that the GMV of 2019 has exceeded RMB one trillion. It is one year earlier than our estimate last year!

Last year we said, "*At this time, Pinduoduo's IPO gave us a chance to grow together with it. In the 'selling fakes' buzz after the listing, we started a position near $19. I hope when we look back after 10 years, we will think that this price is really cheap today.*" From the" New Year's Festival "in early 2019, the second phase of the "New Brand Plan", new electronic shipping labels, to the Old Shanghai Famous Brands New E-commerce Plan, Pinduoduo's new developments attracted many eyeballs. After encountering Alibaba's "Forced Exclusivity" challenge, Pinduoduo launched the "RMB 10 Billion Subsidiary Program" around June 18, which slowly changed the impression of "selling fakes" in 2018 to "cheap and good, so sweet!" in 2019. Pinduoduo holds the corporate value of "Ben Fen" and keeps evolving to meet the needs of users. It shows us how incredible the company would become in the eyes of the competitors by "doing the right thing" over time. Alibaba might have no other choice but to launch notorious "Forced Exclusivity". Of course, with the rapid growth of Pinduoduo, its stock price has also climbed to around $40. Looking back now, the price of $19 at which we initially built the position was also "so sweet" …

## 2020 Outlook

After the big run-up in 2019 and the 10 years bull market since 2009, some friends might ask: Is a bear market coming soon? Is it a good time to invest?

I vividly remember that when Linden Rose Investment started investing in mid-2016, this was the question asked by most investors. Due to the Brexit, the stock market plummeted in early 2016, which made many "investors" worried, and it was even more worrying that in November 2016, the United States would also have the presidential election. Now, the S&P 500 has risen by 65.15% since mid-2016, isn't this even more "worrying"?

We do not try to predict the short-term market. And we do not invest in the stock market index either. What we picked are the best companies in the market. In the long run, the values of great companies will continue to grow, and their stock prices will rise accordingly. Take Pinduoduo as an example, we estimate that the GMV of Pinduoduo will continue to grow rapidly this year, and we expect that its annual GMV may exceed RMB 2 trillion in 2020. How much is an e-commerce platform with RMB 2 trillion in annual GMV worth? A conservative estimate could be over $100 billion. In the next five to ten years, as long as there are no major surprises, it is highly possible that Pinduoduo will grow into another Taobao, and even surpass Taobao. The future value of Pinduoduo could be $200 billion, $300 billion? No matter what, it is much higher than the current $45 billion market cap. And we own several other high-growth companies like Pinduoduo in our portfolio. Dear partners, with such deterministic investment targets, why do we worry about the ups and downs of the stock market? Our experience tells us that the long-term return of our portfolio has nothing to do with the short-term performance of the stock market.

**Conclusion**

In terms of operations, starting from January 2020, the minimum investment for new customers in the future will increase to $150,000.

For non-qualified new customers, the annual management fee will increase to 1.75%.

For qualified investors (see the SEC Advisors Rule Rule 205-3 for the definition of "qualified investors"), we will charge a performance fee. For the annual return below 4%, we do not charge any fees. For any return above 4%, we will take 20% as the management fee (if the first year does not reach 4%, the second year must recoup the difference first before any new performance fee accrued). In short, if your capital isn't earning more than 4% per year from the last high water mark, then you pay no fees.

As always, we'd like to thank our investors for their continued support and trust. While in the short-term our results may occasionally be volatile, we know that over time, our profits will be worth it. If you have any questions, please feel free to contact us. You can either call us at (973) 841-7158 or email us at bing@lindenroseinvestment.com. Also, my WeChat ID is abyli333. We are always happy to meet new investors whom you think may benefit from our services, or who would like to learn more about our investment philosophy. If you know anyone who may be a good fit, please have them reach out.

Stay hungry, stay foolish!

Thank you very much!

Yours truly,

Binglin Li
Managing Partner

Feng Peng
Managing Partner

January 18th, 2020

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*LRI performance information for each year is based on the aggregate performance of all client accounts (existing and new accounts opened during the year at various times). All results contained herein reflect the reinvestment of all dividends and other earnings and the volatility of our investment may be higher than the index in the comparison. Performance of individual accounts may vary depending upon the timing of their investment, the effects of additions, and the impact of withdrawals from their account. LRI performance is computed on a before-tax time-weighted return (TWR) basis and is net of all paid management fees and brokerage costs. 2016 performance is from the period July 1, 2016 to Dec 31, 2016. The same period was used for both LRI and S&P 500. Performance above reflects accounts that are invested based on 'value' strategy. Please read our website at http://www.lindenroseinvestment.com to understand the strategy. Past performance is no guarantee of future results. All investments involve risk including loss of principal. The S&P 500 is an index of common stock prices and is generally considered representative of the U. S. stock markets. The index performance includes dividends but does not reflect any fees. The index depicted has not been selected as a representative benchmark to compare LRI's performance, but rather is disclosed to allow for comparison of LRI's performance to that of a well-known and widely recognized index. Performance results are unaudited and generated using LRI custodian's reporting functionality. LRI does not make any guarantee or other promise as to any results that may be obtained from using our content. No one should make any investment decision without first consulting his or her own financial advisor and conducting his or her own research and due diligence. To the maximum extent permitted by law, LRI disclaims any and all liability in the event any information, commentary, analysis, opinions, advice and/or recommendations prove to be inaccurate, incomplete or unreliable, or result in any investment or other losses.*