TELLCAP

Telligent Capital Management Ltd
Suite 3403, Tower One Lippo Centre, 89 Queensway, Admiralty, Hong Kong
Tel: (852) 3150-0888 Fax: (852) 3150-0777

August 1, 2019

Dear Friends and Investors,

15 Year Anniversary Letter

The Telligent's flagship strategy started trading in August 2004. This August marks our 15th anniversary.

$1,000 invested in the strategy at inception would currently be worth [redacted]

[redacted] We are glad to have added value to our investors.

Over the past 15 years, we as a team have had our share of successes and failures. We want to share some of the lessons we've learned from these experiences. Some of them are time-tested wisdom that has proven true again and some of them are newer lessons we've learned.

Lesson 1. Having the right investment time horizon is valuable

This is old wisdom that has proven true. The time horizon of the strategy is a combination of our time horizon as investment managers and the time horizon of our investors. Some of the most profitable periods for the strategy, such as 2009 and 2017, have come after periods of market weakness or crisis.

During those periods, the team focuses on fundamentals and patiently looks for opportunities. We are grateful that our investors have the long term perspective to allow us to take advantage of these periods while others are panicking.

Lesson 2. Be forward looking

In 2004, there was a general sense that China had already seen massive change and the most dynamic period had passed. GDP per capita had risen about 5x from $318 in 1990 to $1,509 in 2004. Today in 2019, per capita GDP is $9,771 and there is the same sense that China has already come so far and similar doubts about the future.

Looking at our portfolio today, many of these companies either didn't exist or were still in early stages in 2004. When we attended the [redacted] IPO lunch that year, there was tremendous skepticism in the room. Things that we take for granted, such as mobile payments, e-commerce, and the rise of the services economy have only emerged since. When we met with Chinese property developers early on, the more ambitious ones laid out a vision of nationwide scale. The successful ones would go on to be much larger than earlier envisioned.

Our investment portfolio 15 years from now will likely include companies that are only emerging today. Whether it's personalized medicine, ubiquitous computing or trends we haven't yet imagined, we need to be forward looking.

Lesson 3. Stick to investment process and discipline

While many Chinese businesses have grown faster and larger than expected, we have also seen many cases where excitement and hope have proven dangerous. Charles Ellis' book Winning the Loser's Game has influenced us for many years. He writes "The hardest work in investing is not intellectual; it's emotional." We agree completely.

One way we keep emotions under control is to rely on investment process and discipline. There is no perfect process or perfect people. We learn and improve the process with experience. Inevitably there will be stocks we miss or calls we get wrong even if we have an ideal investment process. Over time we have observed that sticking to our investment approach has increased our success rate by helping us manage emotions and reduce unforced errors.

Lesson 4. Focus on high quality businesses

Over the past 15 years, our biggest gains have come from finding and investing in high quality businesses. Quality can take many forms from having stable and robust earnings power the market has not appreciated yet to situations where management has positioned the company to benefit from opportunities in disruptive change.

There are many things we look at to determine quality. One indicator for example we like to use is pricing power. [redacted]

High quality businesses don't always last forever. Even [redacted] could face a change in consumer preference or palate. China is a very competitive economy with clever entrepreneurs. Profitable businesses often attract competitors which increase supply and can quickly change the economics of an industry. There are very few companies in the world that have unassailable moats.

A vibrant economy has both creation and destruction. Things can turn very quickly. We've seen small companies become big, and large companies fade away. We have to constantly challenge ourselves and evaluate if things have changed.

Valuation is an important part of that discipline. We take it as a signal for how the overall market is assessing the quality of the company. If we see things differently than the market, it could be an opportunity or a risk. One related observation is while valuation is important, stocks that appear cheap are not necessarily good investments. Many times, they have been value traps.

Lesson 5. Focus on the people

We invest a tremendous amount of time in meeting company management teams. Every year the team conducts more than a thousand meetings. Over the past 15 years the accumulated insights have become part of the institutional memory of Telligent.

When we meet with management, at a basic level it's to learn facts about their business and their strategy. At a deeper level our goal is to understand them as people. Valuable insights into their motives, incentives, and world view have come from the time we've invested.

While we've had the chance to invest with world class people we've also met some bad actors. With time and experience, we've gotten better at detecting and avoiding them.

Ultimately, corporate governance plays a huge role in our return as shareholders. Are they running the business sustainably for the long term? Does management treat shareholders as real partners? These are important questions.

As we look forward to the next 15 years, we wish everyone long life and good health. We are grateful to be entrusted with your capital. It's a responsibility we take seriously. There are tremendous opportunities, and if we do our job right, in the year 2034 we can again report back with good results.

Thank You.

George Lin Ching-Shan Lin