Turning Point Capital

Quarterly Investor Update
Q4 ~ 2019

"U.S Consumers Killed the Recession ?"

22nd January 2020

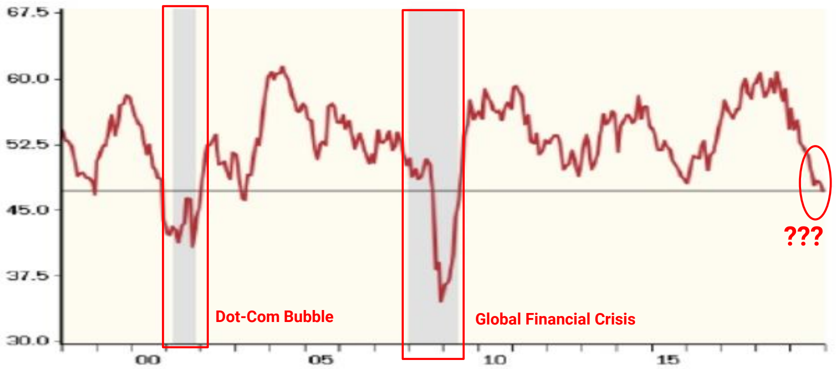
Turning Point Capital
Value Fund

Who We Are ?
- Long-biased Hedge Fund
- Concentrated Portfolio (Focusing on the Best Ideas)
- We are a Value Investor (Value Investing Strategy)
- We Invest Alongside You (No conflict of interest)
- We focus where others can't or don't see

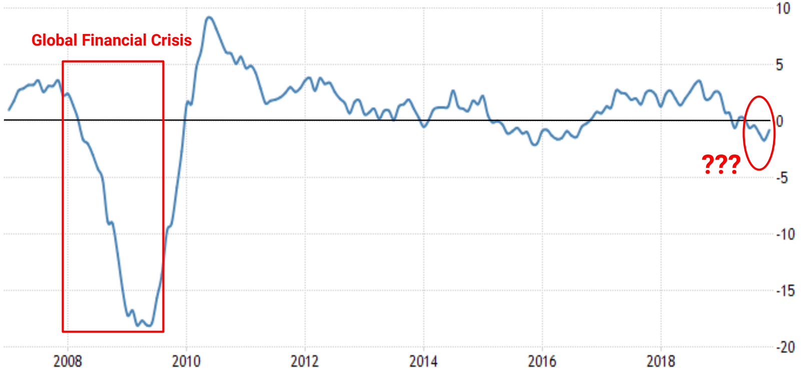
What We Believe ?
- Valuations, Balance Sheets, Cash Flows matter
- Fundamentals, Management and Incentives matter
- Volatility ≠ Risk Impairment of Capital = Risk
- If a business does well, the stock eventually follows

Panic and Sell Everything in the U.S ?

U.S ISM Manufacturing PMI Index



U.S Manufacturing Production Growth



Source: JPMorgan, Tradingeconomics
Red/Shaded Areas = Recession

~**U.S Consumers** accounts for ≈70% of total U.S GDP, creating a cushion against the **weak numbers** from the U.S Manufacturing/Corporate Investment sector (shown above).

~This results in a moderately growing U.S economy as **Consumers** are **solid** (see next slide).

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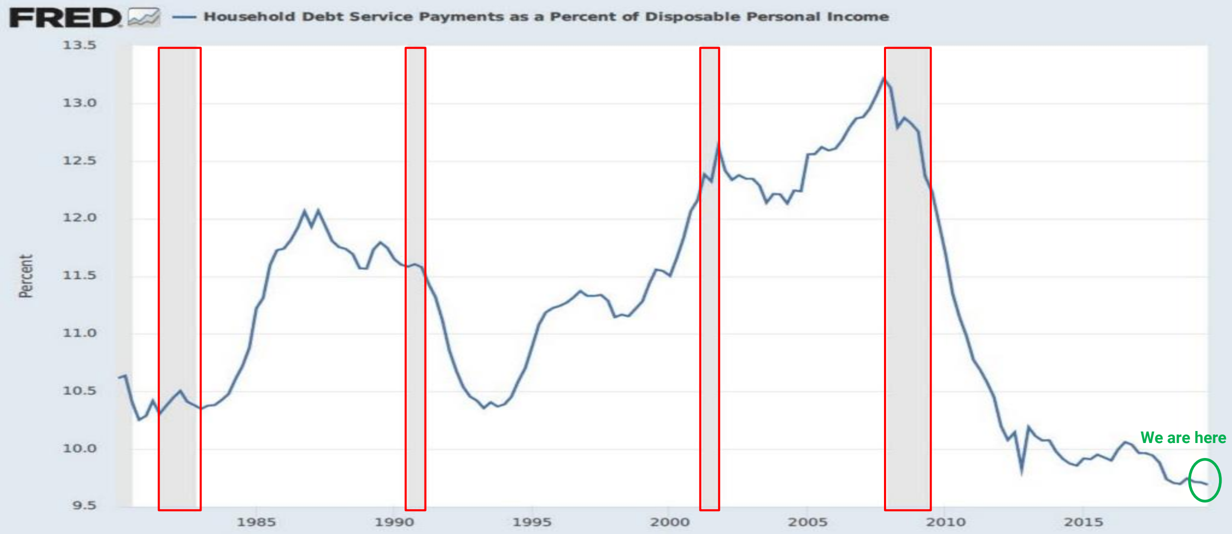
U.S Consumers Simply Too Strong ?

(Accounts for ~70% of U.S GDP)



Source: Federal Reserve
Red/Shaded Areas = Recession

~**U.S Consumers** is too strong to have a recession in the near term.
Their ***wealth*** is at all-time highs, ***wages*** are rising and ***employment*** is abundance.

~Most importantly, their **Debt-to-Income ratios are at 40-year lows** (chart above).
This shows that consumers are not leveraged (levered-up) during this economic expansion, unlike other expansion historically.

Result ? Creates a **very healthy support** for the U.S future economic activity.

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U.S Macro Model Still Favor Consumers

(Consumers = ~70% of U.S GDP)

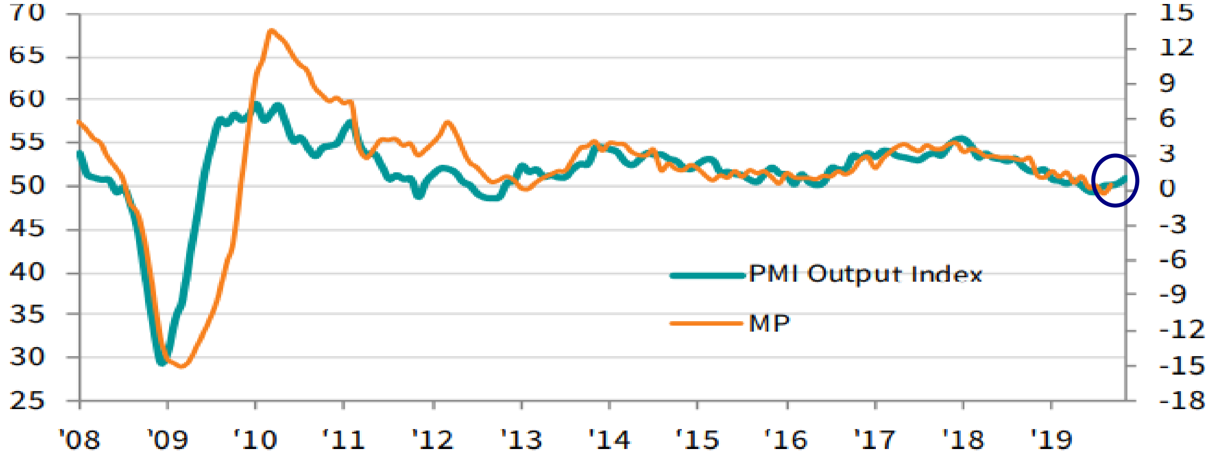
		Fourth Quarter 2019	Third Quarter 2019	Second Quarter 2019
Financial	Yield Curve	✖	✖	✖
	Credit Spreads	⬆	⬆	⬆
	Money Supply	●	●	●
Inflation	Wage Growth	✖	●	●
	Commodities	●	✖	✖
Consumer	Housing Permits	⬆	⬆	⬆
	Jobless Claims	⬆	⬆	⬆
	Retail Sales	⬆	⬆	⬆
	Job Sentiment	⬆	⬆	●
Business Activity	ISM New Orders	✖	✖	●
	Profit Margins	●	●	⬆
	Truck Shipments	⬆	⬆	⬆
	Overall Signal	●	●	●

⬆ Expansion ● Caution ✖ Recession

Source: ClearBridge, Federal Reserve, ISM, Bloomberg, ATA

~**U.S Business Activity** has slowed without a doubt, but the macro models/indicators suggest **U.S Consumers** are all in expansion territory. (shown above)

Outside the U.S ?
Global Manufacturing PMI Improving



Sources: J.P.Morgan, IHS Markit.

~With the **Global Manufacturing Sector** improving, we expect global economy to grow moderately.

~The improvement and growth re-acceleration will help **cyclical** and **value stocks**, which should bode us well since our portfolio consist of value stocks.

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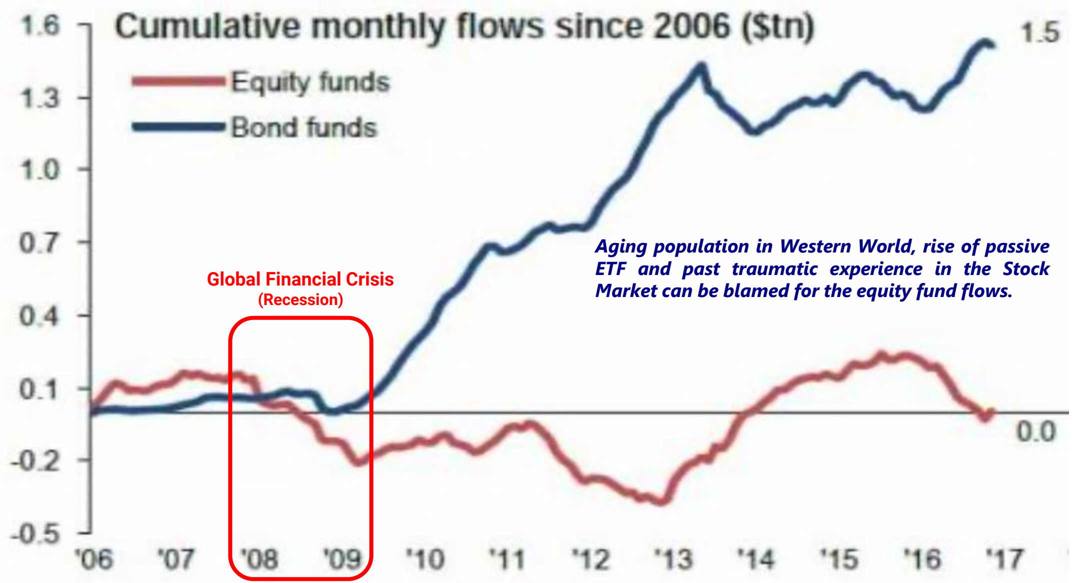
Despite ‘Rising’ Stock Market Investors Still Hate Equities



Source: EPFR

The rise of the stock market is mostly due to Corporate Stock Buyback rather than Investment Inflows.

~**Money Flows** into **Equities** remain unchanged since 2006 and only recover slightly from the financial crisis in 2008/09.

~We expect an eventual rise in **Inflation** and **Long-Term Interest Rates** as consumers eventually increase their risk-appetite. With recession unlikely in the near-term and higher interest rates, investors will shift assets from deposits and bonds into equities.

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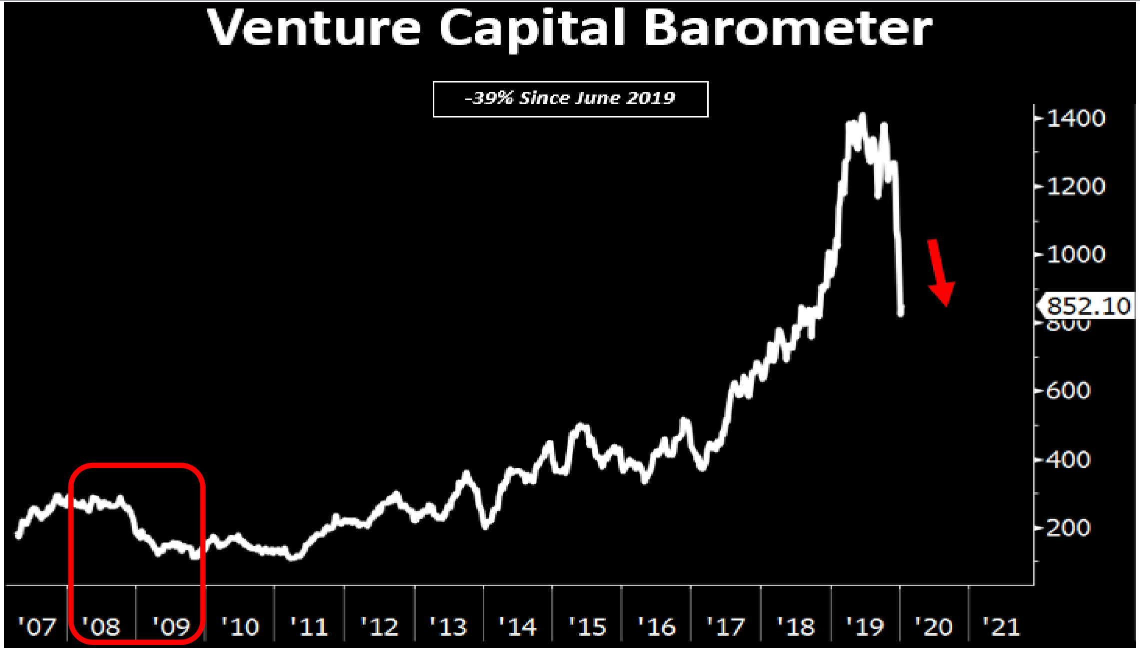
Bubble in the Stock Market ?
Wait ! Private Market First…
(Dot-Com 2.0)



Venture Capital (VC) Barometer Index:
Incorporates both the money flowing into VC-backed startups, as well as the exits that are making money for investors.

Notes: *VC deal volumes down -24% while deal exits plunged -35%*

Source: *Bloomberg*

~After WeWork problems which we believe is the 1st wave, more will follow as there are still many startups with **ridiculous valuations** and **cash burning** traits.

~As we have said in our previous letter, good businesses are profitable right away, there was **no need for massive losses**. *(e.g: early days of WalMart / Starbucks / etc.)*

~We think that **low interest rate** and **abundance of capital** led to **unproductive investments** which is bad for the long-term.

~Pension funds, Sovereign funds and Family Office funds have been **increasing allocation** to the private markets. It is very puzzling to us when smart institution investors are actually **equating** volatility with risk.

~We do not know what kind of **consequences** will happen when everyone is heading for the small exit door (illiquidity risk). It will definitely not be pretty when the party ends.

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To Put it Simply...

~U.S Manufacturing is weak but the U.S Consumers could still help the economy

~U.S Consumers are not levered like historical pre-recession (~70% of U.S GDP)

~U.S Recession unlikely in the near-term, though an escalation of trade war and a change in policy due to the 2020 Presidential Election might change the situation

~Global Manufacturing PMI looks likely to improve ahead

~Investors Still Hate Stocks as money flows mostly to Bonds

~The Private Market bubble consequences could be painful (The party may still continue for now)

Fund Review

"In our private lives, we are all value investors: we like to buy a house, a car or electronics when it is a good value and on sale. Somehow, when it comes to investing, most investors buy what is hot, moving up or widely talked about. That isn't investing, that's speculating."

Investor Update
Q4 & FY2019

Dear Partners & Friends,

Turning Point Capital rose **+5.9%** in **Q4**, bringing the **FY2019 to** **<u>+10.6%</u>**
^Since TPC Fund Launch: +8.3%

MSCI International Value Fund rose **+6.9%** in **Q4**, bringing the **FY2019 to** **<u>+11.4%</u>**
^Since TPC Fund Launch: +3.1%

Global Hedge Fund Index rose **+2.3%** in **Q4**, bringing the **FY2019 to** **<u>+7.4%</u>**
^Since TPC Fund Launch: +5.2%

- *We do not seek to mimic the returns of any index/benchmark, thus there will be variances in our performance.*
- *Our fund will be more volatile than other benchmark due to portfolio concentration.*
- *Each investors' return will vary depending on the timing of the investment, kindly see your individual statements for accuracy.*

Note: Performance are net of all fees and in USD

MSCI International Value Fund *invest in global equities worldwide using value investing strategy.*
Global Hedge Fund Index *tracks the overall hedge fund universe performance of all types of investment strategies.*
^Turning Point Capital (TPC) Value Fund *launched in 2018*

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Fund Statistics

Metrics	Our Fund (U.S / China / HK)	MSCI Intl Value Fund (Global)	S&P 500 (U.S)
No. of Holdings (#)	**14**	**332**	**505**
Average Earnings Yield (%)	**11%**	**9%**	**5%**
Average P/E (x)	**9x**	**11x**	**25x**
***Average Annual Volatility (%)**	**±0.91%**	**±0.98%**	**±2.20%**

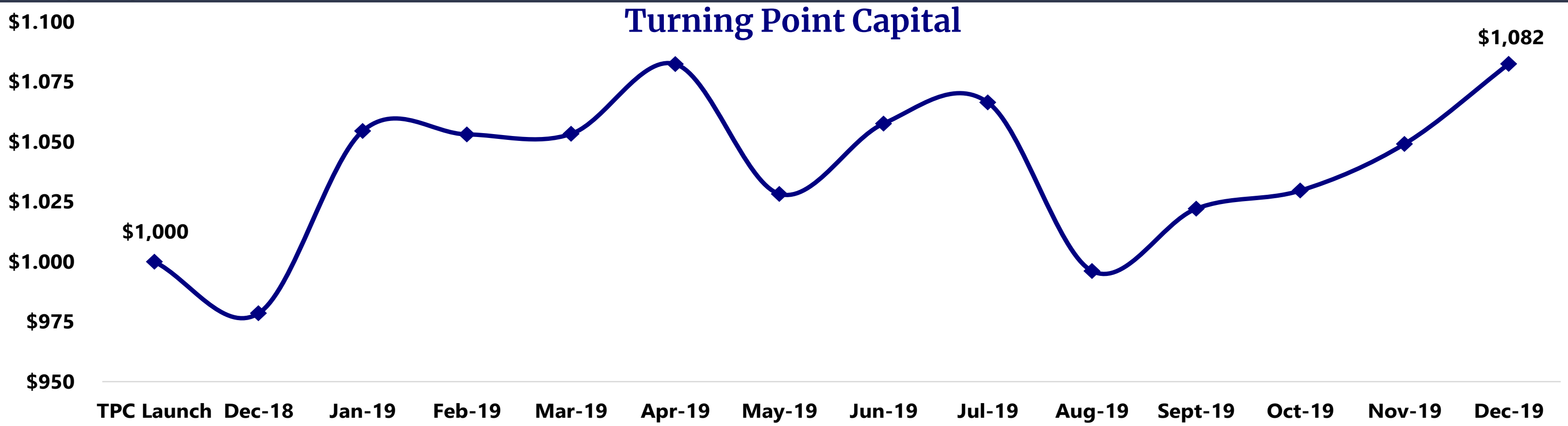
Earnings Yield (%): *Measures how inexpensive a company is in relation to its ability to generate cash for its owners.*

Price-to-Earnings (P/E) Ratio: *The ratio of a company's share (stock) price to the company's earnings per share. The ratio is used for valuing companies and to find out whether they are overvalued (high ratio) or undervalued (low ratio).*

Average Annual Volatility (%): *It is a rate at which the price of a security/fund increases or decreases for a given set of returns.*
*******Data are based on the last twelve months (LTM) only.*

Performance

Fund Net Asset Value (NAV) per share in USD



Fund Statistics Comparison:	Turning Point Capital
FY2019 Performance (Net of all fees)	+10.63% (USD)
Since Our Fund Launch (Net of all fees)	+8.25% (USD)
Best Monthly Gain	+7.77% (Jan 2019)
Worst Monthly Loss	-6.59% (Aug 2019)
Average Monthly Volatility	±0.81%
Average Quarterly Volatility	±2.65%

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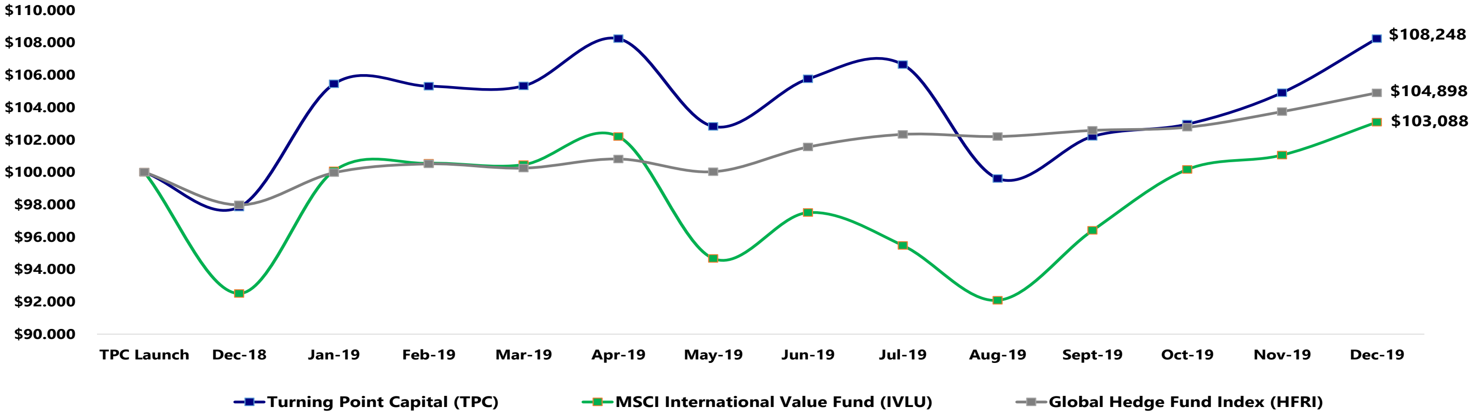
Fund Performance Comparison

USD$100,000 Invested Since TPC Fund Launch, For Illustrative Purposes Only



Monthly Period	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	Jun 2019	Jul 2019	Aug 2019	Sept 2019	Oct 2019	Nov 2019	Dec 2019
Turning Point Capital	+7.77%	-0.14%	+0.02%	+2.77%	-5.01%	+2.86%	+0.83%	-6.59%	+2.61%	+0.74%	+1.89%	+3.18%
MSCI International Value Fund	+8.18%	+0.46%	-0.08%	+1.73%	-7.37%	+2.99%	-2.08%	-3.54%	+4.69%	+3.91%	+0.89%	+2.01%
Global Hedge Fund Index	+2.03%	+0.55%	-0.26%	+0.56%	-0.78%	+1.52%	+0.77%	-0.13%	+0.37%	+0.19%	+0.94%	+1.12%

Quarterly Period	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Since TPC Launch
Turning Point Capital	+7.64%	+0.41%	-3.36%	+5.92%	+8.25%
MSCI International Value Fund	+8.57%	-2.95%	-1.13%	+6.93%	+3.09%
Global Hedge Fund Index	+2.32%	+1.30%	+1.33%	+2.26%	+5.23%

Annual Period	2018	2019	2020
Turning Point Capital	-2.21%	+10.63%	-
MSCI International Value Fund	-15.09%	+11.43%	-
Global Hedge Fund Index	-7.79%	+7.40%	-

Source: UBS AG, Circle Partners, Turning Point Capital, MSCI, HFRI

New Holdings Review

(By Alphabetical Order)

"Investing is a business where you can look very silly for a long period of time before you are proven right."
~Bill Ackman~

APT Satellite

(*New Position)

APSTAR by APT Satellite

HKEX: 1045HK

Hong Kong

Small-Cap

***New Position in Q4**

What is it ?

APT Satellite is a satellite operator that operates 4 satellites with 181 transponders covering 75% of the World's population. It focus on the broadcast and telecommunication sectors.

Why its worth more ?

- Valuation attractive at 5x P/E, 0.5x PBV and 2.3x EV/EBITDA
- APT still grew EBITDA over the past 5 years despite industry oversupply/pricing pressure
- Solid relationships with blue-chip clients (long-term contracts)
- Ability to generate attractive Free Cash Flow (FCF) as there will be no major capex ahead
- EBITDA margins have averaged ~80% over the last 8 years.
- Joint-Venture for High Throughput Satellite (HTS) will open up more growth opportunities
- Rollout of 5G in Asia will lead to new uses of satellite capacity

Why it got cheap ?

- Revenues stagnant, net profit declined and transponder oversupply in 2014 onwards
- 2 Satellites retired in 2018, creating new capex for new satellites = investor pessimism
- Sentiment soured after high capex results in low free cash flow generation

Hysan Development Co Ltd.

*(Previously Undisclosed New Position in Q3, 2019)

Hysan 希慎

HKEX: 14HK

Hong Kong

Mid-Cap

***New Position from Q3**
(Previously Undisclosed)

What is it ?

Hysan Development is a HK property player in retail, office and residential. Its properties are located in prime area where it will remain valuable in the future. We believe the company would do well over the next few years as they are affected by problems that are temporary.

Why its worth more ?

- Currently valued at 59% discount to NAV similar to 2008/09 financial crisis level and 5x P/E
- Business continue to remain stable and will be supported by its newest office tower
- Management started to buyback shares at current price
- Retail segment not dependent on tourists as many feared (more local visitors)
- Dividends remain stable and increasing each year

Why it got cheap ?

- Recent protests in HK affected business and retail sentiment
- Investors worried about the property market
- Investors are afraid trade war will affect new tenant subscriptions into its office portfolio

Top 5 Largest Holdings Review

(By Alphabetical Order)

"Intrinsic Value change slowly, but stock prices change rapidly and widely."

Top 5 Largest Holdings Summary

(By Alphabetical Order)

1) Berkshire Hathaway Class A (NYSE: BRK.A)
BRK's strong competitive position, bright future growth and large amount of excess cash with track record of value creation should re-rate the current valuation to a larger premium over time.

2) Clarus (NASDAQ: CLAR)
Owner operator with solid growth over the long-term supported by Olympics and FCF generation. Management track-record is excellent in terms of operations and capital allocation. Valuation still below private market peers.

3) EchoStar (NASDAQ: SATS)
Leading position in enterprise satellite provider with hidden assets undiscovered by market. Valuation is well below its closest peers and its S-band spectrum in Europe is expected to be monetize in the future.

4) West China Cement (2233:HK)
Despite many long-term cement contracts and western China development, it is still valued attractively at 5x P/E. Solid balance sheet and China infrastructure focus should help the stock over the long-term while a buyout by bigger firms is a bonus.

5) Walgreens Boots Alliance (NASDAQ: WBA)
Valued at only 9x P/E vs. 18x on avg. Consumers need immediate access to medicine, we don't expect Amazon to be successful in disrupting this market segment. WBA is in talks with KKR on a buyout deal.

Portfolio Movements in Q4

(By Alphabetical Order)

1) Bank of America (NYSE: BAC) ~ Trim

We have reduced our position by 1/3 after banking stocks recovered late last year to raise cash for other ideas/cushion. BAC remains our long-term core portfolio and have been with us since 2016.

2) China Mobile (HKEX: 941HK) ~ Exit

We sold all our holdings as the prospects for dividend growth dimmed and the upcoming 5G upgrade will result in higher capex spending = lower free cash flow for the firm. We use this proceeds to buy more APT Satellite (mentioned in previous slides).

3) Kontoor Brands (NYSE: KTB) ~ Exit

After taking advantage of the selloff from VFC spin-off, KTB have recovered since then and we decided to exit all our holdings, netting a gain of +32%.

Thank You For Your Support

Have a great 2020 !

Closing Remarks:

"Overall, the Fund portfolio are valued at around 9x P/E. We believe that this is extremely attractive and is significantly undervalued given the long-term growth profile of our portfolio. A U.S recession, is highly unlikely in the near term due to a very under-leveraged, wealthy and employed U.S Consumers. Our view is an eventual rise in inflation and long-term interest rates which would strongly benefit value stocks, such as the ones we own. With a great combination of low valuation, solid earnings growth and a moderate economy expansion, we look forward to the future with optimism. We still expect more geopolitical tensions and other noises in 2020, but fundamentals remain our top priority."

As always, we have the majority of our money invested in the fund, alongside yours.

Turning Point Capital

Jozabad Jonathan

Portfolio Manager

"To keep interest aligned, we have linked our compensation to performance. We will only be rewarded when we deliver."

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Glossary

EV: Enterprise Value
EPS: Earnings Per Share
EBITDA: Earnings Before Interest Tax Depreciation & Amortization
IRR: Internal Rate of Return
NAV: Net Asset Value
BV: Book Value
NOL Structure: Net Operating Loss Structure (Benefit)
HKEX: Hong Kong Stock Exchange
FCF: Free Cash Flow
LT: Long-Term
YTD: year-to-date
FY: Full-year
JV: Joint-Venture
AI: Artificial Intelligence
P/E: Price-to-Earnings Ratio
ROC: Return on Capital
Net Debt: Refers to Total Debt minus Total Cash
Market Cap: The market value of a security (shares outstanding x share price)
Interest Coverage: Measure of a company’s ability to honor its interest/debt payments (Higher is better)
Mark-To-Market: Valuing assets by the most recent market price
Value Investing: An investment strategy that involves buying securities that appear underpriced by fundamental analysis

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