HAYDEN CAPITAL

QUARTERLY LETTER

2021 | Vol.2

HAYDEN CAPITAL

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August 15, 2021

Dear Partners and Friends,

The investing business never gets boring. The latest to rock the markets, is news around China's recent regulatory crack-down on its education sector, which has affected many Chinese publicly-listed businesses (LINK).

Given the sudden nature of the regulations, combined with the anti-trust actions of the past year (Ant Financial's cancelled IPO, forcing Meituan to raise delivery staff's wages, prying open the super-app "walled gardens", etc.), and the fact that all this is happening on the other side of the world in a market foreign to most Western investors and media, it's no surprise that there is a lot of misinformation going around.

Time Period	Hayden (Net)[1]	S&P 500 (SPXTR)	MSCI World (ACWI)
2014[2]	**(4.9%)**	**1.3%**	**(0.9%)**
2015	**17.2%**	**1.4%**	**(2.2%)**
2016	**3.9%**	**12.0%**	**8.4%**
2017	**28.2%**	**21.8%**	**24.4%**
2018	**(15.4%)**	**(4.4%)**	**(9.2%)**
2019	**41.0%**	**31.5%**	**26.6%**
2020	**222.4%**	**18.4%**	**16.3%**
1st Quarter	1.3%	6.2%	4.9%
2nd Quarter	17.9%	8.6%	7.1%
2021	**19.4%**	**15.3%**	**12.3%**
Annualized	**33.6%**	**14.1%**	**10.7%**
Total Return			
1 Year	**91.9%**	**40.8%**	**39.3%**
5 Years	**505.9%**	**125.4%**	**98.5%**
Since Inception	**582.0%**	**140.2%**	**96.3%**

1 Hayden Capital returns are calculated net of actual fees directly deducted from client accounts, for the period from inception (November 13, 2014) to December 31, 2020. Starting on January 1, 2021, reported performance is reflective of a representative account, managed in accordance with Hayden's strategy with no client specific investment guidelines or limitations, made no subsequent investments or redemptions, and remains invested. The representative account paid a management fee of 1.5% and incentive fees of 0%. Clients who elect the performance fee option for their accounts may pay higher fees and therefore realize lower net returns, during years of strong investment performance. Individual returns may vary based on timing of investment and your specific fee schedule. Performance results are net of expenses, management fee and incentive fees. Past performance is not indicative of future results.

2 Hayden Capital launched on November 13, 2014. Performance for both Hayden Capital and the indexes reflects performance beginning on this date.

While I don't have any answers and have plenty of thinking to do regarding the ultimate implications myself, it seems that much of this confusion (and thus the fire sale liquidations we saw in the markets) stem from a lack of background knowledge, which is necessary to even begin understanding where these developments are coming from.

A good rule of thumb I try to abide by, is that to even try to understand the *why* and *how* someone thinks, you should probably first understand where they come from and how these experiences shaped their world view. And in most cases, it's the same for governments & cultures, as it is for individuals.

So in this letter, I thought it'd be helpful to at least provide some context. These are based on just my own point of view though (and are subject to change), with much of it open to interpretation. I'm sure there are others who will disagree. But nevertheless, hopefully this background will at least help other investors have a starting point, while trying to navigate these waters.

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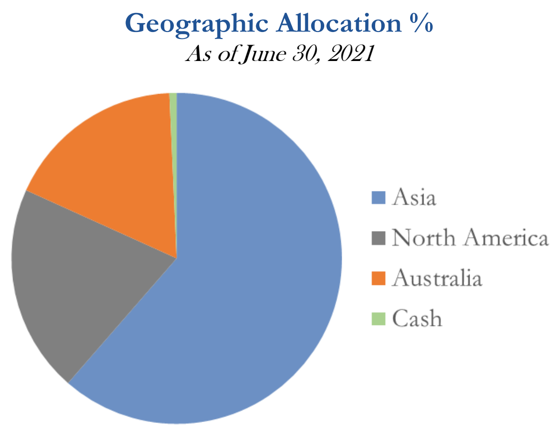
During the second quarter, our portfolio generated a +17.9% return. This brings our year-to-date returns to +19.4%, compared to +15.3% for the S&P 500 and +12.3% for the MSCI World indices. Since inception, we have produced +33.6% annualized returns for our partners.



Our portfolio remains largely invested in Asia, comprising ~61% of our portfolio. Of the remaining, ~20% is invested with companies based in North America, with the remaining ~17% in Australia and a residual cash balance.

Note: Going forward, we will be using the representative account method to report our performance (see the footnote on pg. 2). Our compliance firm recommended this change, as we have certain clients at the beginning of 2021 who requested that their fees be invoiced instead of directly deducted from their accounts. As such, using our prior method of an asset-weighted "composite" of all client accounts (net of actual fees direct deducted) would overstate our net performance going forward. We are also adjusting our Q1 2021 performance figure to reflect this change as well. As always, individual returns may vary based on timing of investment and the specific fee schedule.

Interesting Times

"YOU NEVER REALLY UNDERSTAND A PERSON UNTIL YOU CONSIDER THINGS FROM HIS POINT OF VIEW… UNTIL YOU CLIMB INTO HIS SKIN AND WALK AROUND IN IT." – TO KILL A MOCKINGBIRD

Over the past few weeks, I've received several calls from fellow investment managers asking to discuss our take on China's latest crack-down on the education sector. I'm usually hesitant to enter into such discussions, because frankly, I'm not an expert on China's internal government thinking by any means (our focus is on understanding business models and the consumer behavior around it). It's next to impossible for anyone to truly know the definitive truth behind *why* certain government decisions are made. There are certainly smarter "China-watchers" than myself, who have published extensively on the topics (and offer better insights).

However based on some of the questions I've received over the past few weeks, it still seems that many investors are confused simply because they don't have the context, in which these government policies were made.

If you don't have this basic understanding, you're going to have a hard time investing in China in the first place. So I'll try to keep it brief and set the basic framework I use to view these latest developments around, so at least hopefully other investors can view these events from the right starting-point.

Note: I'm not saying I agree with the government's heavy-handed manner in implementing these goals. But at the very least, foreign investors in China need to at least know the government's own perspective and the "why" behind the decision-making, before passing judgement and having an investment gameplan going forward.

And yes, a lot of the below are generalizations of a very complex situation, so some of what I describe is over-simplified.

It's Not About Stealing Your (Western Investors) Money

The most glaring misperception I've noticed, is that a few investors still think this crack-down is about siphoning money from / purposefully harming Western investors. First off, it's not about this at all. This is about the CCP fixing China's own internal problems, and capital as a whole (not just western investors) being collateral damage from this.

For example, many of these companies that were caught in the new regulations, are already dual-listed in the US and Hong Kong. And some even only have listings in Hong Kong or Mainland. For example, the education sector regulations news broke the night of July 22nd (US time). In the days after, the CSI 300, an index of the 300 largest companies listed in Shanghai and Shenzhen dropped over 10%, and over 20% since its February peak.

Foreign investors make up less than 5% of the domestic Chinese market, so this impact hurt primarily domestic Chinese investors (LINK). Additionally, the Hong Kong market is also dominated by mainland investors, with mainland institutions estimated to comprise ~40% of Hong Kong volumes, while mainland retail investors make up another ~20%. These investors are shareholders of many of the Hong Kong listed technology, education, gaming, and property management companies, which also experienced drops of ~20 - 80%.

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In China, you must always keep in mind that capital is simply one of many inputs used to achieve the country's societal goals. In fact, Econ 101 will teach us that GDP growth is a function of 1) Labor, 2) Capital, and 3) Technology / Productivity.

GDP Growth Equation

Y = GDP; A= Technology / Productivity, K = Capital, L = Labor

$$\frac{\Delta Y}{Y} = \frac{\Delta A}{A} + \alpha_K \frac{\Delta K}{K} + \alpha_L \frac{\Delta L}{L}$$

The difference in Chinese policies vs. many Western governments, is that China prioritizes the labor and tech components of this equation more so than capital. While labor is made up of the domestic population itself (and the goal of society is to improve the well-being of the population) and technology is used to amplify this output, capital is face-less (or at least belonging most to those who have benefitted from the country's rise and accumulated the capital in the process, and thus have a "national duty" to help & repay their fellow citizens / country who helped them achieve this success).

In the 1980's while China was opening up, Deng Xiaoping famously said "Let others get rich first". The idea was to allow certain enterprising individuals to generate wealth first, and over time this new wealth would be used to help "backward" areas of the country. The intention was *not*, to allow some to get rich, and then use this newfound wealth / power to then go squeeze even more profits out of those left behind (which is what the CCP sees many Chinese companies to be doing today).

Capital is meant as a tool (i.e. fuel) to enhance & accelerate society's goals, not as an end-goal itself. Versus many Western markets, where it seems that the betterment of shareholders (and putting more money into their pockets) is often the end goal itself. If the well-being of capital must be sacrificed to ensure a better long-term direction of society (higher birth rates, affordable housing, protection of consumer data, a more free-thinking / creative education for kids vs. today's heavy burden of rote-memorization) then in the Chinese government's eyes, it's a worthy trade-off.

This is especially true if the capital to be impaired is "fueling" the wrong societal goals in the first place – such as high educational costs which discourage births, high housing prices which discourage family formation, keeping delivery drivers' wages low so as to squeeze profits to line-shareholder's pockets, etc. In this case, the capital wasn't being productive anyways, so there's no loss if the government impairs it (and sends a message to discourage future investment in these fields).

Capital (and investors) will be rewarded when capital is needed as fuel to achieve the broader goals of societal and economic advancement in a harmonious and equitable manner. But when capital investment in certain sectors is at odds with these goals, don't be surprised when it's impaired.

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Know The Plan

As such, it's crucial to understand what China's priorities are first and thus where capital can go to support these objectives, if you want to have higher odds of investing your capital in China safely. The easiest way to understand this, is by studying China's five year plan (this is a "blueprint" released by the government every five years, setting the goals for near-term government policies).

For example, the 2015 - 2020 five year plan centered around upgrading innovation from "old manufacturing industries" to modern information-based industries (LINK). Many read this as innovating within the consumer-facing sector and encouraging entrepreneurship (大众创业，万众创新; LINK). Notably, the plan also touched upon the how successful Chinese need to "share the fruits of economic growth" so as to help bridge the disparity between welfare gaps (mostly regarding the discrepancy in urban vs. countryside regions).

In the last five year plan relating to 2021 – 2025 (meeting held in October 2020), the government discusses how it aims to become a moderately developed country by 2035 (i.e. $30,000 USD per capita). It hopes to achieve this via a focus on domestic consumption (and of domestic brands), and by continuing to close the urban vs. rural living standards gap. In terms of innovation, the tone also changes to a focus on the hard-sciences (biotechnology, semiconductors, quantum computing, space exploration, climate technology, etc), and increasing the funding provided to basic research R&D.

So What's The Problem?

Over the past thirteen years, China's GDP has slowed from ~14% y/y growth in 2007 to just over ~6% y/y today. So why is this a problem?

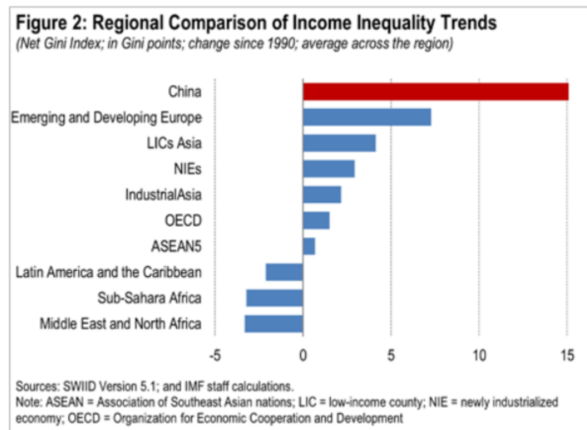
Well when the overall pie is naturally growing rapidly, the country can "direct" resources (labor, capital, government policy / support) to specific areas, so that the "newly formed slices of pie" have a greater chance of forming within lagging areas (rural areas, lower-income workers, etc). You can create new prosperity for these areas, without having to take chunks from existing pieces (pieces that already belong to someone else).

However as GDP growth slows, so too does this ability to create new opportunities for the underserved areas, without affecting the prosperity of existing participants.

Slowing growth wouldn't be an issue if the problems were fixed during the high-growth periods – but in China's case, the problems have actually become worse. Income inequality has in fact widened, and the IMF indicates that China not only has one of the worst levels of income inequality among Emerging Markets countries, but also one of the highest rates of worsening over the past 30 years.

China's Worsening Income Inequality

From IMF (see pg. 5 of [PDF LINK](#))



Generally in countries that experience slow growth, as the pie stops growing, the only way to better your own family's circumstances and get a bigger piece for yourself, is to take a chunk from someone else's pocket.

China's issue is that the starting line / opportunity to do so isn't equal – those who have amassed a large piece during China's high-growth phase (either through self-determination, or as a benefit of government support), are more advantaged and now have more power (bigger piece = more resources / access / connections = more power to acquire more pieces from others). These stronger players are always looking to grow too, and because of their advantages, naturally resources accrue to the top ("rich get richer") rather than flowing the other way around. Hence, this leads to an even wider income gap, and requires an even stronger force (the CCP) to stop this dynamic.

Historically one of the great equalizers and best ways to get your family better financial footing, was through education. In China (and almost all Confucius-based cultures – such as Korea, Japan, and Vietnam), education is highly prized, and the resources of the entire extended family would be pooled to support the education of a single gifted child (with the idea that when they succeeded, the entire family would as well)[3].

[3] One representation of this, is in these countries, generally the family (last) name comes before the individual's name when spelled, culturally signifying the identity & well-being of the family is more important than the individual. In Western countries, the individual (and their name) comes first.

This cultural mindset dates back *thousands of years*, starting with China's Imperial Examination during the Sui Dynasty (581 AD) (LINK). This grueling exam was technically open to all levels of society, and helped to promote an avenue of equality in society[4].

"The civil service examination system was an important vehicle of social mobility in imperial China. Even a youth from the poorest family could theoretically join the ranks of the educated elite by succeeding in the examination system. This assurance of success in the examinations dependent only on one's ability rather than one's social position helped circulate the key ideas of Confucianism… The hope of social mobility through success in this system was the motivation for going to school in the first place, whether one was the son of a scholar or a farmer… This curricular uniformity had an extremely powerful effect on Chinese society, and the major impetus for this uniformity was the meritocracy promoted by the civil service examination system."

- *The Confucian Classics & the Civil Service Examinations (Columbia University; LINK)*

If this sounds familiar, it's because this system is very similar to the Gaokao college entrance exam used today. This exam lasts for 9 hours over several days, and this single test largely determines the rank / pedigree of the college the student is accepted into. While there are certainly valid criticisms of the test (imagine your future being based entirely on an amped up version of the SAT test available only 1x a year), it's also regarded as the fairest way of screening talent in a population of 1.4 billion people. Regardless if you're from a rural or urban family, a wealthy or poor family, the test results you get are still largely determined by your own ability (and not how much your family donates to a certain school)[5].

So given the cultural impact of the Imperial Examination, which lives on today in the form of the Gaokao, and culture emphasis on education in general, where do you think families are going to spend their resources as they grow wealthier? Especially as due to the decades long one-child policy (now abolished), all their resources are focused on a single kid?

Well on average, Chinese parents spend ~$18,000 USD per year on after-school tutoring (LINK). Considering China's average GDP per capita is only ~$10,000 USD, it obvious that the bulk of a family's resources are going towards their kid's education, with additional support from the extended family and savings.

The financial pressure on families, and mental pressure on students is intense. Starting in elementary school, 60% of students are already being tutored outside the public classroom (and steadily rising in % for older students), spending several additional hours a day ultimately prepping for the Gaokao. As an example of this pressure, in 2012, images of Chinese students using IV drips to aid them in studying went viral (LINK).

[4] Students from wealthy families were definitely advantaged, just like in today's modern society. Wealthier students didn't have the pressure to enter the workforce, so they could spend additional years on their studies. They could also afford tutors (much like today's after-school tutoring programs).

[5] China has tried following the "American system" previously, with Chinese universities allowed more freedom to choose the kind of students accepted, based on more than their Gaokao score. However there have been numerous instances of cheating – for example, an admissions officer at Remin University (one of the most prestigious Chinese universities) was found to have accepted over $3.6 million in bribes from parents (LINK). Other examples include parents forging extracurricular documents, to get their kids into certain schools through the holistic "door". In the past few years, there's been a general consensus that "the American holistic system" doesn't work for China, because these subjective qualities can be gamed too easily in such a complex country.

But if your kid's classmates are all using expensive after-school tutoring services, what option do you have as a family? At the end of the day, it's a ranked test and the better your kid's classmates perform the worse your own child ranks, so you have to play the game too.

Note: This isn't only a China problem, but rather is prevalent across East Asia. Ten years ago, South Korea similarly cracked down on its own after-school tutoring system (i.e. "cram schools"), where over ~70% of all students are enrolled. The private tutoring sector alone was equivalent to ~50% of the total public education budget, and the extreme mental stress students faced was often blamed for the high suicide rates and low birth rates (LINK). It's clear that China has taken some of the lessons from South Korea, in enacting its own policies.

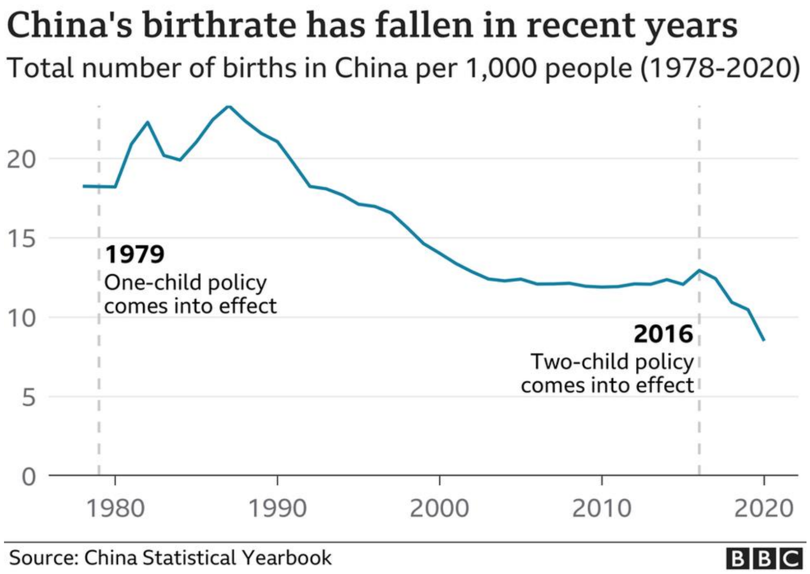
This dynamic has led to tremendous pricing power among the after-school education companies, which in turn led to these profits accruing to shareholders (EDU & TAL being the most notable). In the CCP's eyes, the majority of Chinese families are subsidizing and suffering immense pressure, just for these resources to ultimately line the pockets of the few (already wealthy) shareholders. The government sees this as a form of rent-seeking, without adding value to society (it's a zero-sum game).

It's also because of this immense financial pressure, that China's population is declining. It's an issue for the country, since a smaller working population needs to support a bigger retiree population (who historically, have relied upon offspring as a retirement policy, and elders often live with their adult children).

This despite the one-child policy being modified to a two-child policy in 2015, raising the limit to three-children on May 31, 2021, and being completely abolished just a few weeks ago on July 20, 2021 (LINK). Astute investors will also notice that *this was just days before the government's commentary on the education sector, that collapsed the stocks of EDU, TAL, et al on July 23rd…*

China's Falling Birth Rates

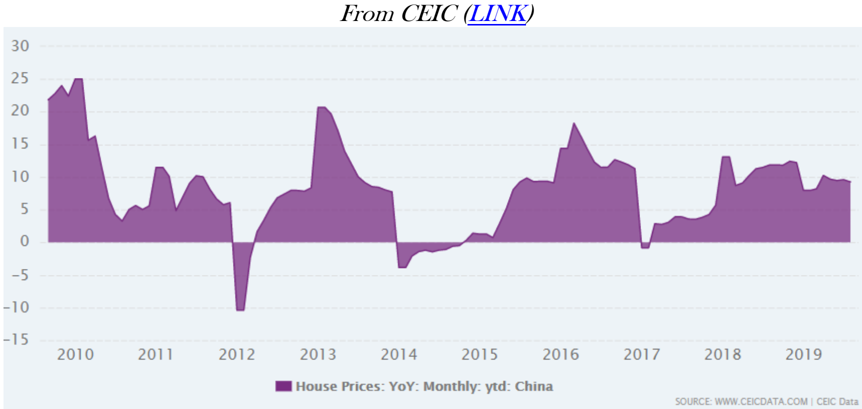
From BBC (LINK)



Combined with this, China's housing prices have also risen astronomically over the decades. There are several reasons for this, including rising prosperity + capital controls & distrust of local stock markets, meaning that excess savings are invested into real estate. Whatever the case, the fact is that home prices have risen ~8% y/y over the last 20 years, and even more in Tier 1 cities (Beijing, Shanghai, Guangzhou, Shenzhen). The rise in home prices have also outpaced the rise in incomes – thus making home-ownership (a cultural prerequisite for marriage in China) ever-harder[6].

Housing prices are also intertwined with education, since where you live determines where your kids go to school (much like public schools & property taxes, in the United States). Families in Tier 1 cities are buying up 800sqft shanty apartments for over $1 million + additional renovation costs, just to ensure their (unborn) child will be able to go to a good public school (LINK).

China's Rising Home Prices
From CEIC (LINK)



High child raising costs, high property costs, and long working hours (9am-9pm, 6 days a week, i.e. "996") in many tech companies, are creating a unsustainable life for the middle class. These factors are all why marriage and birth rates continue to fall.

So what's the cultural reaction to this high-pressure, rat-race lifestyle among the younger generations? To give up and "lie-flat" ("躺平"; LINK)… The younger generations no longer have the optimistic hope in a better future, and a belief in upward mobility that their parents did during China's previous decades of meteoric growth[7].

Many Chinese youth are choosing to leave this rat-race, forgo marriage / children, have lower ambitions, move out of expensive Tier 1 cities back to their hometowns or countryside, and prioritize their own time / freedom over material possessions.

Of course, this new trend also worries the CCP, as it creates a negative virtuous cycle, which affects the productivity and future trajectory of society as a whole (especially as China's

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[6] In China, the saying is that a man needs to be able to provide a house & a car, if he wants to get married.

[7] This is also happening in America, where younger generations for the first time no longer feel that achieving "the American Dream" is a possibility for them.

government has global leadership ambitions). In fact, the trend is so concerning that the phrase "lie-flat" itself is censored by China's internet regulators.

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So these are just some of the issues that China's government are trying to tackle. And viewed through this lens, it's easy to see that these recent actions are about fixing China's internal problems, rather than purposefully trying to harm foreign investors (they're the collateral damage). The country is trying to steer capital towards the fueling the right areas, where it views it's most needed for advancement and betterment of the country.

China is a state capitalist system, which by definition, capital is meant as only a tool to serve the interests of the majority of society. Especially with President Xi's historic 3rd term re-election coming up in 2023 (China's two-term presidential limits were abolished in 2018), the government is especially cognizant of trying to enact these fixes in a timely manner (which have been generally well-received by China's broader population in recent weeks).

If you plan on investing in any foreign countries, you first need to understand the history, culture and context of its people first. This is especially important in China, where the state has greater control over the economy, and the health of the capital markets will always play a subservient role to the greater needs of society at large. Hopefully by providing this background, other investors will at least understand the "rules of the road" better while searching for investments in China.

PORTFOLIO REVIEW

Afterpay (ASX: APT): You may have seen the news already. On the evening of August 1st (NYC time), Afterpay and Square just announced that the two companies are proposing to join forces, to form a global payments company. This is the largest M&A deal in Australia's history, with a proposed 0.375 Square shares being offered for every Afterpay share (an all-stock deal). At Square's current trading price and exchange rate, this equates to ~ AUD $138 per APT share. On a fully diluted basis, Afterpay shareholders will own ~18.5% in the combined SQ-APT company (LINK).

We started purchasing Afterpay last April (2020), at an initial price of ~AUD $27, so undoubtedly this has been a good investment for us (~4.1x in 16 months on that initial purchase). However, the original opportunity we saw for Afterpay is still in its very early days, and they still have a long journey ahead to achieving its potential.

The company is tackling a global opportunity to reshape the way credit functions in our society, and with only AUD $21 Billion of total transaction volumes vs. the addressable market's ~USD $10 Trillion in total global online payments volume (LINK). What makes Afterpay special, is their highly loyal customer base (~93% of transactions are from repeat users), and a predominately Millennial and Gen-Z customer base who have high aversions to traditional forms of credit.

While I'm sad to lose our leading pure-play, best-in-class, buy-now-pay-later investment (and at a lower price than I'd like), I suspect the real value-creation will occur as Square introduces its US-centric base of 70M+ customers and 2M+ merchants to Afterpay. Afterpay in turn, will provide Square with a global footprint of 16M+ customers and 98K+ merchants, across the US, Australia, New Zealand, Canada, and the United Kingdom.

In effect, we will be owning a smaller piece of a pie growing at a now accelerated rate. As such, it's likely the real-value creation will come post-merger as these synergies are realized, and Square's stock price benefits from this as a result (although we still have a lot of work over the coming weeks to quantify this, and our initial impressions are subject to change).

As of July 30th (the last trading day prior to the announcement), we held a ~17% position in Afterpay, therefore making it our second largest position. With the price action since then, the investment is now ~21% of our overall portfolio.

It's possible that the stock will continue to appreciate as the market digests the potential synergies in a SQ-APT combination, and the merger spread closes as we approach the deal closing date (expected for Q1 2022). If this occurs, it's possible our Afterpay / Square investment will continue to become a larger part of our portfolio.

This is a milestone moment for the entire Buy-Now-Pay-Later industry, as it a clear sign of the value the industry sees in the BNPL model & the potential disruption it could cause for traditional credit providers (surprisingly, this is still a major controversy among investors, despite the triple-digit growth from "real-world customers" in the past few years).

I'm excited to witness the next leg of Afterpay's journey, as they join forces with Square to become a dominant force in the global payments market. Afterpay has done a phenomenal job of providing "proof of concept" for the BNPL model. They've led the charge in proving out customer & merchant demand for a brand new payments method, and have even begun changing the consumer culture around shopping (see Afterpay's lead sponsorship of New York Fashion Week and their See-Now-Buy-Now initiatives, LINK).

Nick Molnar and Anthony Eisen have done a great job of carrying the business (and entire BNPL industry) from "0-to-1". With Square's help, it's time to go from "1-to-100". Stay tuned…

P.S. Those interested in seeing our original Afterpay thesis & presentation, published November 2020, can find the slide deck here: LINK.

CONCLUSION

Earlier this year, I wrote about how "our first five years of Hayden were about providing 'proof of concept' for our strategy and differentiated firm structure, [while the] next five years are going to be about continuing to hone what we've already built, and to make it more robust" (LINK).

I'm proud to report that we're off to a good start with Hayden 2.0. We finalized our SEC registration in June, and Philip has been very productive these past few months, turning over a new idea every 1-2 weeks. We've identified a couple potential interesting new ideas, which hopefully will result in some meaningful portfolio upgrades towards the end of the year.

In-line with Hayden 2.0, we are also currently seeking a Chief Operating Officer (either internal or external), and / or a high-performing Executive Assistant who can also handle select operational tasks.

We're a tiny team (and intend to continue to be for the duration of Hayden), so we will need to be very selective in making sure anyone we bring on not only has the right skillset, but also is a good cultural fit.

As a prerequisite, the individuals we hope to add to the Hayden team are ambitious, intellectually curious individuals, who are motivated by internal passion for understanding how this world's puzzle pieces fit together. But more importantly, we also want individuals who disagree with the status quo structure / cultures of "traditional" investment firms, and wish to go outside that box to help build an investment firm that pursues an artform unique to us (for context, see our Q4 2020 letter). The irony is that those who likely would fit best at Hayden, would probably be frustrated working within most other "traditional" investment firms.

I know this is tough ask, so I'm hoping that our partners may know some individuals within their network who'd be a good fit. Like minded people tend to surround themselves with other similar individuals after all, right? If our partners know of a COO or Executive Assistant who would be a good fit, I would greatly appreciate the referral.

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This summer, I sat down with Tilman of Good Investing again for another fun 2-part chat (LINK 1, LINK 2). In the first part, we talked about my journey in building Hayden the last few years and lessons learned, while part 2 focuses on our investment process and the mental frameworks behind our strategy.

Partners will remember our interviews from last year (LINK 1, LINK 2), and also from Berkshire's Annual Meeting in 2019 (LINK 1, LINK 2). Tilman is a great interviewer, so I highly encourage everyone to check out his entire library of interviews with investors more exceptional than myself here (LINK).

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The joy of this business and why I love it so much, is that as investors we're given the freedom to learn about the world. Especially since our strategy is based on investing in change, we have to constantly push our mental boundaries and expose ourselves to new ideas (via new life experiences, using new products, learning about new industries, talking to people outside our typical friends' circle, etc.).

We have to remember that at the end of the day, companies are simply groups of people with a common goal, who work together to shape their ecosystem (customers, employees, investors, etc.) in some way. As investors, the capital we provide is simply the fuel to enable this – the execution and heavy lifting is still done by the people behind these companies.

The practice of investing is just one lens / framework to understand how the world works – to see how people, cultures, and preferences are evolving, and where resources (people & capital) are being placed to achieve a certain goal.

However during these periods of change, there's often turmoil and confusion, as opposing interests sometimes fight to see their vision of the future or their particular values become reality. But that's also the fun part, since trying to find "truth" (as impossible as it is), requires going out and gathering the pieces of the world's puzzle, determining what's relevant and discarding the rest (often requiring ample experience / pattern recognition), and hopefully putting together the eventual puzzle's picture before others see it[8].

It's also during these periods of turmoil, that we plant the seeds of our future profits. Our job is to build confidence in these company seedlings and provide them with the resources necessary to grow, when the rest of the world is still uncertain about their future. And as they grow quickly and prove their viability, the world also begins to recognize our vision of the future becoming a reality. When this uncertainty dissipates, these seedlings suddenly become very valuable (and recognized as leaders in their field), and we're finally able to harvest the fruits of our labor.

As investors, we all need to recognize what value / puzzle piece we are contributing ourselves to this world too (other than just making profits, since the resources you amass is typically just an output of the value you create. Or in other words, "What's your right to exist?").

It turns out at Hayden, our value is as gardeners…

"MAY YOU LIVE IN INTERESTING TIMES"
- ANONYMOUS (BUT NOT A CHINESE CURSE)[9]

[8] See slides 9-11 of our "Calculating Incremental ROIC's" presentation (LINK).

[9] This quote is often mis-attributed as a Chinese curse (which it's not). But it's still a wise saying nonetheless (LINK).

Sincerely,

Fred Liu, CFA
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