Dear Shareholders

Frustratingly, yet another year has come and passed without any substantial progress at our business. Our capital continues to earn sub-par (ie. negative) returns and the vast majority of it remains stranded in Mongolia. Despite how bleak that sounds, our team has continued to perform admirably under difficult circumstances. During 2019, we kept our properties mostly full, had negligible bad debt expense, dramatically increased the returns from our 3rd party agency business and even managed to liquidate a number of properties near year-end. That said, I remain frustrated with our pace of progress, our continued losses and our inability to extract capital from Mongolia so that we can invest it somewhere else that has positive return expectations.

Let me start by talking about what's working. Gen and I spent 9 years building an amazing Mongolian team that is capable of nearly anything—unfortunately, this team has been hamstrung by repeated cycles of economic crisis. Despite this fact, over the past three years, they created a 3rd party agency business that literally did not exist previously—more importantly, our team on the ground mostly did it on their own, through trial and error, in a country that has never had a history of agency brokerage. This business produced approximately $97,000 of revenue during the second half of 2019 (14% of our revenue in Mongolia) and did it at a decent gross margin. I am confident that this business will continue to grow and we remain focused on investing additional resources into this business while also trying to add property management services. We believe we're uniquely equipped to offer these management services to property owners and believe that much like the brokerage business; once we can prove ourselves on a handful of properties, we'll become dominant in this sector.

With the positives out of the way, let's return to reality—the Mongolian economy has continued to muddle along lethargically. While headline numbers show a mid-single-digit GDP growth rate, a more accurate reading would be that economic conditions have simply stopped getting worse—not gotten substantially better. Recent extraordinary measures taken by the Government of Mongolia to combat the Coronavirus have led to many of our tenants experiencing extreme financial strain—even beyond the worst of the crisis during 2015 and 2016. While our bad debt expense has been minimal to date, we are not optimistic about 2020. As always, we will soldier on, as best as possible. Besides; by now, economic crisis is our modus operandi. Our priorities are to protect our capital, retain our highly-skilled Mongolia team, ring-fence key property assets and divest non-core assets so that we can invest in something with economic returns. If the Mongolian Government takes actions to grow the economy, we will be in the unique position to rapidly pivot our attentions back to Mongolia—if not, hopefully we will have diversified and grown this company.

During the past few years, we have focused on extracting capital from Mongolia so that we could invest in something else. I apologize for being somewhat amorphous, but we still do not know what we want to invest in—only that it needs to be a business with positive cash flow that would stop our balance sheet from slowly shrinking. Unfortunately, to date, we are no further along in identifying this business. During 2019, we looked at a number of businesses but could not come to terms on any transaction. In a world awash with liquidity, we refuse to overpay. If we cannot get the deal we want, we'd prefer to let the capital remain invested in public securities—hopefully experiencing securities gains.

In order to fund any prospective acquisition that we may ultimately identify, we'll need capital. While we occasionally have gotten lucky over the past few years on a handful of asset sales, we have rarely sold enough assets to do much more than offset our operating cash burn annually—which isn't long-term sustainable. During this summer, Gen and I, with the guidance of our board, made the decision to dramatically reduce the offering prices of the assets that we'd like to sell. While these prices are below our carrying costs, we also value the ability to move forward with diversifying this business. During the fall of 2019, we began to aggressively market properties at unusually attractive prices and were able to finally increase the rate of asset sales. We are confident that there are cash-rich buyers in Mongolia and if we have to reduce our prices sufficiently to meet them, so be it. However, as a result of our own experiences along with reduced liquidity in the market, particularly for larger property assets, we recognized a reduction in carrying value of $1,347,662. While I believe that we sold these assets for less than they were worth, I do not regret a single sale and accept the conservative judgement of our property valuation firm. Based on the prices that we sell future assets at, we may experience further impairments to our portfolio's carrying value.

Our securities portfolio produced a $358,826 realized loss and a $454,824 unrealized gain, along with a $228,761 foreign exchange gain for the quarter. I would like to note that our portfolio is invested in a highly concentrated manner and often a handful of positions comprise the majority of the portfolio. Therefore, I would expect the portfolio to be substantially more volatile than an index fund and focus your attention on realized gains—which are indicative of where investments were underwritten compared to fair value. Unrealized gains can and will fluctuate wildly based on movements in our holdings—however if we purchased these investments at an attractive enough valuation, they should eventually accrete towards fair value and allow us to continue realizing gains. During 2019, sizable changes in our securities portfolio relate to two E&P companies that have continued to decline in value—one of which we realized for a substantial loss over the course of the year. Additional losses were realized in put spreads related to an automotive company along with put spreads on various equity indexes. Offsetting this, we had realized and unrealized gains in a number of shipping equities along with other smaller positions that do not deserve mention.

Overall, I'm unhappy with how our securities portfolio has performed over the past eighteen months. I am a value investor who focuses on undervalued businesses, particularly those undergoing some sort of business inflection. Over time, this strategy has worked well; however there are times when it is horribly out of favor—particularly when most global equity markets have continued marching higher, led by companies with accelerating losses. The pockets of value that I see, are in companies trading at low-single digit earnings multiples and substantial discounts to net asset value—unfortunately, these sorts of cash-generative businesses remain shunned by the market. Naturally, this has contributed to the poor performance of our public securities over the past eighteen months. Like all things in life, equity markets move in cycles. At some point in this cycle, our holdings will be in favor and we will see the benefits of owning what we own. While I like to bemoan our performance, after currency gains, we did produce a positive return in 2019, though first quarter 2020 results were less kind to us.

In terms of our balance sheet, during the fourth quarter of 2019, we used the proceeds from asset sales to retire the USD $500,000 of debt that we had with a top-4 Mongolian bank. We originally entered into a USD $1 million line of credit with this bank, only to learn that they expected us to draw USD $500,000 against it so that they could earn interest beyond the facility stand-by fee. Adding to our frustration, a year later, when we actually wanted to use our remaining line of credit, a line that that we had been paying for access to, the bank refused to honor their written commitments to us. With an expensive loan and a pointless line of credit, we chose to repay the loan and move on.
Returning back to our overall business, my hope remains that as we successfully monetize certain property assets in Mongolia, we can increase the size of our public securities portfolio and begin to actually increase book value through future realized gains on our securities portfolio along with the economic benefits of any business in North America that we may start or acquire.

In summary, while we remain optimistic about Mongolia's long-term future, we are realistic about our own company's predicament. Our property business is subscale and we expect that when combined with our corporate overhead it will likely produce operating losses (excluding potential gains from our public securities portfolio) for the foreseeable future. The only viable business that we see in Mongolia is our 3rd party agency business. While we intend to keep some of our better property assets in hopes of a recovery in Mongolia, we remain focused on selling non-core property assets (particularly in office and re-development) so that we can diversify the business.

I remain of the opinion that our shares are undervalued. During the fourth quarter, the Company re-purchased 107,500 shares under our Normal Course Issuer Bid at a cost of $25,802.50. However, this reduced pace of share re-purchases is primarily related to our desire to husband cash for future acquisitions.

Sincerely,

Harris Kupperman
CEO