Compounder Fund Investors' Letter: Day 1

COMPOUNDER FUND
GROWING YOUR WEALTH AND ENRICHING SOCIETY

Dear investor,

This is the very first Investors' Letter I'm writing to you as the portfolio manager and co-founder of Compounder Fund.

Together with my co-founder Jeremy Chia, we are pleased to announce that we have raised around S$9.67 million for Compounder Fund as of 13 July 2020. As you likely are aware, 13 July 2020 marked the close of Compounder Fund's Initial Offering Period (IOP). When we first kicked-off Compounder Fund's IOP on 13 May 2020, we had set a target of raising S$3 million. We have far exceeded the target, and we are deeply humbled by the support that you and so many others have shown us.

Gratefulness

Just prior to the start of Compounder Fund's IOP, we had received verbal promises from some individuals to invest in the fund. We had heard from others in the industry that you can typically expect only 10% to 30% of the verbal promises to come through when you do launch. Our experience has been *very* different: Nearly 80% of the individuals who expressed early interest are today investors in Compounder Fund. You know who you are. ***Thank you*. Your trust is sacred to us**.

In addition, during Compounder Fund's IOP, we had people expressing an interest to invest; many of them are also today investors in Compounder Fund. **We too thank you for your trust. It's not something we take for granted**.

A few days ago, Jeremy and myself had a small celebration. We wanted to mark the successful IOP of Compounder Fund and more importantly, the beginning of the *real* journey, the long but meaningful road to fulfill Compounder Fund's mission of *Growing Your Wealth and Enriching Society*.

What's next?

Over the next few weeks, we will put the S$9.67 million we have raised for Compounder Fund to work. In Compounder Fund's **website** (compounderfund.com) and the **Owner's Manual**, Jeremy and myself stated that the fund will be nearly fully invested at all times. There's no change in our thinking. We want to invest most of Compounder Fund's capital quickly.

We understand that some of you may have concerns. COVID-19 has wreaked havoc on the global economy. Yet stock markets in many parts of the world have bounced sharply since the middle of March this year. But we will still be investing nearly all of Compounder Fund's capital into stocks over the next few weeks for three reasons.

First, our investment framework for Compounder Fund is built by reasoning from first principles. It starts with thinking about the fundamental nature of the stock market (a place to buy and sell pieces of actual businesses); then the fundamental driver of stock prices (the long run performance of the underlying business); and then the fundamental characteristics of what makes for a great business that can grow at high rates over the long run (our **investment framework** for searching for Compounders).

We think that COVID-19 does not change the fundamental identity of the stock market as a place to buy and sell pieces of a business. So, the long-term relationship between stock prices and business performances is not altered in any way. In turn, this means that it will still pay to be looking for businesses with bright growth prospects. We also want to highlight this: We don't think the presence of COVID-19 will significantly harm the long-term growth potential of *all* businesses. There are some businesses that will thrive over the long run despite, or even because of a lasting boost from, the emergence of COVID-19.

Second, we have *no* ability to predict the start and end of recessions, and the start and end of bear markets. We also have no ability to tell what individual stocks or the broader market will do in the short run. So please do not panic or be surprised if the value of Compounder Fund falls shortly after 13 July 2020 - it could very well happen! Because of our inability to divine recessions, bear markets, and short term market movements, we have no desire to attempt to time the market by adjusting the cash percentage of Compounder Fund's portfolio. In fact, we think that timing the market will mostly be a money-losing exercise. Data has shown that it is really important to stay invested. We pointed out the following in the Owner's Manual and the fund's website:

> "Dimensional Fund Advisors, a large US-based fund management company, once shared the following: (a) $1,000 invested in US stocks in 1970 would become $138,908 by August 2019; (b) miss just the 25 best days in the market (that's 25 days in nearly 50 years), and the $1,000 would grow to just $32,763. So if you miss just a handful of the market's best days, your return will plummet."

Where we think we have some ability, is in identifying Compounders. With your support - your understanding that Compounder Fund could be volatile in the short run, and your willingness to tolerate this volatility - Compounder Fund will have the ability to *stay* invested in their shares for the long run. This capability to invest for the long-term in shares of Compounders will be a key driver of Compounder Fund's return in the years ahead. Let's work together!

Third, in the Owner's Manual and the fund website, we said that we are long-term optimists on stocks so long as we have faith in humanity's ability to innovate and solve problems. The exception is when "there are ridiculously high valuations in stocks, such as Japan in the late 1980s/early 1990s when stocks there were worth nearly 100 times their 10-year average inflation-adjusted earnings." We are definitely still optimistic on humanity (and we hope you are too!). Meanwhile, valuations of the stocks in our watchlist are not fantastic, but they are mostly reasonable; the same goes for the major benchmarks for the stock markets that our watchlist-stocks are in.

A few days after we're done allocating Compounder Fund's capital, we will be sharing the portfolio (the companies and their weightings) in the "**Investing Insights**" section of our fund website. Investment theses for the companies in Compounder Fund's portfolio will be published steadily over time, in the same website-section. Feel free to bookmark the "Investing Insights" link and check it regularly for investing commentary and updates from us.

Our promise

We cannot promise you that Compounder Fund will produce a good return over the long run. What we can promise you is that we will be disciplined in how we invest. We will: Stay invested and not time the market; focus on business fundamentals and not macroeconomic developments when making investment decisions; invest most or all of Compounder Fund's capital in Compounders; and be patient long-term holders of their shares. Simply put, we promise that we will be disciplined in sticking to our knitting when it comes to investing. We only want to do what we're good at: Finding Compounders, buying their shares, and holding these shares for the long run.

Speaking of discipline... I've been thinking about the following for the past few years: Has luck or skill been the dominant factor for my past success in the stock market[1] while investing for my family?

There's no way anyone - myself included - can answer the question above with precision. Luck nearly always plays a role in life, and I think it definitely does in the investing realm[2]. But I do think that in my case, the probability that skill had a bigger role to play is higher than the probability that luck was the key reason. I say this because I have stuck to a process since I bought the first stocks for my family's portfolio in October 2010. My process involved: (1) Not timing the market by being fully invested at all times; (2) focusing on business fundamentals and *not* macroeconomic developments; (3) investing mostly in companies with similar traits as Compounders; and (4) holding their shares for the long run. I never wavered from the process.

You can see that the process I used for my family's portfolio is the same as what Jeremy and myself will implement for Compounder Fund. We're going to stick with what has worked and - crucially - what we think will *continue* to work.

Appreciation

Thank you again for choosing Compounder Fund as your companion in your investing journey. Jeremy and myself look forward to a long and meaningful partnership between you and Compounder Fund. In an excellent **recent podcast** by Patrick O'Shaughnessy featuring the extraordinary investor and thinker Charlie Songhurst, I came across the following quote:

> "Often my enthusiasm has been greater than my competence. And it's the people that bet on my enthusiasm more than my competence, I am eternally grateful to them."

Jeremy and myself feel this way. It seems that all of you who are early investors in Compounder Fund had bet on our enthusiasm more so than our competence. And for that, we are eternally grateful.

(By the way, I don't listen to podcasts often but O'Shaughnessy's podcast series, ***Invest Like The Best***, is excellent. Do check it out!)

To end this letter, we want to share a piece of good news. Because Compounder Fund can start with a much higher amount of capital than we initially expected, we now have the ability to provide official monthly reporting of Compounder Fund's net asset value (NAV) per share by our fund administrator, Crowe Horwath First Trust. We had previously mentioned to all of you that Crowe will only provide quarterly official reports on the fund's NAV per share. (Changes in Compounder Fund's NAV per share tell you the fund's performance.) We hope this increase in the frequency of official reporting will improve your experience with Compounder Fund. To be clear, Compounder Fund will still only accept subscriptions and redemptions once every quarter (with a dealing date on the first business day of each calendar quarter).

You can expect to see Compounder Fund's 2020 Q3 Investors' Letter in mid-October 2020. Till then, stay safe!

Excelsior,
Chong Ser Jing
Co-founder and Portfolio Manager, Compounder Fund
14 July 2020

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[1]Some of you may already know that I run an investment blog together with Jeremy called *The Good Investors.* It's free-to-read, and it is our personal investing blog. In June 2020, I wrote ***Saying***

Goodbye: 10 Years, a 19% Annual Return, and 17 Investing Lessons. In the article, I commemorate my family's investment portfolio that I had managed since October 2010 (the lion's share of the portfolio has been liquidated, with the capital invested in Compounder Fund; I've also stopped managing the remaining sum) and share lessons I've learnt about investing over the years.

[2]One of my favourite examples of the role of luck in the financial markets can be found in the 2010 book, *The Big Short,* by Michael Lewis. The book featured a few real-life investors in the US who saw the 2008 housing and financial crisis early and profited from it. One of the investors featured is hedge fund manager Steve Eisman, who first learnt about the looming crisis from a bond trader named Greg Lippmann. What is interesting is that Eisman only knew about the idea because of a mistake that Lippmann made. Lippmann wanted to meet an investment firm named Frontpoint to discuss ways to bet against the US housing market. Eisman's hedge fund was named Frontpoint – but it was *not* the Frontpoint Lippmann was looking for. Lippmann only realised his error when he met Eisman in person. So Eisman only knew about the coming crisis because Lippmann suffered a case of mistaken identity. Sure, Eisman may have eventually discovered the same problem independently. But this is a counterfactual that is impossible for us to ever know. What we do know is that Lady Luck had smiled on Eisman, and to his credit, he acted on it.

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