

Compounder Fund Investors' Letter: First Portfolio Update



COMPOUNDER FUND

GROWING YOUR WEALTH AND ENRICHING SOCIETY

Dear investor,

Since the close of Compounder Fund's initial offering period (IOP) more than two weeks ago on 13 July 2020, Jeremy and myself have been hard at work deploying the fund's capital into our favourite Compounders. We completed the exercise a few days ago.

As a reminder, we mentioned the following in the fund's [Owner's Manual](#) and [website](#):

"At the launch of Compounder Fund, we will group the stocks into three baskets based on their level of risk: (1) Stocks with a weight of around 4% or higher; (2) stocks with a weight of around 2.5%; and (3) stocks with a weight of around 1% or lower."

The table below shows Compounder Fund's portfolio. The percentages you see reflect the allocation of Compounder Fund's initial capital that we've invested into each company. We consider all the companies you see below to be Compounders. We did not invest in the shares of any special situation plays or companies with hidden asset values.

Company	Allocation to company based on Compounder Fund's initial capital	Country/Region of listing	Headquarters
Amazon	4.0%	US	US
Facebook	4.0%	US	US
MercadoLibre	4.0%	US	Argentina
Microsoft	4.0%	US	US
Netflix	4.0%	US	US
PayPal	4.0%	US	US

Tencent Holdings	4.0%	Hong Kong	China
a2 Milk	2.5%	Australia	New Zealand
Adobe	2.5%	US	US
Alphabet	2.5%	US	US
Apple	2.5%	US	US
Chipotle Mexican Grill	2.5%	US	US
Costco	2.5%	US	US
DocuSign	2.5%	US	US
Illumina	2.5%	US	US
Intuitive Surgical	2.5%	US	US
Markel	2.5%	US	US
Mastercard	2.5%	US	US
Medistim	2.5%	Norway	Norway
PushPay	2.5%	Australia	New Zealand
Salesforce.com	2.5%	US	US
Shopify	2.5%	US	Canada
The Trade Desk	2.5%	US	US
Tractor Supply	2.5%	US	US
Veeva Systems	2.5%	US	US
Visa	2.5%	US	US
Wix.com	2.5%	US	Israel
Activision Blizzard	2.0%	US	US
Haidilao	2.0%	Hong Kong	China
Meituan Dianping	2.0%	Hong Kong	China
Okta	2.0%	US	US
Square	2.0%	US	US
Starbucks	2.0%	US	US
Twilio	2.0%	US	US
Alteryx	1.0%	US	US
Datadog	1.0%	US	US
Livongo	1.0%	US	US
MongoDB	1.0%	US	US
Paycom Software	1.0%	US	US
Zoom	1.0%	US	US
Cash	2.0%	-	-

Here's a quick high-level geographical breakdown of Compounder Fund's initial portfolio:

Country/region	% of Compounder Fund's initial capital based on country of listing	% of Compounder Fund's initial capital based on location of headquarters
Argentina	-	4.0%
Australia	5.0%	-
Canada	-	2.5%
China	-	8.0%
Hong Kong	8.0%	-
Israel	-	2.5%
New Zealand	2.5%	5.0%
Norway	-	2.5%
USA	82.5%	73.5%

The lion's share of Compounder Fund's initial capital - 98% - is now invested in the shares of 40 companies that are found across a number of countries in the world. We expect to be long-time shareholders in most of these companies. Over time, the number of companies in Compounder Fund's portfolio will fluctuate. But as a reminder, Compounder Fund will own shares of 30 to 50 companies at any point in time.

It's important for you to understand why we decided to deploy Compounder Fund's capital so quickly, and also have a low cash position of just 2% in the portfolio. **We did so not because we think stock markets around the world are poised to rise over the short run. We have no clue what markets will do over short timeframes.** We did so because we are firm believers in two things:

1. Stock markets - in aggregate - will rise over the long run as a reflection of human progress. We have ample faith in mankind's ingenuity and desire to create a better tomorrow.
2. We are unable to time the markets, so we prefer to be nearly fully invested, since missing out on just a handful of the market's best days can have a huge negative impact on our returns.

Please do not panic or be surprised if the value of Compounder Fund falls in the months ahead - it could happen! But we are confident that in the long run Compounder Fund should work out very well for you and for us (we are also investors in the fund). We feel great about the long-term growth prospects of the Compounders that Compounder Fund owns partial stakes in.

Speaking of growth... the US economy, the world's largest, recently reported a shocking 9.6% decline in GDP (gross domestic product) from a year ago for the second quarter of 2020, after being ravaged by COVID-19. This is an even deeper fall than during the troughs of the 2008-09 financial crisis, when GDP slid by 5.2% in the first quarter of 2009.

The US economy's performance looks horrible for stocks... or does it? In the second quarter of 2020, Amazon grew revenue by an amazing 40%, while Apple, Facebook, and Microsoft each posted low-teens revenue growth. Shopify's top-line did even better, soaring by 97% year-on-year, up from an already impressive growth of 47% in the first-quarter. Tractor Supply, a bricks-and-mortar retailer of rural lifestyle products, experienced a robust 35% jump in revenue in 2020's second-quarter. We think these numbers are a fantastic example of how **the stock market and the economy are not the same things**. At Compounder Fund, we are aware of macroeconomic developments, but **we will not use them as the basis for our investment decisions**. We are focused on individual companies and how their businesses will perform over the next five to 10 years or more.

In the coming months, we will be steadily releasing our investment theses for the 40 companies in Compounder Fund's initial portfolio on the fund's website. The theses will be posted under the "[Investing Insights](#)" section. You can also find a repository for all the investment theses in the "[Performance & Portfolio](#)" section of the website.

Each thesis is going to be a lengthy article of around 3,000 words or more. With 40 companies, that's going to be at least 120,000 words, which is the length of a book! So we seek your understanding in giving us time to write and publish our theses. We want to explain our thinking to you as clearly as possible, but the trade-off is that we will need a longer time to produce the work as compared to writing short snippets. Please give us the time and space needed to communicate our thinking behind the 40 companies in Compounder Fund's portfolio. We deeply appreciate your support and thank you in advance for your patience and understanding. We will be publishing a few theses in the coming days, and will then periodically publish more over time - once a month, we'll send a quick update to let you know what theses have been published.

If you have any questions related to Compounder Fund's administrative matters or our general investment thinking, please know that our email inboxes are always open. 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
5 August 2020

Disclaimer

The Information published herein are intended for “Accredited Investors” and/or “Institutional Investors” only as defined in the Singapore Securities & Futures Act (Cap. 289) of Singapore (“SFA”). This Information is provided for informational and discussion purposes only and is not, and may not be relied on in any manner (legal, tax or investment advice) as an offer to sell or a solicitation of an offer to buy or subscribe to any funds managed by Galilee Investment Management Pte. Ltd. (“Galilee”). An offering of interests in the Fund will only be made pursuant to a confidential offering memorandum or similar written material and the Fund’s subscription documents (collectively referred to as the “Material”), which will be furnished to accredited or institutional investors (and their employees and agents) on a confidential basis at their request for their consideration in connection with such offering. None of the information or analyses presented are intended to form the basis for any investment decision, and no specific recommendations are intended. No reliance may be placed for any purpose on the Information provided or the accuracy or completeness thereof and no responsibility can be accepted by Galilee, and/or any of their respective affiliated entities to anyone for any action taken on the basis of such Information. Whilst Galilee shall use reasonable efforts to obtain information from sources which we believe to be reliable and up to date, Galilee gives no warranty as to the accuracy, completeness or reliability of any information, opinions or forecasts contained in the Information. No responsibility or liability can be accepted for any errors or omissions or for any loss resulting from the use of the Information. Past performance of the managers and the funds, and any forecasts on the economy, stock or bond market, or economic trends that are targeted by the funds, are not indicative of future performance. Investment in the Fund will involve significant risks, including loss of the entire investment. The Fund will be illiquid, as there is no secondary market for interests in the Fund and none is expected to develop. There will be restrictions on transferring interests in the Fund. Investments may be leveraged and the investment performance may be volatile. Whilst Galilee shall use reasonable efforts to obtain information from sources which we believe to be reliable and up to date, Galilee gives no warranty as to the accuracy, completeness or reliability of any information, opinions or forecasts contained in the Information. No responsibility or liability can be accepted for any errors or omissions or for any loss resulting from the use of the Information. Galilee may update, revise, delete or modify the content and Information herein without notice. Material should only be considered current as of the time of initial publication or as otherwise stated in the Material without regard to the date on which you may access the Material. These exclusions of liability do not apply to the extent that such exclusions are invalid or ineffective under any law or regulation applicable to Galilee. Before deciding to invest in the Fund, prospective investors should read the Material and pay particular attention to the risk factors contained in the Material. Investors should have the financial ability and willingness to accept the risk characteristics of the Fund’s investments, including any risk factor, forward looking statements as set out in the Material.

No Commercial Exploitation: The copyright and other intellectual property rights in the Information are owned by Galilee. Any use of the Material for any purpose is accordingly prohibited except as stated below. You may not reproduce, transmit, modify, store, archive or in any other way use for any public or commercial purpose any of the Information without the prior written permission of Galilee.