Compounder Fund Investors' Letter: Fourth Quarter of 2020

COMPOUNDER FUND

GROWING YOUR WEALTH AND ENRICHING SOCIETY

Dear investors,

Together with my co-founder Jeremy Chia, I welcome you to Compounder Fund's 2020 fourth-quarter investors' letter.

During the quarter, Compounder Fund's overall net-of-fee return for its Class A and Class B shares were both 6.8%. Over the same period, the dividend-adjusted Singapore-dollar returns for the MSCI World Index and the S&P 500 were 10.4% and 8.6%, respectively. The tables below show the returns for Compounder Fund's two share classes, the MSCI World Index, and the S&P 500, since the birth of the fund.

Total Return	Oct 2020	Nov 2020	Dec 2020	2020 Q3*	2020 Q4	Since inception **
Compounder Fund Class A (after fees)	-1.6%	7.0%	1.4%	4.1%	6.8%	11.2%
MSCI World Index***	-2.9%	10.6%	2.9%	3.7%	10.4%	14.6%
S&P 500***	-2.5%	8.7%	2.4%	5.2%	8.6%	14.2%

**Performance calculated from 13 July 2020 to 31 July 2020*

***Inception date: 13 July 2020*

****MSCI World Index and S&P 500 returns are in Singapore-dollar terms, with dividends reinvested*

Total Return	Oct 2020	Nov 2020	Dec 2020	2020 Q4	Since inception*
Compounder Fund Class B (after fees)	-1.8%	7.3%	1.4%	6.8%	6.8%
MSCI World Index**	-2.9%	10.6%	2.9%	10.4%	10.4%
S&P 500**	-2.5%	8.7%	2.4%	8.6%	8.6%

**Inception date: 1 October 2020*
***MSCI World Index and S&P 500 returns are in Singapore-dollar terms, with dividends reinvested*

Jeremy and I are comparing Compounder Fund's performance with that of the MSCI World Index and the S&P 500 to provide an indication of how the fund is faring against a broad group of stocks that are listed across the world and in the USA.

As you know, Compounder Fund's investment mandate is global in nature. This means the fund can invest in any listed stock in the world; it also makes the MSCI World Index a sensible index to use for context about Compounder Fund's performance. But since most of Compounder Fund's holdings are currently US-listed stocks, it's also important to Jeremy and me that we compare the fund's performance with a prominent US stock market index, in this case, the S&P 500. If Compounder Fund is doing better than the MSCI World Index, comparing the fund's return with the S&P 500 helps the both of us to see if the outperformance is due simply to a rising tide in US stocks.

What can be gleaned from Compounder Fund's return so far? Nothing really. The time frame is way too short for any useful observations to be made. With your strong support, we are playing the long game here at Compounder Fund.

Judging our performance

We have new investors on board, so we think it's important to provide a discussion on how we intend to judge Compounder Fund's performance. If you've seen our **2020 third-quarter investors' letter**, this section will be largely familiar but we urge you to read on because there are some additions. If this is the first investors' letter from us that you're seeing, then *please* read this section (no cheating allowed!).

Our target for Compounder Fund is to generate an annual return of 12% or more over the long run (a five- to seven-year period, or longer) for the fund's investors, net of all fees. When Warren Buffett was running an investment fund in the 1950s and 1960s, he shared his thoughts on a suitable time frame to assess the performance of an investment manager:

> "While I much prefer a five-year test, I feel three years is an absolute minimum for judging performance. It is a certainty that we will have years when the partnership performance is poorer, perhaps substantially so, than the [market]. If any three-year or longer period produces poor results, we all should start looking around for other

> places to have our money. An exception to the latter would be three years covering a speculative explosion in a bull market."

Jeremy and I fully agree with Buffett. We hope that you, as an investor in Compounder Fund, will judge its performance over a three-year period at the *minimum*.

It will be very disappointing for the both of us too if Compounder Fund fails to beat the MSCI World Index and S&P 500 over a five- to seven-year timeframe. Jeremy and I believe that having a thoughtful investment framework to find Compounders, and the willingness and ability to hold the shares of Compounders for years, will likely lead us to market-beating returns. (Do note, however, that we harbour *no* illusion that we're able to beat the indexes each month, each quarter, or each year.) The willingness comes from our ingrained long-term view towards the market. The ability, though, comes from *your* keen understanding of our investment approach - so thank you for taking the time to understand how we're running Compounder Fund and for seeing the logic of our ways.

Some caution is needed here: The stock market **is *volatile***. The returns of Compounder Fund will very likely *not* be smooth - this is just how stocks work. If the market falls, you should expect Compounder Fund to decline by a similar magnitude or more. But this will likely only be short-term pain. Jeremy and I believe in the long-term potential of the stock market, and especially in the underlying businesses of the stocks in Compounder Fund's portfolio (more on the businesses later).

Speaking of volatility, I want to discuss the important concept of 'the destination'. It was first described to me by a friend, who's an incredibly impressive young investor and person. He in turn first came across the concept from one of the best investors I've read about. This particular investor has been retired for a few years and prefers to be outside the public eye, hence my reluctance to name him. To illustrate the concept, I will need you to first think about two sequences of returns over a five year period:

Time	Sequence A return	Sequence B return
Year 1	+50%	+5%
Year 2	+28%	+15%
Year 3	+3%	+3%
Year 4	+15%	+28%
Year 5	+5%	+50%
Total	**139%**	**139%**

Both sequences result in the same total return - the journey is different, but the destination is the same. Interestingly, even though the end results are identical, we humans tend to prefer Sequence B over Sequence A. This is because Sequence B's return looks better to us since it improved over time compared to Sequence A's return, which deteriorated. We humans exhibit natural psychological biases that cause us to favour more recent data.

This is important to note because when investing in stocks, it's often much easier to know the destination than it is to know the journey. Jeremy and I have absolutely *no* control over the journey of returns for Compounder Fund - what we have is a great degree of control over the destination. This 'great degree of control' comes from our careful selection of the companies that Compounder Fund owns shares in. And I say 'a great degree of control' and not 'full control' because luck *will* play some role in Compounder Fund's eventual return. So you should expect Compounder Fund's return - and indeed, that of all stocks - to bounce around wildly in the short term. Over the long run, Compounder Fund's return should gravitate toward the long term business performances of the companies it owns partial stakes in. (There's no guarantee that this gravity will be a strong upward pull! The direction of the gravitational force will depend on whether our insights - regarding the abilities of the companies in Compounder Fund's portfolio to grow at high rates over the long run - turn out to be correct.)

Portfolio changes

On 15 October 2020, I wrote Compounder Fund's **2020 third-quarter investors' letter**. In it, I shared all 40 holdings in the fund's portfolio. As of the date of this letter, the portfolio contains the same 40 holdings (although Livongo did change to Teladoc - more on this soon), *plus* the addition of three new stocks.

As you know, Compounder Fund is able to accept new subscriptions once every quarter with a dealing date that falls on the first business day of each calendar quarter. In the middle of December 2020, Jeremy and I successfully closed Compounder Fund's second subscription window since its initial offering period (which ended on 13 July 2020) and raised S$1.715 million.

This new capital was deployed quickly in the days after the last subscription window's dealing date of 4 January 2021. Jeremy and I invested the new capital across 19 of Compounder Fund's existing holdings. They are (in alphabetical order): Activision Blizzard, Amazon, Chipotle Mexican Grill, Costco, DataDog, DocuSign, Facebook, Haidilao, MercadoLibre, Netflix, PayPal, Shopify, Square, Teladoc, The Trade Desk, Twilio, Veeva Systems, Wix.com, and Zoom. We also invested the new capital into three new stocks, namely, Afterpay Touch, Fiverr, and Tesla. A few quick words on the new companies in the portfolio:

- Teladoc, previously a telehealth services provider, became an existing position in Compounder Fund after it merged with Livongo on 30 October 2020 (Livongo is now a subsidiary of Teladoc). The deal saw Livongo shareholders receive cash as well as Teladoc shares; we opted to proceed with the deal and so Compounder Fund is now a shareholder of Teladoc. The combined Teladoc/Livongo entity is now a connected health company with interests in telehealth services and remote health-monitoring.
- Afterpay Touch is a BNPL (buy now, pay later) company that counts Australia and the USA as its key markets. We find the BNPL model to be much less usurious for consumers compared to traditional credit cards. Moreover, Afterpay is very popular with users, which we find to be an intriguing trait for a payments company. So, we find the growth opportunity with Afterpay to be very interesting.

- Fiverr operates an online platform that connects freelance service providers with companies and individuals who require freelance services. We think it's providing an important platform in the freelancing economy, and the business still has significant room for long-term growth despite having grown rapidly over the past few years.
- Tesla is… well, you know Tesla. It is perhaps the most controversial company we have in Compounder Fund. For a long time, we could not get a good grasp on the economics of Tesla's business, but we now think we have a much better handle on this. We see Tesla as much more than just an electric vehicle manufacturer and its future seems bright. The market also seems to agree wholeheartedly, given that Tesla has a blindingly high valuation. For now, the company is one of the smallest positions in the portfolio. We're adopting the stance of "if it works, a little is all you need, if it doesn't, a little is all you want" - this stance comes from one of the best investors I know, Thomas Engle, who recently retired from The Motley Fool.

As of this letter's publication, we have released our detailed investment theses on 30 companies in Compounder Fund's portfolio and they can all be **found here**. There are now 43 holdings in the fund, so it means that there are 13 more investment theses to go (the 13 includes Teladoc/Livongo, Afterpay, Fiverr, and Tesla). You can expect to see these 13 theses over the next few months.

In Compounder Fund's **Owner's Manual**, we mentioned that "if Compounder Fund receives new capital from investors, our preference when deploying the capital is to add to our winners and/or invest in new ideas." Not all of the 19 existing holdings in Compounder Fund's portfolio that we added capital to have seen their stock prices rise strongly after we initially invested in them. But all of them (with the exception of Haidilao) have executed brilliantly in recent times and produced wonderful results as you'll soon see. They are winners, according to our definition. The three new stocks we invested in have also produced excellent results (more on them shortly). Here's how Compounder Fund's portfolio looks like as of 12 January 2021:

Company	Weighting	Country/Region of listing	Headquarters
MercadoLibre	7.4%	USA	Argentina
PayPal	5.5%	USA	USA
Amazon	4.0%	USA	USA
Netflix	4.0%	USA	USA
Tencent	3.9%	Hong Kong	China
Facebook	3.6%	USA	USA
The Trade Desk	3.5%	USA	USA
Shopify	3.3%	USA	Canada
Haidilao	3.2%	Hong Kong	China
DocuSign	2.9%	USA	USA
Microsoft	2.8%	USA	USA
Tractor Supply	2.7%	USA	USA

Square	2.7%	USA	USA
Okta	2.6%	USA	USA
Twilio	2.2%	USA	USA
Apple	2.1%	USA	USA
Meituan Dianping	2.1%	Hong Kong	China
Costco	2.1%	USA	USA
Chipotle Mexican Grill	2.1%	USA	USA
Wix	2.1%	USA	Israel
Veeva Systems	2.1%	USA	USA
Zoom Video Communications	2.0%	USA	USA
Medistim	2.0%	Norway	Norway
Intuitive Surgical	1.9%	USA	USA
Alphabet	1.9%	USA	USA
Salesforce	1.8%	USA	USA
Mastercard	1.8%	USA	USA
Teladoc	1.8%	USA	USA
Starbucks	1.8%	USA	USA
Adobe	1.8%	USA	USA
Activision Blizzard	1.7%	USA	USA
Visa	1.7%	USA	USA
Markel	1.7%	USA	USA
Fiverr	1.6%	USA	Israel
Illumina	1.5%	USA	USA
Pushpay	1.5%	Australia	New Zealand
MongoDB	1.2%	USA	USA
Datadog	1.1%	USA	USA
a2 Milk	1.0%	Australia	New Zealand
Paycom Software	0.9%	USA	USA
Afterpay Touch	0.9%	Australia	Australia
Tesla	0.5%	USA	USA
Alteryx	0.4%	USA	USA
Total cash	**0.8%**	**-**	

We added to our position in Haidilao, despite the hotpot restaurant operator posting poor results for the first half of 2020 because of COVID-19 (the company only reports earnings once every six months). We did so after coming across a Mandarin book titled ***海底捞,你学不会*** that was published in 2011 (in English, the title is translated as *You Can't Copy Haidilao*).

The book was written from the point of view of its author, Huang Tie Ying, a professor at Beijing University, and in it Huang discusses the highly unusual way that Zhang Yong manages Haidilao. Zhang is Haidilao's co-founder and the company's key leader since its founding in 1994. *You Can't Copy Haidilao* gave us much deeper insights on who Zhang is as a person, and what makes Haidilao tick. After reading the book, we developed even greater conviction on Haidilao's future growth, the fuel of which is Zhang's unique worldview. So we decided to increase the company's allocation in Compounder Fund. In our **investment thesis for Haidilao**, we also shared English translations of some of our favourite passages from *You Can't Copy Haidilao*.

Here's a quick high-level geographical breakdown of Compounder Fund's portfolio as of 12 January 2021:

Country/Region	% of Compounder Fund's capital based on country of listing	% of Compounder Fund's capital based on location of headquarters
Argentina	-	7.4%
Australia	3.3%	0.9%
Canada	-	3.3%
China	-	9.2%
Hong Kong	9.2%	-
Israel	-	3.6%
New Zealand	-	2.5%
Norway	2.0%	2.0%
USA	84.7%	70.3%

Wonderful businesses

Jeremy and I are pleased to report that the companies in Compounder Fund's portfolio have, in aggregate, delivered strong growth in the first three quarters of 2020. As of the date of this letter, we have the financial results for all of Compounder Fund's holdings for the first nine months of 2020, with the exception of a2 Milk, Afterpay Touch, and Haidilao (these three companies report their results once every six months and the last time they reported was for the first half of 2020).

The table below shows the year-on-year revenue growth in the first three quarters of 2020 for the companies that are in Compounder Fund's portfolio:

Company	Revenue growth in Q1 2020 from a year ago	Revenue growth in Q2 2020 from a year ago	Revenue growth in Q3 2020 from a year ago	Revenue growth in the first half of 2020 from a year ago	Revenue growth in the first 9 months of 2020 from a year ago
a2 Milk	34.2%	34.2%	-	34.2%	-

Activision Blizzard	-2.0%	38.4%	52.4%	15.5%	26.0%
Adobe	14.0%	13.8%	14.4%	13.9%	14.1%
Afterpay Touch	96.9%	96.9%	-	96.9%	-
Alphabet	13.3%	-1.7%	14.0%	5.5%	8.5%
Alteryx	43.2%	17.3%	25.5%	29.7%	28.0%
Amazon	26.4%	40.2%	37.4%	33.5%	34.9%
Apple	0.5%	10.9%	1.0%	5.5%	5.5%
Chipotle Mexican Grill	7.8%	-4.8%	14.1%	1.2%	5.6%
Costco	7.3%	12.4%	16.7%	10.2%	12.2%
Datadog	87.4%	68.2%	66.3%	77.0%	81.1%
DocuSign	38.8%	45.2%	53.5%	42.2%	46.2%
Facebook	17.6%	10.7%	21.6%	14.0%	16.7%
Fiverr	43.7%	81.9%	87.8%	63.6%	72.3%
Haidilao	-16.5%	-16.5%	-	-16.5%	-
Illumina	1.5%	-24.5%	-12.5%	-11.4%	-11.8%
Intuitive Surgical	12.9%	-22.5%	-4.5%	-5.8%	-5.4%
Livongo/Teladoc**	114.6%**	124.7%**	109.3%**	120.3%**	79.1%**
Markel	10.5%	11.8%	20.9%	11.1%	14.5%
Mastercard	3.1%	-18.9%	-14.1%	-8.2%	-10.3%
Medistim	16.2%	-12.1%	-2.5%	1.7%	0.3%
Meituan Dianping	-12.6%	8.9%	28.8%	-1.0%	10.8%
MercadoLibre	37.6%	61.1%	85.0%	50.3%	63.1%
Microsoft	14.6%	12.8%	12.4%	13.6%	13.2%
MongoDB	45.8%	39.2%	37.8%	42.3%	40.6%
Netflix	27.6%	24.9%	22.7%	26.2%	24.9%
Okta	46.0%	42.7%	42.0%	44.3%	43.5%
Paycom Software	21.2%	7.2%	12.3%	14.8%	14.0%
PayPal	11.9%	22.2%	24.7%	17.1%	19.7%
PushPay	-	-	52.7%	-	52.7%
Salesforce.com	30.2%	28.9%	20.1%	29.5%	26.0%
Shopify	46.7%	97.3%	96.5%	73.5%	81.9%

Square	44.0%	63.8%	139.6%	54.9%	86.4%
Starbucks	-4.9%	-38.1%	-8.1%	-22.2%	-17.4%
Tencent Holdings	26.4%	29.3%	29.0%	27.9%	28.3%
Tesla	31.8%	-4.9%	39.2%	10.4%	20.9%
The Trade Desk	32.8%	-12.8%	31.6%	6.8%	16.0%
Tractor Supply	7.5%	34.9%	31.4%	23.0%	25.7%
Twilio	56.5%	45.7%	51.8%	50.7%	51.1%
Veeva Systems	37.7%	32.5%	34.4%	35.0%	34.8%
Visa	6.6%	-17.2%	-16.9%	-5.7%	-9.6%
Wix.com	23.9%	27.3%	29.2%	25.7%	26.9%
Zoom	169.0%	355.0%	366.5%	270.3%	307.2%

Source: Companies' earnings updates
***Numbers for first and second quarters of 2020, and first half of 2020, are for Livongo; numbers for the third quarter of 2020 and first nine months of 2020, are for Teladoc*

Here's a table showing the simple averages of the year-on-year revenue growth rates for the fund's holdings for various time periods in 2020:

Simple averages	Revenue growth in Q1 2020 from a year ago	Revenue growth in Q2 2020 from a year ago	Revenue growth in Q3 2020 from a year ago	Revenue growth in the first half of 2020 from a year ago	Revenue growth in the first 9 months of 2020 from a year ago
Without Afterpay Touch, Fiverr, Tesla	28.2%	30.6%	40.4%	29.5%	33.8%
With Afterpay Touch, Fiverr, Tesla	30.3%	32.5%	41.6%	31.5%	34.5%

Source: Companies' earnings updates

In Compounder Fund's 2020 third-quarter letter, I mentioned that the simple-average year-on-year revenue growth rate for the first half of 2020 for Compounder Fund's portfolio was 29.5%. This is reflected in the table just above. What's heartening for us is that the same number for the third quarter of 2020 had *increased* to 40.4%. If we include the revenue-growth figures for the three new companies (Afterpay Touch, Fiverr, and Tesla), the simple average would have inched up to 41.6%.

We chose to display just revenue growth because some of our companies are still loss-making and/or generating negative free cash flow (for healthy reasons!). Besides, strong revenue growth is the best starting ingredient for a company to produce growing free

cash flow. To be clear, we do not expect our portfolio companies to constantly post an acceleration in their year-on-year revenue growth rates - this would be completely unrealistic. What we hope to see - and we think there's a high chance this will come to fruition - is for our portfolio companies, in aggregate, to continue to achieve pleasing year-on-year revenue growth in the years ahead. I also wrote this in Compounder Fund's 2020 third-quarter letter:

> "Only time can tell if the 32 companies in Compounder Fund's portfolio that grew their revenues in the first half of 2020 will continue producing great business results over the long run. But they're off to a good start. Of the seven that experienced revenue declines, we believe that their troubles are short-term in nature and growth will resume once COVID-19 stops becoming a serious global health threat. But again, only time can tell if we're right"

Jeremy and I are happy to note that of the aforementioned 32 companies, 31 of them had continued to produce top-line growth in the third quarter of 2020 (with the exception of Medistim, which had a small 2.5% fall in revenue). Meanwhile, of the seven that posted revenue declines for the first half of 2020, Meituan Dianping experienced a reversal of fortunes with strong revenue growth of 28.8%.

In all, we've so far been delighted with the aggregate business performance of Compounder Fund's portfolio holdings.

Investing thoughts: What's our edge?

We believe that there are three sources of edge in the stock market: Informational, analytical, and behavioural. (John Huber, who runs Saber Capital Management, deserves a big hat-tip here. A few years ago, we chanced upon his **2013 presentation** on the possible sources of investing edge and it set our minds running on the topic.)

The informational edge refers to having access to information that most others do not have. In his 2013 presentation, Huber shared the story of how Warren Buffett uncovered Western Insurance as an investment opportunity in the 1950s. Western Insurance was a profitable, well-run insurance company and was selling at a price-to-earnings ratio of just 1. Buffett found the company by poring over Moody's, a print magazine that listed financial statistics of stocks in the USA. It would have been painstaking work in those days to look at every stock individually.

But with the birth of the internet, the informational edge has mostly disappeared. Information is now easily and cheaply available. The internet and the growth in software capabilities have levelled the information-playing-field tremendously. This makes having access to information difficult to be a lasting investing edge for us.

The analytical edge is where you're able to process information differently and come up with better insights compared to most. Philosopher Arthur Schopenhauer's quote comes to mind: "The task is… not so much to see what no one has yet seen, but to think what nobody has yet thought, about that which everyone sees." We believe that it's possible to have an analytical edge. Give two investors (even two really good ones) the exact same information

about a company and it's highly likely they will arrive at a different conclusion about its attractiveness as an investment opportunity.

Most of you may know that prior to setting up Compounder Fund, I had been **helping my family to invest in stocks** since October 2010. So I've been investing for more than a decade. The experience I've had so far makes me think that I have a small knack for identifying businesses that can grow significantly faster than average for a long period of time (I hope you agree too!).

There's an interesting angle to our analytical edge that I want to discuss. Jeremy and I are constantly seeking out management teams that have a unique way of looking at the world - this is part of how we assess a management team's ability to innovate. Having a unique worldview is important to us because it means that a company's management team is likely to hold an analytical edge over competitors. And crucially, we think this edge is resistant to erosion by market forces. I think a fascinating example of how this works can be found in Haidilao.

The way Haidilao treats its employees - excellently! - is not a secret. And it's nowhere near rocket science. *You Can't Copy Haidilao* laid out the following and more: Haidilao pays top-notch salaries to its employees and also pays a stipend to its employees' parents; Haidilao built a school in its employees' village in China so that they don't have to worry about their children's education; an employee who has been a restaurant manager at Haidilao for at least a year gets a handsome "dowry" if he/she leaves for *any* reason. The book was published in 2011. Haidilao stated in its 2018 IPO prospectus that it has industry-leading compensation for employees. The company produced break-neck growth from 2015 to 2019 (a compound annual revenue growth rate of 46.6%) and had very likely gained significant market share since China's hotpot restaurant market grew by 'only' 11.6% annually from 2013 to 2017.

Having its operational secrets 'exposed' did no harm to Haidilao's growth. This is because Haidilao's *real* secret - in our view - is Zhang Yong's immense kindness and love toward his fellow man, and his unwavering belief in the good of humankind. He has infused these qualities into Haidilao and it has helped him to develop employees who deliver extraordinary service to customers from the heart. And it is this *genuine* commitment to exemplary service from Haidilao's frontline service staff that has propelled the company's growth.

Jeremy and I have dined in Haidilao's restaurants and those of its competitors on many occasions. As much as its competitors try to copy the form of Haidilao's service, they can't seem to get its substance. And we think there's only a tiny sliver of a chance that Haidilao's competitors can ever truly imitate the company. Haidilao's substance comes directly from Zhang's worldview, and it is something that is unlikely to be replicable - this thus gives Haidilao a lasting competitive advantage. Indeed, a friend of mine knows the family behind one of Haidilao's main competitors in Singapore (another high-end hotpot restaurant brand). He told me that this family thinks very differently about their employees compared to Haidilao. In my mind, I thought: "Of course this is the case, the family does not have Zhang Yong!"

But all this said, the analytical edge is not easy to obtain. And we also cannot guarantee that we do have it. Only time will tell!

The third edge we note is behavioural, and it is the simplest to achieve of the three. By behavioural, we mean exhibiting patience in the stock market. And it's the simplest because all it requires is patience (provided of course, that our portfolio is made up of companies with intrinsic values that are growing over time). But why are we even concerned about patience in the first place? There are a few reasons.

The first is because of Benjamin Graham's sage words, and a keen understanding of our own strengths and weaknesses. Graham once said that the market is a voting machine in the short run, but a weighing machine in the long run. We have no ability to tell how the votes will tally, but we think we are good enough to know how the weighing scales will tip. Because of this, we're keenly focused on the long run with our investing activities.

The second reason is that by being patient, we're able to enjoy the compounding of wealth that great businesses build over time *and* take advantage of any long-term inefficiencies in the market. There are plenty of long-term inefficiencies in our view. The market collapse in the USA in March 2020, which happened with unprecedented speed, is a great example. Many technology companies, with sound businesses, saw their share prices plunge. But when it turned out that their businesses were growing just fine, their share prices rebounded with a vengeance. A good example is Amazon. Its share price fell by nearly 23% from a peak of US$2,170 on 19 February 2020 to a low of US$1,677 on 12 March. Today, Amazon's share price sits comfortably above US$3,000. (Earlier, we showed Amazon's excellent revenue growth rates of 26.4%, 40.2%, and 37.4% in the first, second, and third quarters of 2020, respectively.)

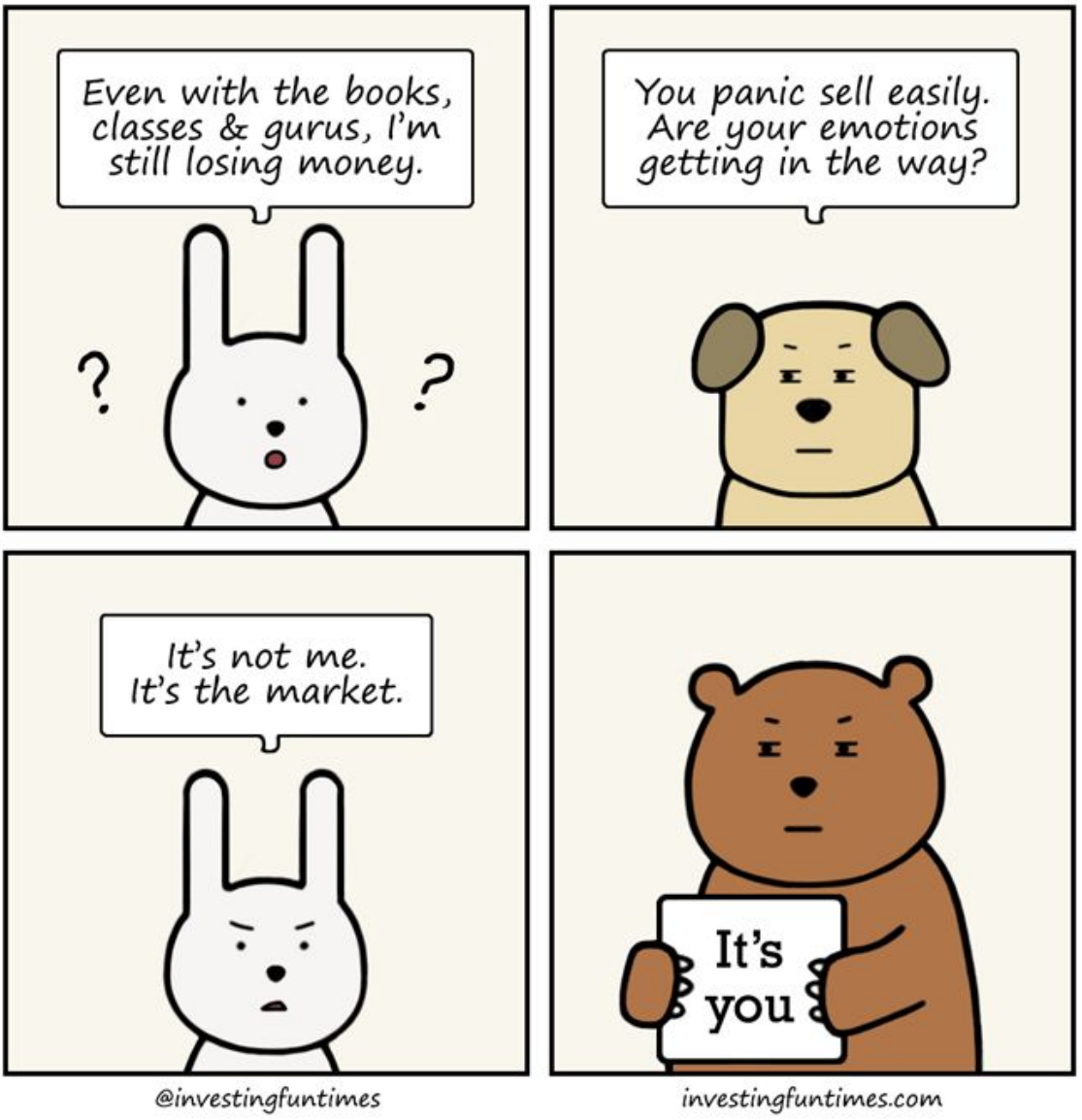
The third reason is connected to long-term inefficiencies in the stock market and it is the idea that competition for returns largely disappears if you lengthen your time horizon *because most people are just not patient.* Morgan Housel is a partner at the venture capital firm Collaborative Fund and he's one of my favourite finance writers. He once shared this delightful titbit in a **blog post** (emphasis is mine):

> "BlackRock CEO Larry Fink once told a story about having dinner with the manager of one of the world's largest sovereign wealth funds. *The fund's objectives, the manager said, were generational. "So how do you measure performance?" Fink asked. "Quarterly," said the manager.* There is a difference between time horizon and endurance."

In the "Judging our performance" section of this letter, I shared the concept of the destination. When running Compounder Fund, we're optimising for the destination, *not* the journey, because we have no idea what the journey will be like! **This point is important for the long-term success - or failure - of Compounder Fund**. While the analytical edge of Compounder Fund can only be influenced by Jeremy and me, **its behavioural edge can be greatly shaped by all of you who are investors in the fund**. How so? By accepting our long-term business-focused approach to investing, by focusing on the destination instead of the journey, by accepting that the journey could be fraught with volatility, by *not* being overly influenced by the market's myopic short-term concerns, all of you give us the mental

freedom to invest for the long run. **Please never underestimate the importance of your role in shaping Compounder Fund's long-term return**.

And on the topic of the important role all of you play, Jeremy and I are incredibly heartened that **we did *not* hear from any of you throughout the entire US Presidential Election period in the fourth quarter of 2020**. As the date for the Americans to cast their votes approached, Jeremy and I had set aside time during our days, in case we had to face questions about how we're positioning Compounder Fund's portfolio for the election (note: the election did not even have an ounce of influence over our investment decisions). Instead, we had... crickets. Contrast your collective behaviour with what most market participants do, as illustrated in the wonderful four-panel comic from *Investing Fun Times* shown below:



(*Investing Fun Times* is a **website** that regularly publishes humorous takes on investing subjects in the form of four-panel comics. It was created by a friend of mine who's a very talented artist and an extremely capable investor. I wish I could name him, but I've withheld his identity at his own request.)

How blessed we are to count all of you as our investors! Your deep understanding of our long-term approach gives us the space we need to do our work (analysing businesses and their possible long-run futures) to the best of our abilities. **So, thank you all for being the wonderful investors that you all are!**

Investing thoughts: What's in store for technology stocks in a post-COVID world?

This section of the letter is modified from an article I wrote for *The Business Times* (an important business newspaper in Singapore) that was published on 25 November 2020. The title of the article is a give-away for the question that's posed in the header for this section, so I shall only provide a link to the piece at the end (no scrolling ahead allowed!).

The fate of technology stocks (and I use the term 'technology' very loosely) in a post-COVID-19 world may be of interest to many of you since the lion's share of Compounder Fund's assets are invested in technology stocks (again, with the term 'technology' used very loosely).

COVID-19 has led to restrictions on human movement in many countries around the world. As a result, many technology companies have benefitted as their products help people to live, work, play, and consume better from home. In late-April 2020, Microsoft's CEO Satya Nadella famously said that he saw "two years' worth of digital transformation happening in two months." As a microcosm of what happened with technology companies, DocuSign, Shopify, and Zoom Video Communications saw their stock prices jump by between 133% and 577% from the start of 2020 to the end of October of the year.

On 9 November 2020, Pfizer announced a wonderful development for mankind. Trial results from the pharmaceutical giant's COVID-19 vaccine candidate, developed together with Bio NTech, showed that it could be 90% effective in preventing infection. A week later, Moderna revealed that its COVID-19 vaccine candidate was 94.5% effective in trials. This was followed by an update from Pfizer a few days later that its vaccine candidate was actually 95% effective.

If Pfizer and Moderna's vaccines are as effective as their trial results suggest, then COVID-19 could cease to be a worry for society in the near future. Technology companies would then lose a powerful tailwind. This train of thought likely raced through the minds of many market participants. Although the S&P 500 was up by as much as 3.9% in the next trading session following the first release of Pfizer's vaccine trial data, the share prices of DocuSign, Shopify, and Zoom ended the day with *declines* of 14.7%, 13.6%, and 17.4%, respectively. Many other technology companies also saw sharp falls in their stock prices.

But here's the thing: Many of the technology companies whose stock prices were pummelled in the immediate aftermath of Pfizer's good news are creating or riding on powerful long-term trends. For instance, before COVID-19, DocuSign was already providing its e-signature service to a growing number of companies. Retail merchants were already flocking to Shopify in droves to create an online or omnichannel retail presence to meet consumer

demand. A large and growing number of people and companies were already experiencing the joys of a well-built video conferencing app through Zoom. From 2017 to 2019, DocuSign's customer base increased by 57% from 373,000 to 585,000; Shopify's merchant base jumped by two-thirds from 609,000 to over 1 million, and Zoom's customers with more than 10 employees tripled from 25,800 to 81,900. The trio, and many other technology companies, were growing *before* COVID-19 because their products and services are superior to how things are done traditionally.

When we've solved COVID-19, will the advantages that these technology companies have over the traditional ways still hold? We humbly suggest that the answer is "Yes!" Will companies really stop their digital transformation and be content with or revert back to more archaic ways of conducting their businesses simply because the threat of COVID-19 has been removed? We doubt so.

We don't know how the stock prices of technology companies will react in the short run to developments on society's war against COVID-19 (as we said earlier, we don't know how the journey will go!). But as long-term investors (with your support!), we're focusing on what the businesses of technology companies could look like five to 10 years from now. And to us, the future looks bright, with or without the pandemic.

And to be clear, we did *not* invest in the companies in Compounder Fund's portfolio because we wanted to take advantage of any short-term spike in demand their businesses could potentially enjoy from the virus. In fact, some of them (Haidilao, Intuitive Surgical, Illumina, Medistim, Meituan Dianping, and Starbucks, for instance) actually suffered because of the pandemic. We invested in the companies in Compounder Fund's portfolio because we think their businesses have excellent long-term growth trajectories that are either unharmed by COVID-19, *permanently* boosted by COVID-19, or *temporarily* hurt by COVID-19. Said another way, we think these companies stand a good chance of growing well in the years ahead. (As promised, **here's the link** to the *Business Times* article.)

House-keeping matters

When we launched Compounder Fund in May 2020, its registered office in the Cayman Islands was provided by the Sinclair group of companies (the fund's legal counsel in the Cayman Islands, Sinclair Attorneys Ltd, is within this umbrella). But after running the fund for a few months, Jeremy and I have decided to change its registered office: Crestbridge will now be taking Sinclair's place.

Compounder Fund's Cayman-based non-executive director, George Bashforth, is part of Crestbridge. George has been playing an important role in helping Compounder Fund deal with Cayman-related regulatory matters (thank you, George!). Because of this, we thought that bringing Compounder Fund's registered office under one roof with George will make the machine hum even more smoothly. This is Compounder Fund's new registered office address: 9 Forum Lane, PO Box 31243, Camana Bay, Grand Cayman KY1-1205, Cayman Islands.

To avoid confusion, Galilee Investment Management has *not* changed its address (Compounder Fund is managed under Galilee Investment Management by Jeremy and me). The company is still at the cosy location of 65 Ubi Road 1, #01-76, Oxley Bizhub, Singapore. You're welcome to visit! (But please let us know ahead of time if you intend to drop by - because of COVID-19, we're mostly in work-from-home mode.)

What's next?

As you know, Compounder Fund's mission is to "Grow *Your* Wealth & Enrich Society." One of the key pillars of the mission involves Compounder Fund being a source for investor education. To this end, Jeremy and I are running Compounder Fund transparently. We already mentioned that we have released investment theses for 30 of Compounder Fund's holdings (for your convenience, they can be **found here**) and that we will be steadily publishing the theses for the remaining 13 companies in the portfolio in the coming months. Once a month, we will send out a quick email to let you know what has been published.

Compounder Fund's next subscription window will close in the middle of March 2021 and it will have a dealing date on the first business day of April 2021 (which should be 1 April). If you will like to top up your investment in the fund, please submit the relevant paperwork by the middle of March 2021. Jeremy and I are happy to help you with any queries you may have. We are also considering a change in Compounder Fund's subscription frequency from quarterly to monthly. If we do make the change (nothing is set in stone yet!), you'll be hearing from us.

Optimism (as always!)

Jeremy and I are aware that the world currently seems more divided and uncertain, and the ugly aftermath of the recent US Presidential Election is a case in point. There are a myriad of important political, social, economic, and healthcare issues that are plaguing our globe. But this is how it works. Over the long arc of history, things are breaking all the time. But crucially, this does not stop progress from happening. It took the world only 66 years to go from the Wright brothers' first demonstration of manned flight at Kitty Hawk in 1903 to putting a man on the moon in 1969. But in between was World War II, a brutal battle that lasted from 1939 to 1945 and killed an estimated 66 million. Morgan Housel **writes** (emphasis is mine):

> "A real optimist wakes up every morning knowing lots of stuff is broken, and more stuff is about to break.
>
> Big stuff. Important stuff. Stuff that will make his life miserable. He's 100% sure of it.
>
> He starts his day knowing a chain of disappointments awaits him at work. Doomed projects. Products that will lose money. Coworkers quitting. He knows that he lives in an economy due for a recession, unemployment surely to rise. He invests his money in a stock market that will crash. Maybe soon. Maybe by a lot. This is his base case. He reads the news with angst. It's a fragile world. Every generation has been hit with a defining shock. Wars, recessions, political crises. He knows his generation is no different.

> *This is a real optimist. He's an optimist because he knows all this stuff does not preclude eventual growth and improvement. The bad stuff is a necessary and normal path that things getting better over time rides on. Progress happens when people learn something new. And they learn the most, as a group, when stuff breaks. It's essential.*
>
> *So he expects the world around him to break all the time. But he knows – as a matter of faith – that if he can survive the day-to-day fractures, he'll capture the up-and-to-the-right arc that learning and hard work produces over time."*

Jeremy and I are still long-term optimistic on the stock market. This is because we still see so much potential in humanity. There are 7.8 billion individuals in our globe today, and the vast majority of people will wake up every morning wanting to improve the world and their own lot in life. *This* is ultimately what fuels the global economy and financial markets. Miscreants and Mother Nature will occasionally wreak havoc but we have faith that humanity can clean it up. Mother Nature did hurl a huge problem at all of us in 2020 with COVID-19. But we – mankind – managed to build a vaccine against the virus in record time. Moderna even designed its vaccine in just **two *days***. Incredible! This is a great example of the ingenuity of humanity at work.

To us, investing in stocks is ultimately the same as having faith in the long-term positivity of humanity. And we will remain long-term optimistic on stocks so long as we continue to have this faith. **The only exception is when stocks become wildly overpriced - and we don't think this is the case today**. This does *not* mean that stocks are cheap or that stocks won't fall in the months or next year or two ahead (remember, we don't know what the journey will look like!). It only means that we think valuations are somewhat reasonable and that investing now will likely lead to a satisfactory outcome, if we have a multi-year time horizon and we're invested in fast-growing companies. With your support, we have both ingredients at Compounder Fund.

Final word

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 to you. Thank you again for trusting Jeremy and me with your hard-earned capital. We deeply appreciate your trust and support, and your belief in Compounder Fund's mission to "Grow *Your* Wealth & Enrich Society". You can expect to see Compounder Fund's 2021 First-Quarter Investors' Letter in mid-April 2021. Till then, stay safe and have a wonderful 2021 ahead!

Excelsior,
Chong Ser Jing
Co-founder and Portfolio Manager, Compounder Fund
15 January 2021

P.S.: You can find all of our **past investors' letters here**.

Disclaimer

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