Compounder Fund Investors' Letter: First Quarter of 2021

COMPOUNDER FUND

GROWING YOUR WEALTH AND ENRICHING SOCIETY

Dear investors,

Together with my co-founder Jeremy Chia, I welcome you to Compounder Fund's 2021 first-quarter investors' letter.

During the quarter, Compounder Fund's overall net-of-fee return for its Class A and Class B shares were both -4.6%. Over the same period, the dividend-adjusted Singapore-dollar returns for the MSCI World Index and the S&P 500 were 4.3% and 5.3%, 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	Jan 2021	Feb 2021	Mar 2021	2021 Q1	Since inception *
Compounder Fund Class A (after fees)	1.9%	2.0%	-4.6%	-1.0%	10.1%
MSCI World Index**	-0.4%	2.8%	4.3%	6.9%	22.4%
S&P 500**	-0.4%	3.0%	5.3%	8.0%	23.3%

**Inception date: 13 July 2020*
***MSCI World Index and S&P 500 returns are in Singapore-dollar terms, with dividends reinvested*

Total Return	Jan 2021	Feb 2021	Mar 2021	2021 Q1	Since inception **
Compounder Fund Class B (after fees)	1.9%	2.0%	-4.6%	-1.0%	5.7%
MSCI World Index**	-0.4%	2.8%	4.3%	6.9%	18.0%
S&P 500**	-0.4%	3.0%	5.3%	8.0%	17.2%

**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 us to see if the outperformance is due to a rising tide in US stocks.

Other than the fact that it's unpleasant to see Compounder Fund underperform both market indices substantially in the first quarter of 2021 and since inception, what else can be gleaned from the 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. **And please never underestimate the importance of your role in shaping Compounder Fund's long-term return**. In the "*Investing thoughts: What's our edge?*" section of our **2020 fourth-quarter letter**, we discussed the three sources of investing edge that exist in the stock market and how all of you - Compounder Fund's investors - **play a critical role** in helping Jeremy and me produce the behavioural edge.

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 fourth-quarter investors' letter**, this section will be familiar but there's no harm in a refresher! 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 indices 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 (more on this later). 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'. I first heard about it from a friend - an incredibly impressive young investor and person - who in turn came across it from one of the best investors I've read about, Nicholas Sleep. After retiring a few years ago and initially wanting to be outside the public eye, Sleep recently published a collection of his investment letters on the **website** of his charitable foundation, I.G.Y (do check out his letters - they're a fantastic read). To illustrate the concept, I will need you to first think about two sequences of returns over a five year period:

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Sequence A return	+50%	+28%	+3%	+15%	+5%	**139%**
Sequence B return	+5%	+15%	+3%	+28%	+50%	**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 compared to Sequence A's, since the former improved over time while the latter 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 gain. 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 January 2021, I published Compounder Fund's **2020 fourth-quarter investors' letter**. In it, I shared all 43 holdings in the fund's portfolio. As of the date of this letter, the portfolio contains the same 43 holdings, *plus* the addition of four 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 March 2021, Jeremy and I successfully closed Compounder Fund's third subscription window since its initial offering period (which ended on 13 July 2020) and raised S$1.72 million.

This new capital was deployed quickly in the days after the last subscription window's dealing date of 1 April 2021. Jeremy and I invested the new capital across 13 of Compounder Fund's existing holdings. They are (in alphabetical order): Adobe, Costco, DataDog, DocuSign, Facebook, Fiverr, Mastercard, MongoDB, Netflix, Shopify, Tesla, Twilio, and Zoom. The four new companies that we invested in are ASML, Coupang, Etsy, and Sea Limited. A few quick words on the new companies in the portfolio:

- ASML provides lithography machines and other related systems to manufacturers of integrated circuits, or chips. Lithography is the process of using light to create tiny, tiny structures (called transistors) on a silicon wafer to produce chips. What's unique about ASML is that it is the *only* company in the world with the technological knowhow to manufacture EUV (extreme ultraviolet) lithography machines. EUV lithography is currently the most advanced lithography process and it uses ultraviolet light of an extremely short wavelength of 13.5 nm. In a world that is increasingly going digital, there is a need for a chip to contain more and more transistors because this improves a chip's cost and performance. This is where EUV lithography

machines shine. Because they use light with such a short wavelength, they allow chip manufacturers to produce chips with transistors that have mind bogglingly small sizes. How small? Some of ASML's customers are already working on producing chips with 3 nm and even 2 nm nodes. (For perspective, a sheet of paper is about 100,000 nm thick.) We're attracted to ASML because of the importance of its products in powering the growth of the semiconductor industry, which itself is an indispensable part of our everyday lives (just think about living in a world without electronics and the internet!). It helps too that ASML has a strong financial profile: Revenue increased by 17.3% annually from €6.3 billion in 2015 to €14.0 billion in 2020; meanwhile the average free cash flow margin (free cash flow as a percentage of revenue) for the same period was 21.8%.

- "To create a world where customers wonder: "How did I ever live without Coupang?"" is the audacious mission statement of the South Korea-based Coupang, one of the most customer-centric companies in the word we've studied. (Its name comes from a mishmash of the words "coupon" and "pang", the Korean word for hitting the jackpot.) The company is the largest e-commerce player in South Korea - it operates only in the country - with revenue of US$12.0 billion in 2020. Founded in 2010, Coupang has poured billions of dollars since 2013 into its technology and fulfillment infrastructure to provide superior customer experiences. The results so far? Coupang can boast of the largest logistics footprint among 1st-party ecommerce companies in South Korea. At the end of 2020, the company's fulfillment and logistics centres (more than 100 of them across 30 cities) covered 2.3 million square metres, placing 70% of the South Korean population within 11 km of a Coupang logistics facility. Coupang's dense logistics network - together with its 15,000 directly-employed full time drivers - allow the company to provide the following services: Dawn delivery (delivery before 7am if ordered before midnight); same-day delivery (delivery in the same day if ordered in the morning); free, one-day delivery nationwide, 365 days a year; boxless packaging; and frictionless returns (customers simply tap a button on Coupang's app and leave the item outside their door for pickup). Coupang has compounded its revenue impressively by 63.5% per year from 2016 to 2020 and more growth is likely to be ahead. South Korea's the 12th largest economy in the world (as of 2019) and the country's total retail, grocery, consumer foodservice, and travel spend is expected to increase from US$470 billion in 2019 to US$534 billion in 2020.
- Etsy's mission is to "Keep Commerce Human" and true to form, it operates an ecommerce platform that connects creators of unique handcrafted goods with buyers looking for such products. A recent survey of Etsy buyers found that 88% agreed that Etsy has items that can't be found anywhere else. The company's revenue growth was already rapid even before COVID-19 (a 33% compound annual growth rate from 2014 to 2019), and accelerated to 111% in 2020. Etsy has also amassed a huge, growing, and global network of active buyers (81.9 million in 2020) and sellers (4.4 million in 2020). If the company remains true to its unique mission statement, we think its network effect - of more buyers leading to more sellers, which leads to more buyers, and so on - will grow stronger and become increasingly difficult to break over time. And impressively, Etsy ended 2020 with free cash flow of US$671 million, representing a free cash flow margin of 39%, up from an already solid 23% in 2019.
- Sea Limited is based in Singapore but counts itself as a global computer gaming giant (Garena) and Southeast Asia's leading e-commerce platform (Shopee). Garena ended 2020 with 73.1 million paying users, up 120% from end-2019 and up a

staggering 514% from end-2018. Shopee's GMV (gross merchandise value) experienced similarly strong growth of 247% from US$3.4 billion in 2018 to US$11.9 billion in 2020. Sea also has a fast-growing digital payments arm called Sea Money. The digital payments and ecommerce opportunities for Sea look exciting to us (ecommerce still makes up only a small percentage of total retail sales in Southeast Asia), especially when the company has the highly-profitable - and growing - Garena churning out cash to support any growth investments.

As of this letter's publication, we have released our detailed investment theses on 40 companies in Compounder Fund's portfolio and they can all be **found here**. There are now 47 holdings in the fund, so it means that there are seven more investment theses to go (the seven includes ASML, Coupang, Etsy, and Sea). You can expect to see these seven 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 13 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 have executed brilliantly in recent times and produced wonderful results as you'll soon see (the only exception was Mastercard, where revenue growth in the last reported quarter was negative). They are winners, according to our definition. The four new stocks we invested in have also produced excellent results as you'll also soon see. Here's how Compounder Fund's portfolio looks like as of 9 April 2021:

Company	Weighting	Country/Region of listing	Headquarters
MercadoLibre	5.6%	USA	Argentina
PayPal	5.4%	USA	USA
Facebook	4.9%	USA	USA
Netflix	4.0%	USA	USA
Amazon	3.8%	USA	USA
Tencent	3.5%	Hong Kong	China
Shopify	3.2%	USA	Canada
Microsoft	2.9%	USA	USA
Tractor Supply	2.7%	USA	USA
Square	2.7%	USA	USA
The Trade Desk	2.6%	USA	USA
Etsy	2.6%	USA	USA
DocuSign	2.3%	USA	USA
Haidilao	2.2%	Hong Kong	China
Alphabet	2.2%	USA	USA
Okta	2.1%	USA	USA
Twilio	2.1%	USA	USA

Wix.com	2.1%	USA	Israel
Chipotle Mexican Grill	2.0%	USA	USA
Adobe	2.0%	USA	USA
Mastercard	2.0%	USA	USA
Costco	1.9%	USA	USA
Zoom Video Communications	1.9%	USA	USA
Apple	1.9%	USA	USA
Meituan Dianping	1.9%	Hong Kong	China
Medistim	1.7%	Norway	Norway
Salesforce	1.7%	USA	USA
Markel	1.7%	USA	USA
Starbucks	1.7%	USA	USA
Veeva Systems	1.7%	USA	USA
Intuitive Surgical	1.7%	USA	USA
Activision Blizzard	1.6%	USA	USA
Visa	1.6%	USA	USA
Pushpay	1.6%	Australia	New Zealand
Sea	1.6%	USA	Singapore
Fiverr	1.5%	USA	Israel
Illumina	1.5%	USA	USA
ASML	1.4%	USA	Netherlands
Teladoc	1.2%	USA	USA
Datadog	1.0%	USA	USA
MongoDB	1.0%	USA	USA
Afterpay Touch	0.8%	Australia	Australia
Paycom Software	0.7%	USA	USA
a2 Milk	0.6%	Australia	New Zealand
Tesla	0.5%	USA	USA
Coupang	0.5%	USA	South Korea
Alteryx	0.3%	USA	USA
Total cash	**1.7%**	**-**	**-**

The biggest addition to our existing holdings was Facebook. We added to our position in the company despite Apple's much-publicised change to the privacy policy for its IDFA (Identifier for Advertisers). Without going into detail (see **here** for more), Apple's new upcoming policy will require apps to get users' permission to track their data across apps or websites owned

by other companies. Here's a March 2021 *CNBC* **article** on how Apple's move could hurt Facebook's advertising business:

> "Most critically at stake for Facebook is what's known as view-through conversions. This metric is used by ad-tech companies to measure how many users saw an ad, did not immediately click on it, but later made a purchase related to that ad.
>
> Think of view-through conversions like this: You're tapping through your Instagram stories and you see an ad for a pair of jeans. You don't tap the bottom of the ad for more information because you're busy checking out what your friends are up to, but the jeans were cute. A few days later, you go on Google, search for the jeans you saw on Instagram and buy them.
>
> After the purchase is made, the retailer records the IDFA of the user who bought the jeans and shares it with Facebook, which can determine whether the IDFA matches with a user who saw an ad for the jeans. This shows the retailer that their Facebook ad worked.
>
> Losing that type of measurement could be a big blow for Facebook. If advertisers are unable to accurately measure the effectiveness of their Facebook and Instagram ads, they may feel compelled to shift more of their budgets to other apps and services where they can see the exact return on investment for their ads…
>
> ...In terms of specific businesses, the IDFA change will particularly hurt its Audience Network.
>
> The Facebook Audience Network provides advertisements in non-Facebook apps, and it uses IDFA numbers to determine the best ads to show to each user based on Facebook's data. For instance, a soft drink maker could decide to target 18-to-34-year-old gamers in the San Francisco Bay Area with a new promotion. The company could use the Facebook Audience network to have those ads placed before the right audience within mobile games; Facebook would split the ad revenue with the game makers.
>
> But if users opt out of IDFA tracking, all of that personalization Facebook has built will be rendered irrelevant outside of the company's own apps. In August, Facebook acknowledged that Apple's upcoming iOS 14 could lead to a more than 50% drop in its Audience Network advertising business.
>
> Nearly all of Facebook's revenue comes from advertising, but Facebook's Audience Network contributes only a small portion of that -- well less than 10% of the company's net revenue, a person familiar with the numbers told CNBC.
>
> Besides view-through conversions, Facebook may lose valuable data about what its iPhone-based users do on their devices when they're not in Facebook-owned apps. Already, Facebook collects a lot of data about its users from its apps, which include Facebook, Instagram, Messenger, WhatsApp and others, but every additional bit of data makes its algorithms better at what they do, which includes ad targeting."

In short, changes to the IDFA would make it difficult for Facebook to know the shopping behaviour of Facebook users outside of the company's own platforms. This would diminish the value of Facebook's digital advertising services. But the company has not been lying still. It has been actively encouraging commerce activities to take place directly on its own platforms and one such initiative is the launch of Facebook Shops in 2020. Last month, during a Clubhouse **session** with Josh Constine, Facebook's CEO and co-founder, Mark Zuckerberg, revealed that Facebook Shops now has more than 1 million active stores and 250 million active users. During the same Clubhouse session, Zuckerberg also shared how Facebook could emerge from Apple's IDFA issue even stronger than before:

> "When it comes to the iOS 14 changes [for IDFA], for example, and their impact on our business, I think the reality is that I'm confident that we're gonna be able to manage through that situation. And we'll be in a good position. I think it's possible that we may even be in a stronger position. If Apple's changes encourage more businesses to conduct commerce on our platforms, by making it harder for them to basically use their data in order to find the customers that would want to use their products outside of our platforms."

There are three other reasons for our decision to add to Facebook.

First, the company grew revenue by an impressive 33.2% in the fourth quarter of 2020 while improving its free cash flow margin from an already strong 21.5% a year ago to 33.6%. It's worth noting too that Facebook spent US$4.6 billion on capital expenditures during the quarter, up 12.5% from a year ago.

Second, the chance of Facebook creating a massive business in the AR/VR (augmented reality and virtual reality) space now looks higher to us than before. Last month, *The Verge* reported that Facebook has nearly 10,000 employees - around 15% of its total headcount of 58,604 at the end of 2020 - working on AR/VR technology. For perspective, this is a significant increase from 2017, when Facebook had more than 1,000 AR/VR employees, which was around 5% of its total workforce then.

Third, Facebook's shares had a trailing price-to-free cash flow ratio of 37 at the end of March 2021. We think this is an undemanding valuation for a company that (1) could compound its revenue at north of 20% annually over the next five years, (2) fetched an excellent free cash flow margin of 27% in 2020, and (3) has a fortress of a balance sheet with zero debt and nearly US$62 billion in cash and investments.

Here's a quick high-level geographical breakdown of Compounder Fund's portfolio as of 9 April 2021:

Country/Region	% of Compounder Fund's capital based on country of listing	% of Compounder Fund's capital based on location of headquarters
Argentina	-	5.6%
Australia	3.0%	0.8%

Canada	-	3.2%
China	-	7.7%
Hong Kong	7.7%	-
Israel	-	3.6%
Netherlands	-	1.4%
New Zealand	-	2.2%
Norway	1.7%	1.7%
Singapore	-	1.6%
South Korea	-	0.5%
USA	85.9%	70.0%

Wonderful businesses

Jeremy and I are pleased to report that the companies in Compounder Fund's portfolio have, in aggregate, delivered strong growth in 2020. As of the date of this letter, we have the financial results for all of Compounder Fund's holdings for 2020 with the exception of Pushpay. This is because the company only reports twice a year, for the six months ended 31 March and 30 September.

The table below shows the year-on-year revenue growth in all four quarters of 2020 for the companies that are currently 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 Q4 2020 from a year ago	Revenue growth in 2020 from a year ago
a2 Milk	34.2%	34.2%	-16.0%	-16.0%	**7.2%**
Activision Blizzard	-2.0%	38.4%	52.4%	21.5%	**24.6%**
Adobe	14.0%	13.8%	14.4%	26.3%	**17.3%**
Afterpay Touch	96.9%	96.9%	89.4%	89.4%	**92.5%**
Alphabet	13.3%	-1.7%	14.0%	23.5%	**12.8%**
Alteryx	43.2%	17.3%	25.5%	2.6%	**18.5%**
Amazon	26.4%	40.2%	37.4%	43.6%	**37.6%**
Apple	0.5%	10.9%	1.0%	21.4%	**9.9%**
ASML	9.5%	29.5%	32.5%	5.4%	**18.3%**
Chipotle Mexican Grill	7.8%	-4.8%	14.1%	11.6%	**7.1%**
Costco	7.3%	12.4%	16.7%	14.6%	**12.8%**
Coupang	79.0%	85.5%	94.6%	99.8%	**90.8%**

Datadog	87.4%	68.2%	66.3%	56.2%	**66.3%**
DocuSign	38.8%	45.2%	53.5%	56.8%	**49.2%**
Etsy	34.7%	136.7%	128.1%	128.7%	**110.9%**
Facebook	17.6%	10.7%	21.6%	33.2%	**21.6%**
Fiverr	43.7%	81.9%	87.8%	89.2%	**77.0%**
Haidilao	-16.5%	-16.5%	26.9%	26.9%	**7.8%**
Illumina	1.5%	-24.5%	-12.5%	0.0%	**-8.6%**
Intuitive Surgical	12.9%	-22.5%	-4.5%	4.0%	**-2.7%**
Livongo/ Teladoc**	114.6%	124.7%	109.3%	145.0%	**97.7%**
Markel	10.5%	11.8%	20.9%	24.4%	**17.0%**
Mastercard	3.1%	-18.9%	-14.1%	-6.7%	**-9.4%**
Medistim	16.2%	-12.1%	-2.5%	-1.6%	**-0.2%**
Meituan Dianping	-12.6%	8.9%	28.8%	34.7%	**17.7%**
MercadoLibre	37.6%	61.1%	85.0%	96.9%	**73.0%**
Microsoft	14.6%	12.8%	12.4%	16.7%	**14.7%**
MongoDB	45.8%	39.2%	37.8%	38.4%	**40.0%**
Netflix	27.6%	24.9%	22.7%	21.5%	**24.0%**
Okta	46.0%	42.7%	42.0%	40.3%	**42.5%**
Paycom Software	21.2%	7.2%	12.3%	14.2%	**14.1%**
PayPal	11.9%	22.2%	24.7%	23.3%	**20.7%**
PushPay	-	52.7%	52.7%	-	**-**
Salesforce	30.2%	28.9%	20.1%	19.9%	**24.3%**
Sea	103.2%	102.2%	98.7%	101.6%	**101.1%**
Shopify	46.7%	97.3%	96.5%	93.6%	**85.6%**
Square	44.0%	63.8%	139.6%	140.5%	**101.5%**
Starbucks	-4.9%	-38.1%	-8.1%	-4.9%	**-14.1%**
Tencent Holdings	26.4%	29.3%	29.0%	26.4%	**27.8%**
Tesla	31.8%	-4.9%	39.2%	45.5%	**28.3%**
The Trade Desk	32.8%	-12.8%	31.6%	48.1%	**26.5%**
Tractor Supply	7.5%	34.9%	31.4%	31.3%	**27.2%**
Twilio	56.5%	45.7%	51.8%	65.5%	**55.3%**
Veeva Systems	37.7%	32.5%	34.4%	27.4%	**32.7%**

Visa	6.6%	-17.2%	-16.9%	-6.1%	**-8.7%**
Wix.com	23.9%	27.3%	29.2%	38.1%	**29.9%**
Zoom	169.0%	355.0%	366.5%	368.8%	**325.8%**

Source: Companies' earnings updates
***Numbers for first and second quarters of 2020 are for Livongo; numbers for the third and fourth quarters of 2020, and for the whole 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 Q4 2020 from a year ago	Revenue growth in 2020 from a year ago
Compounder Fund current portfolio	32.6%	37.7%	45.1%	47.4%	40.6%

Source: Companies' earnings updates

The simple-average year-on-year revenue growth in the fourth quarter of 2020 for all of Compounder Fund's current holdings was an excellent 47.4%. And impressively, this average for the same group of companies accelerated over the course of the year, from 32.6% in the first quarter, to 37.7% in the second quarter, and then to 45.1% in the third quarter. It's wonderful to see the continued acceleration of the average year-on-year revenue growth for Compounder Fund's holdings. But 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.

Jeremy and I were also happy to see that Compounder Fund's holdings grew their cash flow muscles in the fourth quarter of 2020. A few standouts include MercadoLibre, Netflix, and Shopify. The table below shows the revenue growth for each company in Compounder Fund's portfolio for the fourth quarter of 2020 as well as the change in their free cash flow margins for the period. During the quarter, the simple-average free cash flow margin for the fund's holdings was 17.3%, up from 13.1% a year ago. Strong revenue growth coupled with an improvement in the free cash flow margin is a beautiful thing - it means that a company's free cash flow growth is even better than its revenue growth. Over time, we expect the average free cash flow margin for Compounder Fund's current crop of portfolio companies to grow to around 25%.

(There's no quarterly free cash flow data for Haidilao, Meituan Dianping, and Sea because they only share their detailed cash flow numbers in their annual reports and the reports are not published yet. There's no quarterly free cash flow data available for Pushpay for the fourth quarter of 2020 because of its reporting periods. There's also no free cash flow data for Markel because we don't think it's as important for the company - it is predominantly an insurer and investment holding company, so we think the book value holds more meaning.)

Company	Revenue growth in Q4 2020 from a year ago	Free cash flow margin in Q4 2020	Free cash flow margin in Q4 2019
a2 Milk	-16.0%	**-4.9%**	19.7%
Activision Blizzard	21.5%	**46.3%**	44.4%
Adobe	26.3%	**43.2%**	39.8%
Afterpay Touch	89.4%	**-133.5%**	-164.1%
Alphabet	23.5%	**30.2%**	18.2%
Alteryx	2.6%	**28.9%**	9.9%
Amazon	43.6%	**12.4%**	16.4%
Apple	21.4%	**31.6%**	30.9%
ASML	5.4%	**102.6%**	81.1%
Chipotle Mexican Grill	11.6%	**-0.7%**	6.3%
Costco	14.6%	**-1.2%**	0.2%
Coupang	99.8%	**-4.0%**	-1.8%
Datadog	56.2%	**9.4%**	10.8%
DocuSign	56.8%	**10.2%**	5.6%
Etsy	128.7%	**38.8%**	27.9%
Facebook	33.2%	**33.6%**	21.5%
Fiverr	89.2%	**6.6%**	-11.2%
Haidilao	26.9%	**-**	-
Illumina	0.0%	**36.1%**	40.5%
Intuitive Surgical	4.0%	**42.5%**	32.1%
Livongo/Teladoc	145.0%	**-32.2%**	9.4%
Markel	24.4%	**-**	-
Mastercard	-6.7%	**30.7%**	55.5%
Medistim	-1.6%	**14.1%**	23.0%
Meituan Dianping	34.7%	**-**	-
MercadoLibre	96.9%	**12.8%**	6.3%
Microsoft	16.7%	**18.4%**	19.1%
MongoDB	38.4%	**-11.4%**	-8.0%
Netflix	21.5%	**-4.3%**	-28.7%
Okta	40.3%	**13.8%**	10.8%
Paycom Software	14.2%	**14.6%**	13.4%
PayPal	23.3%	**18.3%**	15.1%
PushPay	-	**-**	-
Salesforce.com	19.9%	**34.8%**	30.8%
Sea	101.6%	**-**	-

Shopify	93.6%	**24.4%**	11.3%
Square	140.5%	**2.2%**	3.4%
Starbucks	-4.9%	**22.4%**	20.3%
Tencent Holdings	26.4%	**20.7%**	29.4%
Tesla	45.5%	**17.2%**	13.2%
The Trade Desk	48.1%	**46.7%**	-20.0%
Tractor Supply	31.3%	**8.9%**	14.8%
Twilio	65.5%	**0.2%**	-5.9%
Veeva Systems	27.4%	**17.2%**	12.5%
Visa	-6.1%	**59.0%**	60.9%
Wix.com	38.1%	**8.2%**	18.3%
Zoom	368.8%	**61.2%**	17.0%
Simple average	47.4%	**17.3%**	13.1%

Source: Companies' earnings updates

In summary, we are delighted with the aggregate business performance of Compounder Fund's portfolio holdings.

Investing thoughts: Recent turmoil

This section of the letter is modified from an article I wrote, titled ***Making Sense of Technology Stocks' Recent Volatility***, that was published in *The Business Times* (an important business newspaper in Singapore) on 17 March 2021. Some of you may be aware that the prices of many technology stocks (I'm using the word "technology" very loosely here) in the USA and other parts of the world have fallen hard recently. The NASDAQ index, which has a near-50% weighting in US-listed stocks from the technology sector, reached a high this year so far on 12 February 2021. We can use this date as a marker for measurement.

The table below shows the stock price declines, from 12 February 2021 to 31 March 2021, for some of Compounder Fund's holdings that can be broadly thought of as technology stocks.

Company	Decline in stock price from 12 February 2021 to 31 March 2021
Afterpay	-33.1%
Datadog	-26.2%
DocuSign	-23.1%
Meituan Dianping	-32.7%
MercadoLibre	-24.1%
MongoDB	-36.6%

Okta	-24.4%
PayPal	-18.6%
Shopify	-23.9%
Square	-16.8%
Teladoc	-38.3%
Tencent	-19.4%
Veeva Systems	-17.8%
Zoom	-25.8%

Source: Yahoo Finance and Ycharts

Rising interest rates have often been cited (see **here**, **here**, and **here**) as the key reason for technology stocks' recent turmoil. The US 10-year Treasury yield, an important interest-rate-marker, had increased from 1.20% on 12 February 2021 to 1.75% on 31 March.

There's plenty of attention being paid to interest rates because of its theoretical link with stock prices. Stocks and other assets classes (bonds, cash, real estate etc.) are constantly competing for capital. In theory, when interest rates are high, the valuation of stocks should be low, since bonds, being an alternative to stocks, are providing a good return. On the other hand, when interest rates are low, the valuation of stocks should be high, since the alternative - again, bonds - are providing a poor return.

Some stocks in particular, such as high-growth companies that depend on the future growth of their long run cash flows for the lion's share of their value, are theoretically even more sensitive to changes in interest rates. The companies shown in the table above that have experienced sharp falls in their stock prices belong to this category.

But a few things are worth pointing out about the idea of interest rates being a massive driver for the recent volatility seen in technology stocks.

Firstly, the US 10-year Treasury yield was at less than 0.70% at the end of March 2020, which was near the nadir of the pandemic panic that the financial markets experienced last year. So in one year, the US 10-year Treasury yield had doubled and then some. The NASDAQ index, meanwhile, gained 72% from the end of March 2020 to the end of March 2021.

Secondly, the real relationship between interest rates and stock market valuations is nowhere near as clean as what's described in theory. Yale economist Robert Shiller, who won a Nobel Prize in 2013, has a **database** on interest rates and the US stock market going back to the 1870s. According to his data, the US 10-year Treasury yield was 2.3% at the start of 1950. By September 1981, it had risen to 15.3%, the highest rate recorded in Shiller's dataset. In that same period, the S&P 500's price-to-earnings (P/E) ratio moved from 7 to… 8. That's right, the P/E ratio for the S&P 500, a broad-based US stock market index, increased slightly despite the huge jump in interest rates.

(It's worth noting too that the S&P 500's P/E ratio of 7 at the start of 1950 was not a result of earnings that were temporarily inflated.)

Yes, I'm cherry picking with the dates for the second point. For example, if I had chosen January 1946 as the start, when the US 10-year Treasury yield was 2.2% and the P/E ratio for the S&P 500 was 19, then the theoretical relationship between interest rates and stock market valuations would appear to hold up nicely.

But what I'm really trying to say with the first and second points are these: Interest rates have a role to play, but it is far from the only thing that matters and; one-factor analysis in finance - "if A happens, then B will occur" - should be largely avoided because clear-cut relationships are rarely seen.

The recent volatility in technology stocks might be due to stocks simply doing what stocks do: **Experiencing wild price fluctuations**.

Even the stock market's best long-term winners have also been through periods of sickening declines. Let's look at two of Compounder Fund's holdings with great long-term returns: Amazon.com and Netflix. In the 10 years ended 31 March 2021, their stock prices were up by 1,620% and 1,430%, respectively. But in that period, both companies saw their stock prices decline by 20% or more from a recent high on at least six separate occasions each. So in the past decade, Amazon.com and Netflix - two US-listed stocks with massive long-term gains - both experienced stock price falls of 20% or more every 1.7 years on average.

Investing thoughts: Equanimity

The wild swings in the stock prices of even great long-term winners in the market carries an important takeaway that we had touched on earlier: **Volatility is a *feature* of stocks**. It's something normal. Accepting this can also lead to a healthy change in our mindset toward investing. Instead of seeing short-term volatility as a fine, we can start seeing it as a fee - the price of admission, if you will - for great long-term returns. This is an idea that venture capitalist Morgan Housel (who also happens to be one of my favourite finance writers) once described in a fantastic article of his titled ***Fees vs. Fines***.

Seeing volatility as a fee can also help all of us develop a **crucial character trait when dealing with the inevitable ups and downs in the financial markets: Equanimity**. Being able to remain calm when stock prices are roiling is important because it prevents us from making emotionally-driven mistakes. It prevents us from selling stocks at the worst possible times. In Compounder Fund's **Owner's Manual**, we shared that the investors in Peter Lynch's Magellan Fund only earned an annual return of 7% on average from 1977 to 1990 despite the fund's incredible 29% annualised gain. Lynch's investors would flee from the fund when there was a temporary setback and only pile back in after his performance recovered - in other words, they were buying high and selling low.

Another thing that can help strengthen the equanimity-fibre in our psyche is to focus on business results. If you look at the stock prices of some of Compounder Fund's holdings -

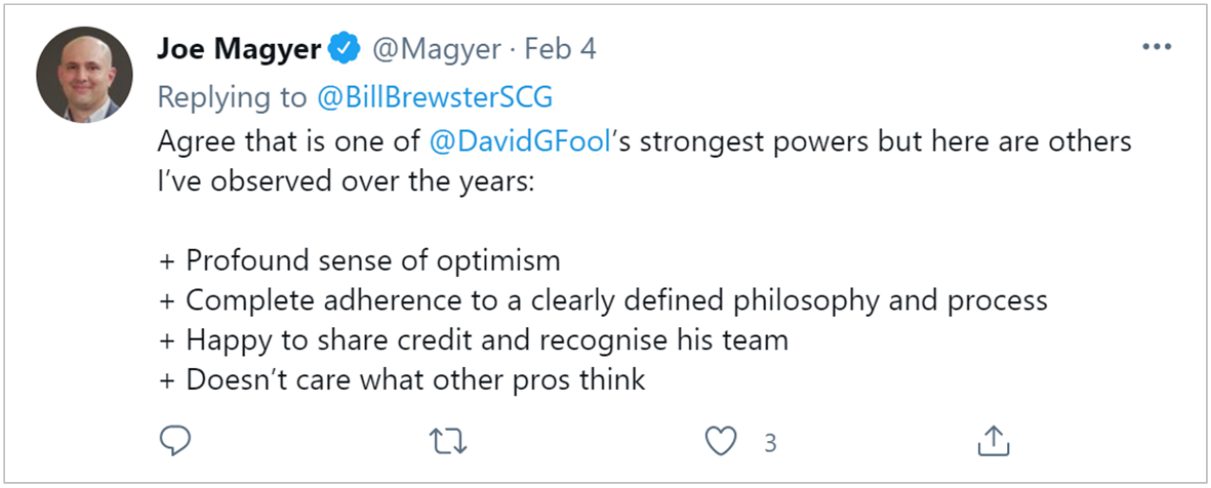
the ones given in the table in the "*Investing thoughts: Recent turmoil*" section of this letter - you may think that their businesses are in dire trouble. But as I had already shared in the tables shown in the "*Wonderful businesses"* section of this letter, the same companies all produced stellar growth in revenue recently and some of them also expanded their free cash flow margins. In his 2013 Berkshire Hathaway **shareholders' letter**, Warren Buffett wrote:

> "Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard. If you can enjoy Saturdays and Sundays without looking at stock prices, give it a try on weekdays."

The scoreboard does not look great for Compounder Fund at the moment, and it's not fun. Jeremy and I feel it. But if you're watching the playing field - just like what we are doing - Team Compounder Fund is crushing it. This is where we find our equanimity. Morgan Housel once shared that Napoleon Bonaparte's definition of a military genius is "the man who can do the average thing when all those around him are going crazy." This applies to investing too. With equanimity, all of us can be investing geniuses.

Investing thoughts: Superpowers

A few months ago, investor Bill Brewster put out a **tweet** that discussed David Gardner's investing super power. As some of you may know, David is the co-founder of The Motley Fool and he's one of the best investors I know of. Brewster said that David's "real super power is the ability to hold longer than everyone else." Joe Magyer, a long-time colleague of David's, responded to Brewster's tweet. I had interacted with Joe on a number of occasions during my time at the Fool, and he too has a wonderful investing mind. Here's Joe's response:



What a great set of investing superpowers that are mentioned by Joe and Brewster! And they are all powers that Jeremy and I are cultivating at Compounder Fund. We want to hold the shares of our portfolio companies for years, perhaps for decades, as long as their businesses continue to have attractive growth prospects. We built Compounder Fund to **only invest in a way we know well**. We don't have a team here at Compounder Fund - since there's only Jeremy and me - but we're always happy to give credit to and celebrate the success of others. We conduct our own research, sometimes with helpful prodding from

our friends, and we're not affected by what others think of our work - we simply follow what makes sense to us and march to our own investing beat.

Optimism is, to me, the most important superpower that David has (his optimism is also infectious if you've ever had the chance to speak with him or hear him on interviews and podcasts!). It's the most important superpower that Jeremy and I are working on too. A question may come to your mind: Why do I consider optimism an important investing super power?

To answer, let me refer to one of my favourite articles from Morgan Housel titled ***The Seduction of Pessimism***. He wrote (emphasis is mine):

> "Gas was expensive in the 1980s. So people adapted and bought small cars and oil producers drilled a lot of oil. That made gas cheap in the 1990s. So people adapted again and bought SUVs and oil companies packed up and abandoned fields.
>
> Then gas got expensive in 2008. And despite a long history of adaptation, we basically thought things would stay that way forever. Peak oil became a default assumption. Four-dollar gas was seen as the new floor.
>
> But we adapted again. Hybrid sales surged. Oil producers used high prices as an incentive to discover new drilling techniques. Prices eventually fell and the pessimists went quiet.
>
> Despite an awareness of how powerfully we've changed in the past, it's too easy to underestimate our ability to change in the future. Psychologists call this the end of history illusion. In people, it's the tendency to realize that your tastes and values have changed in the past while underestimating how much they'll change in the future...
>
> ...If you underestimate our ability to adapt to unsustainable situations, you'll find all kinds of things that currently look bad and can be extrapolated into disastrous [sic].
>
> Extrapolate college tuition increases and it'll be prohibitively expensive in 10 years.
>
> Extrapolate government deficits and we'll be bankrupt in 30 years.
>
> Extrapolate a recession and we'll be broke before long.
>
> *All of these could be reasons for pessimism if you assume no future change or adaptation. Which is crazy, given our long history of changing and adapting. But convincing ourselves of future change is hard to do, so pessimism is easy to latch onto.*"

Pessimism tends to grab hold of people's attention because it's easy to underestimate society's collective ability to innovate and adapt. But if you're in the business of investing in companies that can grow at high rates over the long run - like what Jeremy and I are doing at Compounding Fund - **then I think optimism can help you to better imagine how things could improve in the years or decades ahead, and thus back the right group of**

companies. This is why optimism is an investing super power: Because it helps us spot opportunities better and it may not be commonly found among investors.

And to be clear, optimism is *not* the naive belief that things will always be fine and dandy. No. Optimism is knowing that things will break, and disasters will happen, but that we - humanity - will come out stronger than before, because we can innovate and adapt.

House-keeping matters

Jeremy and I are happy to note that Compounder Fund has completed its first-ever annual audit smoothly and you will be receiving the fund's audited financial statements for the year (2020) in the weeks ahead. We want to thank the teams at Baker Tilly (Compounder Fund's auditor) and Crowe Horwath First Trust (Compounder Fund's fund administrator) for their support, professionalism, and efficiency during the audit process.

As you know, giving back to society is one of the four key pillars of Compounder Fund's mission to "Grow *Your Wealth* & Enrich Society." In our fund website, Jeremy and I **mentioned** that "we are setting aside at least 10% of every dollar we earn from Compounder Fund in each year for charities of our choice" and that "we will audit our giving." To this end, we have contracted Baker Tilly to perform the audit for us. The first audit will cover the period from November 2019 (when we started building the fund) to December 2021. After which, an audit will be conducted on an annual basis. If you are interested to know more, feel free to reach out!

What's next?

Another of the key pillars of Compounder Fund's mission involves investor education. To this end, Jeremy and I are running Compounder Fund transparently. We already mentioned that we have released investment theses for 40 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 seven 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 June 2021 and it will have a dealing date on the first business day of July 2021 (which should be 1 July). If you will like to top up your investment in the fund, please submit the relevant paperwork by the middle of June 2021. Jeremy and I are happy to help you with any queries you may have. We mentioned in the 2020 fourth-quarter letter that we were considering a change in Compounder Fund's subscription frequency from quarterly to monthly. No decision has been made on this front yet.

Optimism (as always!)

There are a myriad of important political, social, economic, and healthcare issues that are plaguing our globe today. But 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 nearly 7.9 billion individuals in the world right now, 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.

Earlier, we talked about why optimism is an investing super power because many people underestimate society's collective ability to innovate and adapt. COVID-19, a huge problem that Mother Nature threw at us in 2020, is a great example of how a disaster can foster growth. Jon Gertner **writes** in *The New York Times*:

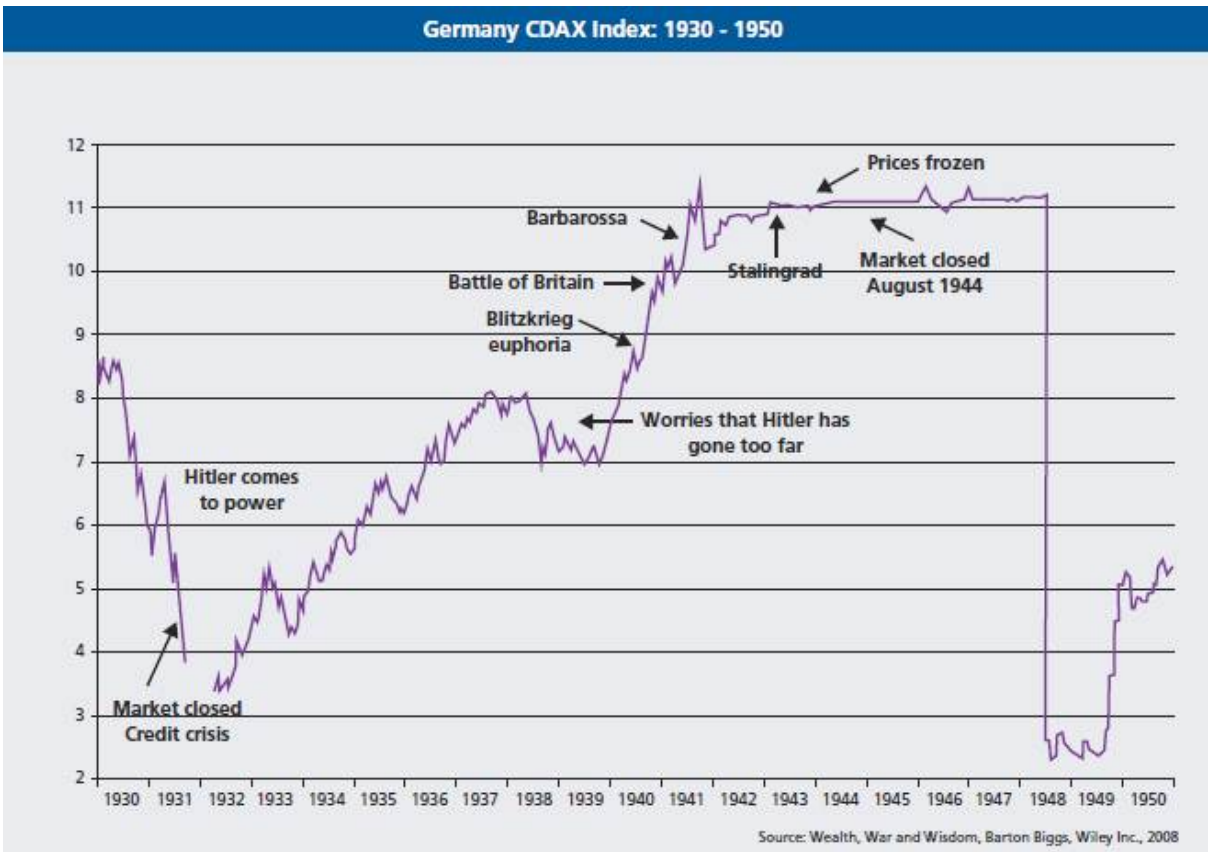
> "Historians of science sometimes talk about new paradigms, or new modes of thought, that change our collective thinking about what is true or possible. But paradigms often evolve not just when new ideas displace existing ones, but when new tools allow us to do things — or to see things — that would have been impossible to consider earlier. The advent of commercial genome sequencing has recently, and credibly, been compared to the invention of the microscope, a claim that led me to wonder whether this new, still relatively obscure technology, humming away in well-equipped labs around the world, would prove to be the most important innovation of the 21st century. Already, in Church's estimation, "sequencing is 10 million times cheaper and 100,000 times higher quality than it was just a few years ago." If a new technological paradigm is arriving, bringing with it a future in which we constantly monitor the genetics of our bodies and everything around us, these sequencers — easy, quick, ubiquitous — are the machines taking us into that realm.
>
> And unexpectedly, Covid-19 has proved to be the catalyst. "What the pandemic has done is accelerate the adoption of genomics into infectious disease by several years," says deSouza, the Illumina chief executive. He also told me he believes that the pandemic has accelerated the adoption of genomics into society more broadly — suggesting that quietly, in the midst of chaos and a global catastrophe, the age of cheap, rapid sequencing has arrived."

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.**

We recently learnt some astounding facts about Germany's stock market, courtesy of a **blog post** from investor Anthony Isola, that further strengthened our faith in the power of long-term investing.

Germany lost World War I, which lasted from 1914 to 1918, and signed the infamous *Treaty of Versailles*. The peace agreement placed usurious repayment demands on Germany, which resulted in hyperinflation in the country and the ruin of her economy in the 1920s. This led to Adolf Hitler's rise to power in Germany in the early 1930s and he subsequently

dragged the globe into World War II with his invasion of Poland in 1939. During the war, Germany suffered decimating air raids on its cities conducted by the Allied nations and by 1945 she had lost the war. Here's how Germany's stock market did from 1930 to 1950:

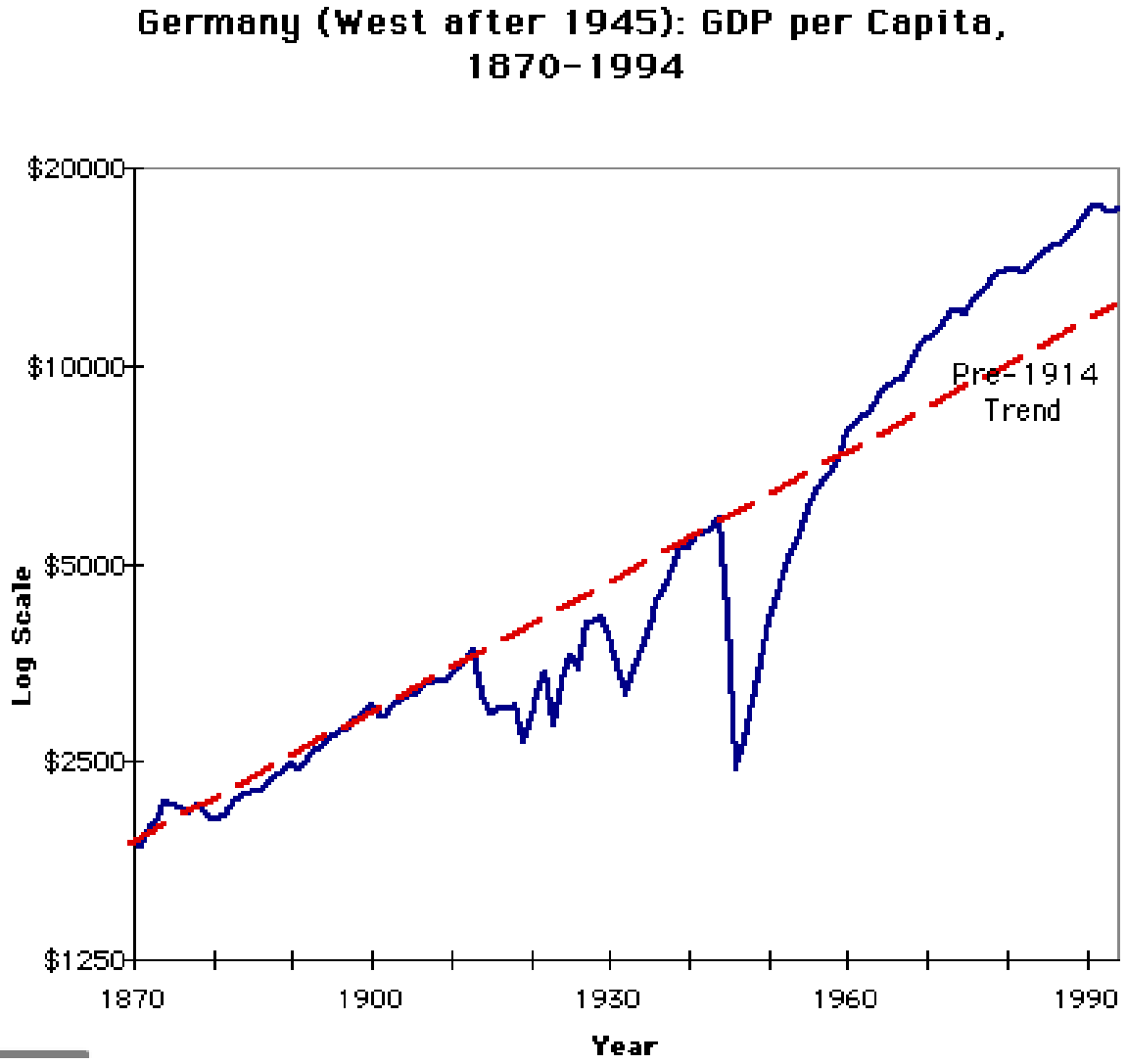


Source: ***Anthony Isola***

Unsurprisingly, German stocks were smashed shortly after World War II ended. But what happened next was remarkable. Germany managed to rebuild, as the victors decided to support the country's rehabilitation rather than punitively punishing her as they had done in the aftermath of World War I. Germany's stock market rebounded, and then some. Isola wrote:

> "Amazingly despite losing not one but two World Wars, suffering a vicious bout of wealth destruction due to Hyperinflation, experiencing a Great Depression, and living under the rule of a fanatically evil dictatorship, long-term German investors realized positive returns by 1960. The German market's real return compounded at an annual rate of 2.4% from 1900-1960. From 1950 to 2000, German stocks posted an annual real return of 9.1%."

So even after accounting for inflation - and bear in mind that Germany endured hyperinflation in the 1920s because of the*Treaty of Versailles* - German stocks still generated a return of 2.4% per year from 1900 to 1960. Here's a chart from Isola's blog post that shows the performance of Germany stock's market from 1870 to 1994:



*Source: **Anthony Isola***

In his blog post, Isola also wrote that "stock markets can be way more resilient than you can imagine. Provided you have the luxury of time to work in your favor." This is why we are long-term investors. We want time to be on our side.

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".

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, for you. **So, thank you all for being the wonderful investors that you all are. And again, never underestimate your importance in helping to shape Compounder Fund's long-run return.**

You can expect to see Compounder Fund's 2021 Second-Quarter Investors' Letter in mid-July. Till then, stay safe and take care!

Excelsior,
Chong Ser Jing
Co-founder and Portfolio Manager, Compounder Fund
12 April 2021

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

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