Compounder Fund Investors' Letter: Second 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 second-quarter investors' letter.

During the quarter, Compounder Fund's overall net-of-fee return for the earliest series of its Class A and Class B shares were both 9.3%. Over the same period, the dividend-adjusted Singapore-dollar returns for the MSCI World Index and the S&P 500 were 8.0% and 8.7%, respectively. The tables below show the returns for Compounder Fund's two share classes (the earliest series for each share class), the MSCI World Index, and the S&P 500, since the birth of the fund.

Total Return	2021 Q1	Apr 2021	May 2021	Jun 2021	2021 Q2	Since inception *
Compounder Fund Class A (after fees)	-1.0%	4.5%	-5.08%	10.2%	9.3%	20.3%
MSCI World Index**	6.9%	3.6%	0.8%	3.4%	8.0%	32.2%
S&P 500**	8.0%	4.3%	0.1%	4.1%	8.7%	34.0%

**Inception date: 13 July 2020*

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

Total Return	2021 Q1	Apr 2021	May 2021	Jun 2021	2021 Q2	Since inception *
Compoun-der Fund Class B (after fees)	-1.0%	4.5%	-5.08%	10.2%	9.3%	15.6%
MSCI World Index**	6.9%	3.6%	0.8%	3.4%	8.0%	27.5%
S&P 500**	8.0%	4.3%	0.1%	4.1%	8.7%	27.4%

**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.

It's been around a year since we started investing Compounder Fund's capital on 13 July 2020. The fund's return has substantially underperformed both market indices since its inception. Other than the fact that it's unpleasant to see the underperformance, what else can be gleaned from the fund's return so far? Nothing really. The time frame is still 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 **previous quarterly investors' letters**, 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. 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 learnt about it from Nicholas Sleep, one of the best investors I've read about. 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. As humans, we 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 on 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 12 April 2021, I published Compounder Fund's **2021 first-quarter investors' letter**. In it, I shared all 47 holdings in the fund's portfolio. As of the date of this letter, the portfolio contains the same 47 holdings, and there are no new stocks added.

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 June 2021, Jeremy and I successfully closed Compounder Fund's fourth subscription window since its initial offering period (which ended on 13 July 2020) and raised S$2.765 million.

This new capital was deployed quickly in the days after the last subscription window's dealing date of 1 July 2021. Jeremy and I invested the new capital across 30 of Compounder Fund's existing holdings. They are (in alphabetical order): Activision Blizzard, Adobe, Alphabet, Amazon, Apple, ASML, Chipotle Mexican Grill, Costco, Datadog, DocuSign, Etsy, Facebook, Fiverr, Illumina, Intuitive Surgical, Mastercard, MercadoLibre, Netflix, Okta, PayPal, Sea, Shopify, Starbucks, Tencent, Tesla, Twilio, Veeva Systems, Visa, Wix, and Zoom.

As of this letter's publication, we have released our investment theses on all 47 companies that are currently in Compounder Fund's portfolio and they can be **found here**. In the future, if and when we add new companies to the portfolio or completely exit any of the 47 companies, we will be publishing our theses for these actions.

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 30 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 in the "*Wonderful businesses"* section of this letter (the only exceptions were Mastercard and Visa, where revenue growth in their last reported quarters were low and negative, respectively). They are winners, according to our definition. Here's how Compounder Fund's portfolio looks like as of 10 July 2021:

Company	Weighting	Country/Region of listing	Headquarters
PayPal	5.2%	USA	USA
Facebook	5.0%	USA	USA
MercadoLibre	5.0%	USA	Argentina
Shopify	4.6%	USA	Canada
Amazon	4.3%	USA	USA
Netflix	3.8%	USA	USA
Tencent	3.3%	Hong Kong	China
DocuSign	3.1%	USA	USA
Microsoft	2.6%	USA	USA
Etsy	2.4%	USA	USA
The Trade Desk	2.4%	USA	USA
Tractor Supply	2.4%	USA	USA
Alphabet	2.3%	USA	USA
Zoom	2.2%	USA	USA
Apple	2.1%	USA	USA
Chipotle	2.1%	USA	USA
Costco	2.1%	USA	USA
Intuitive Surgical	2.1%	USA	USA
Adobe	2.1%	USA	USA
Okta	2.1%	USA	USA
Square	2.0%	USA	USA
Wix.com	2.0%	USA	Israel
Veeva Systems	2.0%	USA	USA
Illumina	2.0%	USA	USA
ASML	2.0%	USA	Netherlands
Twilio	2.0%	USA	USA
Sea	2.0%	USA	Singapore
Fiverr	2.0%	USA	Israel
Mastercard	1.7%	USA	USA

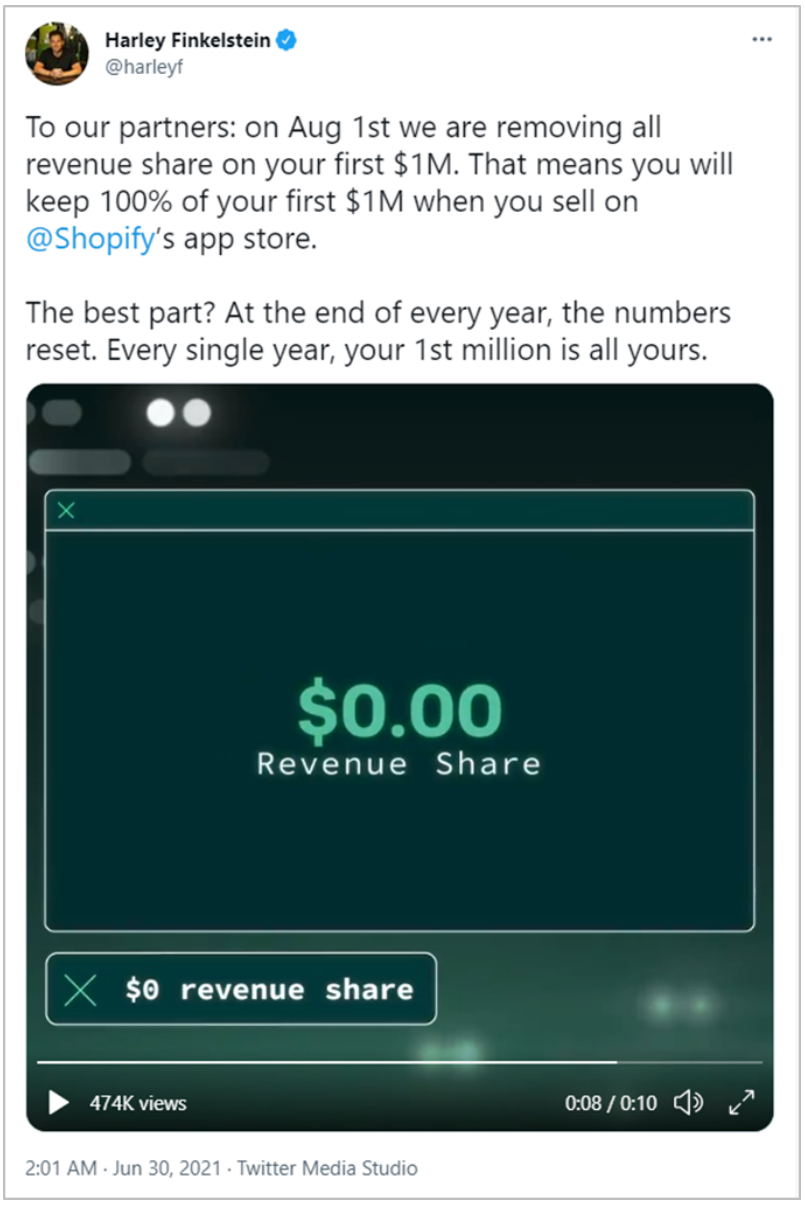
Visa	1.7%	USA	USA
Haidilao	1.7%	Hong Kong	China
Starbucks	1.6%	USA	USA
Datadog	1.5%	USA	USA
Salesforce	1.5%	USA	USA
Markel	1.5%	USA	USA
Activision Blizzard	1.5%	USA	USA
Tesla	1.5%	USA	USA
Meituan Dianping	1.4%	Hong Kong	China
Medistim	1.4%	Norway	Norway
Pushpay	1.0%	Australia	New Zealand
MongoDB	1.0%	USA	USA
Teladoc	0.9%	USA	USA
Afterpay Touch	0.6%	Australia	Australia
Paycom Software	0.6%	USA	USA
a2 Milk	0.5%	Australia	New Zealand
Coupang	0.4%	USA	South Korea
Alteryx	0.2%	USA	USA
Total cash	**1.0%**	-	-

Our biggest addition was to Shopify. In our **investment thesis for Shopify**, we had an in-depth discussion on our admiration for the company's CEO and co-founder, Tobi Lütke. As part of our discussion, we shared a number of passages from Lütke's powerhouse of an investors' letter that he wrote for the company's 2015 IPO prospectus. We want to bring up one passage that we also mentioned in our investment thesis (emphasis is ours):

> "Over the years we've also helped foster a large ecosystem that has grown up around Shopify. App developers, design agencies, and theme designers have built businesses of their own by creating value for merchants on the Shopify platform. *Instead of stifling this enthusiastic pool of talent and carving out the profits for ourselves, we've made a point of supporting our partners and aligning their interests with our own. In order to build long-term value, we decided to forgo short-term revenue opportunities and nurture the people who were putting their trust in Shopify*. As a result, today there are thousands of partners that have built businesses around Shopify by creating custom apps, custom themes, or any number of other services for Shopify merchants."

Jeremy and I believe that Lütke's deep belief in patiently building value, even at the expense of Shopify's short-term gains, was a massive reason for the company's past growth. We also think that Lütke's belief will continue to drive the company's future growth. In late-June this year, Shopify's president Harley Finkelstein made the **tweet** below that significantly

reinforced our confidence in Lütke's willingness to continue patiently building value at Shopify.



The "partners" that Finkelstein referred to are the app developers who develop and sell apps on the Shopify App Store to merchants who use Shopify's platform. These apps help Shopify's merchants improve *their* business operations and grow their businesses. By completely removing revenue-share for the first US$1 million that app developers make on the Shopify App Store, Shopify will be foregoing some revenue over the short-term. **But we believe that the long-term value that would be created *for* Shopify would be huge multiples of whatever short-term revenue-hit the company is going to suffer**. Shopify's move makes it even more attractive for app developers to build for Shopify's platform compared to the past. This, in turn, is likely to result in even better tools for Shopify's merchants to grow their businesses, and thus benefit Shopify in the long run. Shopify's latest move is another wonderful example of a company with a leader who has a unique way of

looking at the world. This unique worldview is important to us. In Compounder Fund's **2020 fourth-quarter investors' letter**, I wrote:

> "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."

We were also comfortable to add to Shopify because (1) its recent revenue growth rates continue to astound us, and (2) its cash flow picture is improving. The table below shows Shopify's quarterly revenue growth and free cash flow margin (free cash flow as a percentage of revenue) going back to the first quarter of 2019.

Quarter	Year-on-year revenue growth	Free cash flow margin
First quarter of 2019	49.5%	4.2%
Second quarter of 2019	47.8%	0.5%
Third quarter of 2019	44.6%	-11.8%
Fourth quarter of 2019	46.9%	7.8%
First quarter of 2020	46.7%	-21.7%
Second quarter of 2020	97.3%	21.9%
Third quarter of 2020	96.5%	11.6%
Fourth quarter of 2020	93.6%	24.4%
First quarter of 2021	110.3%	13.2%

Source: Shopify earnings updates

In December 2020, Lütke was **interviewed** by Sriram Krishnan for the latter's *The Observer Effect* website. We came across the excellent interview recently and it gave us even deeper insights into the way Lütke has built and currently runs Shopify. There was one answer Lütke gave during the interview, shown below, that was particularly striking to us:

> "[Laughs] So, going back a little bit further there—you know what, I should talk about books. One thing that is interesting is how people have accused Shopify of being a book club thinly veiled as a public company.
>
> We tend to read a lot and talk about a lot of books. We read Nassim Taleb's books and one person on my team began talking about *Antifragile* and gave an outline. He said, "I think Nassim is putting a word to the thing that you keep talking about…"
>
> Now, I come from an engineering perspective. One of my biggest beefs with engineers, in general, is that they love determinism. I think there's very little

> determinism in engineering left that's of value. An individual computer is deterministic; once you introduce even just a network connection into the mix, everything becomes unpredictable and you have to write code that's resilient to the unknown. Most interesting things come from non-deterministic behaviors. People have a love for the predictable, but there is value in being able to build systems that can absorb whatever is being thrown at them and still have good outcomes.
>
> So, I love *Antifragile*, and I make everyone read it. It finally put a name to an important concept that we practiced. Before this, I would just log in and shut down various servers to teach the team what's now called chaos engineering.
>
> But we've done this for a long, long time. We've designed Shopify very well because resilience and uptime are so important for building trust. These lessons were there in the building of our architecture. And then I had to take over as CEO.
>
> When that happened, I made two decisions: one, I'm going to try to learn as much about business as possible. But, if business is very different from software architecture, I'm going to be no good no matter what I do. And so, I ran an experiment to treat engineering principles, software architecture, complex system design, and company building as the same thing. Effectively, we looked for the business equivalent of just turning off servers to see if the system has resiliency. For instance, we used to ask people to use their mouse on their non-dominant hand for a day. We introduced these little nudges to ensure that people didn't become complacent."

Jeremy and I first came across the concept of antifragility - referring to something that strengthens when exposed to non-lethal stress - from Nassim Nicholas Taleb's book, *Antifragile,* which was referenced by Lütke. Antifragility is an important concept for Compounder Fund. Jeremy and I run the fund with the idea that bad things *will* happen from time to time - to economies, industries, and companies - but we just don't know how and when. As such, we are keen to own shares in antifragile companies, the ones which can thrive during chaos. This is why the strength of a company's balance sheet is an important investment criteria for us - having a strong balance sheet increases the chance that a company can survive or even thrive in rough seas. But a company's antifragility goes beyond its financial numbers. It can also be found in how the company is run. We were delighted to realise that antifragility is a trait that has been built into Shopify for - to borrow Lütke's words - "a long, long time." This is another reason why we added to our Shopify position.

Here's a quick high-level geographical breakdown of Compounder Fund's portfolio as of 10 July 2021:

Country/Region	% of Compounder Fund's capital based on country of listing	% of Compounder Fund's capital based on location of headquarters
Argentina	-	5.0%
Australia	2.1%	0.6%
Canada	-	4.6%

China	-	6.3%
Hong Kong	6.3%	-
Israel	-	4.0%
Netherlands	-	2.0%
New Zealand	-	1.5%
Norway	1.4%	1.4%
Singapore	-	2.0%
South Korea	-	0.4%
USA	89.2%	71.4%

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 quarter of 2021. As of the date of this letter, we have the financial results for all of Compounder Fund's holdings for the quarter, with the exception of a2 Milk, Afterpay Touch, and Haidilao. This is because the trio only reports twice a year, for the six months ended 30 June and 31 December.

The table below shows the year-on-year revenue growth rates for all the 47 companies that are currently in Compounder Fund's portfolio for each quarter of 2020 and the first quarter of 2021:

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 Q1 2021 from a year ago
a2 Milk	34.2%	34.2%	-16.0%	-16.0%	**-**
Activision Blizzard	-2.0%	38.4%	52.4%	21.5%	**27.2%**
Adobe	14.0%	13.8%	14.4%	26.3%	**22.6%**
Afterpay Touch	96.9%	96.9%	89.4%	89.4%	**-**
Alphabet	13.3%	-1.7%	14.0%	23.5%	**34.4%**
Alteryx	43.2%	17.3%	25.5%	2.6%	**9.1%**
Amazon	26.4%	40.2%	37.4%	43.6%	**43.8%**
Apple	0.5%	10.9%	1.0%	21.4%	**53.6%**
ASML	9.5%	29.5%	32.5%	5.4%	**78.8%**
Chipotle Mexican Grill	7.8%	-4.8%	14.1%	11.6%	**23.4%**
Costco	7.3%	12.4%	16.7%	14.6%	**21.5%**
Coupang	79.0%	85.5%	94.6%	99.8%	**74.3%**
Datadog	87.4%	68.2%	66.3%	56.2%	**51.3%**

DocuSign	38.8%	45.2%	53.5%	56.8%	**57.9%**
Etsy	34.7%	136.7%	128.1%	128.7%	**141.5%**
Facebook	17.6%	10.7%	21.6%	33.2%	**47.6%**
Fiverr	43.7%	81.9%	87.8%	89.2%	**100.1%**
Haidilao	-16.5%	-16.5%	26.9%	26.9%	**-**
Illumina	1.5%	-24.5%	-12.5%	0.0%	**27.2%**
Intuitive Surgical	12.9%	-22.5%	-4.5%	4.0%	**17.5%**
Markel	10.5%	11.8%	20.9%	24.4%	**18.0%**
Mastercard	3.1%	-18.9%	-14.1%	-6.7%	**3.6%**
Medistim	16.2%	-12.1%	-2.5%	-1.6%	**-0.5%**
Meituan	-12.6%	8.9%	28.8%	34.7%	**120.9%**
MercadoLibre	37.6%	61.1%	85.0%	96.9%	**111.4%**
Microsoft	14.6%	12.8%	12.4%	16.7%	**19.1%**
MongoDB	45.8%	39.2%	37.8%	38.4%	**39.4%**
Netflix	27.6%	24.9%	22.7%	21.5%	**24.2%**
Okta	46.0%	42.7%	42.0%	40.3%	**37.3%**
Paycom Software	21.2%	7.2%	12.3%	14.2%	**12.3%**
PayPal	11.9%	22.2%	24.7%	23.3%	**30.6%**
PushPay	33.2%	52.7%	52.7%	30.9%	**30.9%**
Salesforce	30.2%	28.9%	20.1%	19.9%	**22.6%**
Sea	103.2%	102.2%	98.7%	101.6%	**146.7%**
Shopify	46.7%	97.3%	96.5%	93.6%	**110.3%**
Square	44.0%	63.8%	139.6%	140.5%	**266.2%**
Starbucks	-4.9%	-38.1%	-8.1%	-4.9%	**11.2%**
Teladoc (Livongo)**	114.6%	124.7%	109.3%	145.0%	**150.9%**
Tencent	26.4%	29.3%	29.0%	26.4%	**25.2%**
Tesla	31.8%	-4.9%	39.2%	45.5%	**73.6%**
The Trade Desk	32.8%	-12.8%	31.6%	48.1%	**36.8%**
Tractor Supply	7.5%	34.9%	31.4%	31.3%	**42.5%**
Twilio	56.5%	45.7%	51.8%	65.5%	**61.7%**
Veeva Systems	37.7%	32.5%	34.4%	27.4%	**28.6%**
Visa	6.6%	-17.2%	-16.9%	-6.1%	**-2.1%**
Wix.com	23.9%	27.3%	29.2%	38.1%	**40.8%**

Zoom	169.0%	355.0%	366.5%	368.8%	**191.4%**

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 first quarter of 2021, 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 each quarter of 2020 and for the first quarter of 2021:

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 Q1 2021 from a year ago
Compounder Fund current portfolio	32.6%	37.7%	45.1%	47.1%	**56.5%**

Source: Companies' earnings updates

The simple-average year-on-year revenue growth rate for all of Compounder Fund's current holdings in the first quarter of 2021 was an excellent 56.5%. And impressively, this figure for the same group of companies continues to accelerate, as the table just above shows. It's worth noting that the growth of Compounder Fund's current holdings did *not* come from a mere rebound after a poor showing in the first quarter of 2020 - in fact, the companies in Compounder Fund's portfolio produced a strong average revenue growth rate of 32.6% during the aforementioned quarter.

It's wonderful to see the continued acceleration in 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. In fact, **we expect the portfolio's average year-on-year revenue growth rate for the second quarter of 2021 to decelerate from what was achieved in the first quarter**, as some of our portfolio companies lap a strong second quarter of 2020. But we think there's a high chance that our portfolio companies, in aggregate, will continue to achieve pleasing year-on-year revenue growth in the years ahead. **And if these companies can sustain average annual revenue growth of 25% or more in aggregate for the next five to seven years, *while producing healthy free cash flow* (an important requisite!), we believe it will be exceedingly difficult for Compounder Fund's portfolio to *not* do well**. Let's see what the future brings!

And speaking of free cash flow, Jeremy and I were also happy to see that Compounder Fund's holdings grew their cash flow muscles in the first quarter of 2021. The table below shows the revenue growth for each company in Compounder Fund's portfolio for the first quarter of 2021 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 19.2%, up from 14.2% a year ago**. A few standouts include Datadog (14.7% → 22.4%), DocuSign (11.0% → 26.2%), Etsy (12.2% → 26.3%), Pushpay (20.2% → 32.6%), and Shopify (-21.7% → 13.2%). 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%.

Company	Revenue growth in Q1 2021 from a year ago	Free cash flow margin in Q1 2021	Free cash flow margin in Q1 2020
a2 Milk	-	**-**	-
Activision Blizzard	27.2%	**36.1%**	7.2%
Adobe	22.6%	**49.3%**	34.8%
Afterpay Touch	-	**-**	-
Alphabet	34.4%	**21.1%**	12.8%
Alteryx	9.1%	**17.1%**	13.8%
Amazon	43.8%	**-7.3%**	-4.9%
Apple	53.6%	**24.2%**	19.6%
ASML	78.8%	**-26.1%**	-34.7%
Chipotle Mexican Grill	23.4%	**12.6%**	7.4%
Costco	21.5%	**5.1%**	3.2%
Coupang	74.3%	**-7.8%**	10.2%
Datadog	51.3%	**22.4%**	14.7%
DocuSign	57.9%	**26.2%**	11.0%
Etsy	141.5%	**26.3%**	12.2%
Facebook	47.6%	**30.5%**	42.0%
Fiverr	100.1%	**6.0%**	-0.3%
Haidilao	-	**-**	-
Illumina	27.2%	**22.0%**	28.1%
Intuitive Surgical	17.5%	**31.8%**	19.1%
Markel	18.0%	**-**	-
Mastercard	3.6%	**30.7%**	37.8%
Medistim	-0.5%	**16.8%**	20.3%
Meituan Dianping	120.9%	**-**	-
MercadoLibre	111.4%	**-27.8%**	-20.1%
Microsoft	19.1%	**23.0%**	38.3%
MongoDB	39.4%	**5.3%**	-5.7%
Netflix	24.2%	**9.7%**	2.8%
Okta	37.3%	**21.0%**	16.3%
Paycom Software	12.3%	**23.6%**	23.2%
PayPal	30.6%	**25.5%**	26.3%
PushPay	30.9%	**32.6%**	20.2%
Salesforce.com	22.6%	**51.3%**	31.6%

Sea	146.7%	**-**	-
Shopify	110.3%	**13.2%**	-21.7%
Square	266.2%	**-2.6%**	6.9%
Starbucks	11.2%	**8.4%**	-28.8%
Teladoc (Livongo)	150.9%	**-6.9%**	-5.1%
Tencent Holdings	25.2%	**24.5%**	36.1%
Tesla	73.6%	**2.8%**	-15.0%
The Trade Desk	36.8%	**27.7%**	20.9%
Tractor Supply	42.5%	**2.7%**	2.8%
Twilio	61.7%	**-1.9%**	0.2%
Veeva Systems	28.6%	**109.7%**	83.8%
Visa	-2.1%	**55.3%**	21.4%
Wix.com	40.8%	**4.8%**	18.5%
Zoom	191.4%	**47.5%**	76.6%
Simple average	56.5%	**19.2%**	14.2%

Source: Companies' earnings updates

(There's no quarterly free cash flow data for Meituan Dianping because it only shares its detailed cash flow numbers in its half-yearly and annual reports. There's no quarterly free cash flow data for Sea because it only shares its detailed cash flow numbers in its annual reports; but we do want to highlight that Sea's operating cash flow margin had improved dramatically from -8.9% in the first quarter of 2020 to 18.0% in the first quarter of 2021. There's no quarterly free cash flow data available for a2 Milk, Afterpay Touch, and Haidilao for the first quarter of 2021 because of their 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.)

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

Investing thoughts: Why we focus on business quality

In Compounder Fund's Owner's Manual as well as its website, Jeremy and I describe our investment philosophy in detail. But if we were to boil it down to one sentence, it would be this: "A stock's price will do well over time if its underlying business does well too." In this section of the letter, I want to discuss two important things that are related to the sentence.

The first thing is why the statement is a cornerstone of our investment philosophy. I'll start the discussion with something Jeff Bezos once said (emphasis is mine):

> "I very frequently get the question: "What's going to change in the next 10 years?" And that is a very interesting question; it's a very common one. *I almost never get the*

> *question: "What's not going to change in the next 10 years?" And I submit to you that that second question is actually the more important of the two -- because you can build a business strategy around the things that are stable in time*. ... [I]n our retail business, we know that customers want low prices, and I know that's going to be true 10 years from now. They want fast delivery; they want vast selection."

Similarly, we believe that we can build a **lasting *investment* strategy around the things that are stable in time. And we want to do that for Compounder Fund.** There are many important things about the stock market that can change (such as the behaviour of market participants and their level of collective knowledge). But one thing about the stock market which we have observed to be stable over the long arc of history is that it has remained a place to buy and sell pieces of a business. And we think this trait about the stock market will very likely continue to be stable over time. With this observation, what logically follows is that a stock's price over the long run will continue to depend on the performance of its underlying business over the same period. In turn, a stock's price will eventually do well if its underlying business does well too.

(I believe an interesting example of how the behaviour and collective knowledge of market participants have changed over time can be seen in the 2008/09 financial crisis. The period was an economic calamity and stock prices fell sharply. During the crisis, the S&P 500, a broad index for US stocks, fell by nearly 57% from peak to trough. But then-Federal Reserve chair Ben Bernanke prevented an even worse disaster from happening. Bernanke was a scholar on the Great Depression that happened in the 1930s. In a wonderful **2002 speech** for the birthday gala of celebrated economist Milton Friedman, Bernanke laid out the mistakes the US government had made during the Great Depression. He ended the speech saying (emphasis is mine), "I would like to say to Milton and Anna: **Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again**." When the 2008/09 financial crisis erupted, Bernanke sought to prevent the same mistakes from happening. He largely succeeded and I think it's telling that an 85% fall in stock prices, something that happened in the Great Depression, did not occur during the financial crisis.)

The second thing is that the **entry and exit valuations for a stock has surprisingly little effect on its return to an investor over a long holding period.** Charlie Munger alluded to this in a quote found in his classic 1994 speech, *A Lesson on Elementary, Worldly Wisdom as it Relates to Investment Management and Business*:

> "Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns six percent on capital over forty years and you hold it for that forty years, you're not going to make much different than a six percent return - even if you originally buy it at a huge discount. Conversely, if a business earns eighteen percent on capital over twenty or thirty years, even if you pay an expensive looking price, you'll end up with one hell of a result."

There's mathematical proof for Munger's statement. It is shown in the series of equations below from an excellent **Twitter thread** written by a financial educator who goes by the handle of **10-K Diver** on Twitter.

Over long periods of time, business quality trumps purchase / sale prices, entry / exit multiples

Entry P/E multiple = M_{entry}

Return on Capital = ROC % per year

(all re-invested back into the business)

Investment Duration = N years

Exit P/E multiple = M_{exit}

Let Year 1 earnings = E_1.

$\Rightarrow$ Purchase Price = $M_{entry} * E_1$.

Year N+1 earnings = $E_1 * \left(1 + \frac{ROC}{100}\right)^N$.

$\Rightarrow$ Sale Price = $M_{exit} * E_1 * \left(1 + \frac{ROC}{100}\right)^N$.

$\Rightarrow$ Investor's Annualized % Return

$$= \left[\left(\frac{M_{exit} * \cancel{E_1} * \left(1 + \frac{ROC}{100}\right)^N}{M_{entry} * \cancel{E_1}}\right)^{\frac{1}{N}} - 1\right] * 100$$

$$= \underbrace{\left[\left(\frac{M_{exit}}{M_{entry}}\right)^{\frac{1}{N}} * \left(1 + \frac{ROC}{100}\right) - 1\right] * 100}_{\text{converges to ROC as } N \to \infty \text{ regardless of } M_{entry} \text{ and } M_{exit}!}$$

Source: ***10-K Diver***

As 10-K Diver showed, an investor's annualised investment return with a company converges toward its return on capital as the holding period (given by the variable "N" in the equations above) lengthens, regardless of the price-to-earnings ratio (given by the term "P/E") at the entry and exit points. So, if a company can sustain a high return on capital for a long time, the investor's annualised return with the company for the same period will also be high. This is why for the approach we're taking at Compounder Fund - staying patiently invested in what we think are excellent companies - the issue of valuation is way less important than the quality of the business.

"But hang on," you may say, "you do not even talk about the return on capital in Compounder Fund's Owner's Manual and website, so why are 10-K Diver's formulas important here?" The thing is, we see the return on capital as the *output.* The inputs are things such as the growth opportunities a company has, the intelligence and integrity of the business decisions that the

management team makes daily, and the ability of the company to generate strong cash returns from the business, etc. These are effectively the six characteristics that we look out for in Compounders that we've described in detail in Compounder Fund's Owner's Manual and website, and in the **investment theses** we've published for the fund's holdings. By watching the inputs, we believe we can develop a good feel for the long-term output of the companies in our portfolio.

Where our approach can go astray is that it requires a level of judgement on our part, and our judgement may turn out to be wrong. A company that we thought could grow significantly for a long time - and sustain a high return on capital - may not actually be able to do so. And if our judgement turns out to be wrong for many of the companies in Compounder Fund's portfolio, then the fund's long-term return is going to be poor. **Jeremy and I cannot give you any assurance on the quality of *our judgments* on the growth prospects of the companies in Compounder Fund's portfolio. Time is the only arbiter**. What we can do is to share, in as much detail as we can, why we've made the investment decisions we have. You can then determine if our thinking is sensible, or not.

Investing thoughts: Playing the right game

One of the best books I've read over the past year is William Green's ***Richer, Wiser, Happier***. In his book, Green writes about the lessons he's gained from his interactions with some of the world's best investors over the past few decades. One of the investors Green profiled in his book was Nicholas Sleep, whom I mentioned earlier in this letter. Here's a memorable passage from the book on Sleep's experience while investing in Amazon:

> "Skepticism about Amazon continued to swirl. In the midst of the 2008 market meltdown, Sleep attended an event in New York where George Soros spoke about the threat of an impending financial apocalypse. Soros, one of the most successful traders in history, named just one stock that he was shorting as the world fell apart: Amazon."

Amazon's share price ended 2007 at US$92 and eventually fell to a low of US$35 during the 2008/09 financial crisis in November 2008. So Soros likely earned a handsome profit with his short of Amazon. But what's also interesting is that Amazon's current share price of around US$3,700 is tens of times (even more than a hundred times) higher than where it was at any point in 2008. The chart below shows Amazon's share price from the end of 2007 to 30 June 2021.

Source: Yahoo Finance

The passage about Soros from Green's book, and Amazon's subsequent share price movement since the end of 2007, reminded me of an article from venture capitalist and finance writer, Morgan Housel. In his piece, ***Play Your Game***, Housel wrote:

> "It's so easy to lump everyone into a category called "investors" and view them as playing on the same field called "markets."
>
> But people play wildly different games.
>
> If you view investing as a single game, then you think every deviation from that game's rules, strategies, or skills is wrong. But most of the time you're just a marathon runner yelling at a powerlifter. So much of what we consider investing debates and disagreements are actually just people playing different games unintentionally talking over each other.
>
> A big problem in investing is that we treat it like it's math, where 2+2=4 for me and you and everyone – there's one right answer. But I think it's actually something closer to sports, where equally smart and talented people do things completely differently depending on what game they're playing…
>
> ...**2. Figure out what game you're playing, then play it (and only it)**.
>
> So few investors do this. Maybe they have a vague idea of their game, but they haven't clearly defined it. And when they don't know what game they're playing, they're at risk of taking their cues and advice from people playing different games, which can lead to risks they didn't intend and outcomes they didn't imagine."

An investor who shorted Amazon early in 2008 and covered his short position later in the year, and another investor who invested in the company early *in the same year* but for the long run, *both made the right decisions.* **They were merely playing different games**. At Compounder Fund, Jeremy and I clearly know the game we're playing. We're looking for great businesses - what we call Compounders - buying their shares, and holding them for the long run while knowing that the share prices can be volatile. Other market participants can say that Amazon's share price may fall by 30% over the next year - and they may well be right. But it's of no consequence to Jeremy and me. Guessing what share prices will do over the short run is not the game we're playing, and it's not a game we know how to play. What's important to us - and what we think we understand - is where Amazon's business will be over the long run.

But it's not enough for just Jeremy and me to know the game we're playing. It's equally important for all of you, investors in Compounder Fund, to know it too. Jeremy and I are grateful to have amassed a group of thoughtful investors in Compounder Fund (that's all of you!) who know the patient game we're playing and are cheering us on. For *your* benefit, we also think it is crucial to bring up an interesting feature of human psychology in the context of playing our investing game in the financial markets. This interesting feature is described by Housel - in an elegant way that I can't achieve - in another article of his titled ***How to Do Long-Term*** (emphasis is mine):

> "If I say, "How would you feel if stocks fall 30%?" you probably picture a world where everything is the same as it is today except stock prices are 30% lower. And in that world it's easy to say, "That would be fine, I'd even see it as an opportunity."
>
> But the reason stocks fall 30% is because there's a terrorist attack, or the banking system is about to collapse, or there's a pandemic that might kill your whole family.
>
> *In that context, you might feel different. You might switch from an opportunistic mindset to a survival mindset. You might not have the endurance you once imagined*."

Even if you understand the game that Jeremy and I are playing today, the understanding may not be enough for you to continue cheering us on when stocks fall in the future. This is because, as Housel said, falling stock prices often coincide with negative developments in the broader world, which could sway your emotions. **It is especially important for you to continue cheering us on when stocks fall**. I say this not because it represents good business for us (it does, but it's not the reason why I'm discussing this), but because falling prey to your emotions could harm *your* returns.

In Compounder Fund's Owner's Manual and website, we mentioned that the investors in the Fidelity Magellan Fund only earned an average return of 7% per year during Peter Lynch's tenure as manager of the fund from 1977 to 1990 even though he posted an amazing annualised return of 29%. The reason for this big difference is the behaviour of the investors in the fund: They chased the fund when it was performing well but bailed when it temporarily declined. In other words, they bought *high* and sold *low.* **Jeremy and I do not wish to see something like this happen to any of you. Let's work as a team to prevent this from happening to Compounder Fund!**

Investing thoughts: Accelerating growth

In 2016, Michael Mauboussin, a highly-regarded researcher and author in the investment industry, co-wrote a research paper published by Credit Suisse titled ***The Base Rate Book***. Mauboussin and his co-authors studied the sales growth rates for the top 1,000 global companies by market capitalization since 1950. They found that it was rare for a company - even for ones with a low revenue base - to produce annualised revenue growth of 20% or more for 10 years. For example, of all the companies that started with revenue of less than US$325 million (adjusted for inflation to 2015-dollars), only 18.1% had a 10-year annualised revenue growth rate of more than 20%. Of all the companies that started with inflation-adjusted revenue of between US$1.25 billion and US$2.0 billion, the self-same percentage was just 3.0%.

The table below shows the percentage of companies with different starting revenues that produced annualised revenue growth in excess of 20% for 10 years. You can see that no company in Mauboussin's dataset that started with US$50 billion in inflation-adjusted revenue achieved this level of revenue-growth.

Starting sales, adjusted for inflation to 2015-dollars	Percentage of companies with annualised revenue growth of 20% or more for 10 years
US$0 - US$325 million	18.1%
US$325 - US$700 million	4.7%
US$700 - US$1,250 million	3.5%
US$1.25 - US$2.0 billion	3.0%
US$2.0 - US$3.0 billion	2.2%
US$3.0 - US$4.5 billion	1.2%
US$4.5 - US$7.0 billion	1.5%
US$7.0 - US$12.0 billion	1.1%
US$12.0 - US$25.0 billion	0.9%
>US$25.0 billion	0.2%
>US$50.0 billion	0.0%

Source: Credit Suisse research paper, The Base Rate Book

But in a research piece published in June this year with Morgan Stanley titled ***The Impact of Intangibles on Base Rates***, Mauboussin noted that Amazon had defied the odds. The US ecommerce juggernaut ended 2016 with US$136 billion in revenue and Mauboussin wrote (emphasis is mine):

> "... work that we did in 2016 [referring to *The Base Rate Book*] revealing that no company with [US]$100 billion or more in base year sales had ever grown at that mid-teens rate for that long. Our data were from 1950-2015 and reflected sales

> figures unadjusted for acquisitions and divestitures but adjusted for inflation. The analysis was not specific to any particular business, but the clear implication was that it was improbable that a company that big could grow that fast.
>
> Amazon will be at a [US]$515 billion-plus sales run rate by the second quarter of 2022 and will have a 6-year sales growth rate ended 2022 of 27.6 percent, if the consensus estimates are accurate… **If achieved, Amazon's results will recast the base rate data**."

In *The Impact of Intangibles on Base Rates,* Mauboussin also shared the two main ways of making forecasts: The inside view and the outside view. Psychologist Daniel Kahneman, who won a Nobel Prize in Economics in 2002, has an interesting story in his 2011 book, ***Thinking, Fast and Slow***, on these two ways of forecasting.

Kahneman shared in his book that years ago, he had to design a curriculum and write a textbook on judgement and decision making. His team consisted of experienced teachers, his own psychology students, and an expert in curriculum development named Seymour Fox. About a year into the project, Kahneman polled his team for estimates on how long they thought they would need to complete the textbook. Kahneman and his team assessed their own capabilities and concluded that they would need around two years - this was their *inside view.* After conducting the poll, Kahneman asked Fox how long other similar teams took to complete a curriculum-design from scratch. It turned out that around 40% of similar teams failed to complete their projects and of those who managed to cross the finish line, it took them at least seven years to do so. This was the base rate, the *outside view.* Kahneman and his team were shocked at the difference. But in a validation of the outside view, Kahneman's team eventually took eight years to finish their textbook. A key lesson Kahneman learnt from the episode was that incorporating the base rate would be a more sensible approach for forecasting compared to relying purely on the inside view.

In an investing context, taking the inside view on a company's growth prospects would be to study the company's traits and make an informed guess based on our findings. Taking the outside view would mean studying the company's current state and comparing it to how other companies have grown in the past when they were at a similar state.

Jeremy and I have invested nearly all of Compounder Fund's capital in companies that (a) have strong historical growth and thus high valuations, and (b) have what we think are high chances of producing strong *future* growth. For Compounder Fund to eventually produce a good return, its portfolio companies will need to grow their businesses significantly, in aggregate, in the years ahead. Before we invested in the companies in Compounder Fund's portfolio, we studied their businesses carefully. After our research, we developed the confidence that they would likely continue to grow rapidly for many years. **We took the inside view**. But we also considered the outside view. We knew that trees don't grow to the sky, that it's rare for companies to grow at high rates for a long time, and that some of our companies already had massive businesses (such as Alphabet, Amazon, Facebook, Microsoft, and Tencent, to name a few). Nonetheless, we still invested in the companies we did for two reasons. First, we knew going in that we were looking for the outliers. Second, **we had suspected for some time that the base rates for companies that sustain high growth for a long time have been raised from the past.**

Mauboussin's research in *The Impact of Intangibles on Base Rates* lends strong empirical evidence for our suspicion. He found that companies that rely heavily on intangible-assets grow faster than what the base rate data show. This is an important observation. According to the 2017 book ***Capitalism Without Capital*** by Jonathan Haskel and Stian Westlake, investments in intangible assets around the world overtook investments in tangible assets around the time of the 2008/09 global financial crisis and the gap has widened since. As more and more intangibles-based companies appear, the number of companies with faster-growth should also increase.

But intangibles-based companies also exhibit a higher variance in their rates of growth, according to Mauboussin's data in *The Impact of Intangibles on Base Rates.* Put another way, intangibles-based companies have a higher risk of becoming obsolete. The quality of an investor's judgement on the growth prospects of intangibles-based companies thus becomes even more important. Many of Compounder Fund's holdings are intangibles-based companies. But as I mentioned earlier in this letter, "Jeremy and I cannot give you any assurance on the quality of our judgments on the growth prospects of the companies in Compounder Fund's portfolio. Time is the only arbiter."

Why did we suspect that companies today are more likely to be able to grow faster than in the past? A key reason is the birth of software and the internet. In our view, these two things combined meant that for the very first time in human history, the distribution of a product or service has effectively zero marginal costs, and can literally travel at the speed of light (or the speed at which data can be transmitted across the web). Paul Graham shared something similar in a recent blog post of his, ***How People Get Rich* Now**. Graham is a co-founder of the storied startup accelerator and venture capital firm Y Combinator. He wrote:

> "[B]ecause newly founded companies grow faster than they used to. Technology hasn't just made it cheaper to build and distribute things, but faster too.
>
> This trend has been running for a long time. IBM, founded in 1896, took 45 years to reach a billion 2020 dollars in revenue. Hewlett-Packard, founded in 1939, took 25 years. Microsoft, founded in 1975, took 13 years. Now the norm for fast-growing companies is 7 or 8 years."

Portfolio management thoughts: Guiding light, Part 2

In Compounder Fund's **2020 third-quarter investors' letter**, I shared the following in the "*Portfolio management thoughts: Guiding light"* section:

> "Some of you reading this letter may have heard me mention this before. A guiding light for the way I think about investing and the construction of Compounder Fund's portfolio is a quote from David Gardner, co-founder of The Motley Fool. David once said:
>
> > "Make your portfolio reflect your best vision for our future."

> This is a simple but profound statement. It focuses us on the future. And it's not just any future - David's statement guides us to think about a beautiful future, a better tomorrow. The benefit of doing so is that our portfolios will end up with companies that are likely to continue to be relevant in the years ahead. This is because these are the companies that are innovating to solve problems and improve the world.
>
> For a long time, the "best vision" I had was somewhat hazy. I knew I wanted a portfolio filled with companies that can help make the world a better place. But I couldn't define 'better' clearly. Recently, as I looked at Compounder Fund's portfolio as well as the portfolio I used to help my family run in the past, my thoughts crystallised. It's still a work in progress, but I can see with more clarity now that my best vision for our future is a world that can make us smarter, happier, richer, and healthier each day."

A few weeks ago, I had a conversation with my brilliant wife about the guiding light for the construction of Compounder Fund's portfolio. She helped me to gain even more clarity about my best vision for the world's collective future. She said, beautifully, that "smarter, happier, richer, and healthier" can be summed up as "Better Off". In the quoted passages from Compounder Fund's 2020 third-quarter investors' letter above, I said that I knew for a long time that I wanted a portfolio filled with companies that can help make the world a better place, but that I couldn't define 'better' clearly - with "smarter, happier, richer, and healthier," I managed to find that sharper definition. But after hearing the phrase "Better Off," I thought that it really does summarise my vision better. **Jeremy and I want Compounder Fund to be stocked full of companies that are making the world better off in their own unique ways - and we think Compounder Fund's portfolio does look like this now**.

When I first introduced the guiding light for Compounder Fund's portfolio construction in the 2020 third-quarter letter, I said that it's a "work in progress." We've just improved it, and I wouldn't be surprised if Jeremy and I make further tweaks to it in the years ahead!

House-keeping matters and what's next

Jeremy and I are happy to note that a few months ago, Compounder Fund completed its first-ever annual audit for 2020. With the support of the teams at Baker Tilly (Compounder Fund's auditor) and Crowe Horwath First Trust (Compounder Fund's fund administrator), the audit was a smooth process. On 14 May 2021, we sent a digital copy of Compounder Fund's audited financial statements to all of the fund's investors. If you did not receive it, or if you joined the fund as an investor after 14 May 2021 and would like a digital copy of the audited financial statements for 2020, please let Jeremy and me know.

As Jeremy and I have shared before, giving back to society is one of the four key pillars of Compounder Fund's mission to "Grow *Your Wealth* & Enrich Society." In the fund's website, we **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." 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!

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 the investment theses for all 47 of Compounder Fund's current holdings (for your convenience, they can be **found here**) and that we will be publishing write-ups if and when we add new companies to the portfolio or completely exit an existing holding. We will be informing you when we publish any new theses.

Compounder Fund's next subscription window will close in the middle of September 2021 and it will have a dealing date on the first business day of October 2021 (which should be 1 October). If you would like to increase your investment in the fund, please submit the relevant paperwork by the middle of September 2021. Jeremy and I are happy to help you with any queries you may have.

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.

In some of my past quarterly letters for Compounder Fund, I brought up how COVID-19, a huge problem that Mother Nature threw at us collectively in 2020, is a great example of how a disaster can foster growth. In his recent essay titled ***Technology Saves the World,*** venture capitalist Marc Andreessen shared a COVID-driven development that he's really excited about. I wholeheartedly share his enthusiasm. He wrote (emphasis is mine):

> "Finally, possibly the most profound technology-driven change of all — geography, and its bearing on how we live and work. For thousands of years, until the time of COVID, the dominant fact of every productive economy has been that people need to live where we work. The best jobs have always been in the bigger cities, where quality of life is inevitably impaired by the practical constraints of colocation and density. This has also meant that governance of bigger cities can be truly terrible, since people have no choice but to live there if they want the good jobs.
>
> What we have learned — what we were forced to learn — during the COVID lockdowns has permanently shattered these assumptions. It turns out many of the best jobs really can be performed from anywhere, through screens and the internet. It turns out people really can live in a smaller city or a small town or in rural nowhere and still be just as productive as if they lived in a tiny one-room walk-up in a big city. It turns out companies really are capable of organizing and sustaining remote work even — perhaps especially — in the most sophisticated and complex fields.
>
> **This is, I believe, a permanent civilizational shift. It is perhaps the most important thing that's happened in my lifetime, a consequence of the internet**

> **that's maybe even more important than the internet. Permanently divorcing physical location from economic opportunity gives us a real shot at radically expanding the number of good jobs in the world while also dramatically improving quality of life for millions, or billions, of people**. We may, at long last, shatter the geographic lottery, opening up opportunity to countless people who weren't lucky enough to be born in the right place. And people are leaping at the opportunities this shift is already creating, moving both homes and jobs at furious rates. It will take years to understand where this leads, but I am extremely optimistic."

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 words

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, your belief in Compounder Fund's mission to "Grow *Your* Wealth & Enrich Society," and your understanding of the investing game that Jeremy and I are playing.

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 Third-Quarter Investors' Letter in mid-October. Till then, stay safe and take care!

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

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

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