Compounder Fund Investors' Letter: First Quarter of 2024

COMPOUNDER FUND
GROWING YOUR WEALTH AND ENRICHING SOCIETY

Dear investors,

I'm presenting Compounder Fund's 2024 first-quarter investors' letter together with my co-founder Jeremy Chia. 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 12.7%. Over the same period, the dividend-adjusted Singapore-dollar returns for the MSCI World Index and the S&P 500 were 11.5% and 13.1%, respectively. Tables 1 and 2 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.

Table 1

Time period	Compounder Fund Class A (after fees)	MSCI World**	S&P 500**
2020*	11.2%	14.6%	14.2%
2021	0.9%	24.8%	31.2%
2022	-44.1%	-18.3%	-18.7%
2023	36.7%	22.6%	24.4%
Jan 2024	3.8%	2.7%	3.1%
Feb 2024	8.1%	4.9%	6.0%
Mar 2024	0.4%	3.5%	3.5%
Q1 2024	12.7%	11.5%	13.1%
Year-to-date 2024	12.7%	11.5%	13.1%
Total return since inception*	-3.4%	59.9%	71.6%
Annualised return since inception*	-0.9%	13.5%	15.6%

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

Table 2

Time period	Compounder Fund Class B (after fees)	MSCI World**	S&P 500**
2020*	6.8%	10.4%	8.6%
2021	0.9%	24.8%	31.2%
2022	-44.1%	-18.3%	-18.7%
2023	36.7%	22.6%	24.4%
Jan 2024	3.8%	2.7%	3.1%
Feb 2024	8.1%	4.9%	6.0%
Mar 2024	0.4%	3.5%	3.5%
Q1 2024	12.7%	11.5%	13.1%
Year-to-date 2024	12.7%	11.5%	13.1%
Total return since inception*	-7.2%	54.1%	63.1%
Annualised return since inception*	-2.1%	13.2%	15.0%

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

At the publication of this letter, it's been nearly four years since we started investing Compounder Fund's capital on 13 July 2020. **The results have been poor**. The fund is down slightly since its inception and it has also substantially underperformed both market indices. **We are encouraged by the welcome upswing in the stock prices of the fund's holdings in 2023 and the first quarter of 2024** (see Tables 1 and 2) but the fund has yet to fully recover the declines from prior periods. Although most of Compounder Fund's underlying businesses have done well since the fund's inception, their stock prices have not.

Jeremy and I are clear that Compounder Fund exists to ultimately produce a positive *and* healthy return over the long run for all of you, and not merely to invest in stocks with growing businesses. **We understand too that discussion about the fund's underlying businesses can ring empty when their stock prices have fared so poorly**, ***especially*** **when most of the holdings had high valuations when we first invested in them (the**

valuation numbers can be found in our investment theses for the holdings). But I have repeatedly emphasised in our past letters how our stocks' underlying *businesses* have been doing because what ultimately drives a stock's price over the long run is its business performance. Over the short run, stock prices and business fundamentals can diverge wildly, but they tend to converge with the passing of time. This is a concept that I illustrated in detail on a number of occasions, including the "*Equanimity and patience"* section of our **2021 fourth-quarter letter**, the "*An unfortunate but necessary disconnect"* section of our **2022 third-quarter letter**, the introductory section of our **2022 fourth-quarter letter** (in which I also discussed the short- and long-term performance of a stock with a high valuation), and in the "*When genius failed (temporarily)"* section of our **2023 second-quarter letter**.

Jeremy and I believe that investing for Compounder Fund in the manner we have been from the start - finding companies with the potential for strong long-term growth in their businesses and holding their shares - is the best way forward. This is because we think it will produce the best long-term results. The performance of Compounder Fund has been poor so far, and we understand why you may question this approach. But based on our experience investing in the past over longer time frames we believe this is a way of investing that will very likely work if given the time to succeed. In the paragraph above, I highlighted sections from our previous letters that detailed severe dislocations between business and stock price performances seen in the past that were eventually corrected over time; these examples also lend weight to our belief (**I explain our belief in greater detail in the "*Wonderful businesses"* section of our letter**).

Times like these are not easy for any of you. We know. The late, great, Charlie Munger was once asked about the lessons he learnt from his investment fund's big losses in 1973 and 1974 (his total loss in that period was 53%). He said:

> "It didn't bother me with my own money, but it made me suffer the tortures of hell as I thought through the loss of morale of the limited partners who had trusted me."

It's the same anguish we feel when we think of you. But at the same time, you have provided us with gentle patience and the space to engage in long-term thinking about stocks - **we're incredibly grateful for this**. With your strong support, Jeremy and I are taking the long-term approach here at Compounder Fund, where the fund's return will come from the underlying business performances of its holdings. I've mentioned in many past letters that you should never underestimate the importance of your role in shaping Compounder Fund's long-term return and I'll like to do so here again. In the "*What's our edge?*" section of our **2020 fourth-quarter letter**, I 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**. In what has been a rough period for Compounder Fund over the past three-plus years, you have helped us produce the this edge. ***Thank you.***

Judging our performance

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."

We've crossed the three-year mark at Compounder Fund and as I mentioned in the introductory section of this letter, the performance of the fund has been poor. The journey so far has been rough on all of us at Compounder Fund, to say the least. **If you had invested with the fund since inception and found our performance wanting by using the minimum three-year evaluation period, we understand.** But based on the business performances of Compounder Fund's holdings, we're confident that when the fund's *stock price* performance is eventually weighed in the fullness of time, a favourable judgement is likely to result - **I discuss the reason for our confidence in the *"Wonderful businesses"* section of this letter.**

It will be very disappointing for the both of us too if Compounder Fund fails to beat the MSCI World Index and the 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 long-term 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.

Some caution is needed here: **The stock market is volatile**. The returns of Compounder Fund in the future will very likely *not* be smooth - this is just how stocks work. And indeed, we've already experienced significant volatility in the results of Compounder Fund since its inception. If the market falls in the future, 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.

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 in the mid-2010s and initially wanting to be outside the public eye, Sleep published a collection of his investment letters in 2021 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 think about two sequences of returns over a seven year period, shown in Table 3:

Table 3

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total	CAGR*
Sequence A return	+11%	+0%	-44%	+36%	+50%	+10%	+57%	+120%	**12%**
Sequence B return	+12%	+12%	-5%	+20%	+9%	+25%	+13%	+120%	**12%**

**CAGR refers to the compound annual growth rate for Year 1 to Year 7*

Both sequences result in the same total return. But the **psychological** experience with Sequence A is vastly more difficult than with Sequence B because of Sequence A's much greater volatility. **It would also be really difficult for an investor in Sequence A to hold on from Year 1 to Year 4 because the overall return at the Year 4 mark would be -15%;** this compares with the overall return of 43% for Sequence B. This difference in the psychological experience, and the *indifference* in the overall result, at Year 7 between Sequence A and Sequence B 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. We've already seen such a bounce happen in an unwanted direction (downwards) but 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 though. The direction of the gravitational force will depend on whether our insights - on the abilities of Compounder Fund's companies to grow their businesses at high rates over the long run - turn out to be correct. **In this regard, it's been so far, so good, as I'll discuss in the "*Wonderful businesses"* section of this letter**.

Portfolio changes

Compounder Fund's **2023 fourth-quarter letter** was published on 12 January 2024. In it, I shared all 46 holdings that were in the fund's portfolio at the time. There have been no changes to the list of holdings since then. But Jeremy and I have made small tweaks to the composition of the portfolio. The most prominent of these small tweaks were (1) trims we made to Compounder Fund's positions in Chipotle Mexican Grill, Costco, Etsy, and Fiverr, and (2) additions to Coupang and dLocal using capital from the trimming.

We trimmed Etsy and Fiverr because we have been disappointed - relatively speaking - with the recent developments in their businesses. In their 2023 fourth-quarter earnings updates, the duo issued lacklustre guidance for their 2024 results. In the case of the **e-commerce marketplace for unique craft items**, Etsy, management guided for its GMS (gross merchandise sales) to decline in the low single-digit percentage range in the first quarter of 2024, accompanied by revenue growth in the mid single-digit percentage range *at best*. We expected more, given that Etsy currently has just a 2% share of a US$500 billion market opportunity based on the size of the online markets across geographies and retail categories

that are relevant to the company. Coming to Fiverr, the leaders of the **freelancing platform company** expect GMV (gross merchandise volume) growth in 2024 to accelerate by merely 1-2 percentage points above 2023's GMV growth of just 1%, leading to meagre revenue growth of 5%-7%. In contrast, Fiverr's *larger* competitor, Upwork, is projecting revenue growth of 10%-13% for 2024.

As for Chipotle and Costco, we have been pleased with both companies' business results since our first investments that were made in July 2020. Table 4 below shows the impressive revenue growth, same-store sales growth, and restaurant-level operating margin (note the year-on-year increases in the restaurant-level operating margin too) since the first quarter of 2022 from Chipotle, which **runs fast-casual restaurants specialising in Mexican fare**. Meanwhile, Costco, the **membership-based warehouse retail giant**, has been consistently growing its membership count and putting up high membership renewal rates of at least 90%, in addition to posting positive revenue growth and same-store sales growth, over the same period; these are shown in Table 5.

Table 4

Quarter	Chipotle year-on-year revenue growth	Chipotle same-store sales growth	Chipotle restaurant level operating margin
Q1 2022	16.0%	9.0%	20.7%
Q2 2022	17.0%	10.1%	25.2%
Q3 2022	13.7%	7.6%	25.3%
Q4 2022	11.2%	5.6%	24.0%
Q1 2023	17.2%	10.9%	25.6%
Q2 2023	13.6%	7.4%	27.5%
Q3 2023	11.3%	5.0%	26.3%
Q4 2023	15.4%	8.4%	25.4%

Source: Chipotle earnings releases

Table 5

Quarter	Costco year-on-year revenue growth	Costco same-store sales growth	Costco total member households (million)	Costco worldwide membership renewal rate
Q1 2022	16.2%	14.9%	64.6	90.0%
Q2 2022	15.0%	13.7%	65.8	90.4%
Q3 2022	8.1%	6.6%	66.9	90.4%
Q4 2022	6.5%	5.2%	68.1	90.5%
Q1 2023	2.0%	0.3%	69.1	90.5%
Q2 2023	9.5%	1.1%	71.0	90.4%
Q3 2023	6.2%	3.8%	72.0	90.5%
Q4 2023	5.7%	5.6%	73.4	90.5%

Source: Costco earnings releases

We're still really positive on the future growth potential of Chipotle and Costco's businesses. Chipotle ended 2023 with 3,437 restaurants, average annual sales per restaurant of US$3.0 million, and a restaurant-level operating margin of 26.2%. These compare with management's view on Chipotle's long-term potential for reaching 7,000 restaurants (which is up from a previous target of 6,000), average annual sales per restaurant in excess of US$4 million, and a restaurant-level operating margin in the 30% range. If they come to pass - and we have confidence they would, given management's continued emphasis on the company's food- and people-culture - Chipotle is on a multi-year journey towards tasty revenue and free cash flow growth. As for Costco, management gave a good description of the company's long runway for growth in its 2023 fourth-quarter earnings conference call (emphases are mine):

> "**But what's interesting is we have a lot more runway than we ever thought possible**. If you had asked us 5 years ago, by now, how many would we be putting in this year in the U.S., we would not have said 20-plus. It's got to slow down at some point. But the volumes that we're now doing in these locations, we've got to bleed some of that off. And so that's one good point. **And then we still got plenty of going on overseas. And you'll see that continue to ramp up as well**…
>
> … If you announced this 10 years ago, **will you ever have 150 of your 600 U.S. locations doing over [US]$300 million and 40 of them doing over [US]$400 million? The answer would be no, no way, even with inflation. The fact is we're doing a lot more volume than we've ever thought we would do**. And so the biggest answer of not only making it a little more efficient but driving more sales is cannibalizing. **We find existing members that sometimes will say, "I don't want to go there. It's too busy today." And by opening up that third or fourth unit in that city, we're seeing not an increase by 1/3 or 1/4 of the membership base but a significant increase in sales**."

But both Chipotle and Costco's valuation multiples have run up in recent months. They ended March 2024 with high price-to-earnings ratios of 66 and 48, and high price-to-free

cash flow ratios of 66 and 53, respectively. So we thought it makes sense to take a small number of chips off the table.

We added to Compounder Fund's position in **Korean e-commerce company** Coupang for two reasons. First, there's Coupang's impressive inflection to positive free cash flow and GAAP (Generally Accepted Accounting Principles) operating income in recent quarters *while* posting healthy revenue growth - see Table 6. It's worth noting too that Coupang's top-line has grown significantly faster than Korea's overall retail spend. Second, the company was carrying a price-to-free cash flow (P/FCF) ratio of just 18 at the end of March 2024.

Table 6

Quarter	Coupang year-on-year revenue growth	Growth in Korea retail spend	Coupang GAAP operating income (US$, million)	Coupang free cash flow (US$, million)
Q1 2022	21.6%	-	-205.7	-293.8
Q2 2022	12.5%	-	-67.1	-199.0
Q3 2022	9.8%	7%	77.4	-225.2
Q4 2022	4.9%	-	83.0	459.1
Q1 2023	13.4%	4%	106.8	406.1
Q2 2023	15.9%	3.1%	147.6	443.3
Q3 2023	21.2%	1.3%	87.5	531.0
Q4 2023	23.2%	2%	130.0	375.6

Source: Coupang earnings releases and earnings conference calls

Coupang also acquired Farfetch, an online marketplace focusing on luxury products, earlier this year and now has a new commerce-vertical for future growth. The deal is a risk for Coupang since Farfetch was burning through cash throughout its life as a public-listed company (Farfetch held its initial public offering in 2018). In fact, Farfetch was close to bankruptcy when Coupang swooped in. But Coupang's management team shared in the 2023 fourth-quarter earnings conference call that they are "already executing on a plan to make Farfetch self-funding with no additional investments beyond the announced capital commitment" and that they "see many paths to making this a worthwhile investment for shareholders." Moreover, we estimate the capital commitment mentioned by management to be not more than US$500 million; with net-cash of US$2.5 billion (total cash less total debt and operating leases) at the end of 2023, Coupang should have plenty of financial cushion for the deal. Coupang still has plenty of headroom for growth as its revenue of US$24.4 billion in 2023 remains a tiny fraction of the US$560 billion in total commerce spend that is expected to take place in Korea in 2027.

Coming to dLocal, the **emerging markets digital payments specialist** has been producing high net revenue retention rates and strong growth in TPV (total payments volume), revenue, and free cash flow for some time. These are shown in Table 7.

Table 7

Quarter	dLocal net revenue retention rate	dLocal year-on-year TPV growth	dLocal year-on-year revenue growth	dLocal free cash flow (US$, million)
Q1 2022	190%	127%	117.2%	73.3
Q2 2022	157%	67%	71.6%	30.9
Q3 2022	152%	51%	63.0%	83.0
Q4 2022	146%	78%	55.3%	-45.1
Q1 2023	147%	70%	57.0%	80.7
Q2 2023	148%	80%	59.3%	134.6
Q3 2023	141%	69%	46.5%	3.3
Q4 2023	149%	55%	58.8%	56.7

Source: dLocal earnings releases and earnings conference calls

dLocal's already-strong management team was strengthened significantly, in our opinion, with the arrival in August 2023 of Pedro Arnt as co-CEO alongside Sebastian Kanovich. Arnt, 50, has an impressive resume: He was CFO of MercadoLibre, a role he had held since June 2011, just prior to joining dLocal. MercadoLibre is a fellow Compounder Fund holding and a **Latin American e-commerce and digital payments powerhouse**. Kanovich, who is one of dLocal's founders, stepped down as co-CEO in March this year but will remain active in the company as the leader of a newly established Commercial and M&A (mergers & acquisitions) committee within its board. This leaves Arnt as the sole CEO.

During dLocal's recent 2023 fourth-quarter earnings conference call, Arnt shared that he joined the company "with the strong belief this is an outstanding business with significant opportunities ahead" and that the "conviction has done nothing but increase in [his] time [with dLocal]." Importantly, Arnt also reiterated dLocal's previous mid-term targets of producing a 25%-35% compound annual growth rate in gross profit, and an adjusted EBITDA (earnings before interest, taxes, depreciation, and amortisation) margin of more than 75%. At the end of March 2024, dLocal carried a low P/FCF ratio of merely 16.

As of this letter's publication, we have released our investment theses on all the 46 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 fund's holdings voluntarily, we will be releasing our detailed thoughts for these actions. Here's how Compounder Fund's portfolio of 46 companies looks like as of 7 April 2024:

Table 8

Company	Weighting	Country/Region of listing	Headquarters
Meta Platforms	9.5%	USA	USA
MercadoLibre	5.5%	USA	Argentina
Netflix	5.0%	USA	USA
Amazon	4.7%	USA	USA
Microsoft	4.6%	USA	USA
Chipotle Mexican Grill	3.9%	USA	USA
Alphabet	3.7%	USA	USA
Tractor Supply	3.5%	USA	USA
Costco	3.5%	USA	USA
The Trade Desk	3.3%	USA	USA
ASML	3.1%	USA	Netherlands
Mastercard	2.9%	USA	USA
Intuitive Surgical	2.8%	USA	USA
Apple	2.7%	USA	USA
Visa	2.7%	USA	USA
DataDog	2.7%	USA	USA
Adyen	2.6%	Netherlands	Netherlands
Shopify	2.6%	USA	Canada
Medpace	2.3%	USA	USA
Adobe	2.2%	USA	USA
Salesforce	2.0%	USA	USA
Markel	1.9%	USA	USA
MongoDB	1.8%	USA	USA
Tencent	1.7%	Hong Kong	China
TSMC	1.7%	USA	Taiwan
Veeva Systems	1.5%	USA	USA
Tesla	1.4%	USA	USA
Wise	1.3%	UK	UK
Starbucks	1.3%	USA	USA
PayPal	1.2%	USA	USA
Wix	1.0%	USA	Israel
Medistim	1.0%	Norway	Norway
Block	0.9%	USA	USA
Okta	0.9%	USA	USA
Etsy	0.9%	USA	USA
dLocal	0.8%	USA	Uruguay

Table 8 (continued from above)			
Company	**Weighting**	**Country/Region of listing**	**Headquarters**
DocuSign	0.7%	USA	USA
Haidilao	0.7%	Hong Kong	China
Hingham	0.7%	USA	USA
Paycom Software	0.7%	USA	USA
Meituan Dianping	0.6%	Hong Kong	China
Coupang	0.5%	USA	South Korea
Zoom	0.5%	USA	USA
Sea	0.3%	USA	Singapore
Fiverr	0.2%	USA	Israel
Super Hi	0.1%	Hong Kong	Singapore
Cash	**0.1%**	**-**	**-**

**0.2% of the Block position comes from Block shares that are listed in Australia, but for all intents and purposes, we see the Australia-listed Block shares as being identical to the US-listed variety*

Table 9 below shows the high-level geographical breakdown of Compounder Fund's portfolio as of 7 April 2024:

Table 9

Country/Region	% of Compounder Fund's capital based on country of listing	% of Compounder Fund's capital based on location of headquarters
Argentina	-	5.5%
Canada	-	2.6%
China	-	3.0%
Hong Kong	3.1%	-
Israel	-	1.2%
Netherlands	2.6%	5.7%
Norway	1.0%	1.0%
Singapore	-	0.4%
South Korea	-	0.5%
Taiwan	-	1.7%
UK	1.3%	1.3%
Uruguay	-	0.8%
USA	91.9%	76.2%

Wonderful businesses

Jeremy and I are pleased to report that the companies in Compounder Fund's portfolio have, in aggregate, continued to deliver healthy revenue growth in the fourth quarter of 2023. Table 10 below shows the year-on-year revenue growth rates for all the 46 companies that are currently in Compounder Fund's portfolio (the ones in Table 8) for the following time periods: The whole of 2020, 2021, and 2022, and each quarter of 2023.

Table 10

Company	2020 revenue growth	2021 revenue growth	2022 revenue growth	Q1 2023 revenue growth	Q2 2023 revenue growth	Q3 2023 revenue growth	Q4 2023 revenue growth
Adobe	17.3%	18.0%	11.5%	9.8%	10.3%	11.6%	**11.3%**
Adyen	28.1%	46.4%	32.8%	21.5%	21.5%	22.0%	**23.8%**
Alphabet	12.8%	41.2%	9.8%	2.6%	7.1%	11.0%	**13.5%**
Amazon	37.6%	21.7%	9.4%	9.4%	10.8%	12.6%	**13.9%**
Apple	9.9%	28.6%	2.4%	-2.5%	-1.4%	-0.7%	**2.1%**
ASML	18.3%	33.1%	13.8%	90.9%	27.1%	15.5%	**12.5%**
Block	101.5%	86.0%	-0.7%	26.0%	25.7%	24.4%	**24.1%**
Chipotle Mexican Grill	7.1%	26.1%	14.4%	17.2%	13.6%	11.3%	**15.4%**
Costco	12.8%	17.7%	11.5%	2.0%	9.5%	6.2%	**5.7%**
Coupang	90.8%	53.8%	11.8%	13.4%	15.9%	21.2%	**23.2%**
Datadog	66.3%	70.5%	62.8%	32.7%	25.4%	25.4%	**25.6%**
dLocal	88.4%	134.4%	71.6%	57.0%	59.3%	46.5%	**58.8%**
DocuSign	49.2%	45.0%	19.4%	12.3%	10.5%	8.5%	**8.0%**
Etsy	110.9%	35.0%	10.2%	10.6%	7.5%	7.0%	**4.3%**
Fiverr	77.0%	57.1%	13.3%	1.5%	5.1%	12.1%	**10.1%**
Haidilao	7.8%	43.7%	-20.6%	24.6%	24.6%	-	**42.1%**
Hingham	27.4%	20.3%	3.6%	-45.4%	-56.1%	-59.8%	**-55.3%**
Intuitive Surgical	-2.7%	31.0%	9.0%	14.0%	15.4%	12.0%	**16.5%**
Markel	17.0%	20.0%	22.1%	8.3%	7.3%	6.6%	**0.8%**
Mastercard	-9.4%	23.4%	17.8%	11.2%	14.0%	13.5%	**12.6%**
Medistim	-0.2%	17.7%	15.1%	11.3%	16.9%	6.5%	**-4.4%**
Medpace	7.5%	23.4%	27.8%	31.2%	31.2%	28.3%	**26.5%**
Meituan	17.7%	56.0%	22.8%	26.7%	33.4%	22.1%	**22.6%**
Mercado-Libre	73.0%	77.9%	49.1%	35.1%	31.5%	39.8%	**41.9%**
Meta Platforms	21.6%	37.2%	-1.1%	2.6%	11.0%	23.2%	**24.7%**
Microsoft	14.7%	20.6%	10.4%	7.1%	8.3%	12.8%	**17.6%**
MongoDB	40.0%	48.0%	47.0%	29.0%	39.6%	29.8%	**26.8%**
Netflix	24.0%	18.8%	6.5%	3.7%	2.7%	7.8%	**12.5%**
Okta	42.5%	55.6%	42.9%	24.8%	23.0%	21.4%	**18.6%**

Table 10 (continued from above)							
Company	**2020 revenue growth**	**2021 revenue growth**	**2022 revenue growth**	**Q1 2023 revenue growth**	**Q2 2023 revenue growth**	**Q3 2023 revenue growth**	**Q4 2023 revenue growth**
Paycom Software	14.1%	25.4%	30.3%	27.8%	26.6%	21.6%	**17.3%**
PayPal	20.7%	18.3%	8.5%	8.6%	7.1%	8.4%	**8.7%**
Salesforce	24.3%	24.7%	18.3%	11.3%	11.4%	11.3%	**10.8%**
Sea	101.1%	127.5%	25.1%	4.9%	5.2%	4.9%	**4.8%**
Shopify	85.6%	57.4%	21.4%	25.2%	30.8%	25.5%	**23.6%**
Starbucks	-14.1%	31.0%	8.4%	14.2%	12.5%	11.4%	**8.2%**
Super Hi	-5.0%	41.1%	78.7%	31.8%	31.8%	-	**16.0%**
Tencent	27.8%	16.2%	-1.0%	10.7%	11.3%	10.4%	**7.1%**
Tesla	28.3%	70.7%	51.4%	24.4%	47.2%	8.8%	**3.5%**
The Trade Desk	26.5%	43.1%	31.9%	21.4%	23.2%	24.9%	**23.4%**
Tractor Supply	27.2%	19.9%	11.6%	9.1%	7.2%	4.3%	**-8.6%**
TSMC	25.2%	18.5%	42.6%	3.6%	-10.0%	-10.8%	**0.0%**
Veeva Systems	32.7%	26.3%	16.4%	4.2%	10.5%	11.6%	**11.9%**
Visa	-8.7%	18.6%	18.5%	11.1%	11.7%	10.6%	**8.8%**
Wise	43.9%	32.3%	48.5%	45.3%	28.8%	22.3%	**22.8%**
Wix	29.9%	29.0%	9.3%	9.5%	13.0%	13.9%	**13.7%**
Zoom	325.8%	54.6%	7.1%	2.9%	3.6%	3.2%	**2.6%**

Source: Companies' earnings updates

Here's a table showing the simple averages of the year-on-year revenue growth rates for the fund's holdings for each quarter going back to the first quarter of 2020 (**note the high revenue growth rates for every quarter**):

Table 11

Simple averages for revenue growth from year ago	**Compounder Fund current portfolio**
Q1 2020	31.4%
Q2 2020	34.8%
Q3 2020	44.2%
Q4 2020	46.7%
2020	39.0%
Q1 2021	56.6%
Q2 2021	52.7%
Q3 2021	35.3%
Q4 2021	31.2%
2021	40.5%
Q1 2022	26.6%

Table 11 (continued from above)	
Simple averages for revenue growth from year ago	**Compounder Fund current portfolio**
Q2 2022	22.4%
Q3 2022	20.9%
Q4 2022	17.3%
2022	21.2%
Q1 2023	16.4%
Q2 2023	15.7%
Q3 2023	13.9%
Q4 2023	**13.7%**
2023	**14.7%**

Source: Companies' earnings updates

As I mentioned in the "*Judging our performance"* section of this letter, it's been so far, so good for the business results of Compounder Fund. **The fund's current crop of portfolio companies produced healthy year-on-year revenue growth of 13.7% (this is a simple average) in the fourth quarter of 2023**, **and this continues from the impressive revenue growth rates seen in prior quarters going back to 2020**. Table 12 below gives perspective on the superior growth rates for Compounder Fund's holdings compared to the S&P 500.

Table 12

Simple averages for revenue growth from year ago in a certain quarter	S&P 500	Compounder Fund current portfolio
Q1 2020	Around -2%	31.4%
Q2 2020	Around -10%	34.8%
Q3 2020	Around -2%	44.2%
Q4 2020	Around -0.5%	46.7%
Q1 2021	Around 10%	56.6%
Q2 2021	Around 25%	52.7%
Q3 2021	16.6%	35.3%
Q4 2021	16.1%	31.2%
Q1 2022	13.4%	26.6%
Q2 2022	11.9%	22.4%
Q3 2022	12.1%	20.9%
Q4 2022	6.9%	17.3%
Q1 2023	7.9%	16.4%
Q2 2023	6.1%	15.7%
Q3 2023	4.7%	13.9%
Q4 2023	**6.6%**	**13.7%**

Source: Yardeni Research for S&P 500; revenue growth rate for Compounder Fund is a simple average of the revenue growth from the fund's holdings

In our letter for **2023's fourth quarter**, I mentioned:

> "It's possible that Compounder Fund's holdings will continue to post relatively-slow revenue growth in the next few quarters."

This indeed came to pass, although we were pleased that the growth rate stepped down only ever so slightly. During the fourth quarter of 2023, Compounder Fund's portfolio companies produced an average year-on-year revenue growth rate of 13.7%, compared to 13.9% in the third quarter. Moreover, the growth rate of 13.7% is decent and comfortably exceeds the S&P 500's corresponding revenue growth of 6.6%. But we do acknowledge that it is a significant deceleration from what was achieved throughout 2021 and 2022. The good thing is that 19 companies in Compounder Fund's current portfolio saw higher year-on-year revenue growth in the fourth quarter of 2023 compared to the third quarter. More importantly, we invested in the companies that are currently in Compounder Fund's portfolio because their businesses are riding on - or creating - durable and lasting long-term trends. This means they likely still have massive market opportunities to grow into over the long run (you can read about this in detail in our investment theses for each company; note the fact that their businesses were growing healthily before COVID).

It's possible that Compounder Fund's holdings will continue to post relatively-slow revenue growth in the next few quarters. But consistent with what I've been sharing in our past quarterly letters, Jeremy and I continue to think there's a high chance that the fund's portfolio companies will, in aggregate, produce pleasing year-on-year revenue growth in the years ahead. **And if these companies can sustain average annual revenue growth of around 20% 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 over the same timeframe and when measured from the fund's inception**. We're excited to see what the future brings.

Speaking of free cash flow, we're really pleased that Compounder Fund's holdings managed to strengthen their cash flow muscles in the fourth quarter of 2023. Table 13 below shows two things for each company that's currently in the portfolio: (1) Their revenue growth for the quarter, and (2) the change in their free cash flow margins for the period. **During the fourth quarter of 2023, the simple-average free cash flow margin for all the fund's current holdings was 21.5%, up from 19.1% a year ago. This means that Compounder Fund's portfolio had, on average, grown its free cash flow by 28% during the quarter compared to a year ago.** Unlike a number of previous quarters where Compounder Fund's holdings saw a year-on-year decline in their average free cash flow margin (the margin fell in the second, third, and fourth quarters of 2021, and each quarter in 2022), the fourth quarter of 2023 followed a similar path as the first, second, and third quarters, where the free cash flow margin improved year-on-year (from 16.9% to 21.7% in the first quarter of 2023, from 14.8% to 20.6% in the second quarter, and from 16.8% to 22.6% in the third quarter). We look forward to seeing continued improvements over time in the free cash flow margins of Compounder Fund's companies. Given the nature and track records of these companies, we continue to think that their long-term average free cash flow margin can grow to around 25% eventually and be maintained at that level.

Table 13

Company	Revenue growth in Q4 2023 from a year ago	Free cash flow margin in Q4 2023	Free cash flow margin in Q4 2022
Adobe	11.3%	21.2%	33.6%
Adyen	23.8%	46.2%	43.4%
Alphabet	13.5%	9.1%	21.0%
Amazon	13.9%	16.4%	8.4%
Apple	2.1%	31.4%	25.8%
ASML	12.5%	35.9%	76.0%
Block	24.1%	-14.7%	-0.1%
Chipotle Mexican Grill	15.4%	3.7%	11.8%
Costco	5.7%	-0.5%	4.2%
Coupang	23.2%	5.7%	8.6%
Datadog	25.6%	34.1%	20.5%
dLocal	58.8%	30.2%	-38.1%
DocuSign	8.0%	34.9%	20.5%
Etsy	4.3%	33.5%	35.5%
Fiverr	10.1%	30.0%	11.5%
Haidilao	42.1%	-	-
Hingham	-55.3%	-	-
Intuitive Surgical	16.5%	-10.8%	18.1%
Markel	0.8%	-	-
Mastercard	12.6%	58.5%	47.0%
Medistim	-4.4%	18.3%	18.3%
Medpace	26.5%	29.4%	32.3%
Meituan	22.6%	-	-
MercadoLibre	41.9%	41.0%	47.6%
Meta Platforms	24.7%	29.1%	16.8%
Microsoft	17.6%	14.7%	9.3%
MongoDB	26.8%	11.3%	7.0%
Netflix	12.5%	17.9%	4.2%
Okta	18.6%	27.4%	14.1%
Paycom Software	17.3%	16.9%	22.6%
PayPal	8.7%	30.8%	19.4%
Salesforce	10.8%	35.1%	30.7%
Sea	4.8%	5.9%	4.9%
Shopify	23.6%	20.8%	5.2%
Starbucks	8.2%	19.0%	12.4%
Super Hi	16.0%	-	-

Table 13 (continued from above)			
Company	**Revenue growth in Q4 2023 from a year ago**	**Free cash flow margin in Q4 2023**	**Free cash flow margin in Q4 2022**
Tencent	7.1%	22.0%	15.9%
Tesla	3.5%	8.2%	5.8%
The Trade Desk	23.4%	10.5%	25.0%
Tractor Supply	-8.6%	4.6%	10.2%
TSMC	0.0%	35.9%	24.0%
Veeva Systems	11.9%	7.9%	10.5%
Visa	8.8%	38.8%	49.4%
Wise	22.8%	-	-
Wix	13.7%	19.9%	10.9%
Zoom	2.6%	29.0%	18.6%
Average for Compounder Fund's current portfolio	**13.7%**	**21.5%**	**19.1%**

Source: Companies' earnings updates

(As of the publication of this letter, there's no quarterly free cash flow data available for Haidilao, Meituan, Super Hi International, and Wise. We did not include free cash flow data for Hingham and Markel because we don't think it's as important for the two companies - Hingham is a **bank** while Markel is predominantly an **insurer and investment holding company**, so we think the book value holds more meaning for them.)

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

There's more to share on the business and stock price performances of the companies in Compounder Fund. Table 14 below shows a few things for the period from 31 December 2023 to 31 March 2024 for the fund's current crop of 46 companies: The change in their trailing revenues-per-share; the change in their trailing P/S (price-to-sales) ratios; and the change in their stock prices. I'm using revenue instead of earnings or cash flow because some of Compounder Fund's holdings are still reinvesting in their businesses for future growth. As a result, they currently are deliberately loss-making, have negative free cash flow, or have low profit and/or free cash flow margins.

Table 14

Company	Trailing revenue per share on 31 Dec 2023	Trailing revenue per share on 31 Mar 2024	P/S ratio on 31 Dec 2023	P/S ratio on 31 Mar 2024	Trailing revenue per share change from 31 Dec 2023 to 31 Mar 2024	P/S ratio change from 31 Dec 2023 to 31 Mar 2024	Stock price change from 31 Dec 2023 to 31 Mar 2024
Adobe	US$ 42.29	US$ 43.72	14.1	11.5	3.4%	-18.2%	-15.4%
Adyen	€ 49.34	€ 52.19	23.6	30.0	5.8%	27.1%	34.4%
Alphabet	US$ 23.28	US$ 24.16	6.0	6.2	3.8%	4.1%	8.0%
Amazon	US$ 53.01	US$ 54.78	2.9	3.3	3.3%	14.9%	18.7%
Apple	US$ 24.24	US$ 24.76	7.9	6.9	2.1%	-12.8%	-10.9%
ASML	€ 67.90	€ 69.23	10.1	13.0	2.0%	28.6%	28.2%
Block	US$ 34.27	US$ 35.69	2.3	2.4	4.1%	5.0%	9.3%
Chipotle Mexican Grill	US$ 343.77	US$ 356.25	6.7	8.2	3.6%	22.7%	27.1%
Costco	US$ 552.77	US$ 559.69	1.2	1.3	1.3%	9.6%	11.0%
Coupang	US$ 12.85	US$ 13.52	1.3	1.3	5.2%	4.4%	9.9%
Datadog	US$ 6.23	US$ 6.08	19.5	20.3	-2.4%	4.4%	1.8%
dLocal	US$ 1.88	US$ 2.15	9.4	6.8	14.4%	-27.1%	-16.9%
DocuSign	US$ 13.00	US$ 13.22	4.6	4.5	1.7%	-1.4%	0.2%
Etsy	US$ 19.24	US$ 19.61	4.2	3.5	1.9%	-16.8%	-15.2%
Fiverr	US$ 9.37	US$ 9.23	2.9	2.3	-1.5%	-21.4%	-22.6%
Haidilao	RMB 6.42	RMB 7.66	2.0	2.1	19.3%	4.0%	21.5%
Hingham	US$ 27.21	US$ 21.95	7.1	7.9	-19.3%	11.2%	-10.3%
Intuitive Surgical	US$ 19.18	US$ 19.93	17.6	20.0	3.9%	13.9%	18.3%
Markel	US$ 1,008.17	US$ 1,012.49	1.4	1.5	0.4%	6.7%	7.2%
Mastercard	US$ 25.68	US$ 26.53	16.6	18.2	3.3%	9.3%	12.9%
Medistim	NOK 29.12	NOK 28.77	7.3	6.3	-1.2%	-14.9%	-15.9%
Medpace	US$ 55.95	US$ 59.23	5.5	6.8	5.9%	24.6%	31.8%
Meituan	RMB 39.58	RMB 43.93	1.8	2.0	11.0%	8.7%	18.2%
Mercado-Libre	US$ 262.5	US$ 283.75	6.0	5.3	8.1%	-11.0%	-3.8%
Meta Platforms	US$ 48.4	US$ 51.31	7.3	9.5	6.0%	29.4%	37.2%
Microsoft	US$ 29.26	US$ 30.49	12.9	13.8	4.2%	7.4%	11.9%
MongoDB	US$ 22.38	US$ 23.62	18.3	15.2	5.5%	-16.9%	-12.3%
Netflix	US$ 72.55	US$ 75.02	6.7	8.1	3.4%	20.6%	24.7%
Okta	US$ 13.31	US$ 13.83	6.8	7.6	3.9%	11.3%	15.6%
Paycom Software	US$ 28.07	US$ 29.21	7.4	6.8	4.1%	-7.5%	-3.7%
PayPal	US$ 26.12	US$ 26.89	2.4	2.5	2.9%	6.0%	9.1%

Table 14 (continued from above)

Company	Trailing revenue per share on 31 Dec 2023	Trailing revenue per share on 31 Mar 2024	P/S ratio on 31 Dec 2023	P/S ratio on 31 Mar 2024	Trailing revenue per share change from 31 Dec 2023 to 31 Mar 2024	P/S ratio change from 31 Dec 2023 to 31 Mar 2024	Stock price change from 31 Dec 2023 to 31 Mar 2024
Salesforce	US$ 34.47	US$ 35.42	7.6	8.5	2.8%	11.4%	14.5%
Sea	US$ 21.58	US$ 21.98	1.9	2.4	1.9%	30.2%	32.6%
Shopify	US$ 5.20	US$ 5.45	15.0	14.2	4.8%	-5.6%	-0.9%
Starbucks	US$ 31.25	US$ 32.16	3.1	2.8	2.9%	-7.5%	-4.8%
Super Hi	US$ 1.14	US$ 1.23	1.2	1.5	7.9%	25.8%	36.0%
Tencent	RMB 62.09	RMB 63.37	4.2	4.3	2.1%	3.5%	3.5%
Tesla	US$ 27.46	US$ 27.71	9.0	6.3	0.9%	-29.9%	-29.3%
The Trade Desk	US$ 3.66	US$ 3.89	19.7	22.5	6.3%	14.3%	21.5%
Tractor Supply	US$ 135.41	US$ 132.63	1.6	2.0	-2.1%	24.3%	21.7%
TSMC	NT 416.86	NT 416.86	7.7	10.4	0.0%	36.2%	30.8%
Veeva Systems	US$ 14.08	US$ 14.46	13.7	16.0	2.7%	17.2%	20.3%
Visa	US$ 15.66	US$ 16.31	16.6	17.1	4.2%	2.9%	7.2%
Wise	£ 0.90	£ 0.95	9.7	9.8	5.6%	0.8%	6.2%
Wix	US$ 25.96	US$ 26.74	4.7	5.1	3.0%	8.5%	11.8%
Zoom	US$ 14.66	US$ 14.67	4.9	4.5	0.1%	-9.2%	-9.1%
Simple average	**-**	**-**	**7.9**	**8.3**	**3.3%**	-	-

Source: Companies' earnings updates

What Table 14 highlights: **Compounder Fund's businesses performed well over the last reported quarter, with average sequential trailing revenue growth of 3.3%. Importantly, 40 of them experienced growth in their trailing revenues for 31 March 2024 compared to 31 December 2023. During the quarter, many of Compounder Fund's businesses also saw their stock prices rise, a consequence of their business growth and an increase in their P/S ratios.**

This rise in the P/S ratio (from an average of 7.9 to 8.3) continues from the increase seen in the last quarter (from 7.2 to 7.9). Although the P/S ratio has risen, **we still think Compounder Fund's holdings continue to have more-than-reasonable valuations (similar to what we saw when I wrote the letters for 2023's first, second, third, and fourth quarters, and 2022's second, third, and fourth quarters) and this bodes well for the fund's future return**. As of 31 March 2024, the companies currently in Compounder Fund's portfolio **have an average trailing P/S ratio of 8.3 and an average trailing free cash flow margin of 21.5%, which equates to an average P/FCF ratio of 39.** If Compounder Fund's companies had an average free cash flow margin of 25% today - around the level we think they could achieve, eventually **- the implied P/FCF ratio on the P/S ratio of 8.3 would be even lower at 33**.

For perspective, the implied P/FCF ratio of 33 comes from a group of companies - Compounder Fund's current portfolio - that produced healthy average revenue growth rates of 39.0%, 40.5%, 21.2%, and 14.7% for the whole of 2020, 2021, 2022, and 2023, respectively. It's worth noting too that the average FCF margin for Compounder Fund's current holdings has expanded from 18.8% in 2020 to 21.5% in 2023. As such, the companies have, on average, **grown their free cash flow at an outstanding annualised rate of 30.7% from 2020 to 2023 (which is even faster than their annualised revenue growth of 25.0%), and we think the expansion in the free cash flow margin can continue. *This* is what gives us confidence** for the following passage in the "*Judging our performance*" section of this letter:

> "But based on the business performances of Compounder Fund's holdings, we're confident that when the fund's *stock price* performance is eventually weighed in the fullness of time, a favourable judgement is likely to result."

In an ideal world, 30% annualised growth in free cash flow would result in lock-stepped annualised stock price gains in the neighbourhood of 30%. **But the world we inhabit is not ideal - the 30% annualised growth in free cash flow for Compounder Fund's portfolio companies has so far resulted in an annualised return of slightly less than 0% for the fund since inception***. But if Compounder Fund's companies can continue to grow their businesses - and we think they will - we believe we'll be rewarded with a pleasing positive return eventually. Yes, most of Compounder Fund's holdings carried high valuations when we first invested in them, as I mentioned in the introductory section of this letter, so we **fully expect** Compounder Fund's eventual return to be lower than the underlying growth of its holdings' businesses. **But history suggests that the yawning gap seen so far is likely to narrow in the fullness of time**.

In our **2022 fourth-quarter letter**, I shared Walmart's past business growth and corresponding stock price movement (emphases are new):

> > *"Walmart's stock price fell by three-quarters from less than US$0.04 in late-August 1972 to around US$0.01 by December 1974 - in comparison, the S&P 500 was down by 'only' 40%. But by the end of 1979 (when inflation in the USA peaked during the 1970s), Walmart's stock price was above US$0.08, more than double what it was in late-August 1972 (when inflation was at a low in the 1970s)...*
> >
> > *…**At the end of 1989, Walmart's stock price was around US$3.70, representing an annualised growth rate in the region of 32% from August 1972; from 1971 to 1989, Walmart's revenue and earnings per share grew by 41% and 38% per year**.*
>
> …It turns out that **in late-August 1972, when its stock price was less than US$0.04, Walmart's price-to-earnings (P/E) ratio was between 42 and 68… This is a high valuation**… at Walmart's stock price in December 1974, after it had sunk by 75% to a low of around US$0.01 to carry a P/E ratio of between 6 and 7 the easy conclusion is that it was a mistake to invest in Walmart in August 1972 because of its high valuation. But as can be seen above, Walmart's business continued to grow and

> its stock price eventually soared to around US$3.70 near the end of 1989. Even by the end of 1982, Walmart's stock price was already US$0.48, up more than 10 *times* where it was in late-August 1972."

In our **2023 second-quarter letter**, I explored a little-discussed aspect of Teledyne's history (emphasis is from the original passage) :

> "…based on what I could gather from *Distant Force,* **Teledyne's stock price sunk by more than 80% from 1967 to 1974**. **That's a huge and demoralising decline for shareholders after holding on for seven years, and was significantly worse than the 11% fall in the S&P 500 in that period**. **But even an investor who bought Teledyne shares in 1967 would still have earned an annualised return of 12% by 1990, outstripping the S&P 500's comparable annualised gain of 10%**. And of course, an investor who bought Teledyne in 1963 or 1966 would have earned an even better return…
>
> …But for the 1963-1989 time frame, based on data from *Distant Force,* it appears that the compound annual growth rates (CAGRs) for the conglomerate's revenue, net income, and earnings per share were 19.8%, 25.3%, and 20.5%, respectively; the self-same CAGRs for the 1966-1989 time frame were 12.1%, 14.3%, and 16.0%. These numbers roughly match Teledyne's returns cited by *The Outsiders* and *Distant Force*"

Our **2021 third-quarter letter** contained one of my favourite investing stories and it involves Warren Buffett and his investment in The Washington Post Company (emphasis is from the original passage):

> "Through Berkshire Hathaway, he invested US$11 million in WPC [The Washington Post Company] in 1973. By the end of 2007, Berkshire's stake in WPC had swelled to nearly US$1.4 billion, which is a gain of over 10,000%. But the percentage gain is not the most interesting part of the story. **What's interesting is that**, **first, WPC's share price fell by more than 20% shortly *after* Buffett invested, and then stayed in the red for three *years*"**

Buffett first invested in WPC in mid-1973, after which he never bought more after promising Katherine Graham (the then-leader of the company and whose family was a major shareholder) that he would not do so without her permission. The paragraph above showed that Berkshire's investment in WPC had gains of over 10,000% by 2007. But by 1983, Berkshire's WPC stake had already increased in value by nearly 1,200%, or 28% annually. From 1973 to 1983, WPC delivered CAGRs in revenue, net income, and EPS of 10%, 15%, and 20%, respectively (EPS grew faster than net income because of buybacks). This is again a case of a company's stock price movement reflecting its underlying business with the passage of time.

Walmart, Teledyne, and WPC are not idiosyncratic instances. Renowned Wharton finance professor Jeremy Siegel - of ***Stocks for the Long Run*** fame - penned an article in late-1998 titled ***Valuing Growth Stocks: Revisiting The Nifty-Fifty***. In his piece, Siegel explored the business and stock price performances from December 1972 to August 1998 for a group of US-listed stocks called the Nifty-Fifty. The group was perceived to have bright

business-growth prospects in the early 1970s and thus carried high valuations. As Siegel explained, these stocks "had proven growth records" and "many investors did not seem to find 50, 80 or even 100 times earnings at all an unreasonable price to pay for the world's preeminent growth companies [in the early 1970s]." But in the brutal 1973-1974 bear market for US stocks, when the S&P 500 fell by 45%, the Nifty-Fifty did even worse. For perspective, here's Howard Marks' description of the episode in his book ***The Most Important Thing*** (emphasis is mine):

> "In the early 1970s, the stock market cooled off, exogenous factors like the oil embargo and rising inflation clouded the picture and the Nifty Fifty stocks collapsed. Within a few years, those price/earnings ratios of 80 or 90 had fallen to 8 or 9, meaning **investors in America's best companies had lost 90 percent of their money**."

Not every member of the Nifty-Fifty saw their businesses prosper in the decades that followed after the 1970s. But of those that did, Siegel showed in *Valuing Growth Stocks* that their stock prices eventually tracked their business growth, and had also beaten the performance of the S&P 500. These are displayed in Table 15 below. There are a few important things to note about the table's information:

- It shows the stock price returns from December 1972 to August 1998 for the S&P 500 and five of the Nifty-Fifty identified by Siegel as having the highest annualised stock price returns; December 1972 was the **peak for US stocks before the 1973-1974 bear market**
- It shows the annualised earnings per share (EPS) growth for the S&P 500 and the five aforementioned members of the Nifty-Fifty
- Despite suffering a major decline in their stock prices in the 1973-1974 bear market, members of the Nifty-Fifty whose businesses continued to thrive saw their stock prices beat the S&P 500 and effectively match their underlying business growth in the long run **even when using the market-peak in December 1972 as the starting point**.

Table 15

Company	Annualised stock price return: Dec 1972 to Aug 1998	EPS growth: 1972 to 1996
Philip Morris	18.8%	17.9%
Pfizer	18.1%	12.2%
Bristol-Myers	16.8%	12.7%
Gillette	16.8%	10.4%
Coca-Cola	16.2%	13.5%
S&P 500	12.7%	8.0%

Source: Jeremy Siegel

All of the examples shared above in this section - Walmart, Teledyne, WPC, and members of the Nifty-Fifty - were from the 1970s. You may wonder, "what if *this* time is different?" It's a legitimate concern. Economies change over time. Financial markets do too. But we believe

the underlying driver for the initial divergence and eventual convergence in the paths that the companies' businesses and stock prices had taken in the past are alive and well *today.* This is because the driver was, in our opinion, the simple but important nature of the stock market: **It is a place to buy and sell pieces of a business**. This understanding leads to a logical conclusion that a stock's price movement over the long run depends on the performance of its underlying business. **The stock market, today, is still a place to buy and sell pieces of a business, which means the market is *still a weighing machine in the long run*. So, while the stock price performance of Compounder Fund has to-date left *much* to be desired, Jeremy and I are comforted by the underlying business performances and are "confident that when the fund's stock price performance is eventually weighed in the fullness of time, a favourable judgement is likely to result."**

**Referring to the earliest series for Compounder Fund's Class A shares.*

House-keeping matters and what's next

Compounder Fund's audit for calendar year 2023 is conducted by Baker Tilly and it should be wrapped up by the first half of this year. Once the audit report's finalised, Jeremy and I will be sending a digital copy to all of Compounder Fund's investors. As a reminder, we sent a digital copy of Compounder Fund's audited financial statements for 2022 to all of the fund's investors on 16 May 2023. If you did not receive it, or if you joined the fund as an investor after 16 May 2023 and would like a copy of the statements, 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." The first audit for our giving, conducted by Baker Tilly, covered the period from November 2019 (when we started building the fund) to December 2021. Subsequent audits are for each calendar year and the audit report for 2023 was recently completed by Baker Tilly. As a reminder, all the audit reports for our charitable giving are available on the fund's website **here**. If you are interested to know more about our charitable giving, 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 have released the investment theses for all of Compounder Fund's current holdings (for your convenience, all our theses can be **found here**). We will inform you when we publish any new theses.

Compounder Fund's next subscription window will close in the middle of June 2024 and it will have a dealing date on the first business day of July 2024 (which should be 1st July). If you would like to increase your investment in the fund, please submit the relevant paperwork by the middle of June 2024. Jeremy and I are happy to assist 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 more than 8.1 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* - the desire for progress - 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.

To us, investing in stocks is ultimately the same as having faith in the long-term ingenuity of humanity. We will remain long-term optimistic on stocks so long as we continue to have this faith. In some of our past letters, I have shared examples of the resiliency of financial markets and businesses, as well as society's remarkable collective ability to invent ourselves out of trouble. I think it's useful to recollect them in one place, so here goes:

- Only 66 years stood between the first demonstration of manned flight by the Wright brothers in 1903 and the first moon landing in 1969; in between was the brutal World War II from 1939 to 1945, in which an estimated 66 million people died (first shared in the **2020 third-quarter letter**)
- Moderna designed a successful vaccine for COVID-19 in just two days (first shared in the **2020 fourth-quarter letter**)
- German stocks produced an annual *real* return of 2.4% from 1900 to 1960 despite the country losing both World War I in 1918 and World War II in 1945, and enduring hyperinflation in the 1920s because of the *Treaty of Versailles* (first shared in the **2021 first-quarter letter**)
- Sony Corporation was founded by Akio Morita and Masaru Ibuka in Japan in 1946, a year when the country had just lost World War II and had a GDP per capita of just US$17. Moreover, half of Tokyo's population was homeless at that point in time. Yet, Sony managed to grow over the years and had a market capitalisation of US$100 billion when I wrote about it (first shared in the **2022 second-quarter letter**)
- Chizuko Kojima inherited the Japanese company Aeon in 1939, a few years before Japan lost World War II. Kojima led Aeon through difficult times and the company managed to prosper, clocking annual revenue of US$64 billion in May 2022 (first shared in the **2022 second-quarter letter**)
- Over 50% of companies in the 2009 Fortune 500 list were founded during a recession or bear market; in the 100 years ended 2009, the USA was in a recession in only 24% of the time (first shared in the **2022 third-quarter letter**)
- An individual who was born in 1900 in the USA and who lived beyond 1975 had to face immense difficulties, including World War I in 1914, the Great Depression in 1929, World War II in 1939, and the Vietnam War in 1964 - and yet US stocks were up by nearly 1,200% in price alone from 1900 to 1975 (first shared in the **2022 fourth-quarter letter**)
- The ingredients for lasting economic growth, according to WIlliam Bernstein's book ***The Birth of Plenty,*** are respect for property rights, broad acceptance of the scientific method for investigating how the world works, easy access to capital, and methods for rapid and efficient transport of ideas and products; in our view, these ingredients, thankfully, appear to be firmly in place in many parts of the world (first shared in the **2023 second-quarter letter**)

- Global stocks have endured major crises in every year since at least 1990 and yet still gained *multifold* because of their underlying earnings growth (first shared in the **2023 third-quarter letter**)
- Innovation can (1) appear from the most unexpected places, (2) take unpredictable paths, and (3) occur when supporting technologies improve over time. What they signify is that we shouldn't lose hope in mankind's creative prowess when it seems as though nothing new of significance has been built for a while. Sometimes, what's needed is just time (first shared in the **2023 fourth-quarter letter**)

The only occasion where Jeremy and I will turn pessimistic on the long-term returns of stocks is when they 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 (especially in difficult times like these), your belief in Compounder Fund's mission to "Grow *Your* Wealth & Enrich Society," and your understanding of the investing approach that we are taking.

Your deep understanding of our long-term-oriented investment style gives us the space we need to do our work (analysing businesses and thinking about their possible long-run futures) to the best of our abilities, for you. **So, thank you all again for being the wonderful investors that you all are. And please, *never* underestimate your importance in helping to shape Compounder Fund's long-run return.**

You can expect to see Compounder Fund's 2024 second-quarter investors' letter in mid-July 2024. Till then, stay safe and take care.

Excelsior,
Chong Ser Jing
Co-founder and Portfolio Manager, Compounder Fund
12 April 2024

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

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