Compounder Fund Investors' Letter: Fourth Quarter of 2021

COMPOUNDER FUND
GROWING YOUR WEALTH AND ENRICHING SOCIETY

Note (24 May 2024): Information related to a global stock market index has been redacted from this letter because of intellectual-property restrictions. As such, we believe the S&P 500 is currently sufficient for context about Compounder Fund's performance. This is because the fund's portfolio is heavily weighted toward US stocks. In addition, the S&P 500's return has been higher than a broad collection of global stocks since Compounder Fund's inception, and US stocks have by far the largest market capitalisation among stocks around the world. We will revisit our decision on displaying global stock market returns data in the future if there are significant changes to Compounder Fund's portfolio from a geographic perspective, or if US stocks start lagging their global peers.

Dear investors,

Together with my co-founder Jeremy Chia, I welcome you to Compounder Fund's 2021 fourth-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 -5.7%. Over the same period, the dividend-adjusted Singapore-dollar returns for the ████████ and the S&P 500 were 6.9% and 10.1%, respectively. Tables 1 and 2 below show the returns for Compounder Fund's two share classes (the earliest series for each share class), the ████████, and the S&P 500, since the birth of the fund.

Table 1

Total Return	2021 Q1	2021 Q2	2021 Q3	Oct 2021	Nov 2021	Dec 2021	2021 Q4	Since inception *
Compoun - der Fund Class A (after fees)	-1.0%	9.3%	-1.2%	3.8%	-4.9%	-4.5%	-5.7%	12.1%
S&P 500**	8.0%	8.7%	1.6%	6.3%	0.6%	3.0%	10.1%	49.9%

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

Table 2

Total Return	2021 Q1	2021 Q2	2021 Q3	Oct 2021	Nov 2021	Dec 2021	2021 Q4	Since inception *
Compoun - der Fund Class B (after fees)	-1.0%	9.3%	-1.2%	3.8%	-4.9%	-4.5%	-5.7%	7.7%
S&P 500**	8.0%	8.7%	1.6%	6.3%	0.6%	3.0%	10.1%	42.5%

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

Jeremy and I are comparing Compounder Fund's performance to that of the 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 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 , 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.

It's been around a year-and-a-half since we started investing Compounder Fund's capital on 13 July 2020. The fund's return has not only been low since its inception, but it has also substantially underperformed both market indices. 2021 was a poor year for many of Compounder Fund's holdings in terms of their stock price returns compared to the S&P 500

and some examples can be found in Table 3. Those of you who watch the financial markets may also have noticed significant stock-price-volatility in recent months for many of Compounder Fund's holdings. Table 4 provides examples of some of these holdings that experienced a stock price decline of at least 5% in just the last two months of 2021 even when the S&P 500 had gained nearly 4%. **A glance at Table 3 and 4 can easily lead to the impression that the underlying businesses of many of Compounder Fund's holdings are in dire trouble. *But this is not the case*. Most of Compounder Fund's holdings have thriving businesses**, as I will discuss later in the "*Wonderful businesses"* section of this letter.

Table 3

Company Name	Price change in 2021
S&P 500 (including dividend)	28.7%
Activision Blizzard	-28.3%
Amazon	2.4%
Block (formerly Square)	-25.8%
Docusign	-31.5%
Fiverr	-41.7%
Mastercard	0.7%
MercadoLibre	-19.5%
Netflix	11.4%
Okta	-11.8%
PayPal	-19.5%
Starbucks	9.3%
Twilio	-22.2%
Veeva Systems	-6.2%
Visa	-0.9%
Wix	-36.9%
Zoom	-45.5%

Source: Tikr and Yahoo Finance

Table 4

Company Name	Price change in last two months of 2021
S&P 500 (including dividend)	3.8%
Activision Blizzard	-14.9%
Adobe	-12.8%
Block (formerly Square)	-36.5%
DocuSign	-45.3%
Etsy	-12.7%
Fiverr	-33.3%
Illumina	-8.3%

Table 4 (continued from above)

Company Name	Price change in last two months of 2021
MercadoLibre	-9.0%
Netflix	-12.7%
Okta	-9.3%
PayPal	-18.9%
Salesforce	-15.2%
Sea Limited	-34.9%
Shopify	-6.1%
Tesla	-5.1%
Twilio	-9.6%
Upstart	-53.0%
Veeva Systems	-19.4%
Wix	-15.1%
Zoom	-33.0%

Source: Tikr and Yahoo Finance

It's painful to see both Compounder Fund's low return as well as the drastic underperformance relative to the and the S&P 500. But the time frame is still too short for any useful observations to be made - and in the "*Investing thoughts: Equanimity and patience"* section of this letter, I will share how Jeremy and I are thinking about the situation. 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

In all our **previous quarterly investors' letters**, I've provided a discussion on how Jeremy and I intend to judge Compounder Fund's performance. If you've read any of our previous 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 [redacted] 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 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.

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, shown in Table 5:

Table 5

	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 though! 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 October 2021, I published Compounder Fund's **2021 third-quarter investors' letter**. In the update, I shared all 50 holdings in the fund's portfolio. As of the date of this letter, the portfolio contains the same 50 holdings, and there are no new stocks added. As a reminder, Compounder Fund is supposed to have between 30 and 50 companies in its portfolio at any point in time. But two companies in the portfolio - Afterpay and Square (now known as Block) - will become one entity soon (we discussed this development in detail in the "*Portfolio changes"* section of the 2021 third-quarter letter). So we think it is more appropriate to see Compounder Fund as having 49 holdings instead of 50.

In late-November 2021, Jeremy and I used a portion of Compounder Fund's small cash position of around 1.9% back then to add to our positions in nine of the fund's existing holdings. They are (in alphabetical order): Datadog, dLocal, MercadoLibre, MongoDB, Teladoc, The Trade Desk, Twilio, Upstart, and Zoom.

As you know, Compounder Fund is able to accept new subscriptions once every quarter with a dealing date that falls on the first business day of each calendar quarter. In the middle of December 2021, Jeremy and I successfully closed Compounder Fund's fifth subscription window since its initial offering period (which ended on 13 July 2020) and raised a net amount of S$0.37 million. This new capital was deployed quickly in the days after the last subscription window's dealing date of 3 January 2022. Jeremy and I invested most of the new capital in nine existing Compounder Fund holdings. These companies are (in alphabetical order): Alphabet, DocuSign, MercadoLibre, MongoDB, Sea, Tesla, Twilio, Upstart, and Zoom.

As of this letter's publication, we have released our investment theses on all 50 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 50 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 nine 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 excellent results as you'll soon see in the "*Wonderful businesses*" section of this letter. They are winners, according to our definition. Here's how Compounder Fund's portfolio looks like as of 9 January 2022:

Table 6

Company	Weighting	Country/Region of listing	Headquarters
Meta Platforms (formerly Facebook)	5.3%	USA	USA
Netflix	4.4%	USA	USA
Amazon	4.3%	USA	USA
MercadoLibre	4.1%	USA	Argentina
Shopify	3.9%	USA	Canada
PayPal	3.6%	USA	USA
Tractor Supply	3.3%	USA	USA
Microsoft	3.2%	USA	USA
Alphabet	3.1%	USA	USA
Costco	3.0%	USA	USA
Tencent	3.0%	Hong Kong	China
Tesla	2.9%	USA	USA
The Trade Desk	2.9%	USA	USA
Apple	2.8%	USA	USA
Etsy	2.6%	USA	USA
ASML	2.5%	USA	Netherlands
Intuitive Surgical	2.4%	USA	USA
Datadog	2.4%	USA	USA
Chipotle Mexican Grill	2.4%	USA	USA
Medistim	2.2%	Norway	Norway
Adobe	2.0%	USA	USA
Mastercard	1.9%	USA	USA
MongoDB	1.8%	USA	USA
Okta	1.8%	USA	USA
Visa	1.8%	USA	USA
Illumina	1.8%	USA	USA
DocuSign	1.7%	USA	USA
Markel	1.7%	USA	USA

Table 6 (continued from above)			
Company	**Weighting**	**Country/Region of listing**	**Headquarters**
Sea	1.6%	USA	Singapore
Veeva Systems	1.6%	USA	USA
Twilio	1.6%	USA	USA
Starbucks	1.6%	USA	USA
Salesforce	1.6%	USA	USA
Block (formerly Square)	1.3%	USA	USA
Zoom Video Communications	1.3%	USA	USA
Activision Blizzard	1.1%	USA	USA
Meituan Dianping	1.1%	Hong Kong	China
Wix.com	1.1%	USA	Israel
Fiverr	0.9%	USA	Israel
Pushpay	0.8%	Australia	New Zealand
Upstart	0.8%	USA	USA
Wise	0.7%	UK	UK
Haidilao	0.7%	Hong Kong	China
Paycom Software	0.6%	USA	USA
Teladoc	0.6%	USA	USA
Dlocal	0.5%	USA	Uruguay
Afterpay Touch	0.4%	Australia	Australia
Coupang	0.2%	USA	South Korea
a2 Milk	0.2%	Australia	New Zealand
Alteryx	0.2%	USA	USA
Cash	**0.4%**	**-**	**-**

Our biggest addition in early-January 2022 was to electric vehicle pioneer, Tesla. In our **investment thesis for the company**, we wrote that "because of the power of Tesla's brand, we believe that the real bottleneck for Tesla is not a lack of demand, but its production capacity." The company has made impressive improvements to its manufacturing over the course of 2021. Our investment thesis mentioned that Tesla's vehicle deliveries for the first quarter of the year was 184,800. This represented a pleasing increase of 2.3% sequentially (from the fourth quarter of 2020) and 109.0% year-on-year (from the first quarter of 2020). Table 7 shows the continued strong growth in Tesla's vehicle deliveries for the second, third, and fourth quarters of 2021. As Tesla continues to ramp up its vehicle deliveries, we think the company becomes *less* risky as an investment opportunity. This is because the company is proving that it can grow its manufacturing rate and that consumer demand for its vehicles is healthy.

Table 7

Quarter	Tesla vehicle deliveries	Sequential growth in Tesla vehicle deliveries	Year-on-year growth in Tesla vehicle deliveries
2021 second quarter	201,250	8.9%	122.0%
2021 third quarter	241,300	19.9%	73.2%
2021 fourth quarter	308,600	27.9%	70.9%

Source: Tesla announcements

At the same time, Tesla's cash flow situation continues to look bright. In the first three quarters of 2021, Tesla's operating cash flow improved substantially in each quarter from their respective year-ago periods. The company also either maintained or grew its free cash flow in each quarter (from a year ago) for the same time period. If there's one thing about Tesla's cash flows we would criticise, it would be the declines in the margins seen in the second quarter of 2021 (for the free cash flow margin) and the third quarter (for both the operating cash flow and free cash flow margins). These are all shown in Table 8. But it's still encouraging to see the growth in the two important cash flow numbers, as well as the mid-teens to mid-twenties percentage range for the operating cash flow margin. There is also a good reason for the fall in Tesla's free cash flow margins: The company has been ramping up its capital expenditures, primarily for its new factories (in Texas, USA, and Berlin, Germany) and to increase capacity in its factory in Shanghai, China.

Table 8

Quarter	Tesla operating cash flow (US$, million)	Tesla free cash flow (US$, million)	Tesla operating cash flow margin	Tesla free cash flow margin
2020 first quarter	-440	-895	-7.4%	-15.0%
2021 first quarter	1,641	293	15.8%	2.8%
2020 second quarter	964	398	16.0%	6.6%
2021 second quarter	2,124	608	17.8%	5.1%
2020 third quarter	2,400	1,374	27.4%	15.7%
2021 third quarter	3,147	1,322	22.9%	9.6%

Source: Tesla earnings updates

Two of Compounder Fund's holdings - Facebook and Square - changed their names recently. Facebook assumed its new identity of Meta Platforms in late-October to reflect its aim to be an important force in the development of the metaverse. As part of his metaverse-commitment, Meta Platforms' co-founder and CEO, Mark Zuckerberg, recently announced that the company would be investing at least US$10 billion annually on technology infrastructure that's related to the metaverse. Jeremy and I described what the

metaverse is and how it could be an intriguing growth opportunity for Meta Platforms in our **investment thesis for the company**. Meta Platforms will be pouring billions in capital to, in the words of Zuckerberg, “help the metaverse reach 1 billion people and hundreds of billions of dollars of digital commerce a day.” At the same time, the company is continuing to improve its core social media platforms (Facebook, Instagram etc.), which are still growing healthily. There’s no guarantee that Meta Platforms’ metaverse-related investments would be successful. But we’re happy to see the company attempt to develop a new pillar of growth while still paying attention to its core businesses.

Meanwhile, Square’s name-change to Block happened in December. Block’s leaders wanted a name with a stronger association with the company’s growing interest in blockchain technology. The Square name will now refer to one of the company’s core services, the merchant-focused Seller Ecosystem (our **investment thesis for Block** has a detailed description of its various businesses). As part of its blockchain ambitions, Block launched a business arm named TBD, which is building an open developer platform for blockchain-related financial services (primarily focused on Bitcoin), in the second quarter of 2021. Block’s core services - the consumer-focused Cash App and Square - are both still growing rapidly. During the third-quarter of 2021, Cash App’s non-Bitcoin related revenue grew by 33% year-on-year while Square’s revenue was up by 44%. In a similar manner to Meta Platforms, we’re happy to see Block attempt to build a new business with high-growth potential while continuing to invest in its current core growth-drivers.

Tencent, a Compounder Fund holding, announced last month that it will distribute 86.4% of its JD.com stake to its shareholders. Tencent shareholders will receive 1 JD.com share for every 21 Tencent shares that they own in March this year. Compounder Fund owns 7,000 Tencent shares, so it will become a direct owner of 333 JD.com shares soon (7,000 divided by 21 is 333.33, but there will be no fractional shares of JD.com distributed - Compounder Fund will instead receive cash-in-lieu for any would-be fractional shares of JD.com). JD.com is an e-commerce company that is based in China. Its roots can be traced to 1998, when Richard Liu Qiangdong set up a bricks-and-mortar retail company in the country. Liu, who remains as chairman and CEO of JD.com today, closed the physical store in 2004 to transition his retail business from the physical world to the internet. Today, JD.com is China’s largest online retailer by revenue with an impressive logistics footprint. The company’s approximately 1,300 warehouses have a total gross floor area of 23 million square metres and its network of 200,000 delivery personnel covers nearly all the counties and districts in China. Jeremy and I are deciding what we want to do with the JD.com shares that Compounder Fund will soon receive and we will inform all of you about our decision in due course (keep in mind that there are effectively 49 holdings in Compounder Fund’s portfolio at the moment, not 50). In the meantime, we have a few thoughts on the implications of Tencent’s distribution of its JD.com shares:

- We have no insight on the actual motivation of Tencent’s management behind this distribution. From our vantage point, there are three possible reasons for the move: (1) it is driven by the wishes of the Chinese government to reduce Tencent’s sway in China’s technology sector; (2) it is an isolated manoeuvre by Tencent’s management to unlock value from the company’s JD.com shares after first making the investment more than seven years ago in 2014; and (3) it is the start of a coherent strategy by

Tencent's management to unlock the **value of the company's massive portfolio of investments**.

- **Implications that come with the first reason**: If true, this would be troubling. Tencent could be forced in the future to offload or spin off its investment portfolio in ways that are harmful for its shareholders - for example, Tencent could be pushed to sell a minority investment when its stock price is temporarily depressed. In the "*Investing thoughts: Investing in China*" section of Compounder Fund's **2021 third-quarter letter**, I discussed the recent flurry of regulatory changes to China's business landscape and how Jeremy and I can't tell what the key intention of the Chinese government is behind these changes (one of the possible intentions I brought up is the Chinese government's desire to consolidate power). Tencent's distribution of its JD.com shares could be related to the regulatory changes that were discussed in our 2021 third-quarter letter. We will be watching developments with Tencent's investment portfolio as it could contain clues on how the Chinese government thinks about the country's large private-sector companies.
- **Implications that come with the second reason**: If true, then there's nothing to see here.
- **Implications that come with the third reason**: If true, we see it as a positive development for our Tencent investment. Large conglomerates often carry a "holding discount," where the sum of the intrinsic values of each of a conglomerate's various holdings outweighs the conglomerate's overall market capitalisation. It's possible that the market is applying a holding discount to Tencent's investment portfolio. Coherent attempts by Tencent to unlock the value of its portfolio of investments should *do no harm to its core businesses' growth,* in our opinion. So it's a move that would be neutral at-worst or positive at-best. We like these odds.
- All told, we can't tell which possible reason is true. There may even be a combination of any two of the reasons in Tencent's decision to distribute its JD.com shares. We're adopting a watch-and-learn stance with Tencent. There's still much to like about its core businesses (WeChat and digital gaming) and relatively nascent businesses (such as cloud computing), and this is why it still has a place in Compounder Fund's portfolio.

Here's a quick high-level geographical breakdown of Compounder Fund's portfolio as of 9 January 2022:

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	-	4.1%
Australia	1.5%	0.4%
Canada	-	3.9%
China	-	4.8%
Hong Kong	4.8%	-
Israel	-	2.0%
Netherlands	-	2.5%
New Zealand	-	1.0%
Norway	2.2%	2.2%
Singapore	-	1.7%
South Korea	-	0.2%
UK	0.7%	0.7%
Uruguay	-	0.5%
USA	90.4%	75.5%

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 third quarter of 2021. Table 10 below shows the year-on-year revenue growth rates for all the 50 companies that are currently in the portfolio for each quarter of 2020 and the first three quarters of 2021:

Table 10

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	Revenue growth in Q2 2021 from a year ago	Revenue growth in Q3 2021 from a year ago
a2 Milk	34.2%	34.2%	-16.0%	-16.0%	-42.9%	-42.9%	**-**
Activision Blizzard	-2.0%	38.4%	52.4%	21.5%	27.2%	18.8%	**5.9%**
Adobe	14.0%	13.8%	14.4%	26.3%	22.6%	22.0%	**20.0%**
Afterpay Touch	96.9%	96.9%	89.4%	89.4%	69.8%	69.8%	**-**
Alphabet	13.3%	-1.7%	14.0%	23.5%	34.4%	61.6%	**41.0%**
Alteryx	43.2%	17.3%	25.5%	2.6%	9.1%	24.8%	**-4.8%**
Amazon	26.4%	40.2%	37.4%	43.6%	43.8%	27.2%	**15.3%**

Table 10 (continued from above)

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	Revenue growth in Q2 2021 from a year ago	Revenue growth in Q3 2021 from a year ago
Apple	0.5%	10.9%	1.0%	21.4%	53.6%	36.4%	**28.8%**
ASML	9.5%	29.5%	32.5%	5.4%	78.8%	20.9%	**32.4%**
Block (formerly Square)	44.0%	63.8%	139.6%	140.5%	266.2%	143.3%	**26.7%**
Chipotle Mexican Grill	7.8%	-4.8%	14.1%	11.6%	23.4%	38.7%	**21.9%**
Costco	7.3%	12.4%	16.7%	14.6%	21.5%	17.4%	**16.6%**
Coupang	79.0%	85.5%	94.6%	99.8%	74.3%	71.3%	**48.1%**
Datadog	87.4%	68.2%	66.3%	56.2%	51.3%	66.8%	**74.9%**
dLocal	132.0%	47.9%	95.9%	94.4%	123.7%	185.6%	**122.5%**
DocuSign	38.8%	45.2%	53.5%	56.8%	57.9%	49.6%	**42.4%**
Etsy	34.7%	136.7%	128.1%	128.7%	141.5%	23.4%	**17.9%**
Fiverr	43.7%	81.9%	87.8%	89.2%	100.1%	59.7%	**42.0%**
Haidilao	-16.5%	-16.5%	26.9%	26.9%	105.9%	105.9%	**-**
Illumina	1.5%	-24.5%	-12.5%	0.0%	27.2%	77.9%	**39.5%**
Intuitive Surgical	12.9%	-22.5%	-4.5%	4.0%	17.5%	71.8%	**30.2%**
Markel	10.5%	11.8%	20.9%	24.4%	18.0%	28.4%	**14.9%**
Mastercard	3.1%	-18.9%	-14.1%	-6.7%	3.6%	35.8%	**29.9%**
Medistim	16.2%	-12.1%	-2.5%	-1.6%	-0.5%	33.1%	**22.5%**
Meituan Dianping	-12.6%	8.9%	28.8%	34.7%	120.9%	77.0%	**37.9%**
Mercado Libre	37.6%	61.1%	85.0%	96.9%	111.4%	93.9%	**66.5%**
Meta Platforms (formerly Facebook)	17.6%	10.7%	21.6%	33.2%	47.6%	55.6%	**35.1%**
Microsoft	14.6%	12.8%	12.4%	16.7%	19.1%	21.3%	**22.0%**
MongoDB	45.8%	39.2%	37.8%	38.4%	39.4%	43.7%	**50.5%**
Netflix	27.6%	24.9%	22.7%	21.5%	24.2%	19.4%	**16.3%**
Okta	46.0%	42.7%	42.0%	40.3%	37.3%	57.4%	**61.3%**
Paycom Software	21.2%	7.2%	12.3%	14.2%	12.3%	33.3%	**30.4%**
PayPal	11.9%	22.2%	24.7%	23.3%	30.6%	18.6%	**13.2%**

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	Revenue growth in Q2 2021 from a year ago	Revenue growth in Q3 2021 from a year ago
PushPay	33.2%	52.7%	52.7%	30.9%	30.9%	9.3%	**9.3%**
Salesforce.com	30.2%	28.9%	20.1%	19.9%	22.6%	23.1%	**26.6%**
Sea	103.2%	102.2%	98.7%	101.6%	146.7%	158.6%	**121.8%**
Shopify	46.7%	97.3%	96.5%	93.6%	110.3%	56.7%	**46.4%**
Starbucks	-4.9%	-38.1%	-8.1%	-4.9%	11.2%	77.6%	**31.3%**
Teladoc (Livongo)	114.6%	124.7%	109.3%	145.0%	150.9%	108.7%	**80.6%**
Tencent Holdings	26.4%	29.3%	29.0%	26.4%	25.2%	20.3%	**13.5%**
Tesla	31.8%	-4.9%	39.2%	45.5%	73.6%	98.1%	**56.8%**
The Trade Desk	32.8%	-12.8%	31.6%	48.1%	36.8%	100.9%	**39.3%**
Tractor Supply	7.5%	34.9%	31.4%	31.3%	42.5%	13.4%	**15.8%**
Twilio	56.5%	45.7%	51.8%	65.5%	61.7%	66.9%	**65.2%**
Upstart	226.3%	-46.6%	32.1%	38.1%	70.8%	1,307.7%	**249.5%**
Veeva Systems	37.7%	32.5%	34.4%	27.4%	28.6%	28.8%	**26.1%**
Visa	6.6%	-17.2%	-16.9%	-6.1%	-2.1%	26.7%	**28.6%**
Wise	-	50.6%	42.1%	40.6%	28.2%	43.1%	**25.4%**
Wix.com	23.9%	27.3%	29.2%	38.1%	40.8%	34.0%	**26.2%**
Zoom	169.0%	355.0%	366.5%	368.8%	191.4%	54.0%	**35.2%**

Table 10 (continued from above)

Source: Companies' earnings updates
**Numbers for first and second quarters of 2020 are for Livongo; subsequent numbers 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 the same time frames as Table 10 (**note the high revenue growth rates for every quarter**):

Table 11

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	Revenue growth in Q2 2021 from a year ago	Revenue growth in Q3 2021 from a year ago
Current portfolio	38.6%	36.5%	45.8%	47.7%	56.8%	77.9%	**40.8%**
Current portfolio (excluding only Upstart)	34.6%	38.2%	46.0%	47.9%	56.5%	52.8%	**35.5%**

Source: Companies' earnings updates

In Compounder Fund's **2021 third-quarter investors' letter**, I wrote:

> "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, although it will be *unrealistic* to keep expecting 50%-plus growth rates."

So far, so good. **Compounder Fund's portfolio companies produced an excellent year-on-year revenue growth rate of 40.8% (this is a simple average) in the third-quarter of 2021**. Excluding Upstart, the average revenue growth rate is lower, but still impressive at 35.5%.

In Compounder Fund's 2021 third-quarter investors' letter, I excluded Upstart when discussing the entire portfolio's average revenue growth rate for the second quarter of 2021. This was done to remove distortion to the average number because of Upstart's exceptionally high revenue growth of 1,307.7% during the quarter. Upstart's quadruple-digit growth was partly the result of its business bouncing off a low base in the second quarter of 2020 because of COVID-19-related difficulties; in our **investment thesis for Upstart**, we shared that the company's revenue *fell* by 47% year-on-year during the second quarter of 2020. In contrast, Upstart's revenue growth in the third quarter of 2020 was 32.1%. This meant that the company's superlative revenue growth of 249.5% in the third quarter of 2021 did not come from rebounding off a low base. Including Upstart's revenue growth in the third-quarter of 2021 for the portfolio's average this time round is thus a more accurate reflection of the collective business performances of Compounder Fund's entire portfolio. Table 12 below gives perspective on the far-superior growth rates for the businesses of Compounder Fund's holdings compared to the S&P 500.

Table 12

Collection of stocks	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	Revenue growth in Q2 2021 from a year ago	Revenue growth in Q3 2021 from a year ago
S&P 500	Around -2%	Around -10%	Around -2%	Around -0.5%	Around 10%	Around 25%	16.6%
Compounder Fund current portfolio	38.6%	36.5%	45.8%	47.7%	56.8%	77.9%	40.8%

Source: ***Yardeni Research*** *for S&P 500 data (data for S&P 500 is as of 22 December 2021; revenue growth rate for Compounder Fund's current portfolio is a simple average of the revenue growth from all the fund's current holdings)*

Jeremy and I continue to think there's a high chance that Compounder Fund's portfolio companies will, in aggregate, carry on producing 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 over the same timeframe and when measured from the fund's inception**. We're excited to see what the future brings!

And speaking of free cash flow, Compounder Fund's holdings did not manage to strengthen their cash flow muscles in the third quarter of 2021. Table 13 below shows the revenue growth for each company in Compounder Fund's portfolio for the quarter as well as the change in their free cash flow margins for the period. **During the third quarter of 2021, the simple-average free cash flow margin for all the fund's holdings was 16.1%, down from 19.6% a year ago**. Jeremy and I would have preferred to see growth in the free cash flow margin, but we're not troubled by the decline for two reasons. First, the decline was not significant. For perspective, a company that grew revenue at 40.8%, but saw a fall in the free cash flow margin from 19.6% to 16.1%, would still have *increased* its free cash flow by 15.7%. Second, a few quarters of declines do not make a trend (the average free cash flow margin for Compounder Fund's holdings also fell in the second quarter of 2021 from a year ago). Moreover, quarterly cash flows can vary considerably due to the timings of working capital changes and capital expenditures. We still expect the average free cash flow margin for Compounder Fund's current crop of portfolio companies to grow to around 25% over time.

Table 13

Company	Revenue growth in Q3 2021 from a year ago	Free cash flow margin in Q3 2021	Free cash flow margin in Q3 2020
a2 Milk	-	-	-
Activision Blizzard	5.9%	24.1%	8.8%
Adobe	20.0%	47.7%	48.9%
Afterpay Touch	-	-	-
Alphabet	41.0%	28.4%	25.1%
Alteryx	-4.8%	-0.6%	4.5%
Amazon	15.3%	-7.6%	0.9%
Apple	28.8%	20.4%	29.0%
ASML	32.4%	30.5%	-0.8%
Block (formerly Square)	26.7%	8.9%	12.6%
Chipotle Mexican Grill	21.9%	8.8%	10.1%
Costco	16.6%	4.4%	4.1%
Coupang	48.1%	-5.3%	-0.1%
Datadog	74.9%	21.1%	18.5%
dLocal	122.5%	38.9%	97.3%
DocuSign	42.4%	16.5%	9.9%
Etsy	17.9%	15.2%	40.6%
Fiverr	42.0%	11.9%	9.3%
Haidilao	-	-	-
Illumina	39.5%	-29.2%	13.2%
Intuitive Surgical	30.2%	30.9%	19.5%
Markel	14.9%	-	-
Mastercard	29.9%	44.2%	37.9%
Medistim	22.5%	36.6%	15.8%
Meituan Dianping	37.9%	-8.3%	9.3%
MercadoLibre	66.5%	5.0%	26.6%
Meta (formerly Facebook)	35.1%	33.5%	28.5%
Microsoft	22.0%	38.7%	37.5%
MongoDB	50.5%	-3.5%	-9.1%
Netflix	16.3%	-1.1%	17.9%
Okta	61.3%	9.5%	19.1%
Paycom Software	30.4%	22.5%	23.3%
PayPal	13.2%	20.8%	19.7%
PushPay	9.3%	32.7%	31.2%

Table 13 (continued from above)			
Company	**Revenue growth in Q3 2021 from a year ago**	**Free cash flow margin in Q3 2021**	**Free cash flow margin in Q3 2020**
Salesforce.com	26.6%	3.5%	4.0%
Sea	121.8%	-	-
Shopify	46.4%	2.7%	10.3%
Starbucks	31.3%	12.7%	18.5%
Teladoc (Livongo)	80.6%	11.8%	7.9%
Tencent Holdings	13.5%	16.9%	22.3%
Tesla	56.8%	9.6%	15.7%
The Trade Desk	39.3%	34.3%	30.8%
Tractor Supply	15.8%	-3.4%	-2.4%
Twilio	65.2%	-11.0%	-2.5%
Upstart	249.5%	16.8%	24.5%
Veeva Systems	26.1%	23.2%	24.4%
Visa	28.6%	57.4%	37.8%
Wise	25.4%	21.9%	25.8%
Wix.com	26.2%	-2.7%	7.6%
Zoom	35.2%	34.8%	49.6%
Simple average	**40.8%**	**16.1%**	**19.6%**

Source: Companies' earnings updates

(As of the publication of this letter, there's no quarterly free cash flow data available for a2 Milk, Afterpay Touch, Haidilao, and Sea for the third quarter of 2021. We did not include 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 pleased with the aggregate business performance of Compounder Fund's portfolio holdings.

Investing thoughts: Equanimity and patience

During bouts of short-term underperformance and/or significant volatility in stock prices - like what many of Compounder Fund's holdings have experienced in 2021 and the last two months of the year - it's easy to throw in the towel and get out of them to relieve the psychological stresses that result. **Jeremy and I believe that *this is the worst thing an investor can do* because doing so will cause temporary underperformance and/or losses to become permanent ones. We understand that it is difficult to stay the course. But it is crucial to do so because even the best long-term winners in the stock market can make our stomachs churn in the short run**.

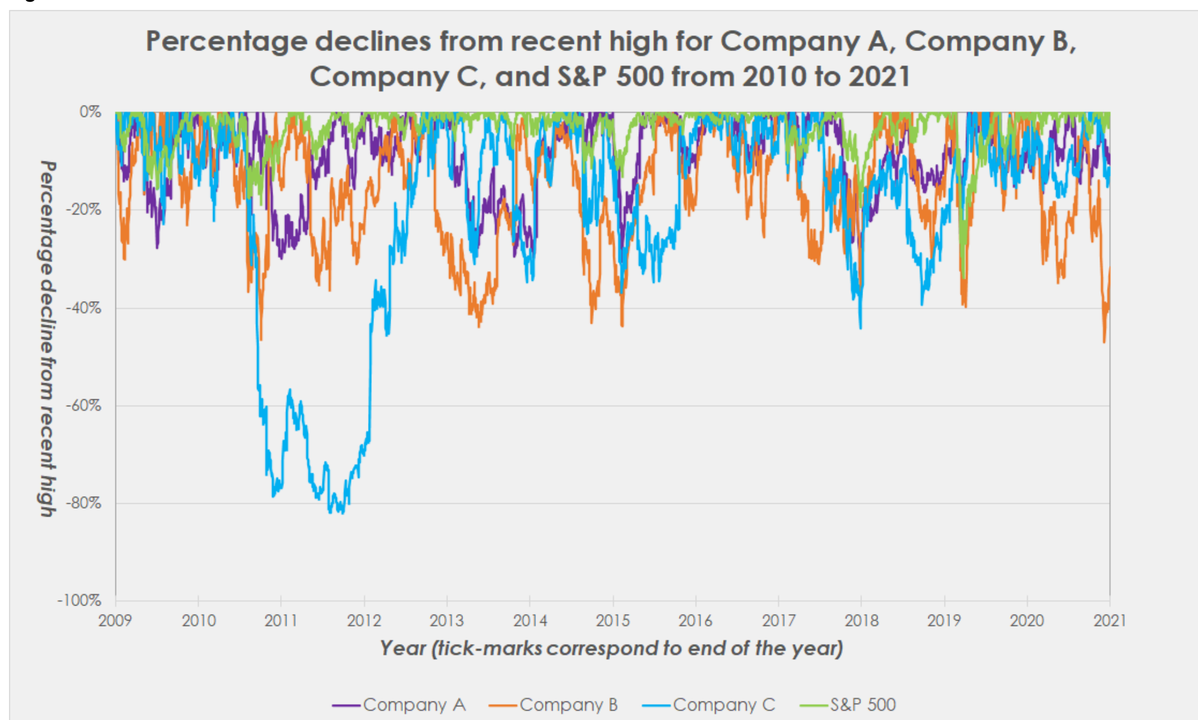
In sections of past Compounder Fund quarterly letters, I shared how we can all better handle the inherent vicissitude of stock prices. These sections are found in the **2021 first-quarter letter** (“*Investing thoughts: Equanimity”*) and in the **2021 third-quarter letter** (“*Investing thoughts: The need for patience*”). Their key messages are:

- Equanimity is a crucial character trait when dealing with the stock market because being able to remain calm when stock prices are roiling prevents us from making emotionally-driven mistakes.
- There are two ways we can gain equanimity: (1) By looking at volatility in stock prices as the *fee for admission* for great long-term returns instead of as a fine for making mistakes; and (2) by focusing on the underlying business performances of the companies we own instead of their stock prices.
- One of Warren Buffett’s best-ever investment returns came from a stock - Washington Post Company - that was in the red for three years. Buffett also did not require special insight to determine that the stock was a great bargain; what he needed instead was simply the right attitude and patience.
- David and Tom Gardner recommended Starbucks to the host of a TV programme called *The View* on 2 July 1998, only for the company’s stock price to fall by more than 30% six weeks later. But Starbucks’s stock price is today more than 30 *times* what it was on 2 July 1998.
- For market participants who look at stocks as a piece of a business and are investing on the basis of a business’s underlying value, patience may well be necessary, even if you have purchased shares of the best company at a bargain price.

This section of Compounder Fund’s 2021 fourth-quarter letter that you’re reading now can be seen as an extension of the key themes I discussed in the two aforementioned past-sections. In here, I will need your help to answer two questions that involve two groups of real-life companies. Please note your answers for easy reference when you see the questions (it’ll be fun, trust me!).

Figure 1 below is a chart showing the declines from a recent-high for the S&P 500 and the stock prices of the first group of companies (Company A, Company B, and Company C) from the start of 2010 to the end of 2021. The chart looks brutally rough for the three companies. All of them have seen stock price declines of 20% or more on *multiple* occasions in that time frame. Moreover, their stock prices were much more volatile than the S&P 500 - the index experienced a decline of 20% or more from a recent high just once (in early 2020). So the first question is, after seeing Figure 1, would you want to own shares of the first group of companies if you could go back in time to the start of 2010?

Figure1



Source: Tikr and Yahoo Finance

Table 14 below illustrates the stock price and revenue growth for the second group of companies (Company D, Company E, and Company F) from the start of 2010 to the end of 2021, along with the S&P 500's gain. The second trio of companies have generated tremendous wealth for their investors, far in excess of the S&P 500's return, because of years of rapid business growth. The second question: If you could travel to the start of 2010, would you want to own shares of the companies in the second group?

Table 14

Company	Stock price return (including dividends) from start of 2010 to end of 2021	Total revenue growth from 2010 to 2021
Company D	2,380%	2,011%
Company E	2,500%	4,500%
Company F	7,557%	1,793%
S&P 500	443%	-

Source: Tikr, Yahoo Finance, and companies' regulatory filings

My guess for the majority of responses for the first and second questions would be "No" and "Yes", respectively. **But what's interesting here is that both groups refer to the same companies!** Company A and Company D are Amazon; B and E refer to MercadoLibre, and C and F are Netflix. There's more to the returns of the three companies from 2010 to 2021. Table 15 below shows that the trio have each: (a) underperformed the S&P 500 in a few calendar years, sometimes significantly; and (b) seen their stock prices and business move in completely opposite directions in some years.

Table 15

Year	S&P 500 return (including dividends)	Amazon return (including dividends)	Mercado-Libre return (including dividends)	Netflix price return (including dividends)	Amazon revenue growth	Mercado-Libre revenue growth	Netflix revenue growth
2010	15.1%	33.8%	28.5%	218.9%	39.6%	25.4%	29.5%
2011	2.1%	-3.8%	19.3%	-60.6%	40.6%	37.9%	48.2%
2012	16.0%	44.9%	-1.2%	33.6%	27.1%	25.0%	12.6%
2013	32.4%	59.0%	37.2%	297.6%	21.9%	26.5%	21.2%
2014	13.7%	-22.2%	18.4%	-7.2%	19.5%	17.8%	25.8%
2015	1.4%	117.8%	-10.4%	134.4%	20.2%	17.1%	23.2%
2016	12.0%	10.9%	36.6%	8.2%	27.1%	29.6%	30.3%
2017	21.8%	56.0%	101.5%	55.1%	30.8%	44.1%	32.4%
2018	-4.4%	28.4%	-6.9%	39.4%	30.9%	18.3%	35.1%
2019	31.5%	23.0%	95.3%	20.9%	20.5%	59.5%	27.6%
2020	18.4%	76.3%	192.9%	67.1%	37.6%	73.0%	24.0%
2021*	28.7%	2.4%	-19.5%	11.4%	27.6%	95.6%	19.8%

Source: Tikr and companies' earnings updates
**Revenue growth numbers for 2021 are for the first nine months of the year*

There are two other interesting things about the stock price movements of Amazon, MercadoLibre, and Netflix.

First, in every single time-frame between the start of 2010 and the end of 2021 that has a five-year or longer holding period (with each time-frame having 31 December 2021 as the end point), there is *not a single time-frame* where the annualised return for each of the three companies is negative or lower than the S&P 500's. For perspective, the minimum and maximum annualised returns for the trio and the S&P 500 are given in Table 16. **If you had invested in the three companies at any time between 1 January 2010 and 31 December 2016, and held onto them through to 31 December 2021, you would have not only significantly beaten the S&P 500 *for any start-date*, you would also have earned high annual returns.**

Table 16

Company	Maximum annualised return for every timeframe with a 5-year or longer holding period between start of 2010 and end of 2021 with 31 Dec 2021 as the end point	Minimum annualised return for every timeframe with a 5-year or longer holding period between start of 2010 and end of 2021 with 31 Dec 2021 as the end point
Amazon	42.2%	29.0%
MercadoLibre	59.6%	28.6%
Netflix	60.1%	27.6%
S&P 500	19.9%	14.6%

Source: Tikr

Second, the returns for Amazon, MercadoLibre, and Netflix for all the same start-dates as in the data shown in Table 16, but this time for shorter holding periods of 1 year and 2 years, have been all over the place. This is displayed in Table 17. Notice the common occurrence of negative as well as market-losing returns for the three companies for both 1-year and 2-year holding periods.

Table 17

Company	For 1-year holding period			For 2-year holding period		
	% of time-frames with negative return	% of time-frames losing to the S&P 500	% of time-frames with decline of 20% or more	% of time-frames with negative return	% of time-frames losing to the S&P 500	% of time-frames with decline of 20% or more
Amazon	6.3%	25.5%	1.9%	0%	14.4%	0%
Mercado Libre	32.8%	40.4%	5.4%	7.4%	36.5%	0%
Netflix	24.3%	30.6%	16.5%	18.2%	20.2%	8.4%

Source: Tikr

After sweeping up all the data shown in Figure 1 and Tables 14, 15, 16, and 17, the critical highlights are these:

- **By looking at just the long-term returns that Amazon, MercadoLibre, and Netflix have produced, it's difficult to imagine that their stock prices had to traverse brutally rough terrains to reach their incredible summits. *But this is the reality that comes with even the best long-term winners.*** It's common for them to have negative and/or market-losing returns over the short-term even as they're on the path toward fabulous long-term gains. For example, an investor who invested in Amazon on 9 December 2013 would be sitting on a *loss* of 20.4% one year later while the S&P 500 was *up* by 16.3%. But someone who invested in Amazon on 9 December 2013, and held on till 31 December 2021, would have

earned an annualised gain of 30.7%, way ahead of the S&P 500's annual return of 15.0% over the same period. In another instance, MercadoLibre's stock price fell by 20.6% one year after 29 September 2014, even though the S&P 500 inched down by just 2.7%; on 31 December 2021, the compounded returns from 29 September 2014 for MercadoLibre and the S&P 500 were 41.4% and 15.1%, respectively. Meanwhile, an investor buying Netflix's shares on 3 August 2011 would be facing a massive *loss* of 79.3% one year later, even as the S&P 500 had gained 10.7%. But Netflix's annualised return from 3 August 2011 to 31 December 2021 was an impressive 30.7%, nearly twice the 15.9% annual gain seen in the S&P 500.
- **A company's stock price can exhibit stomach-churning short-term volatility *even when its underlying business is performing well.*** For example, Amazon's robust 19.5% revenue growth in 2014 came with a 22.2% stock price decline, MercadoLibre's stock price was down by 10.4% in 2015 despite revenue growth of 17.1%, and Netflix's 48.2% revenue growth in 2011 was accompanied by a 60.6% collapse in its stock price. **Significant short-term deviations between a company's business performance and stock price is simply a feature of the stock market, and not a bug**.
- **Having to suffer through an arduous journey is the price we have to pay (the fee for admission!) to reach the top of the mountain, but it's a journey that is worth being on.** As Josh Brown, CEO of Ritholtz Wealth Management and one of my favourite market commentators, wrote in a **recent blog post**, "returns only come to those who are willing to bear that volatility when others won't. The volatility is the point."

I discussed the investing game that Jeremy and I are playing in the "*Investing thoughts: Playing the right game*" section of Compounder Fund's **2021 second-quarter investors' letter**. It is a game that focuses on the destination (the long-term performance of a company's business, knowing that stock prices and business growth converge over the long run) instead of the journey (the short-term fluctuations of stock prices). **This game is not easy to play. It is painful to sit through periods of temporary underperformance and/or declines in stock prices. So Jeremy and I are grateful to all of you for understanding the investing game that we are playing and for remaining steadfast cheerleaders as we make this hard trek to reach the mountain's peak**. ***Thank you***.

Helping Jeremy and me keep our gaze steady at the destination is the comfort we find in the excellent business results that Compounder Fund's holdings continue to produce. If Compounder Fund's portfolio companies are able to carry on generating strong business growth in the years ahead, we're confident that Compounder Fund will eventually be able to summit the mountain. And as we've shown earlier in this section, **focusing only on the destination can pay off very well for investors who do so, just like everyone in Compounder Fund.**

Portfolio management thoughts: Haidilao's "Starbucks moment"

Compounder Fund first bought Haidilao's shares at an average price of HK$35 in July 2020. At Haidilao's current stock price of around HK$17, the company is currently one of the biggest losers in the portfolio.

The hotpot restaurant operator has expanded its restaurant count rapidly throughout 2020 and the first half of this year as shown in Table 18 below. But the expansion happened too quickly. Haidilao has struggled to maintain the economics of its restaurants, with two tell-tale signs being a deterioration in the company's operating cash flow (in 2020) and a decline in the average daily table turnover rate (in 2020 and the first half of 2021). Both dynamics are also shown in Table 18.

Table 18

Time period	Haidilao restaurant count at end of period	Haidilao restaurant count growth from year ago	Haidilao operating cash flow	Haidilao average daily table turnover rate
First half of 2019	593	73.9%	RMB 1.47 billion	4.8
Second half of 2019	768	64.8%	RMB 3.11 billion	4.8 (for the year)
First half of 2020	935	57.8%	RMB 0.34 billion	3.3
Second half of 2020	1,298	69.0%	RMB 2.59 billion	3.5 (for the year)
First half of 2021	1,597	70.8%	RMB 2.09 billion	3.1

Source: Haidilao earnings updates

In November 2021, Haidilao admitted that it had been a mistake to grow its number of restaurants so quickly. The company announced that it would shut down or suspend operations in around 300 of its restaurants that have "relatively low customer traffic and unsatisfying results of operations" by the end of that year. The restaurants that have been temporarily closed would resume operations within two years. Impressively, Haidilao also committed to *not* lay off any employees. The company mentioned in the same announcement that it has launched a plan - named "Woodpecker" - to improve the operating performance of its business. Woodpecker, which would be spearheaded by Haidilao's new deputy CEO, Yang Lijuan (she was promoted to the role in August 2021), has a few key elements:

- Under-performing restaurants would be monitored carefully and improved accordingly.
- The company's organisational-chart would be restructured with a focus on more efficient management of its restaurants.
- Haidilao's core culture - of having genuine care for and trust toward its employees - would remain.

- The company would slow down its pace of restaurant openings and would not be opening new restaurants at a large scale if its average daily table turnover rate does not exceed 4

Jeremy and I currently do not have plans to add to Compounder Fund's position in Haidilao. But we are happy to stay invested in the company and observe its transition. There's no guarantee that Woodpecker would work. But in times of uncertainty with a company we're invested in, we default to trust if the company's management team has a long history of successful execution. Haidilao's management team, led by co-founder and executive chairman, Zhang Yong, does have a fantastic track record in our view. There are a few other things that bolster our confidence in management's ability to right the ship:

- In my **investment thesis for Haidilao**, I discussed Jeremy's and my view that a core strength of Haidilao's business is its unique culture of trusting and genuinely caring for its employees. **This culture remains central in Woodpecker and Haidilao has also committed to not firing any employees despite closing and suspending around 300 restaurants.**
- Haidilao's culture flows from the unique worldview of Zhang Yong and **he remains at the helm of the company**.
- **The key person responsible for executing Woodpecker is Yang Lijuan**, a long-time employee of Haidilao. We believe that Yang Lijuan was previously known as Yang Xiaoli. She joined Haidilao in 1995 as a waitress and worked her way up through the ranks over the years. The Mandarin book, ***"You Can't Copy Haidilao",*** which I featured prominently in my investment thesis for the company, has an entire chapter devoted to Yang Xiaoli. The book depicts her as a person with unwavering loyalty, drive, and a dedication for self-improvement. Given her recent appointment as deputy CEO, we have no reason to believe these positive qualities of hers have diminished in any way.
- **Haidilao is *not* the first food & beverage company to have successfully solved a crisis of unbridled growth**. Starbucks, one of Compounder Fund's holdings, is a good example.

Jeremy and I published our **investment thesis for Starbucks** in January 2021. In it, we discussed Howard Schultz being CEO of Starbucks from 1987 to 2000, and then returning to the role in 2008. Schultz was prompted to return as CEO after management, while chasing rapid growth, diluted the unique consumer experience that made Starbucks successful in the first place, resulting in slowing customer traffic that began in 2007. Schultz wrote a **letter** to Starbucks's then-CEO Jim Donald in early 2007 describing the problems he saw. Here're some examples from the letter:

> "Over the past ten years, in order to achieve the growth, development, and scale necessary to go from less than 1,000 stores to 13,000 stores and beyond, we have had to make a series of decisions that, in retrospect, have lead to the watering down of the Starbucks experience, and, what some might call the commoditization of our brand…
>
> …For example, when we went to automatic espresso machines, we solved a major problem in terms of speed of service and efficiency. At the same time, we overlooked

the fact that we would remove much of the romance and theatre that was in play with the use of the La Marzocca machines. This specific decision became even more damaging when the height of the machines, which are now in thousands of stores, blocked the visual sight line the customer previously had to watch the drink being made, and for the intimate experience with the barista…

…This, coupled with the need for fresh roasted coffee in every North America city and every international market, moved us toward the decision and the need for flavor locked packaging. Again, the right decision at the right time, and once again I believe we overlooked the cause and the affect [sic] of flavor lock in our stores. We achieved fresh roasted bagged coffee, but at what cost? The loss of aroma -- perhaps the most powerful non-verbal signal we had in our stores; the loss of our people scooping fresh coffee from the bins and grinding it fresh in front of the customer, and once again stripping the store of tradition and our heritage?

Then we moved to store design. Clearly we have had to streamline store design to gain efficiencies of scale and to make sure we had the ROI on sales to investment ratios that would satisfy the financial side of our business. However, one of the results has been stores that no longer have the soul of the past and reflect a chain of stores vs. the warm feeling of a neighborhood store. Some people even call our stores sterile, cookie cutter, no longer reflecting the passion our partners feel about our coffee."

Upon becoming CEO of Starbucks for the second time, Schultz promptly improved the consumer experience at the company's stores and decided in June 2008 to close 600 underperforming stores in the USA. The company's pace of store openings in the country also slowed dramatically over the next few years, with a benefit being strong growth in free cash flow, partly as a result of lower capital expenditure. These are shown in Table 19. After falling by 82% from a peak of US$19.85 in May 2006 to a low of US$3.59 in November 2008, Starbucks's stock price has since rebounded to more than US$100 today.

Table 19

Year	Starbucks net store openings in USA during the year	Starbucks operating cash flow (US$ billion)	Starbucks capital expenditure (US$, billion)	Starbucks free cash flow (US$, billion)
FY2007	1,065	1.33	1.08	0.25
FY2008	445	1.26	0.98	0.27
FY2009	-474	1.39	0.45	0.94
FY2010	-57	1.70	0.45	1.26

Source: Starbucks annual reports

We think Haidilao is going through its own "Starbucks moment" right now after expanding too quickly in recent times. There's no guarantee that Woodpecker will succeed. But we're willing to back Zhang Yong and Yang Lijuan and give them time to try and bring Haidilao to new heights. It also helps that Haidilao is still producing significant operating cash flow - this

will be an important arrow in Zhang and Yang's quiver as they execute their turnaround plan for the company.

Portfolio management thoughts: A company we're watching

Jeremy and I spend significant portions of our working hours studying companies that are not in Compounder Fund's portfolio. We do this to unearth new investment opportunities that could improve the portfolio's quality. But our bar is high, so we reject companies often. When a company's rejected, we either decide to stop following it or place it in a watch list if we're interested to continue following its progress. Late last year, we placed Planet, a company based in the USA, on our watch list. In this section of this letter, I want to share our thoughts on Planet, with the hope that all of you can gain an even deeper understanding of our investment process for Compounder Fund.

To quickly level-set, Planet is a company that takes high-resolution images of the Earth's entire landmass daily via its fleet of around 200 satellites. Planet's Earth-observation satellite fleet, which is designed, built, and operated by the company, is the largest of its kind in history. I first heard about Planet in a November 2021 **episode** from the *Colossus* family of podcasts (*Colossus* has a wonderful collection of podcasts to learn about innovation, business, and investing - Jeremy and I are huge fans). The episode was an interview of Planet's co-founder and CEO, Will Marshall, by *Colossus* founder Patrick O'Shaughnessy. There were two particular pieces of information Marshall shared in the conversation that perked my ears. He said (emphases are mine):

> "[First piece] And we have this brand new data set of an image of the entire earth every day. So it's a bit like when you go onto Google and you see the satellite layer, that image is maybe three or five years old. We are doing that every day for the whole planet and we are keeping all of those images, so we have about 1,700 images, for every point on the land of the earth, so a deep stack of images. So it's like Google, but with a time axis.
>
> So it's a recent data and a tall stack of information. And that's how we figure out what's changing on the planet, where all the resources are being moved, all the vehicles, agriculture, shipping, we figure all the changes on the planet over time. And we can train all our machine learning on top of that stack of data. You ask any machine learning expert, what's the most exciting thing? It's training data, well, we have gobs of it. We have 1,700 images, as I said, of every place on the earth's land mass on average, to train all your algorithms about what's going on…
>
> … We take about three million of those images per day to cover the entire land mass. In fact, we cover about just over 300 million square kilometers per day. So that's the unit measures, the area coverage, and the earth land mass is about 150 million square kilometers. So we cover all the Earth land mass and some ocean territories like the Mediterranean, Caribbean, and the South China Sea and a few other hotspots and coastal areas around all the land mass…

> …*Right now there's no one else that does this*. To your point, it's very hard to get this data set. *You have to erect a huge satellite fleet and ground stations, mission control systems, data processing and all the rest*. *So it's certainly not for the faint of heart, so it would take many years for somebody to build such a system.* And of course, we're not going to sit on our hands, we're going to constantly improve it. *That data archive, it's impossible to go back and get*…
>
> …[Second piece] Just imagine a search query box on it and you can just say, "Hey, how many houses are there in Pakistan? Give me a plot of that versus time. Tell me where the trees were deforested, the latitude and longitudes of the trees that deforested in the Amazon in the last three weeks."
>
> It should be able to just tell you the answer to those questions without ever you looking at the images, or it may highlight that in the background or something, but you should be able to get answers, just like you can from Google. *So I think a lot of what Planet's doing in the long arm is a little bit similar to Google. Google figured out how to index the internet and make it searchable, and we are figuring out how to index the earth and making it searchable with the combination of the data and machine learning that sits on top*."

The snippets from Marshall's interview made Jeremy and me interested to conduct a deeper study of Planet because they highlight a few attractive characteristics about the company: (a) Planet holds a data-monopoly because you can't travel back in time to get old images of the Earth; (b) it's technologically challenging to build a competing service; and (c) Planet's management has a bold and wonderful vision of indexing terrestrial information and making it easily usable for the broader population. After studying Planet, here's what we learnt:

- Planet currently has 742 customers that include commercial entities and governments. The company's commercial customers are in verticals that include agriculture, mapping, forestry, finance, and insurance.
- Planet's data can inform users about important global phenomena such as deforestation, climate change, and supply chains. For example, Planet's service can be used in agriculture to better manage farmland by detecting changes in fields while governments can use the company's Earth images for disaster relief and prevention.
- Planet's revenue comes primarily from data subscription contracts and usage-based contracts (with a minimum commitment) for its satellite imaging services.
- Using data from Allied Market Research and their own estimates, Planet's management team believes that the company's total addressable market could grow to US$128 billion in 2027, driven by a growing focus by organisations around the world on sustainability issues and digitalisation. The company's addressable market of US$128 billion can be organised into a number of categories:
    - US$11 billion for agriculture - Planet's data could be used for precision agriculture; harvest planning; directed scouting; crop monitoring; field geo-mapping; soil and moisture management; and monitoring of sustainable agriculture practices.
    - US$29 billion for civil government - Planet's data could be useful in areas such as public forestry; agriculture monitoring and management; air and

    water pollution monitoring; permitting and code enforcement; and disaster management.
  - US$16 billion for defense & intelligence - Governments could utilise Planet's data for defense purposes; geo-mapping; learning about maritime domains; humanitarian and disaster recovery; and natural resource monitoring.
  - US$22 billion for energy and utilities - Planet's satellite imagery could help with environmental, pipeline, and asset monitoring activities.
  - US$24 billion for industrial ESG (Environmental, Social, and Governance) and supply chain concerns - Planet's data could be used by consumer packaged goods companies to monitor their ESG-related activities.
  - US$18 billion for finance and insurance - Financial institutions could better understand commodity markets (through measuring outputs of natural resources) and the global economy (through the flow of goods) with Planet's data.
  - US$8 billion for forestry - Planet's services could be useful for commercial forest management and disease and pest monitoring.
- Planet is around 5 to 6 years ahead of the competition in terms of its capabilities.
- All of the company's imaging data of the Earth are appropriately prepared for analysis with machine learning (ML) technologies.
- Management has projected revenue of US$693 million in FY2026 (fiscal year ending 31 January 2026), which represents an impressive annualised growth rate of 44% from revenue of US$113.2 million in FY2021.

Based on what we know about Planet's business, we like (a) the valuable images of Earth that the company already has and continues to collect, (b) its subscription-based revenue, (c) its potentially large market opportunity, as more use cases could develop for the company's data, (d) management's foresight in ensuring the company's valuable datasets are ML-ready, (e) the company's lead against competitors, and (f) management's projection for high growth in the next few years.

But Planet's only on our watch list and not in the portfolio for three key reasons. First, Planet's growth has not been impressive despite its relatively small revenue base at the moment. Moreover, the company's historical revenue growth rates are significantly lower than what management has projected for FY2021 to FY2026. In FY2021, the company's revenue grew by just 18%. Meanwhile, revenue growth in the first, second, and third quarters of FY2022 were 6%, 19%, and 16%, respectively. Second, there's no guarantee that Planet's current datasets, and all the imaging data about the Earth it will be collecting in the future, will lead to the large market opportunities that management believes will appear. At the moment, we're unable to gauge the odds of Planet's management being right (it does not help that Planet's revenue growth has been pedestrian and far below management's projections). Third, while Planet has a subscription-based business, we're unclear about how sticky the company's services are. Planet reports a net dollar retention rate that effectively measures the change in revenue from existing customers for a given period compared to a year ago. This net dollar retention rate has been tepid as shown in Table 20.

Table 20

Time period	Net dollar retention rate
FY2020	102.4%
FY2021	112.8%
First nine months of FY2022	98%

Source: Planet regulatory filings and earnings presentation

Jeremy and I will be watching Planet's revenue growth and net dollar retention rates. We'll also be looking for signs that Planet's market opportunities are indeed growing and could become massive in the future.

House-keeping matters and what's next

Compounder Fund's audit for calendar year 2021 - conducted by Baker Tilly - should be wrapped up by the end of the first quarter of this year, with the audit report ready before the end of the second quarter. Once the audit report's finalised, Jeremy and I will be sending a digital copy to all of Compounder Fund's investors.

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. The first audit is currently in progress and we will share the report on the fund's website when it is ready. 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 50 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 March 2022 and it will have a dealing date on the first business day of April 2022 (which should be 1st April). If you would like to increase your investment in the fund, please submit the relevant paperwork by the middle of March 2022. 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 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.

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 2022 first-quarter investors' letter in mid-April 2022. Till then, stay safe and take care!

Excelsior,
Chong Ser Jing
Co-founder and Portfolio Manager, Compounder Fund
12 January 2022

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

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