Compounder Fund Investors' Letter: First Quarter of 2022

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 2022 first-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 -18.9%. Over the same period, the dividend-adjusted Singapore-dollar returns for the [redacted] and the S&P 500 were -4.6% and -4.1%, respectively. Tables 1 and 2 below show the returns for Compounder Fund's two share classes (the earliest series for each share class), the [redacted], and the S&P 500, since the birth of the fund.

Table 1

Total Return	Jan 2022	Feb 2022	Mar 2022	2022 Q1	Since inception*
Compounder Fund Class A (after fees)	-13.6%	-6.1%	-0.1%	-18.9%	-9.1%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
S&P 500**	-4.9%	-2.7%	3.6%	-4.1%	43.7%

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

Table 2

Total Return	Jan 2022	Feb 2022	Mar 2022	2022 Q1	Since inception*
Compounder Fund Class B (after fees)	-13.6%	-6.1%	-0.1%	-18.9%	-12.7%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
S&P 500**	-4.9%	-2.7%	3.6%	-4.1%	36.6%

**Inception date: 1 October 2020*
*** [redacted] 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 [redacted] 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 [redacted] 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 [redacted], 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-three-quarters since we started investing Compounder Fund's capital on 13 July 2020. The fund's return has not only been negative since its inception, but it has also substantially underperformed both market indices. The poor stock price performance of many of Compounder Fund's holdings in 2021 has continued in 2022 thus far. I touched on the 2021 stock price performances in Compounder Fund's **2021 fourth-quarter letter**; I also discussed the stock price movements of Compounder Fund's holdings that were seen from end-2021 to late-January this year in a letter titled ***Solidarity*** that I sent on 27 January 2022. In both letters, I pointed out the stark differences between the excellent business performances of Compounder Fund's holdings and their declining stock prices. I will have more to say on this topic in the "*Wonderful businesses"* section of this letter.

Compounder Fund's poor return since inception is painful to experience. But the time frame is still too short for any useful observations to be made. Stock prices and business fundamentals can diverge wildly in the short run and this is what is happening to Compounder Fund. Over the long run, business fundamentals and stock prices tend to converge. With your strong support, we are playing the long game here at Compounder Fund, where the fund's return will come from the underlying business performances of its holdings. **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**, 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**. Jeremy and I are thankful that, in a period of volatile stock prices as was seen over the past few months, **all of you have helped us produce the behavioural edge.** You have provided us with gentle patience and the space to engage in long-term thinking about stocks. **Most importantly, none of you have panicked. So, *thank you* - Jeremy and I are incredibly fortunate to count everyone of you as investors in Compounder Fund**.

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.

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 first think about two sequences of returns over a five year period, shown in Table 3:

Table 3

	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. 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 the companies in Compounder Fund's portfolio to grow 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

On 12 January 2022, I published Compounder Fund's **2021 fourth-quarter investors' letter**. In the update, I shared all 50 holdings that were in the fund's portfolio at that time. Since then, there have been a few changes to the fund's holdings.

First, Afterpay is no longer in Compounder Fund's portfolio. I shared in the **2021 third-quarter letter** that Block - which was **previously known** as Square - announced in August 2021 that it would be acquiring Afterpay by issuing new shares of itself to existing Afterpay shareholders. The deal was completed on 31 January 2022. In the 2021 third-quarter letter, I wrote that our intention was to hold onto all of Compounder Fund's Afterpay shares and have them be automatically converted to Block shares. This was exactly what happened. We've also not sold any Block shares that Compounder Fund received. As I mentioned in the third-quarter letter, Jeremy and I are "eager to observe the growth of the combined entity."

Second, JD.com appeared in Compounder Fund's portfolio in late-March this year but was sold in early-April. In Compounder Fund's 2021 fourth-quarter letter, I discussed Tencent's partial distribution of its JD.com shares to its shareholders; Compounder Fund's JD.com shares arrived as a result of Tencent's distribution. I also mentioned in the same letter that Jeremy and I were still deciding what to do with the JD.com shares. We eventually made the call to sell the shares and we will be explaining in detail our reasons for doing so in the coming months. We will inform you once our sell-thesis for JD.com is published on Compounder Fund's website. As a reminder, you can find all of our published investment theses **here**.

Third, Jeremy and I have sold all of Compounder Fund's a2 Milk shares. You may remember that we **first sold some a2 Milk shares in July 2021** to provide some of the capital for Compounder Fund's initial investment in Upstart. Earlier this month, we sold the remaining a2 Milk position. Similar to JD.com, we will let all of you know once we have published our sell-thesis for a2 Milk in the coming months.

Fourth, two new companies have been added to Compounder Fund's portfolio and they are Adyen and Taiwan Semiconductor Manufacturing Company (TSMC). As you know, Compounder Fund is able to accept new subscriptions once every quarter with a dealing date that falls on the first business day of each calendar quarter. In the middle of March 2022, Jeremy and I successfully closed Compounder Fund's sixth subscription window since its initial offering period (which ended on 13 July 2020) and raised a net amount of S$0.32 million. This new capital - along with the capital raised from the sale of a2 Milk and JD.com - was deployed quickly in the days after the last subscription window's dealing date of 1 April 2022. Jeremy and I invested the new capital in Adyen and TSMC alongside three existing Compounder Fund holdings. They are (in alphabetical order): Alphabet, Facebook, and Shopify.

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 three 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 well since our investments and they've produced great results as I'll soon touch on in the "*Wonderful businesses*" section of this letter. They are winners, according to our definition.

You can expect to see our investment theses for Adyen and TSMC in the weeks ahead (and we'll be informing you when they're published). But meanwhile, here's a brief description of both companies:

- Adyen is a **Surinamese** word for "start over again". It's an apt name for the Netherlands-based company. Adyen's founders were founders of and senior executives in an international payment service provider named Bibit that was sold to the Royal Bank of Scotland in 2004. In 2006, Adyen was founded with the aim of facilitating digital payments by building a modern - and *better* - payments infrastructure that connects directly with card networks and local payment methods. Today, Adyen runs a fully integrated global payments platform, covering gateway, risk management, processing, issuing, acquiring, and settlement activities. Whatever Adyen has built has resonated with merchants that include some of the biggest companies in the world, from tech-giant Microsoft to fast-food chain McDonald's. From 2015 to 2021, the payment volume processed by Adyen had compounded at an impressive rate of 58.8% per year from €32.2 billion to €516 billion. This drove excellent annual net revenue growth of 47.2% from €0.09 billion to €1.0 billion over the same period. Simultaneously, Adyen's free cash flow margin (free cash flow as a percentage of net revenue) increased from an already outstanding 36.8% in 2015 to a remarkable 56.6% in 2021.
- Given TSMC's name (Taiwan Semiconductor Manufacturing Company), it would not come as a surprise that its business is about manufacturing semiconductor chips, mostly in Taiwan. To be even more precise, TSMC is a foundry, which is a contract-manufacturer of semiconductor chips. The company's customers include fabless semiconductor companies (companies that design but do not manufacture semiconductor chips), integrated device manufacturers (companies that design *and* manufacture semiconductor chips), and consumer-electronics companies such as Apple. In the 1960s and 70s, the legendary co-founder of Intel, Gordon Moore, gave the world Moore's Law, his observation that the number of transistors in an integrated circuit - or semiconductor chip - would double every two years. Moore's Law has been a driving force in global technological innovation because a chip becomes faster and more powerful with more transistors on it. TSMC is a key player helping to power Moore's Law today. According to data from Capital Economics cited by a June 2021 *Wall Street Journal* article, TSMC manufactures 92% of the world's most advanced chips; Samsung from Korea accounts for the rest. The most advanced chips in the world currently are those that have structures with geometries of 5 nanometers (nm); these structures are effectively transistors, which are tiny electrical switches. For perspective, a human hair's diameter is around 75,000 nm, and a 5 nm chip designed by Apple (and manufactured by TSMC) that goes into its laptops contains up to 57 *billion* transistors. TSMC has experienced revenue growth in each

year going back to 2010, is very profitable, and also generates strong free cash flow; its average net profit and free cash flow margins from 2016 to 2021 were 35.8% and 20.9%, respectively. To meet growing customer demand, maintain TSMC's technological leadership, and to break new grounds, management said in the 2021 fourth-quarter earnings call that TSMC's capital expenditure for 2022 would be a staggering US$40 billion to US$44 billion. Even so, this is a sum TSMC can afford without breaking the bank; the company ended 2021 with US$39.8 billion in operating cash flow and US$12.1 billion in net-cash on its balance sheet. In the same earnings call, TSMC's management also guided to annualised revenue growth of between 15% and 20% "over the next several years". This is significantly faster than the revenue growth of 9.6% per year TSMC experienced from 2015 to 2020. The company appears to be on the right track so far; its revenue numbers for the first quarter of 2022 showed year-on-year growth of 35.5%.

All told there are now 50 companies in Compounder Fund's portfolio. Here's how the portfolio looks like as of 10 April 2022:

Table 4

Company	Weighting	Country/Region of listing	Headquarters
MercadoLibre	5.1%	USA	Argentina
Amazon	4.7%	USA	USA
Meta Platforms	4.5%	USA	USA
Costco	3.9%	USA	USA
Tractor Supply	3.9%	USA	USA
Alphabet	3.6%	USA	USA
Microsoft	3.6%	USA	USA
Tesla	3.4%	USA	USA
Netflix	3.3%	USA	USA
Apple	3.2%	USA	USA
Tencent	2.9%	Hong Kong	China
The Trade Desk	2.8%	USA	USA
Chipotle Mexican Grill	2.6%	USA	USA
Datadog	2.6%	USA	USA
PayPal	2.5%	USA	USA
Shopify	2.5%	USA	Canada
Intuitive Surgical	2.5%	USA	USA
ASML	2.3%	USA	Netherlands
Markel	2.3%	USA	USA
Mastercard	2.1%	USA	USA
Visa	2.0%	USA	USA

Table 4 (continued from above)			
Company	**Weighting**	**Country/Region of listing**	**Headquarters**
MongoDB	2.0%	USA	USA
Medistim	2.0%	Norway	Norway
Illumina	2.0%	USA	USA
Adobe	2.0%	USA	USA
Etsy	1.9%	USA	USA
Block*	1.8%	USA	USA
Activision Blizzard	1.6%	USA	USA
Veeva Systems	1.6%	USA	USA
Salesforce	1.6%	USA	USA
DocuSign	1.5%	USA	USA
Okta	1.5%	USA	USA
Starbucks	1.4%	USA	USA
Twilio	1.2%	USA	USA
Sea	1.2%	USA	Singapore
Meituan	1.0%	Hong Kong	China
Zoom Video Communications	1.0%	USA	USA
TSMC	1.0%	USA	Taiwan
PushPay	0.9%	Australia	New Zealand
Wix	0.8%	USA	Israel
Adyen	0.8%	Netherlands	Netherlands
Upstart	0.7%	USA	USA
Fiverr	0.7%	USA	Israel
Haidilao	0.7%	Hong Kong	China
Paycom Software	0.7%	USA	USA
Teladoc	0.6%	USA	USA
Wise	0.6%	UK	UK
Dlocal	0.5%	USA	Uruguay
Alteryx	0.2%	USA	USA
Coupang	0.2%	USA	South Korea
Cash	**0.1%**	**-**	**-**

**0.4% 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*

Our biggest addition in early-April 2022 was to Meta Platforms. As of 10 April 2022, Meta Platforms' stock price had fallen by 42% from its 52-week closing-high of US$382 that was reached in September 2021. Table 5 below shows the company consistently putting up double-digit revenue growth - a remarkable feat given the high revenue base - and strong free cash flow margins over the past year. This makes the stock price decline baffling on the surface. But under the hood, the company's business has been under significant pressure because of Apple's changes to its privacy policy for digital advertising tracking that took effect in April 2021; this has hurt Meta Platforms' accuracy in ad-targeting and ability to measure advertising outcomes. Meta Platform's management team has said that they expect the company's revenue in 2022 to be lowered by US$10 billion as a result of Apple's changes.

Table 5

Metric for Meta Platforms	2021 Q1	2021 Q2	2021 Q3	2021 Q4
Revenue	US$26.2 billion	US$29.1 billion	US$29.0 billion	US$33.7 billion
Revenue growth from a year ago	47.6%	55.6%	35.1%	19.9%
Free cash flow margin	30.5%	29.7%	33.5%	36.3%

Source: Company earnings updates

I first discussed Apple's privacy policy in Compounder Fund's **2021 first-quarter letter**. In it, I mentioned that Meta Platforms - then called Facebook - was the biggest addition to our existing holdings. I also wrote:

> "We added to our position in [Facebook] despite Apple's much-publicised change to the privacy policy for its IDFA (Identifier for Advertisers). Without going into detail (see **here** for more), Apple's new upcoming policy will require apps to get users' permission to track their data across apps or websites owned by other companies…
>
> …In short, changes to the IDFA would make it difficult for Facebook to know the shopping behaviour of Facebook users outside of the company's own platforms. This would diminish the value of Facebook's digital advertising services. But the company has not been lying still. It has been actively encouraging commerce activities to take place directly on its own platforms and one such initiative is the launch of Facebook Shops in 2020. Last month, during a Clubhouse **session** with Josh Constine, Facebook's CEO and co-founder, Mark Zuckerberg, revealed that Facebook Shops now has more than 1 million active stores and 250 million active users. During the same Clubhouse session, Zuckerberg also shared how Facebook could emerge from Apple's IDFA issue even stronger than before:
>
>> "When it comes to the iOS 14 changes [for IDFA], for example, and their impact on our business, I think the reality is that I'm confident that we're gonna be able to manage through that situation. And we'll be in a good position. I think it's possible that we may even be in a stronger position. If Apple's changes encourage more businesses to conduct commerce on our platforms, by making it harder for them to basically use their data in order to

> find the customers that would want to use their products outside of our platforms."
>
> There are three other reasons for our decision to add to Facebook.
>
> First, the company grew revenue by an impressive 33.2% in the fourth quarter of 2020 while improving its free cash flow margin from an already strong 21.5% a year ago to 33.6%. It's worth noting too that Facebook spent US$4.6 billion on capital expenditures during the quarter, up 12.5% from a year ago.
>
> Second, the chance of Facebook creating a massive business in the AR/VR (augmented reality and virtual reality) space now looks higher to us than before. Last month, The Verge reported that Facebook has nearly 10,000 employees - around 15% of its total headcount of 58,604 at the end of 2020 - working on AR/VR technology. For perspective, this is a significant increase from 2017, when Facebook had more than 1,000 AR/VR employees, which was around 5% of its total workforce then.
>
> Third, Facebook's shares had a trailing price-to-free cash flow ratio of 37 at the end of March 2021. We think this is an undemanding valuation for a company that (1) could compound its revenue at north of 20% annually over the next five years, (2) fetched an excellent free cash flow margin of 27% in 2020, and (3) has a fortress of a balance sheet with zero debt and nearly US$62 billion in cash and investments."

Since the excerpts above were published, a few things have happened to the company:

- Meta Platforms' user base across its platforms - Facebook, Instagram, Messenger, and Whatsapp - had increased from an already-staggering 2.6 billion unique daily users in the fourth quarter of 2020 to 2.82 billion in the fourth quarter of 2021.
- Meta Platforms has continued to build tools and services for consumers to shop directly on its various platforms.
- The company's revenue growth and free cash flow margins were both strong throughout each quarter in 2021, as shown in Table 5.
- There are ongoing improvements to Meta Platforms' digital advertising services, such as the introduction of the Aggregated Event Measurement solution. *The Information,* a digital news outlet that reports on technology businesses, published an **article** late last month sharing anecdotes that advertisers are seeing an improvement in Meta Platforms' advertising performance after an initial decline because of Apple.
- Meta Platforms announced a few months ago that it would be investing at least US$10 billion per year on technology infrastructure that's related to the metaverse; an example of these investments is Meta Platforms' AI Research SuperCluster, a supercomputer for artificial intelligence. The supercomputer will be the world's fastest when it is completed in the middle of this year. We think these investments would help with Meta Platforms' chances of success in developing the metaverse, which would almost certainly involve AR/VR.
- Meta Platforms' trailing price-to-free cash flow (P/FCF) ratio had declined from 37 at the end of March 2021 to just 16 at the end of March 2022. Meanwhile, the free cash flow margin increased from 27% in 2020 to 33% in 2021, and the balance sheet

> remains a fortress with nearly US$48 billion in cash and investments and zero debt as of 31 December 2021.

These are all positive developments from our vantage point as a long-term investor in Meta Platforms. But the company's management expects revenue growth of only 3%-11% year-over-year in the first quarter of 2022 because of "headwinds to both impression and price growth." The good thing is these headwinds are somewhat self-inflicted. Meta Platforms has begun to prioritise Reels - a short-form video service - on its key social media platforms, Facebook and Instagram. This was done - *correctly*, in our view - by Meta Platforms' management to combat the threat of TikTok, a social network that focuses on short-form videos. For now, Reels monetises at a lower rate than Facebook and Instagram's other services. But management is optimistic about the future of Reels and we share this enthusiasm - Meta Platforms' leaders have a history of executing successful transitions, such as the company's shift from web to mobile and from the Feed service to Stories. During a March 2022 investor conference, Meta Platforms' CFO David Wehner said (emphases are mine):

> "Yes. I mean, look, we believe the Reels and short-form video provides a big opportunity for time-spent growth across our Family of Apps and others, incrementally making the opportunity bigger for us. *So we do think there are Reels incremental growth opportunities here*.
>
> I think one of the best way to, sort of, frame, kind of, looking through COVID and all of that, is that video and short-form, both on our platform and obviously with others, has taken the bulk of the growth in the mobile app ecosystem over the last couple of years. *And we think we're well positioned now to participate in that growth, going forward.*
>
> And so with Instagram Reels, we think we already have a strong position in the short -- in short-form. Obviously, we're well behind TikTok. In India, where they're not operating, we're clearly much bigger. *For context, Reels is our fastest-growing format. It's growing faster than Stories at a comparable time in 2018*.
>
> We think that the market for short-form is large enough that there will be an opportunity for multiple players. *And while it's a headwind for impression and revenue growth, as we ramp in 2022, longer term, we think it's going to be a tailwind. We're -- now, we're pulling time away from other services, but adding to overall engagement. So it is incremental*.
>
> Longer term, we think the big picture is, *the opportunity for Family of Apps is bigger with short-form as part of it*. And then, in addition to the success that we're having with Reels on Instagram, last month, we launched Reels globally on Facebook in over 150 countries. It's much earlier days on Facebook, but we're excited about the early engagement there as well."

To summarise, Jeremy and I think that Meta Platforms' management team is likely capable of solving the problems that Apple has thrown at the company while at the same time, growing the Reels short-form-video service into an important pillar of the company's advertising business. With a trailing P/FCF ratio of just 16 at the end of March 2022, Meta Platforms looks like good value to us.

After the acquisition of Afterpay by Block, another involuntary change could soon happen to Compounder Fund's portfolio. Activision Blizzard and Microsoft jointly announced on 18 January 2022 that the latter would be acquiring the former. The all-cash deal, which is expected to be completed in the year ending 30 June 2023, will see Microsoft buy Activision for US$95 per share. We're disappointed that we can no longer participate directly in Activision's future business growth if and when it becomes a part of Microsoft. But we think this is a smart move by the acquirer. Activision has a stable of excellent games (see our **thesis on the company** for a discussion on its games portfolio) that could significantly enhance the value of Microsoft's subscription-based gaming service, Game Pass. Currently, for a price of up to US$14.99 per month (in the USA), Game Pass subscribers can access over 100 high-quality games across various gaming platforms such as the personal computer, consoles, and mobile devices. Microsoft's overall Gaming business, which includes Game Pass, is already sizeable, accounting for US$16.3 billion in revenue, or 9% of Microsoft's total revenue, in the last 12 months. Activision's US$8.8 billion in annual revenue (the figure seen in 2021) will increase the heft of Microsoft's Gaming business.

At the time of the announcement, Activision had an enterprise value (market capitalisation minus cash plus debt) of US$68.7 billion at the acquisition price of US$95 per share. If and when the deal is completed, Activision's enterprise value is likely to be slightly lower since the company has a long track record of generating free cash flow, which should increase its net cash position; for perspective, Activision ended 2021 with US$6.8 billion in net cash and US$2.3 billion in free cash flow. But no matter how we slice it, Microsoft will still require a huge slug of cash to acquire Activision. The good thing is Microsoft should have no trouble with financing. Table 6 below shows Microsoft's formidable free cash flows over the past few years and as of 31 December 2021, the company had a massive net cash position of US$72.1 billion.

Table 6

Year	Microsoft free cash flow (US$, billion)	Microsoft free cash flow margin (free cash flow as percentage of revenue)
Ended 30 Jun 2019	35.9	28.5%
Ended 30 Jun 2020	42.7	29.9%
Ended 30 Jun 2021	47.2	28.1%
Ended 31 Dec 2021	50.6	27.4%

Source: Microsoft annual reports and earnings updates

Our current intention - which is subject to change depending on developments at Microsoft/Activision and the stock market in general - is for Compounder Fund to hold onto its Activision shares and receive the cash from Microsoft once the acquisition is completed. In this way, we save on unnecessary trading fees. Moreover, Activision's stock price of US$80 as of 10 April 2022 is far from the acquisition price of US$95; selling in the open market now would mean forfeiting a gain of nearly 19%. There's no guarantee, however, that the deal would proceed; it's subject to regulatory approval by US authorities, and the long timeline for the completion of the acquisition does raise our eyebrows. We don't see any antitrust issues - according to SuperData, the global gaming market was nearly US$140 billion in 2020, a figure which dwarfs the collective revenues of Activision and Microsoft's Gaming business - but we don't have any special insight into the regulatory review process. There were also news reports released earlier this month stating that US regulators would be looking into the impacts that Microsoft's acquisition of Activision could have on consumer data and the game development labour market, among other areas. If regulators give the green light, we're eager to observe the growth of Microsoft's Gaming business with Activision under its umbrella.

Here's a quick high-level geographical breakdown of Compounder Fund's portfolio as of 10 April 2022:

Table 7

Country/Region	% of Compounder Fund's capital based on country of listing	% of Compounder Fund's capital based on location of headquarters
Argentina	-	5.1%
Australia	0.9%	-
Canada	-	2.5%
China	-	4.6%
Hong Kong	4.6%	-
Israel	-	1.6%
Netherlands	0.8%	3.1%
New Zealand	-	0.9%
Norway	2.0%	2.0%
Singapore	-	1.2%
South Korea	-	0.2%
Taiwan	-	1.0%
UK	0.6%	0.6%
Uruguay	-	0.5%
USA	91.1%	78.2%

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 fourth quarter of 2021. Table 8 below shows the year-on-year revenue growth rates for each quarter of 2020 and 2021 for all the 50 companies that are currently in Compounder Fund's portfolio (the ones in Table 4), as well as a2 Milk and Afterpay:

Table 8

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	Revenue growth in Q4 2021 from a year ago
a2 Milk	34.2%	34.2%	-16.0%	-16.0%	-42.9%	-42.9%	-2.6%	**-2.6%**
Acti-vision Blizzard	-2.0%	38.4%	52.4%	21.5%	27.2%	18.8%	5.9%	**-10.4%**
Adobe	14.0%	13.8%	14.4%	26.3%	22.6%	22.0%	20.0%	**9.1%**
Adyen	26.6%	26.6%	29.1%	29.1%	46.0%	46.0%	46.7%	**46.7%**
Afterpay	96.9%	96.9%	89.4%	89.4%	69.8%	69.8%	54.6%	**54.6%**
Alphabet	13.3%	-1.7%	14.0%	23.5%	34.4%	61.6%	41.0%	**32.4%**
Alteryx	43.2%	17.3%	25.5%	2.6%	9.1%	24.8%	-4.8%	**8.3%**
Amazon	26.4%	40.2%	37.4%	43.6%	43.8%	27.2%	15.3%	**9.4%**
Apple	0.5%	10.9%	1.0%	21.4%	53.6%	36.4%	28.8%	**11.2%**
ASML	9.5%	29.5%	32.5%	5.4%	78.8%	20.9%	32.4%	**17.2%**
Block	44.0%	63.8%	139.6%	140.5%	266.2%	143.3%	26.7%	**29.1%**
Chipotle Mexican Grill	7.8%	-4.8%	14.1%	11.6%	23.4%	38.7%	21.9%	**22.0%**
Costco	7.3%	12.4%	16.7%	14.6%	21.5%	17.4%	16.6%	**15.9%**
Coupang	79.0%	85.5%	94.6%	99.8%	74.3%	71.3%	48.1%	**33.5%**
Datadog	87.4%	68.2%	66.3%	56.2%	51.3%	66.8%	74.9%	**83.7%**
dLocal	132.0%	47.9%	95.9%	94.4%	123.7%	185.6%	122.5%	**120.1%**
Docu-Sign	38.8%	45.2%	53.5%	56.8%	57.9%	49.6%	42.4%	**34.8%**
Etsy	34.7%	136.7%	128.1%	128.7%	141.5%	23.4%	17.9%	**16.2%**
Fiverr	43.7%	81.9%	87.8%	89.2%	100.1%	59.7%	42.0%	**42.7%**
Haidilao	-16.5%	-16.5%	26.9%	26.9%	105.9%	105.9%	11.5%	**11.5%**
Illumina	1.5%	-24.5%	-12.5%	0.0%	27.2%	77.9%	39.5%	**25.7%**
Intuitive Surgical	12.9%	-22.5%	-4.5%	4.0%	17.5%	71.8%	30.2%	**16.7%**
Markel	10.5%	11.8%	20.9%	24.4%	18.0%	28.4%	14.9%	**18.9%**
Master-card	3.1%	-18.9%	-14.1%	-6.7%	3.6%	35.8%	29.9%	**26.6%**
Medistim	16.2%	-12.1%	-2.5%	-1.6%	-0.5%	33.1%	22.5%	**19.7%**
Meituan	-12.6%	8.9%	28.8%	34.7%	120.9%	77.0%	37.9%	**30.6%**
Mercado-Libre	37.6%	61.1%	85.0%	96.9%	111.4%	93.9%	66.5%	**60.5%**

Table 8 (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**	**Revenue growth in Q4 2021 from a year ago**
Meta Platforms	17.6%	10.7%	21.6%	33.2%	47.6%	55.6%	35.1%	**19.9%**
Microsoft	14.6%	12.8%	12.4%	16.7%	19.1%	21.3%	22.0%	**20.1%**
MongoDB	45.8%	39.2%	37.8%	38.4%	39.4%	43.7%	50.5%	**55.8%**
Netflix	27.6%	24.9%	22.7%	21.5%	24.2%	19.4%	16.3%	**16.0%**
Okta	46.0%	42.7%	42.0%	40.3%	37.3%	57.4%	61.3%	**63.2%**
Paycom Software	21.2%	7.2%	12.3%	14.2%	12.3%	33.3%	30.4%	**29.0%**
PayPal	11.9%	22.2%	24.7%	23.3%	30.6%	18.6%	13.2%	**13.1%**
PushPay	33.2%	52.7%	52.7%	30.9%	30.9%	9.3%	9.3%	**-**
Salesforce	30.2%	28.9%	20.1%	19.9%	22.6%	23.1%	26.6%	**25.9%**
Sea	103.2%	102.2%	98.7%	101.6%	146.7%	158.6%	121.8%	**105.7%**
Shopify	46.7%	97.3%	96.5%	93.6%	110.3%	56.7%	46.4%	**41.1%**
Starbucks	-4.9%	-38.1%	-8.1%	-4.9%	11.2%	77.6%	31.3%	**19.3%**
Teladoc*	114.6%	124.7%	109.3%	145.0%	150.9%	108.7%	80.6%	**44.6%**
Tencent	26.4%	29.3%	29.0%	26.4%	25.2%	20.3%	13.5%	**7.9%**
Tesla	31.8%	-4.9%	39.2%	45.5%	73.6%	98.1%	56.8%	**64.9%**
Trade Desk	32.8%	-12.8%	31.6%	48.1%	36.8%	100.9%	39.3%	**23.7%**
Tractor Supply	7.5%	34.9%	31.4%	31.3%	42.5%	13.4%	15.8%	**15.3%**
TSMC	42.0%	28.9%	21.6%	14.0%	16.7%	19.8%	16.3%	**21.2%**
Twilio	56.5%	45.7%	51.8%	65.5%	61.7%	66.9%	65.2%	**53.8%**
Upstart	226.3%	-46.6%	32.1%	38.1%	70.8%	1,307.7%	249.5%	**251.6%**
Veeva Systems	37.7%	32.5%	34.4%	27.4%	28.6%	28.8%	26.1%	**22.4%**
Visa	6.6%	-17.2%	-16.9%	-6.1%	-2.1%	26.7%	28.6%	**24.1%**
Wise	-	50.6%	42.1%	40.6%	28.2%	43.1%	25.4%	**33.9%**
Wix	23.9%	27.3%	29.2%	38.1%	40.8%	34.0%	26.2%	**16.2%**
Zoom	169.0%	355.0%	366.5%	368.8%	191.4%	54.0%	35.2%	**21.4%**

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 8 (**note the high revenue growth rates for every quarter**):

Table 9

Simple averages for revenue growth from year ago in a certain quarter	Compounder Fund current portfolio	Compounder Fund current portfolio (exclude Adyen and TSMC)	Compounder Fund current portfolio (exclude Adyen and TSMC, include a2 Milk and Afterpay)
Q1 2020	37.3%	37.4%	38.6%
Q2 2020	35.0%	35.3%	36.5%
Q3 2020	45.3%	46.1%	45.8%
Q4 2020	47.1%	48.2%	47.7%
Q1 2021	57.5%	58.6%	56.8%
Q2 2021	78.7%	80.6%	77.9%
Q3 2021	39.9%	40.2%	39.7%
Q4 2021	**35.6%**	**35.6%**	**35.2%**

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 excellent year-on-year revenue growth of 35.6% (this is a simple average) in the fourth-quarter of 2021**, **and this continues from the strong revenue growth rates seen in prior quarters going back to 2020**. Table 10 below gives perspective on the far-superior growth rates for Compounder Fund's holdings compared to the S&P 500.

Table 10

Simple averages for revenue growth from year ago in a certain quarter	S&P 500	Compounder Fund current portfolio	Compounder Fund current portfolio (exclude Adyen and TSMC)	Compounder Fund current portfolio (exclude Adyen and TSMC, include a2 Milk and Afterpay)
Q1 2020	Around -2%	37.3%	37.4%	38.6%
Q2 2020	Around -10%	35.0%	35.3%	36.5%
Q3 2020	Around -2%	45.3%	46.1%	45.8%
Q4 2020	Around -0.5%	47.1%	48.2%	47.7%
Q1 2021	Around 10%	57.5%	58.6%	56.8%
Q2 2021	Around 25%	78.7%	80.6%	77.9%
Q3 2021	16.6%	39.9%	40.2%	39.7%
Q4 2021	**16.1%**	**35.6%**	**35.6%**	**35.2%**

Source: **Yardeni Research** *for S&P 500 data (data for S&P 500 is as of 4 April 2022; revenue growth rate for Compounder Fund is a simple average of the revenue growth from the fund's holdings, as specified)*

Similar to what I've been saying in Compounder Fund's past quarterly letters, Jeremy and I continue to think there's a high chance that the 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 fourth quarter of 2021. Table 11 below shows the revenue growth for each company that's currently in the portfolio (the 50 companies in Table 4) for the quarter as well as the change in their free cash flow margins for the period. **During the fourth quarter of 2021, the simple-average free cash flow margin for all the fund's current holdings was 22.5%, down from 26.1% 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 a few reasons. First, the decline was not significant; for perspective, a company that grew revenue at 35.6%, but saw a fall in the free cash flow margin from 26.1% to 22.5%, would still have *increased* its free cash flow by 16.9%. 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 and third quarters of 2021 from a year ago). Third, quarterly cash flows can vary considerably due to the timings of working capital changes and capital expenditures. We think the average free cash flow margin for Compounder Fund's current crop of portfolio companies can easily grow to 25% or more over time and be maintained at that level.

Table 11

Company	Revenue growth in Q4 2021 from a year ago	Free cash flow margin in Q4 2021	Free cash flow margin in Q4 2020
Activision Blizzard	-10.4%	29.6%	46.3%
Adobe	9.1%	38.5%	43.2%
Adyen	46.7%	58.3%	58.3%
Alphabet	32.4%	24.1%	29.6%
Alteryx	8.3%	15.3%	28.9%
Amazon	9.4%	2.3%	12.4%
Apple	11.2%	35.6%	31.6%
ASML	17.2%	122.9%	102.6%
Block	29.1%	3.4%	-4.4%
Chipotle Mexican Grill	22.0%	16.1%	-0.7%
Costco	15.9%	-0.6%	-1.2%
Coupang	33.5%	-7.3%	-4.0%
Datadog	83.7%	32.7%	9.4%
dLocal	120.1%	47.9%	105.2%
DocuSign	34.8%	12.1%	10.2%

Table 11 (continued from above)			
Company	**Revenue growth in Q4 2021 from a year ago**	**Free cash flow margin in Q4 2021**	**Free cash flow margin in Q4 2020**
Etsy	16.2%	39.0%	38.8%
Fiverr	42.7%	9.5%	6.6%
Haidilao	11.5%	-	-
Illumina	25.7%	17.7%	36.1%
Intuitive Surgical	16.7%	26.9%	42.6%
Markel	18.9%	-	-
Mastercard	26.6%	55.8%	50.3%
Medistim	19.7%	37.1%	14.1%
Meituan Dianping	30.6%	-	-
MercadoLibre	60.5%	25.6%	12.8%
Meta Platforms	19.9%	36.3%	33.6%
Microsoft	20.1%	15.0%	18.4%
MongoDB	55.8%	7.0%	-10.4%
Netflix	16.0%	-7.4%	-4.3%
Okta	63.2%	1.3%	13.8%
Paycom Software	29.0%	18.3%	14.6%
PayPal	13.1%	22.4%	18.3%
PushPay	-	-	-
Salesforce	25.9%	24.8%	34.8%
Sea	105.7%	-	-
Shopify	41.1%	17.0%	24.4%
Starbucks	19.3%	18.1%	22.4%
Teladoc	44.6%	10.9%	-32.2%
Tencent	7.9%	23.3%	20.7%
Tesla	64.9%	15.6%	17.3%
The Trade Desk	23.7%	38.2%	46.7%
Tractor Supply	15.3%	0.6%	8.9%
TSMC	21.2%	32.6%	47.1%
Twilio	53.8%	-7.0%	0.2%
Upstart	251.6%	-5.5%	77.5%
Veeva Systems	22.4%	10.3%	17.2%
Visa	24.1%	57.5%	59.0%
Wise	33.9%	-	-
Wix	16.2%	2.2%	8.2%

Table 11 (continued from above)			
Company	**Revenue growth in Q4 2021 from a year ago**	**Free cash flow margin in Q4 2021**	**Free cash flow margin in Q4 2020**
Zoom	21.4%	17.3%	42.7%
Simple average	**35.6%**	**22.5%**	**26.1%**

Source: Companies' earnings updates

(As of the publication of this letter, there's no quarterly free cash flow data available for Haidilao, Meituan Dianping, Pushpay, Sea, and Wise for the fourth 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.

Near the beginning of this letter, I mentioned that I will have more to share on the stark differences between the excellent business performances of Compounder Fund's holdings and their declining stock prices. Table 12 below shows a few things for the period from 31 December 2021 to 31 March 2022 for the fund's current crop of 50 companies: The change in their trailing revenues-per-share; the change in their trailing P/S, or 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 heavily reinvesting in their businesses for future growth. As a result, they are currently deliberately loss-making, have negative free cash flow, or have low profit and/or free cash flow margins.

Table 12

Company	Trailing revenue per share on 31 Dec 2021	Trailing revenue per share on 31 Mar 2022	P/S ratio on 31 Dec 2021	P/S ratio on 31 Mar 2022	Trailing revenue per share change from 31 Dec 2021 to 31 Mar 2022	P/S ratio change from 31 Dec 2021 to 31 Mar 2022	Stock price change from 31 Dec 2021 to 31 Mar 2022
Activision Blizzard	US$11.55	US$11.26	5.8	7.1	-2.5%	23.5%	20.4%
Adobe	US$32.82	US$33.98	17.3	13.4	3.6%	-22.4%	-19.7%
Adyen	€26.91	€32.65	85.9	55.4	21.3%	-35.5%	-21.7%
Alphabet	US$352.09	US$380.18	8.2	7.3	8.0%	-11.1%	-4.0%
Alteryx	US$7.79	US$7.98	7.8	9.0	2.4%	15.4%	18.2%
Amazon	US$890.98	US$921.22	3.7	3.5	3.4%	-5.4%	-2.2%
Apple	US$21.69	US$22.90	8.2	7.6	5.6%	-6.9%	-1.7%
ASML	€42.85	€45.35	16.3	13.3	5.8%	-18.6%	-16.1%
Block	US$32.18	US$35.2	5.0	3.9	9.4%	-23.2%	-16.0%

Table 12 (continued from above)

Company	Trailing revenue per share on 31 Dec 2021	Trailing revenue per share on 31 Mar 2022	P/S ratio on 31 Dec 2021	P/S ratio on 31 Mar 2022	Trailing revenue per share change from 31 Dec 2021 to 31 Mar 2022	P/S ratio change from 31 Dec 2021 to 31 Mar 2022	Stock price change from 31 Dec 2021 to 31 Mar 2022
Chipotle Mexican Grill	US$252.25	US$264.71	6.9	6.0	4.9%	-13.8%	-9.5%
Costco	US$456.78	US$472.66	1.2	1.2	3.5%	-2.0%	1.4%
Coupang	US$9.81	US$10.50	3.0	1.7	7.1%	-43.8%	-39.8%
Datadog	US$2.86	US$3.33	62.4	45.5	16.5%	-27.0%	-15.0%
dLocal	US$0.67	US$0.79	53.6	39.6	18.6%	-26.2%	-12.4%
DocuSign	US$9.99	US$10.71	15.3	10.0	7.3%	-34.4%	-29.7%
Etsy	US$15.28	US$15.88	14.3	7.8	3.9%	-45.4%	-43.2%
Fiverr	US$7.61	US$8.28	14.9	9.2	8.7%	-38.5%	-33.1%
Haidilao	RMB7.35	RMB7.74	2.0	1.6	5.3%	-17.7%	-12.7%
Illumina	US$28.72	US$29.97	13.2	11.7	4.3%	-12.0%	-8.2%
Intuitive Surgical	US$15.03	US$15.54	23.9	19.4	3.4%	-18.8%	-16.0%
Markel	US$726.68	US$760.38	1.7	1.9	4.6%	14.3%	19.5%
Mastercard	US$17.90	US$19.04	20.1	18.8	6.4%	-6.5%	-0.5%
Medistim	NOK22.11	NOK23.12	16.6	11.4	4.6%	-31.6%	-28.4%
Meituan	RMB28.12	RMB29.67	6.5	4.2	5.5%	-35.1%	-31.0%
Mercado Libre	US$126.34	US$141.95	10.7	8.4	12.4%	-21.5%	-11.8%
Meta Platforms	US$39.06	US$42.13	8.6	5.3	7.9%	-38.7%	-33.9%
Microsoft	US$23.29	US$24.45	14.4	12.6	5.0%	-12.7%	-8.3%
MongoDB	US$12.21	US$13.53	43.4	32.8	10.9%	-24.4%	-16.2%
Netflix	US$62.90	US$65.22	9.6	5.7	3.7%	-40.0%	-37.8%
Okta	US$7.90	US$8.78	28.4	17.2	11.2%	-39.4%	-32.7%
Paycom Software	US$17.04	US$18.14	24.4	19.1	6.5%	-21.6%	-16.6%
PayPal	US$20.70	US$21.39	9.1	5.4	3.4%	-40.7%	-38.7%
PushPay	US$0.17	US$0.17	5.3	4.7	0.0%	-10.4%	-13.1%
Salesforce	US$25.92	US$27.20	9.8	7.8	5.0%	-20.4%	-16.5%
Sea	US$15.79	US$18.69	14.2	6.4	18.4%	-54.8%	-46.5%

Table 12 (continued from above)							
Company	**Trailing revenue per share on 31 Dec 2021**	**Trailing revenue per share on 31 Mar 2022**	**P/S ratio on 31 Dec 2021**	**P/S ratio on 31 Mar 2022**	**Trailing revenue per share change from 31 Dec 2021 to 31 Mar 2022**	**P/S ratio change from 31 Dec 2021 to 31 Mar 2022**	**Stock price change from 31 Dec 2021 to 31 Mar 2022**
Shopify	US$33.08	US$36.21	41.6	18.7	9.5%	-55.2%	-50.9%
Starbucks	US$24.51	US$25.80	4.8	3.5	5.3%	-26.1%	-22.2%
Teladoc	US$11.94	US$12.95	7.7	5.6	8.5%	-27.6%	-21.4%
Tencent	RMB56.67	RMB57.71	6.6	5.2	1.8%	-20.2%	-18.1%
Tesla	US$41.72	US$47.42	25.3	22.7	13.7%	-10.3%	2.0%
The Trade Desk	US$2.25	US$2.40	40.7	28.9	6.6%	-29.1%	-24.4%
Tractor Supply	US$105.79	US$109.92	2.3	2.1	3.9%	-5.9%	-2.2%
TSMC	NT291.37	NT306.15	11.4	9.8	5.1%	-14.8%	-13.3%
Twilio	US$14.75	US$16.32	17.9	10.1	10.6%	-43.4%	-37.4%
Upstart	US$6.70	US$8.95	22.6	12.2	33.7%	-46.1%	-27.9%
Veeva Systems	US$10.83	US$11.41	23.6	18.6	5.3%	-21.0%	-16.8%
Visa	US$11.02	US$11.8	19.7	18.8	7.1%	-4.5%	2.3%
Wise	£0.47	£0.51	16.1	9.8	7.8%	-39.3%	-34.6%
Wix	US$21.48	US$22.27	7.3	4.7	3.7%	-36.1%	-33.8%
Zoom	US$12.79	US$13.41	14.4	8.7	4.8%	-39.2%	-36.3%
Simple average	-	-	**17.0**	**12.1**	**7.3%**	-	-

Source: Companies' earnings updates

What Table 12 highlights: **Compounder Fund's businesses have performed well over the past quarter (nearly all of them saw growth in their trailing revenues per share for 31 March 2022 compared to 31 December 2021), but the stock prices of many of them have fared poorly because of large declines in their P/S ratios**.

The lower P/S ratios lead to falling stock prices, which is not a pleasant experience. **But there's also a silver lining: There is *better value* for all of us as investors**. As of 31 March 2022, the companies currently in Compounder Fund's portfolio **have an average trailing P/S ratio of 12.1, and an average trailing free cash flow margin of 19.5%, which equates to an average P/FCF ratio of 62**. If Compounder Fund's companies had a free cash flow margin of 25% today - what we think they would achieve or exceed, eventually - **the implied P/FCF ratio would be even lower at 48**. For perspective, the implied P/FCF ratio of 48 comes from a group of companies - Compounder Fund's current portfolio - that produced impressive revenue growth rates of 45.8% and 35.6%, on average, for the whole of 2021 and the fourth quarter of 2021, respectively.

Investing thoughts: Dealing with negative emotions while investing

In a number of past Compounder Fund quarterly letters, I've been sharing ways for all of us to better handle the inherent volatility found in stock prices. They are:

- The "*Investing thoughts: Equanimity"* section of the **2021 first-quarter letter**;
- The "*Investing thoughts: The need for patience"* section of the **2021 third-quarter letter**;
- and the "*Investing thoughts: Equanimity and patience"* section of the **2021 fourth-quarter letter**

These discussions are important because they can help align all of you with the investing approach that Jeremy and I are taking and in turn, help us produce the behavioural edge that I mentioned near the beginning of this letter. **I - together with Jeremy - want to thank all of you again for your patience and mental fortitude in a period of volatility. Your actions (or rather, in-action!) have continued to shape Compounder Fund's behavioural edge in a highly positive way.**

Jeremy and I recently had the privilege of physically meeting one of Compounder Fund's overseas-investors. During the conversation, the investor shared that my frequent discussions about the behavioural aspects of long-term investing in the quarterly letters have had a positive impact on her own investing behaviour. Because of this, I think it's important for me to continue writing about this topic from time to time in the quarterly letters.

In a recent **podcast** with *The Investor's Podcast Network* (a family of podcasts that Jeremy and I enjoy), Joel Greenblatt discussed how he deals with negative emotions when he's investing. I think it's worthwhile sharing Greenblatt's thoughts in this letter for two reasons: (1) Greenblatt's words resonated with me; and (2) he is an investor with a **phenomenal long-term track record**, so it's worth learning from him. During the podcast, the host William Green (author of the wonderful investing book ***Richer, Wiser, Happier***) asked Greenblatt how he handled his emotions. This is part of Greenblatt's response:

> "I'm not saying you can completely defeat the emotions that are involved and those emotions are very strong… If you don't know what you own, if you don't know how to value a business, you're just going to react to the emotions, because you don't actually understand what you own. But if you actually understand what you own, and the premise that you bought those things with is still intact, that's actually the only way I think you can deal with the emotion, because you realize what you own is still good."

Greenblatt's words struck a chord with me because knowing what we own has also been a critical way for Jeremy and me to keep an even keel in the face of falling stock prices. In the 2021 fourth-quarter letter, I wrote:

> "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."

To help all of you know what Compounder Fund owns, Jeremy and I have been diligently sharing: (1) detailed investment theses for all the fund's holdings; (2) the exact composition of Compounder Fund's portfolio; and (3) our investing actions in each quarter. We hope that this consistent sharing helps you know what *you* own, and in turn, helps you develop or strengthen the equanimity and patience necessary for the long-term investing approach we're taking.

My long-time friend, Chin Hui Leong, who's a co-founder of the online investment education portal **The Smart Investor**, recently showed me a quote from the 1979 film ***Being There*** that analogises beautifully to investing:

> "In the garden, growth has its seasons. First comes spring and summer, but then we have fall and winter. And then we get spring and summer again.
>
> As long as the roots are not severed, all is well. And all will be well in the garden."

The fact that Compounder Fund's investment garden appears so far to be withering is not lost on Jeremy and me. There's no guarantee that the garden will become lush and green - nothing is ever certain in the investing world. But we have the confidence it would, eventually. The roots in the investment garden of Compounder Fund - the health of its underlying businesses - are alive and well. They're not severed. In the years ahead, all of us will likely be able to reminisce about today and think… "All was indeed well in our garden."

Investing thoughts: China's future economic growth (and investing in the country)

A few months ago, a friend of mine, who's an impressive investor working in a multi-billion-dollar fund management company, introduced me to the book, ***China's Crisis of Success***. The book, published in 2018, is written by William Overholt, Senior Research Fellow at Harvard University. Overholt correctly foresaw the rise of China over the past two-plus decades in his aptly-titled 1993 book, ***The Rise of China***. Given that Compounder Fund has investments in Chinese companies, I was curious to know what Jeremy and I could learn about the potential future of China from Overholt's 2018 book. Below are the key takeaways I have from *China's Crisis of Success*:

- There are a number of Asian countries - including South Korea, Taiwan, and a few others - that experienced decades of remarkable economic growth beginning in the 1960s. This growth helped to lift large swathes of their populations from poverty and made the countries prosperous.

- These countries, collectively termed the “Asia Miracles” by Overholt, all had a number of similar traits near the start of their growth spurt. Their respective governments: (a) ruled with an iron fist, with an emphasis on tough implementations of radical economic and social reforms; (b) deeply feared their country’s collapse, a fear shared by their citizens who also harboured a strong sense of a common national identity; and (c) partook in strong central planning of their respective economies.
- As the economies of the Asia Miracles grew over the years, the countries reached an inflection point. The collective fear of societal collapse that gripped their citizenry dissipated. The citizens, now wealthier, more knowledgeable, and more confident of their countries’ future, also grew increasingly frustrated with the “rule with an iron fist” approach by their respective governments. The economies meanwhile, became too complex for the governments to control via central planning.
- Upon reaching their inflection points, the Asia Miracles started liberalising, both politically and economically. Not liberalising would have been a major risk to the Asia Miracles’ future prosperity and continued development. Within the Asia Miracles, a style of governance with much stronger democratic elements emerged, while their economies were increasingly allowed to develop from the bottom-up through the private sector.
- Beginning from Deng Xiaoping’s regime that started in the late 1970s, China embarked on a path of economic and political development that was similar to the Asia Miracles at the start of their growth spurts. As a result, a significant majority of China’s citizens were elevated from the sufferings of poverty over the past few decades, and the country’s economy grew to become a global behemoth.
- But as China grew over the years, it started reaching its inflection point around a decade or so ago, coinciding with Xi Jinping’s ascension to the foremost political leadership role in the country. Xi’s administration has a well thought-out plan for economic reform that emphasises market allocation of resources, but there’s still a really strong element of central-control. On political liberalisation, there does not seem to be much signs that Xi’s administration is loosening its grip. How Xi’s administration reacts to China’s need for both political and economic liberalisation will have a heavy influence on how bright or dim China’s future is.

We’re not taking *China’s Crisis of Success* as the authoritative framework for analysing China’s past successes and future growth. But we think it is a well-written book with thought-provoking ideas that we find to be logical.

Interestingly, there’s another book - ***The Other Half of Macroeconomics and the Fate of Globalisation*** written by economist Richard C. Koo and also published in 2018 - that shares a thread with *China’s Crisis of Success.* **This thread is the idea that China’s future economic growth depends heavily on the Chinese government’s willingness and ability to relinquish central-control of the country’s economy.** I first came across Koo’s book in early-2020 from a Mandarin summary and review that was written by investor Li Lu. I thought Li’s Mandarin essay was brilliant and in April 2020, I published my self-directed English translation on *The Good Investors* (the investment blog I share with Jeremy) titled ***China’s Future: Thoughts From Li Lu, A China Super Investor***. Here are the passages from my translation that are relevant for this discussion:

> "In the Golden Era, the crucial players are entrepreneurs and individual consumers. The focus and starting point for all policies should be on the following: (1) strengthening the confidence of entrepreneurs; (2) establishing market rules that are cleaner, fairer, and more standardised; (3) reducing the control that the government has over the economy; and (4) lowering taxes and economic burdens. Monetary policy will play a crucial role at this juncture, based on the experiences of many other developed countries during their respective Golden Eras.
>
> During the first stage of development, China's main financial policy system was based on an indirect financing model. It's almost a form of forced savings on a large scale, and relied on government-controlled banks to distribute capital (also at a large scale) at low interest rates to manufacturing, infrastructure, exports and other industries that were important to China's national interests. This financial policy was successful in helping China to industrialise rapidly.
>
> At the second stage of development, the main focus should be this: How can society's financing direction and methods be changed from one of indirect financing in the first stage to one of direct financing, so that entrepreneurs and individual consumers have the chance to play the key borrower role?"

Since the publication of both Overholt and Koo's books, there are signs that Xi's administration has tightened its control over the country's economy. A good example, in our view, would be the **well-documented** regulatory changes in China's business landscape seen over the past year or so, some of which I discussed in the "*Investing thoughts: Investing in China"* section of Compounder Fund's **2021 third-quarter letter**. Meanwhile, on the political front, Xi's administration does not seem to have introduced any substantial measures to enable a relatively less-repressive political environment to develop (do note: we are far from being experts on politics!). Given these, China's long run future seems less bright to us than before we had been exposed to the two books.

To be clear, Jeremy and I do not make investment decisions on any individual company based on predictions about the economy and/or politics of the countries the company is heavily exposed to. We're not economists nor political experts. Moreover, big winners in the stock market can appear even in a stagnant economy (see paragraph below). But the potential performance of a country's economy and the stability of its political environment helps us to calibrate the growth opportunities a company has. With this in mind, our stance on Chinese companies remains the same as what I described in the "*Investing thoughts: Investing in China*" section of our 2021 third-quarter letter: We like Chinese companies but our comfort level with them was never high enough for them to be a significant part of Compounder Fund's portfolio, and this comfort level is now even lower than when the fund was launched.

(A great example of a winning stock in a low-growth economy is Fast Retailing, a company headquartered and listed in Japan. Fast Retailing is the parent of fashion brand *Uniqlo* (Jeremy and I are big fans of the brand!). From the start of 2005 to the end of 2020, the company's yen-denominated stock price increased by 1,066%, or 16.6% per year. This was driven by a 11.7% annual increase in revenue from ¥384.0 billion in FY2005 (fiscal year ended 31 August 2005), when Fast Retailing earned nearly all of its revenue in Japan, to

¥2,008.8 billion in FY2020, when at least 40% of Fast Retailing's revenue was from Japan. Over the same period, Japan's GDP (gross domestic product) inched up from ¥2,117 trillion to ¥2,151 trillion - for an annual growth rate of merely 0.1% - according to data from the Federal Reserve Bank of St. Louis.)

Portfolio management thoughts: A company we're watching (part 2)

The first time I wrote about a company Jeremy and I are watching was in Compounder Fund's **2021 fourth-quarter letter** in the "*Portfolio management thoughts: A company we're watching*" section. To recap:

> "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."

In here, I will write about Kaspi, which Jeremy and I placed on our watch list late last year. Following the discussion of Planet in the 2021 fourth-quarter letter, I hope my sharing on Kaspi can further enhance your understanding of the investment work we do for Compounder Fund.

I first learnt about Kaspi in August 2021 from Mario Gabriele. He had published an **excellent profile** of the company for his business and investing newsletter *The Generalist.* After reading his piece, I thought Kaspi was an interesting company and I kept it in the back of my mind. What caught my eye about the company from Gabriele's work:

- Kaspi, which is based in Kazakhstan, runs a **super-app** in the country that (1) facilitates digital payments for merchants and consumers, (2) acts as an e-commerce and mobile commerce platform for merchants to connect with consumers, and (3) provides convenient financing for merchants and consumers.
- Kaspi's super-app had over 10 million users, which was over half of Kazakhstan's 2020 population of 18.75 million, according to the World Bank. The capabilities of Kaspi's super-app, along with its wide-reach with the country's population, meant that Kaspi is effectively the PayPal (digital payments), Amazon (e-commerce), and neo-bank (fintech) of Kazakhstan, all rolled into one. The integration of these capabilities into one super-app comes with advantages; for example, a consumer using the e-commerce platform of Kaspi can pay with Kaspi and also utilise Kaspi's financing solutions. The super-app also likely makes the lives of Kazakhstan's citizens better with the convenience it provides.
- Long-time CEO Mikheil Lomtadze (he assumed the role in 2007) has an impressive track record of innovation with Kaspi. When Lomtadze became CEO, the company

was a bank that focused on commercial customers. He quickly shifted Kaspi's focus from commercial banking to retail banking; by 2012, Kaspi had issued 1 million credit cards in Kazakhstan, becoming the largest credit card issuer in the country. But Lomtadze again decided to change tack. He wanted Kaspi to be well-loved by consumers, but its retail banking services did not pass muster. So, Lomtadze ended Kaspi's credit card business. In 2014, Kaspi launched its e-commerce business, and the first-incarnation of the super-app was introduced in 2017.

A few months after reading Gabriele's profile of Kaspi, I came across a tweet on the company (unfortunately I can't find it on Twitter anymore). It was a screenshot of the company's financials for the third quarter of 2021 and it showed Kaspi's impressive growth. This - along with what I had previously learnt about Kaspi from Gabriele's work - piqued the interest of Jeremy and me and we decided to research Kaspi at a deeper level. Additional things we learnt and like about the company:

- According to Kaspi's IPO prospectus (the company was listed in London's stock market in October 2020), Kazakhstan is a fast-growing economy in the Central Asian region, with inflation-adjusted GDP growth of 4.1% and 4.5% in 2018 and 2019, respectively. The economy is also decently sized, with a GDP of US$181.7 billion in 2019 (for perspective, the World Bank shows Singapore's GDP to be US$374.4 billion in the same year). Smartphone usage is high too in Kazakhstan; in 2019, there were 19.2 million smartphone connections in the country.
- Table 13 below shows the remarkable revenue-growth and profitability Kaspi has produced in the past few years.
- Kaspi has three business segments, namely Payments (digital payments), Marketplace (e-commerce and mobile commerce), and Fintech (financing for merchants and consumers). All three have done really well over the past few years, as Table 14 illustrates. In particular, the revenue and net income growth rates of the Payments and Marketplace segments have been exceptional.
- Kaspi has leading market share in its key services and products, but still has room for growth. In Payments, Kaspi's processed payment volume in 2020 was 69% of the total digital transactions in Kazakhstan. In Marketplace, Kaspi's e-commerce gross merchandise volume (GMV) in 2020 was 62% of Kazakhstan's total e-commerce market; the GMV facilitated by Kaspi's Marketplace segment was 7.1% of Kazakhstan's overall retail sales in the same year. In Fintech, it had a 32% share of Kazakhstan's consumer loans market in 2020, and an 18% share of retail deposits.
- Kaspi's impressive financial numbers are driven by strong growth in both usage of and engagement within its super-app; both trends are shown in Table 15 (engagement can be seen in the high and growing daily-active-user to monthly-active-user ratio).

Table 13

Year	Kaspi revenue (KZT, billion)	Kaspi net income (KZT, billion)	Kaspi net income margin	Kaspi revenue growth	Kaspi net income growth
2017	275.8	65.3	23.7%	-	-
2018	375.3	105.5	28.1%	36.1%	61.7%
2019	513.9	193.8	37.7%	36.9%	83.6%
2020	602.9	261.0	43.3%	17.3%	34.7%
2021	884.8	431.9	48.8%	46.8%	65.5%

Source: Kaspi IPO prospectus, annual report, and earnings updates

Table 14

Segmental data for Kaspi	2017	2018	2019	2020	2021
Payments revenue (KZT, billion)	9.6	26.5	66.4	120.9	217.1
Payments net income (KZT, billion)	1.4	6.7	27.9	60.6	126.7
Payments net income growth	**-**	**395%**	**314%**	**117%**	**109%**
Marketplace revenue (KZT, billion)	12.2	25.0	45.0	66.0	153.6
Marketplace net income (KZT, billion)	5.8	14.6	28.2	38.6	99.7
Marketplace net income growth	**-**	**151%**	**94%**	**37%**	**158%**
Fintech revenue (KZT, billion)	254.0	323.8	402.5	454.5	566.1
Fintech net income (KZT, billion)	64.1	89.8	141.0	164.2	208.8
Fintech net income growth	**-**	**40.1%**	**57.0%**	**16.4%**	**27.2%**

Source: Kaspi IPO prospectus, annual report, and earnings updates

Table 15

Time period	Kaspi mobile app monthly active users (million)	Kaspi mobile app daily active users (million)	Kaspi mobile app daily active user to monthly active user ratio
Year 2017	1.1	0.2	19%
Year 2018	3.1	0.9	28%
Year 2019	6.0	2.0	34%
Q1 2020	6.2	2.7	44%
Q2 2020	7.8	3.6	46%
Q3 2020	8.5	4.3	51%
Q4 2020	9.1	4.9	54%
Q1 2021	10.0	5.4	54%
Q2 2021	10.2	6.0	59%
Q3 2021	10.8	6.5	60%
Q4 2021	11.2	7.0	62%

Source: Kaspi IPO prospectus, annual report, and earnings updates

But as Jeremy and I dove deeper into Kaspi, we also saw aspects about the company that we found troubling. Before I go further, additional background on Kazakhstan is necessary. Kazakhstan was formerly part of the Union of Soviet Socialist Republics (USSR) and it declared independence in December 1991, shortly before the USSR's dissolution. Nursultan Nazarbayev became president of Kazakhstan in April 1990 and held the post till March 2019. Throughout his 29-year tenure as Kazakhstan's foremost political leader, Nazarbayev was plagued by allegations that the country's political elections were neither free nor fair. As he stepped down as president, Nazarbayev hand-picked his successor, Kassym-Jomart Tokayev, and remained as chairman of the country's Security Council, a powerful body that oversees Kazakhstan's military and security forces. Nazarbayev has a nephew named Kairat Satybaldyuly (sometimes spelled Kairat Satybaldy), who is apparently well-liked by Nazarbayev and highly influential in Kazakhstan's business and political landscape.

Coming back to what troubles us about Kaspi, there were a series of head-scratching transactions in the company's shares that occurred a few years before the company's IPO in London in October 2020. Currently, there are three major shareholders of Kaspi: Vyacheslav Kim, Mikheil Lomtadze, and investment funds managed by Baring Vostok. The three parties respectively control around 24%, 23%, and 29% of the company's shares at the moment; based on Kaspi's stock price of US$50 and market capitalisation of US$9.6 billion at the end of March 2022, these stakes are worth around US$2.3 billion, US$2.2 billion, and US$2.8 billion. Kim is a co-founder of Kaspi and chairs the company's Board of Directors while Baring Vostok is a private equity investment firm that has been investing in the countries of the former USSR since 1994. Kim and Lomtadze ended up with their current shareholdings partly because of the aforementioned transactions in Kaspi shares. A November 2020

Forbes article penned by David Dawkins **described** the transactions in detail, but here's a brief overview of what transpired:

- In 2006, Baring Vostok acquired a "substantial interest" in Kaspi and became a joint owner of the company with Kim. Lomtadze, who was working at Baring Vostok back then, became CEO of Kaspi in 2007.
- Apparently, Kairat Satybaldyuly first invested in Kaspi in 2015 and subsequently became one of the company's three largest shareholders together with Baring Vostok and Kim. Throughout 2016 and 2017, Baring Vostok, Kim, Satybaldyuly, and Lomtadze controlled 38.6%, 21.5%, 30.0%, and 10.0% of Kaspi's shares.
- Satybaldyuly then sold all his Kaspi shares in a number of transactions made between July and September 2018 on the Kazakhstan Stock Exchange.
- In the *same* period as Satybaldyuly's sales, Kim bought US$390 million worth of Kaspi shares. In December 2018, Kim transferred Kaspi shares with an estimated worth of US$500 million - roughly 21.6% of Kaspi's total shares - to Lomtadze. The US$500 million transfer of shares was made by Kim in exchange for a "certain non-cash consideration", "pursuant to a long-standing arrangement encompassing their various business interests" that was made in 2007. As part of the same "long-standing arrangement," Kim had also given a 9.9% stake in Kaspi to Lomtadze prior to 2017. At the end of 2018, Baring Vostok, Kim, and Lomtadze had respective control over 35.1%, 33.3%, and 31.6% of Kaspi's shares.
- When asked by Dawkins, Kaspi did not explain how Kim came up with the capital - hundreds of millions of dollars - to buy the company's shares in 2018, nor the details of the arrangement Kim and Lomtadze had made back in 2007.

When we looked at the transactions of Kaspi shares described above and the post-USSR political history of Kazakhstan, we had a few questions:

- First, is Satybaldyuly still a shareholder of Kaspi in the shadows? If this is the case, this does not reflect well on the integrity of Kaspi's management team since the company's IPO prospectus mentioned that Satybaldyuly "ceased to be a shareholder of the Company with effect from 1 October 2018."
- The second and more important question is how much of Kaspi's impressive historical growth was the result of favouritism by Kazakhstan's political elite? Satybaldyuly was a major shareholder of Kaspi for some time and his uncle is Nazarbayev, who served as President of Kazakhstan for 29 years and seemingly had tight control over the country. If Kaspi's growth in the past was largely due to political patronage, what happens if the company incurs the wrath of Nazarbayev, Satybaldyuly and/or other politicians in Kazakhstan for whatever reason?

These questions - which we do not have answers to - are big reasons why Kaspi is merely on our watch list and not in Compounder Fund's portfolio. Recent events in Kazakhstan, though tragic, could provide valuable clues to our questions. In early-January this year, violent protests erupted in Kazakhstan, and thousands were arrested while multiple people died. The protests were sparked by a fuel price hike in the country on New Year's Day and seemed to stem partly from the population's discontent with the alleged corruption and **crony capitalism** practised by Nazarbayev and his circle. As a result of the protests, Nazarbayev was removed as chairman of Kazakhstan's Security Council on 5 January 2022.

During the throes of the protests, there were also rumours that Nazarbayev had fled the country. His nephew, Satybaldyuly, was arrested by the Kazakhstan government in March this year for alleged embezzlement of funds from a state-owned company. With Nazarbayev and his clan seemingly stripped of political power in Kazakhstan, more light could perhaps be shed in the future on the true ownership status of Kaspi shares. The company's business results in the quarters and years ahead could also give Jeremy and me a better picture of the past drivers of the company's success.

House-keeping matters and what's next

In Compounder Fund's 2021 fourth-quarter letter, I mentioned that the 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." The audit process has dragged on for a few weeks longer than we expected, but it should be completed in the coming weeks. When the audit is done and the report's finalised, Jeremy and I will be sending a digital copy of the report 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 are happy to note that the first audit of our giving - also conducted by Baker Tilly - is completed. The first audit covered the period from November 2019 (when we started building the fund) to December 2021; subsequent audits will be conducted on an annual basis. The audit report is available on the fund's website **here**. 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 have released the investment theses for all of Compounder Fund's 50 current holdings (for your convenience, they can be **found here**) except for Adyen and TSMC. As already mentioned, our Adyen and TSMC theses will be published in the coming weeks; our detailed thoughts on why we sold a2 Milk and JD.com will also be published in the months ahead. We will inform you once they are ready.

Compounder Fund's next subscription window will close in the middle of June 2022 and it will have a dealing date on the first business day of July 2022 (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 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 approach that Jeremy and I 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 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 2022 second-quarter investors' letter in mid-July this year. Till then, stay safe and take care!

Excelsior,
Chong Ser Jing
Co-founder and Portfolio Manager, Compounder Fund
13 April 2022

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

Disclaimer

The Information published herein is intended for “Accredited Investors” and/or “Institutional Investors” only as defined in the Singapore Securities & Futures Act (Cap. 289) of Singapore ("SFA"). This Information is provided for informational and discussion purposes only and is not, and may not be relied on in any manner (legal, tax or investment advice) as an offer to sell or a solicitation of an offer to buy or subscribe to any funds managed by Galilee Investment Management Pte. Ltd. ("Galilee"). An offering of interests in the Fund will only be made pursuant to a confidential offering memorandum or similar written material and the Fund’s subscription documents (collectively referred to as the “Material”), which will be furnished to accredited or institutional investors (and their employees and agents) on a confidential basis at their request for their consideration in connection with such offering. None of the information or analyses presented is intended to form the basis for any investment decision, and no specific recommendations are intended. No reliance may be placed for any purpose on the Information provided or the accuracy or completeness thereof and no responsibility can be accepted by Galilee, and/or any of their respective affiliated entities to anyone for any action taken on the basis of such information. Whilst Galilee shall use reasonable efforts to obtain information from sources which we believe to be reliable and up to date, Galilee gives no warranty as to the accuracy, completeness or reliability of any information, opinions or forecasts contained in the Information. No responsibility or liability can be accepted for any errors or omissions or for any loss resulting from the use of the Information. Past performance of the managers and the funds, and any forecasts on the economy, stock or bond market, or economic trends that are targeted by the funds, are not indicative of future performance. Investment in the Fund will involve significant risks, including loss of the entire investment. The Fund will be illiquid, as there is no secondary market for interests in the Fund and none is expected to develop. There will be restrictions on transferring interests in the Fund. Investments may be leveraged and the investment performance may be volatile. Whilst Galilee shall use reasonable efforts to obtain information from sources which we believe to be reliable and up to date, Galilee gives no warranty as to the accuracy, completeness or reliability of any information, opinions or forecasts contained in the Information. No responsibility or liability can be accepted for any errors or omissions or for any loss resulting from the use of the Information. Galilee may update, revise, delete or modify the content and information herein without notice. The material should only be considered current as of the time of initial publication or as otherwise stated in the Material without regard to the date on which you may access the Material. These exclusions of liability do not apply to the extent that such exclusions are invalid or ineffective under any law or regulation applicable to Galilee. Before deciding to invest in the Fund, prospective investors should read the Material and pay particular attention to the risk factors contained in the Material. Investors should have the financial ability and willingness to accept the risk characteristics of the Fund’s investments, including any risk factor, forward looking statements as set out in the Material. Holdings are subject to change at any time.