Compounder Fund Investors' Letter: Third Quarter of 2023

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,

I'm presenting Compounder Fund's 2023 third-quarter investors' letter together with my co-founder Jeremy Chia. During the quarter, Compounder Fund's overall net-of-fee return for the earliest series of its Class A and Class B shares were both -5.0%. Over the same period, the dividend-adjusted Singapore-dollar returns for the [redacted] and the S&P 500 were -2.4% and -2.3%, 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

Time period	Compounder Fund Class A (after fees)	[redacted]	S&P 500**
2020*	11.2%	[redacted]	14.2%
2021	0.9%	[redacted]	31.2%
2022	-44.1%	[redacted]	-18.7%
Q1 2023	16.6%	[redacted]	6.7%
Q2 2023	10.8%	[redacted]	10.3%
Jul 2023	3.8%	[redacted]	1.4%

Table 1 (continued from above)			
Time period	**Compounder Fund Class A (after fees)**	[redacted]	**S&P 500****
Aug 2023	-3.5%	[redacted]	0.2%
Sep 2023	-5.2%	[redacted]	-3.8%
Q3 2023	-5.0%	[redacted]	-2.3%
Year-to-date 2023	23.1%	[redacted]	15.3%
Total return since inception*	-22.9%	[redacted]	40.6%
Annualised return since inception*	-7.8%	[redacted]	11.2%

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

Table 2

Time period	**Compounder Fund Class B (after fees)**	[redacted]	**S&P 500****
2020*	6.8%	[redacted]	8.6%
2021	0.9%	[redacted]	31.2%
2022	-44.1%	[redacted]	-18.7%
Q1 2023	16.6%	[redacted]	6.7%
Q2 2023	10.8%	[redacted]	10.3%
Jul 2023	3.8%	[redacted]	1.4%
Aug 2023	-3.5%	[redacted]	0.2%
Sep 2023	-5.2%	[redacted]	-3.8%
Q3 2023	-5.0%	[redacted]	-2.3%
Year-to-date 2023	23.1%	[redacted]	15.3%
Total return since inception*	-25.9%	[redacted]	33.7%
Annualised return since inception*	-9.5%	[redacted]	10.2%

**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 with 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 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.

At the publication of this letter, it's been more than three years since we started investing Compounder Fund's capital on 13 July 2020. **The results have been poor**. The fund's return has not only been negative since its inception, but it has also substantially underperformed both market indices. The first three quarters of 2023 saw a welcome upswing in the stock prices of the fund's holdings (see Tables 1 and 2) but the fund has yet to fully recover the declines from prior periods. Although most of Compounder Fund's underlying businesses have done well since the fund's inception, their stock prices have not.

Jeremy and I are clear that Compounder Fund exists to ultimately produce a positive *and* healthy return over the long run for all of you, and not merely to invest in stocks with growing businesses. **We understand too that discussion about the fund's underlying businesses can ring empty when their stock prices have fared so poorly**, ***especially*** **when most of the holdings had high valuations when we first invested in them (the valuation numbers can be found in our investment theses for the holdings).** But I have repeatedly emphasised, in our past letters, how our stocks' underlying *businesses* have been doing because what ultimately drives a stock's price over the long run is its business performance. Over the short run, stock prices and business fundamentals can diverge wildly, but they tend to converge with the passing of time. This is a concept that I illustrated in detail on a number of occasions in our past letters, including the "*Equanimity and patience"* section of our **2021 fourth-quarter letter**, the "*An unfortunate but necessary disconnect"* section of our **2022 third-quarter letter**, the introductory section of our **2022 fourth-quarter letter** (in which I also discussed the short- and long-term performance of a stock with a high valuation), and in the "*When genius failed (temporarily)"* section of our **2023 second-quarter letter**.

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

Times like these are not easy for any of you. We know. Charlie Munger - Warren Buffett's long-time right-hand man - was once asked about the lessons he learnt from his investment fund's big losses in 1973 and 1974 (his total loss in that period was 53%). He said:

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

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

Judging our performance

In all our **previous quarterly investors' letters**, I've provided a section discussing how Jeremy and I intend to judge Compounder Fund's performance. In it, I've always shared the following thoughts from Warren Buffett 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."

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

Below, I will reiterate most of the content found in the same section in our previous quarterly letters, because they are still relevant and important.

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. **It will be very disappointing for the both of us too if Compounder Fund fails to beat the ----------------------------and the S&P 500 over a five- to seven-year timeframe. Jeremy and**

I believe that having a thoughtful investment framework to find Compounders, and the willingness and ability to hold the shares of Compounders for years, will likely lead us to long-term market-beating returns. Do note, however, that we harbour *no* illusion that we're able to beat the indices each month, each quarter, or each year. The willingness comes from our ingrained long-term view towards the market. The ability, though, comes from *your* keen understanding of our investment approach.

Some caution is needed here: **The stock market is volatile**. The returns of Compounder Fund in the future will very likely *not* be smooth - this is just how stocks work. And indeed, we've already experienced significant volatility in the results of Compounder Fund since its inception. If the market falls in the future, you should expect Compounder Fund to decline by a similar magnitude or more. But this will likely only be short-term pain. Jeremy and I believe in the long-term potential of the stock market, and especially in the underlying businesses of the stocks in Compounder Fund's portfolio.

Speaking of volatility, I want to discuss the important concept of the 'destination'. I first heard about it from a friend - an incredibly impressive young investor and person - who in turn learnt about it from Nicholas Sleep, one of the best investors I've read about. After retiring in the mid-2010s and initially wanting to be outside the public eye, Sleep published a collection of his investment letters in 2021 on the **website** of his charitable foundation, I.G.Y (do check out his letters - they're a fantastic read). To illustrate the concept, I will need you to 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 Compounder Fund's companies to grow their businesses at high rates over the long run - turn out to be correct. **In this regard, it's been so far, so good, as I'll discuss in the "*Wonderful businesses"* section of this letter**.

Portfolio changes

Compounder Fund's **2023 second-quarter letter** was published on 12 July 2023. In it, I mentioned a few things: (a) all 50 holdings that were in the fund's portfolio at the time; and (b) updates on the acquisition of Activision Blizzard by Microsoft. Since then, we have removed Activision from the portfolio.

We sold Compounder Fund's Activision shares earlier this month for two reasons. First, Activision's stock price had steadily drifted higher since we published our 2023 second-quarter letter and we managed to sell the shares at US$94 apiece, a hair's breadth from the price of US$95 per share offered by Microsoft. We think the gradual climb in Activision's stock price happened partly because of recent positive developments for the deal on the regulatory front. In our 2023 second-quarter letter, I mentioned that the UK's CMA (Competition and Markets Authority) decided in April to prevent the acquisition. In response, Microsoft made changes to the deal's terms to assuage the CMA's concerns. The regulatory body eventually gave preliminary approval for the transaction in September. Second, we wanted capital to add to Compounder Fund's position in Adyen, an existing holding, after a sharp decline in the company's stock price in recent months. I will be discussing the Adyen addition in greater detail in the "*The long-term advantage"* section of this letter.

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. Jeremy and I have successfully closed Compounder Fund's 12th subscription window since its initial offering period (which ended on 13 July 2020) and raised a net amount of S$0.01 million. This new capital, along with part of the proceeds from the sale of Compounder Fund's Activision stake, were deployed quickly in the days after the last subscription window's dealing date of 2 October 2023. Besides the aforementioned addition to Adyen, which was the largest, we also added to two existing Compounder Fund holdings, Meta Platforms and MongoDB. As of this letter's publication, we have released our investment theses on all the 49 companies that are currently in Compounder Fund's portfolio and they can be **found here**. In the future, if and when we add new companies to the portfolio or completely exit any of the fund's holdings, we will be releasing our detailed thoughts for these actions.

Here's how Compounder Fund's portfolio of 49 companies looks like as of 8 October 2023:

Table 4

Company	Weighting	Country/Region of listing	Headquarters
Meta Platforms	7.1%	USA	USA
MercadoLibre	5.7%	USA	Argentina
Microsoft	4.4%	USA	USA
Alphabet	4.2%	USA	USA
Amazon	4.1%	USA	USA
Costco	3.9%	USA	USA
Netflix	3.8%	USA	USA
The Trade Desk	3.6%	USA	USA
Apple	3.6%	USA	USA
Tractor Supply	3.6%	USA	USA
Chipotle Mexican Grill	3.3%	USA	USA
Mastercard	3.0%	USA	USA
Adobe	3.0%	USA	USA
Visa	2.9%	USA	USA
Tesla	2.7%	USA	USA
Intuitive Surgical	2.7%	USA	USA
DataDog	2.6%	USA	USA
Markel	2.4%	USA	USA
ASML	2.4%	USA	Netherlands
Shopify	2.3%	USA	Canada
MongoDB	2.2%	USA	USA
Tencent	2.0%	Hong Kong	China
Veeva Systems	1.8%	USA	USA
Salesforce	1.8%	USA	USA
Starbucks	1.7%	USA	USA
Adyen	1.6%	Netherlands	Netherlands
Medpace	1.5%	USA	USA
PayPal	1.4%	USA	USA
TSMC	1.3%	USA	Taiwan
Medistim	1.2%	Norway	Norway
Wise	1.2%	UK	UK
Etsy	1.1%	USA	USA
Haidilao	1.1%	Hong Kong	China
Hingham	1.0%	USA	USA
Okta	0.9%	USA	USA
Wix	0.9%	USA	Israel

Table 4 (continued from above)			
Company	**Weighting**	**Country/Region of listing**	**Headquarters**
Illumina	0.8%	USA	USA
Meituan	0.8%	Hong Kong	China
Paycom Software	0.7%	USA	USA
Block	0.7%	USA	USA
DocuSign	0.7%	USA	USA
Zoom	0.6%	USA	USA
dLocal	0.6%	USA	Uruguay
Sea	0.3%	USA	Singapore
Fiverr	0.3%	USA	Israel
Upstart	0.2%	USA	USA
Coupang	0.2%	USA	South Korea
Alteryx	0.1%	USA	USA
Super Hi	0.1%	Hong Kong	Singapore
Cash	**0.2%**	**-**	**-**

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

Table 5 below shows the high-level geographical breakdown of Compounder Fund's portfolio as of 8 October 2023:

Table 5

Country/Region	% of Compounder Fund's capital based on country of listing	% of Compounder Fund's capital based on location of headquarters
Argentina	-	5.7%
Canada	-	2.3%
China	-	3.9%
Hong Kong	4.0%	-
Israel	-	1.1%
Netherlands	1.6%	4.0%
Norway	1.2%	1.2%
Singapore	-	0.4%
South Korea	-	0.2%
Taiwan	-	1.3%
UK	1.2%	1.2%
Uruguay	-	0.6%
USA	91.9%	77.9%

Wonderful businesses

Jeremy and I are pleased to report that the companies in Compounder Fund's portfolio have, in aggregate, continued to deliver healthy revenue growth in the second quarter of 2023. Table 6 below shows the year-on-year revenue growth rates for all the 49 companies that are currently in Compounder Fund's portfolio (the ones in Table 4), as well as Activision Blizzard, for the following time periods: The whole of 2020, 2021, and 2022, and the first and second quarters of 2023:

Table 6

Company	2020 revenue growth	2021 revenue growth	2022 revenue growth	Q1 2023 revenue growth	Q2 2023 revenue growth
Activision Blizzard	24.6%	8.9%	-14.5%	34.8%	**34.2%**
Adobe	17.3%	18.0%	11.5%	9.8%	**10.3%**
Adyen	28.1%	46.4%	32.8%	21.5%	**21.5%**
Alphabet	12.8%	41.2%	9.8%	2.6%	**7.1%**
Alteryx	18.5%	8.2%	59.5%	26.1%	**3.9%**
Amazon	37.6%	21.7%	9.4%	9.4%	**10.8%**
Apple	9.9%	28.6%	2.4%	-2.5%	**-1.4%**
ASML	18.3%	33.1%	13.8%	90.9%	**27.1%**
Block	101.5%	86.0%	-0.7%	26.0%	**25.7%**
Chipotle Mexican Grill	7.1%	26.1%	14.4%	17.2%	**13.6%**
Costco	12.8%	17.7%	11.5%	2.0%	**9.5%**
Coupang	90.8%	53.8%	11.8%	13.4%	**15.9%**
Datadog	66.3%	70.5%	62.8%	32.7%	**25.4%**
dLocal	88.4%	134.4%	71.6%	57.0%	**59.3%**
DocuSign	49.2%	45.0%	19.4%	12.3%	**10.5%**
Etsy	110.9%	35.0%	10.2%	10.6%	**7.5%**
Fiverr	77.0%	57.1%	13.3%	1.5%	**5.1%**
Haidilao	7.8%	43.7%	-20.6%	24.6%	**24.6%**
Hingham	27.4%	20.3%	3.6%	-45.4%	**-56.1%**
Illumina	-8.6%	39.7%	1.3%	-11.1%	**1.2%**
Intuitive Surgical	-2.7%	31.0%	9.0%	14.0%	**15.4%**
Markel	17.0%	20.0%	22.1%	8.3%	**7.3%**
Mastercard	-9.4%	23.4%	17.8%	11.2%	**14.0%**
Medistim	-0.2%	17.7%	15.1%	11.3%	**16.9%**
Medpace	7.5%	23.4%	27.8%	31.2%	**31.2%**
Meituan	17.7%	56.0%	22.8%	26.7%	**33.4%**
Table 6 (continued from above)					

Company	2020 revenue growth	2021 revenue growth	2022 revenue growth	Q1 2023 revenue growth	Q2 2023 revenue growth
MercadoLibre	73.0%	77.9%	49.1%	35.1%	**31.5%**
Meta Platforms	21.6%	37.2%	-1.1%	2.6%	**11.0%**
Microsoft	14.7%	20.6%	10.4%	7.1%	**8.3%**
MongoDB	40.0%	48.0%	47.0%	29.0%	**39.6%**
Netflix	24.0%	18.8%	6.5%	3.7%	**2.7%**
Okta	42.5%	55.6%	42.9%	24.8%	**23.0%**
Paycom Software	14.1%	25.4%	30.3%	27.8%	**26.6%**
PayPal	20.7%	18.3%	8.5%	8.6%	**7.1%**
Salesforce	24.3%	24.7%	18.3%	11.3%	**11.4%**
Sea	101.1%	127.5%	25.1%	4.9%	**5.2%**
Shopify	85.6%	57.4%	21.4%	25.2%	**30.8%**
Starbucks	-14.1%	31.0%	8.4%	14.2%	**12.5%**
Super Hi	-5.0%	41.1%	78.7%	31.8%	**31.8%**
Tencent	27.8%	16.2%	-1.0%	10.7%	**11.3%**
Tesla	28.3%	70.7%	51.4%	24.4%	**47.2%**
The Trade Desk	26.5%	43.1%	31.9%	21.4%	**23.2%**
Tractor Supply	27.2%	19.9%	11.6%	9.1%	**7.2%**
TSMC	25.2%	18.5%	42.6%	3.6%	**-10.0%**
Upstart	42.0%	263.6%	-0.7%	-66.8%	**-40.5%**
Veeva Systems	32.7%	26.3%	16.4%	4.2%	**10.5%**
Visa	-8.7%	18.6%	18.5%	11.1%	**11.7%**
Wise	43.9%	32.3%	48.5%	45.3%	**28.8%**
Wix	29.9%	29.0%	9.3%	9.5%	**13.0%**
Zoom	325.8%	54.6%	7.1%	2.9%	**3.6%**

Source: Companies' earnings updates

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

Table 7

Simple averages for revenue growth from year ago	Compounder Fund current portfolio	Compounder Fund current portfolio (including Activision Blizzard)
Q1 2020	35.2%	34.4%
Q2 2020	31.5%	31.7%
Q3 2020	42.4%	42.6%
Q4 2020	44.6%	44.1%
2020	37.7%	37.4%
Q1 2021	55.3%	54.7%
Q2 2021	78.8%	77.6%
Q3 2021	39.1%	38.4%
Q4 2021	35.2%	34.3%
2021	44.4%	43.7%
Q1 2022	29.1%	28.0%
Q2 2022	22.4%	21.4%
Q3 2022	20.5%	19.8%
Q4 2022	16.5%	16.3%
2022	21.1%	20.4%
Q1 2023	14.3%	14.8%
Q2 2023	**14.0%**	**14.4%**

Source: Companies' earnings updates

As I mentioned in the "*Judging our performance"* section of this letter, it's been 'so far, so good' for the business results of Compounder Fund. **The fund's current crop of portfolio companies produced healthy year-on-year revenue growth of 14.0% (this is a simple average) in the second quarter of 2023**, **and this continues from the impressive revenue growth rates seen in prior quarters going back to 2020**. Table 8 below gives perspective on the superior growth rates for Compounder Fund's holdings compared to the S&P 500.

Table 8

Simple averages for revenue growth from year ago in a certain quarter	S&P 500	Compounder Fund current portfolio	Compounder Fund current portfolio (including Activision Blizzard)
Q1 2020	Around -2%	35.2%	34.4%
Q2 2020	Around -10%	31.5%	31.7%
Q3 2020	Around -2%	42.4%	42.6%
Q4 2020	Around -0.5%	44.6%	44.1%
Q1 2021	Around 10%	55.3%	54.7%
Q2 2021	Around 25%	78.8%	77.6%
Q3 2021	16.6%	39.1%	38.4%
Q4 2021	16.1%	35.2%	34.3%
Q1 2022	13.4%	29.1%	28.0%
Q2 2022	11.9%	22.4%	21.4%

Table 8 (continued from above)			
Simple averages for revenue growth from year ago in a certain quarter	**S&P 500**	**Compounder Fund current portfolio**	**Compounder Fund current portfolio (including Activision Blizzard)**
Q3 2022	12.1%	20.5%	19.8%
Q4 2022	6.9%	16.5%	16.3%
Q1 2023	7.9%	14.3%	14.8%
Q2 2023	**6.1%**	**14.0%**	**14.4%**

Source: Yardeni Research for S&P 500 (data for S&P 500 is as of 27 September 2023; revenue growth rate for Compounder Fund is a simple average of the revenue growth from the fund's holdings)

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

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

This indeed came to pass, although we were pleasantly surprised that the growth rate stepped down only slightly. During the second quarter of 2023, Compounder Fund's portfolio companies produced an average year-on-year revenue growth rate of 14.0%, compared to 14.3% in the first quarter. Moreover, the growth rate of 14.0% is decent and comfortably exceeds the S&P 500's corresponding revenue growth of 6.1%. But we do acknowledge that it is a significant deceleration from what was achieved throughout 2021 and 2022. The good thing is that 28 companies in Compounder Fund's current portfolio saw higher year-on-year revenue growth in the second quarter of 2023 compared to the first quarter. More importantly, we invested in the companies that are currently in Compounder Fund's portfolio because their businesses are riding on - or creating - durable and lasting long-term trends. This means they still have massive market opportunities to grow into over the long run (you can read about this in detail in our investment theses for each company).

It's possible that Compounder Fund's holdings will continue to post relatively-slow revenue growth in the next few quarters. But consistent with what I've been sharing in our past quarterly letters, Jeremy and I continue to think there's a high chance that the fund's portfolio companies will, in aggregate, produce pleasing year-on-year revenue growth in the years ahead. **And if these companies can sustain average annual revenue growth of around 20-25% in aggregate for the next five to seven years, *while producing healthy free cash flow* (an important requisite!)*,* we believe it will be exceedingly difficult for Compounder Fund's portfolio to *not* do well over the same timeframe and when measured from the fund's inception**. We're excited to see what the future brings.

Speaking of free cash flow, we're really pleased that Compounder Fund's holdings managed to strengthen their cash flow muscles in the second quarter of 2023. Table 9 below shows two things for each company that's currently in the portfolio, as well as for Activision Blizzard: (1) their revenue growth for the quarter, and (2) the change in their free cash flow margins for the period. **During the second quarter of 2023, the simple-average free cash flow margin for all the fund's current holdings was 20.9%, up from 12.8% a year ago** (when Upstart's outlier numbers are removed, the self-same figures are 18.7% and 13.7%, respectively, which is still a material year-on-year improvement). Unlike a number of previous quarters where Compounder Fund's holdings saw a year-on-year decline in their average free cash flow margin (the margin fell in the second, third, and fourth quarters of 2021, and each quarter in 2022), the second quarter of 2023 followed a similar path as the first quarter of 2023, where the free cash flow margin was 18.9%, up from 14.1% a year ago. We look forward to seeing continued improvements over time in the free cash flow margins of the companies in Compounder Fund's portfolio. Given the nature and track records of these companies, we continue to think that their long-term average free cash flow margin can grow to around 25% eventually and be maintained at that level.

Table 9

Company	Revenue growth in Q2 2023 from a year ago	Free cash flow margin in Q2 2023	Free cash flow margin in Q2 2022
Activision Blizzard	34.2%	25.7%	9.8%
Adobe	10.3%	36.4%	35.4%
Adyen	21.5%	35.7%	52.0%
Alphabet	7.1%	28.9%	16.5%
Alteryx	3.9%	-20.8%	-39.8%
Amazon	10.8%	3.7%	-5.6%
Apple	-1.4%	29.7%	25.1%
ASML	27.1%	-2.3%	42.6%
Block	25.7%	1.5%	-3.6%
Chipotle Mexican Grill	13.6%	17.7%	8.4%
Costco	9.5%	2.7%	1.7%
Coupang	15.9%	7.6%	-4.0%
Datadog	25.4%	27.8%	14.8%
dLocal	59.3%	83.5%	30.5%
DocuSign	10.5%	26.7%	17.0%
Etsy	7.5%	20.4%	20.1%
Fiverr	5.1%	20.5%	7.1%
Haidilao	24.6%	25.5%	13.6%
Hingham	-56.1%	-	-
Illumina	1.2%	4.9%	4.6%
Intuitive Surgical	15.4%	27.3%	20.0%
Markel	7.3%	-	-
Mastercard	14.0%	38.8%	40.9%
Medistim	16.9%	18.6%	22.4%
Medpace	31.2%	16.1%	24.3%
Meituan	33.4%	13.4%	-5.4%
MercadoLibre	31.5%	38.0%	31.1%
Meta Platforms	11.0%	27.8%	14.8%
Microsoft	8.3%	34.7%	31.8%
MongoDB	39.6%	-6.1%	-15.6%

Table 9 (continued from above)			
Company	**Revenue growth in Q2 2023 from a year ago**	**Free cash flow margin in Q2 2023**	**Free cash flow margin in Q2 2022**
Netflix	2.7%	16.4%	0.2%
Okta	23.0%	8.8%	-5.5%
Paycom Software	26.6%	15.7%	5.8%
PayPal	7.1%	-4.8%	15.8%
Salesforce	11.4%	7.3%	1.7%
Sea	5.2%	18.2%	-
Shopify	30.8%	5.7%	-6.7%
Starbucks	12.5%	11.7%	10.3%
Super Hi	31.8%	14.3%	0.4%
Tencent	11.3%	20.0%	16.6%
Tesla	47.2%	4.0%	3.7%
The Trade Desk	23.2%	25.6%	22.8%
Tractor Supply	7.2%	13.6%	10.6%
TSMC	-10.0%	-17.3%	22.7%
Upstart	-40.5%	118.1%	-26.6%
Veeva Systems	10.5%	43.3%	17.2%
Visa	11.7%	67.7%	69.0%
Wise	28.8%	-	-
Wix	13.0%	8.2%	-4.6%
Zoom	3.6%	25.4%	20.9%
Average for Compounder Fund's current portfolio	**14.0%**	**20.9%**	**12.8%**
Average for Compounder Fund's current portfolio (including Activision Blizzard)	**14.4%**	**21.0%**	**12.7%**

Source: Companies' earnings updates

(As of the publication of this letter, there's no quarterly free cash flow data available for Wise for the second quarter of 2023. We did not include free cash flow data for Hingham and Markel because we don't think it's as important for the two companies - Hingham is a **bank** while Markel is predominantly an **insurer and investment holding company**, so we think the book value holds more meaning for them.)

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

There's more to share on the business and stock price performances of the companies in Compounder Fund. Table 10 below shows a few things for the period from 30 June 2023 to

30 September 2023 for the fund's current crop of 49 companies: The change in their trailing revenues-per-share; the change in their trailing P/S (price-to-sales) ratios; and the change in their stock prices. I'm using revenue instead of earnings or cash flow because some of Compounder Fund's holdings are still reinvesting in their businesses for future growth. As a result, they currently are deliberately loss-making, have negative free cash flow, or have low profit and/or free cash flow margins.

Table 10

Company	Trailing revenue per share on 30 Jun 2023	Trailing revenue per share on 30 Sep 2023	P/S ratio on 30 Jun 2023	P/S ratio on 30 Sep 2023	Trailing revenue per share change from 30 Jun 2023 to 30 Sep 2023	P/S ratio change from 30 Jun 2023 to 30 Sep 2023	Stock price change from 30 Jun 2023 to 30 Sep 2023
Adobe	US$ 40.15	US$ 41.15	12.2	12.4	2.5%	1.8%	4.3%
Adyen	€ 42.84	€ 46.95	37.0	15.0	9.6%	-59.4%	-55.5%
Alphabet	US$ 22.2	US$ 22.63	5.4	5.8	2.0%	7.2%	9.3%
Alteryx	US$ 12.83	US$ 12.86	3.5	2.9	0.3%	-17.2%	-17.0%
Amazon	US$ 50.73	US$ 51.75	2.6	2.5	2.0%	-4.4%	-2.5%
Apple	US$ 24.22	US$ 24.21	8.0	7.1	0.0%	-11.7%	-11.7%
ASML	€ 61.77	€ 65.63	10.7	8.5	6.3%	-21.1%	-18.8%
Block	US$ 30.82	US$ 32.58	2.2	1.4	5.7%	-37.1%	-33.5%
Chipotle	US$ 323.26	US$ 334.35	6.6	5.5	3.4%	-17.2%	-14.4%
Costco	US$ 529.85	US$ 545.14	1.0	1.0	2.9%	2.0%	4.9%
Coupang	US$ 11.85	US$ 12.28	1.5	1.4	3.6%	-5.7%	-2.3%
Datadog	US$ 5.62	US$ 5.91	17.5	15.4	5.3%	-12.0%	-7.4%
dLocal	US$ 1.50	US$ 1.71	8.1	11.2	13.4%	38.5%	57.1%
DocuSign	US$ 12.44	US$ 12.74	4.1	3.3	2.4%	-19.7%	-17.8%
Etsy	US$ 18.38	US$ 18.81	4.6	3.4	2.3%	-25.4%	-23.7%
Fiverr	US$ 8.98	US$ 9.1	2.9	2.7	1.3%	-7.2%	-5.9%
Haidilao	RMB 5.73	RMB 6.12	2.8	3.2	6.8%	13.6%	21.8%
Hingham	US$ 42.15	US$ 34.63	5.1	5.4	-17.8%	6.6%	-12.4%
Illumina	US$ 28.15	US$ 28.23	6.7	4.9	0.3%	-27.0%	-26.8%
Intuitive Surgical	US$ 18.06	US$ 18.69	18.9	15.6	3.5%	-17.4%	-14.5%
Markel	US$ 970.05	US$ 990.00	1.4	1.5	2.1%	4.3%	6.5%
Mastercard	US$ 23.87	US$ 24.78	16.5	16.0	3.8%	-3.0%	0.7%
Medistim	NOK 27.62	NOK 28.7	10.1	7.4	3.9%	-26.5%	-23.7%
Medpace	US$ 48.61	US$ 52.50	4.9	4.6	8.0%	-6.6%	0.8%
Meituan	RMB 37.73	RMB 37.50	3.0	2.8	-0.6%	-6.0%	-6.3%
Mercado-Libre	US$ 221.11	US$ 237.22	5.4	5.3	7.3%	-0.2%	7.0%
Meta Platforms	US$ 45.20	US$ 46.28	6.3	6.5	2.4%	2.2%	4.6%
Microsoft	US$ 27.78	US$ 28.36	12.3	11.1	2.1%	-9.2%	-7.3%

Table 10 (continued from above)							
Company	**Trailing revenue per share on 30 Jun 2023**	**Trailing revenue per share on 30 Sep 2023**	**P/S ratio on 30 Jun 2023**	**P/S ratio on 30 Sep 2023**	**Trailing revenue per share change from 30 Jun 2023 to 30 Sep 2023**	**P/S ratio change from 30 Jun 2023 to 30 Sep 2023**	**Stock price change from 30 Jun 2023 to 30 Sep 2023**
MongoDB	US$ 19.48	US$ 21.08	21.1	16.4	8.2%	-22.3%	-15.8%
Netflix	US$ 70.53	US$ 71.08	6.2	5.3	0.8%	-14.9%	-14.3%
Okta	US$ 12.15	US$ 12.74	5.7	6.4	4.8%	12.1%	17.5%
Paycom Software	US$ 25.41	US$ 26.83	12.6	9.7	5.6%	-23.6%	-19.3%
PayPal	US$ 24.76	US$ 25.41	2.7	2.3	2.6%	-14.6%	-12.4%
Salesforce	US$ 32.58	US$ 33.51	6.5	6.1	2.8%	-6.7%	-4.0%
Sea	US$ 21.03	US$ 21.29	2.8	2.1	1.2%	-25.2%	-24.3%
Shopify	US$ 4.57	US$ 4.93	14.1	11.1	7.8%	-21.7%	-15.5%
Starbucks	US$ 29.49	US$ 30.40	3.4	3.0	3.1%	-10.6%	-7.9%
Super Hi	US$ 1.00	US$ 1.14	1.9	1.7	14.0%	-10.6%	1.8%
Tencent	RMB 58.12	RMB 60.16	5.3	4.7	3.5%	-11.1%	-7.7%
Tesla	US$ 24.81	US$ 27.04	10.6	9.3	9.0%	-12.3%	-4.4%
The Trade Desk	US$ 3.29	US$ 3.47	23.5	22.5	5.4%	-3.9%	1.2%
Tractor Supply	US$ 130.71	US$ 133.69	1.7	1.5	2.3%	-10.2%	-8.2%
TSMC	NT 439.94	NT 429.66	7.1	6.5	-2.3%	-8.7%	-13.9%
Upstart	US$ 7.76	US$ 6.58	4.6	4.3	-15.2%	-6.0%	-20.3%
Veeva Systems	US$ 13.39	US$ 13.7	14.8	14.9	2.3%	0.6%	2.9%
Visa	US$ 14.77	US$ 15.22	16.1	15.1	3.0%	-6.0%	-3.1%
Wise	£ 0.81	£ 0.86	8.1	7.9	6.3%	-1.9%	4.3%
Wix	US$ 25.18	US$ 25.18	3.1	3.6	0.0%	17.3%	17.3%
Zoom	US$ 14.55	US$ 14.63	4.7	4.8	0.6%	2.4%	3.0%
Simple average	-	-	**8.1**	**7.0**	**3.1%**	-	-

Source: Companies' earnings updates

What Table 10 highlights: **Compounder Fund's businesses performed well over the past quarter, with average sequential trailing revenue growth of 3.1%. Importantly, 44 of them experienced growth in their trailing revenues per share for 30 September 2023 compared to 30 June 2023. Despite their business growth, many of Compounder Fund's holdings still saw their stock prices fall as their P/S ratios slipped from an average of 8.1 to 7.0.**

Although it's unpleasant to see declines in the stock prices of the fund's holdings, Jeremy and I remain upbeat because of the underlying business growth. **We also think Compounder Fund's holdings continue to have more-than-reasonable valuations**

(similar to what we saw when I wrote the letters for 2023's first and second quarters, and 2022's second, third, and fourth quarters) and this bodes well for the fund's future return. As of 30 September 2023, the companies currently in Compounder Fund's portfolio **have an average trailing P/S ratio of 7.0, and an average trailing free cash flow margin of 16.4%, which equates to an average P/FCF ratio of 43. If Upstart's outlier numbers are removed (Upstart is still in the midst of a major change in its business model, as last mentioned in the 2023 first-quarter letter) the average trailing P/S ratio, free cash flow margin, and P/FCF ratio would be 7.1, 17.9%, and 39, respectively**. Moreover, if Compounder Fund's companies had an average free cash flow margin of 25% today - around the level we think they could achieve, eventually - **the implied P/FCF ratio on the P/S ratio of 7.0 would be even lower at 28**. For perspective, the implied P/FCF ratio of 28 comes from a group of companies - Compounder Fund's current portfolio - that produced healthy average revenue growth rates of 37.7%, 44.4%, 21.1%, 14.3% and 14.0% for the whole of 2020, 2021, 2022, and the first and second quarters of 2023, respectively.

More thoughts on artificial intelligence

I wrote about Jeremy's and my thoughts on artificial intelligence (AI) in Compounder Fund's **2023 second-quarter letter**. Since the letter's publication, developments in AI have continued at a breath-taking speed. In this section, I want to share new thoughts on AI that we have, as well as provide updates on some of the initial discussions.

Let's start with the new thoughts, in no particular order (note that the caution from our 2023 second-quarter letter that our thoughts on AI are fragile still apply):

- When Jeremy and I first invested in Medpace in August 2022 for Compounder Fund, our **thesis** included the possibility that AI could be a long-term tailwind for the development of biotechnology drugs. Since then, we've observed more positive signs on AI's impact on the biotechnology space. In our Medpace thesis, we discussed AlphaFold, an AI-model from Alphabet's subsidiary, Google Deepmind, that is capable of predicting the structure of proteins. According to an *Economist* **article** published in September this year, AlphaFold has been used by over 1.2 million researchers to-date. Elsewhere, researchers from biotechnology giant Amgen noted in a **recent paper** that with the help of AI, the company has reduced, *by 60%* compared to five years ago, the time it needs to develop a candidate drug up to the clinical-trial stage. But the researchers also shared that AI could do more to help biotechnology companies make the development process for protein-based drugs faster and cheaper. An issue confronting biotechnology companies today is a lack of sufficient in-house data to build reliable models to predict the effects of protein-based drugs. The researchers proposed methods for biotechnology companies to share data to build more powerful predictive AI models in a way that protects their intellectual properties. As AI technology improves over time, we're excited to observe the advances in the protein-drug creation process that is likely to occur alongside.
- It now looks even more possible to us that generative AI will have a substantial positive impact on the productivity of technology companies. For example, during Oracle's latest earnings conference call that was held last month, management shared that the company is using generative AI to produce the code needed to improve all the features in Cerner's system (Oracle acquired Cerner, a healthcare

technology company, in June 2022), instead of its usual way of writing code in the Java programming language. Oracle's management also said that even if AI code generators make mistakes, "once you fix the mistake, you fix it everywhere." In another instance, MongoDB announced in late-September this year that it's introducing generative AI into its MongoDB Relational Migrator service, which helps reduce friction for companies that are migrating from SQL to NoSQL databases. When companies embark on such a migration, software code needs to be written. With generative AI, MongoDB is able to help users automatically generate the necessary code during the migration process.

- The use of AI requires massive amounts of data to be transferred within a data centre. There are currently two competing data switching technologies to do so, namely, Ethernet and Infiniband, and they each have their supporters. Arista Networks builds high-speed Ethernet data switches. During the company's July 2023 earnings conference call, management shared their view that Ethernet is the right long-term technology for data centres where AI models are run. In the other camp, there's Nvidia, which acquired Mellanox, a company that manufactures Infiniband data switches, in 2020. Nvidia's leaders commented in the company's latest earnings conference call (held in late-August this year) that "Infiniband delivers more than double the performance of traditional Ethernet for AI." It's also possible that better ways to move data around a data centre for AI workloads could be developed. In Arista Networks' aforementioned earnings conference call, management also said that "neither technology… were perfectly designed for AI; Infiniband was more focused on HPC [high-performance computing] and Ethernet was more focused on general purpose networking." We're watching to see which technology (existing or new) would eventually have the edge here, as the market opportunity for AI-related data switches is likely to be huge. For perspective, Arista Networks estimates the total data centre Ethernet switch market to be over US$30 billion in 2027, up from around US$20 billion in 2022.

Coming to the updates, in last quarter's letter, I discussed how AI software, especially generative AI, requires vector databases but that NoSQL databases will remain relevant. During MongoDB's latest earnings conference call, held in August this year, management shared their view that the ability to perform vector searches (which is what vector databases do) will ultimately be just a feature that's built into all databases. This is because standalone vector databases are point-products that still need to be used with other types of databases in order for developers to build applications. Jeremy and I are on the same side as MongoDB's management because of two things they shared during the company's aforementioned earnings conference call. Firstly, they see developers preferring to work with multi-functional databases compared to bolting on a separate vector solution onto other databases. Secondly, Atlas Vector Search - MongoDB's vector search feature within its database service - is already being used by customers in production even though it's currently just a preview-product; to us, this signifies high customer demand for MongoDB's database services within the AI community.

I also touched upon the phenomenon of emergence in AI in last quarter's letter. Jeremy and I are even more confident now that emergence is present in AI systems. Sam Altman, the CEO of OpenAI, the company behind ChatGPT, was recently **interviewed** by Salesforce co-founder and CEO Marc Benioff. During their conversation, Altman said (emphases are mine):

> “I think the current GPT paradigm, we know how to keep improving and we can make some predictions about - we can predict with confidence it's gonna get more capable. **But exactly how is a little bit hard. Like when, you know, why a new capability emerges at this scale and not that one. We don't yet understand that as scientifically as we do about saying it's gonna perform like this on this benchmark**.”

In other words, even OpenAI cannot predict what new capabilities would spring forth from the AI models it has developed as their number of parameters and the amount of data they are trained on increases. The unpredictable formation of sophisticated outcomes is an important feature of emergence. It is also why Jeremy and I continue to approach the future of AI with incredible excitement as well as some fear. As AI models train on an ever increasing corpus of data, they are highly likely to develop new abilities. But it’s unknown if these abilities will be a boon or bane for society. We’ll see!

The long-term advantage

In the introductory section of this letter, I brought up the “*What’s our edge?*” section of our **2020 fourth-quarter letter**, where I discussed the three sources of investing edge that we think exist in the stock market. The third edge I mentioned is behavioural and it has to do with simply being patient (it bears repeating that all of you - Compounder Fund’s investors - have played a crucial role in helping Jeremy and me produce this advantage). Recent events have demonstrated just why this is so important.

Texas Instruments is a company in the USA that designs and manufactures semiconductors. Management’s objective - and what they think is the “best metric” to measure the company’s progress - is long-term growth growth in free cash flow per share. From 2013 to 2022, the leaders of Texas Instruments allocated US$87 billion to research and development, capital expenditures, and share buybacks, among other areas, to achieve their objective. The investments were a success. Texas Instruments’ free cash flow increased from US$3.0 billion to US$5.9 billion in that timeframe (an 8.0% annualised growth rate), while free cash flow per share climbed by 10.2% on an annualised basis. Moreover, the company’s free cash flow margin averaged at an excellent 32.4% from 2013 to 2022 and never fell below 24.4%.

During an investor presentation this February, Texas Instruments’ management shared that they would be ramping up the company’s capital expenditure to around US$5 billion per year for 2023 to 2026; this compares to the average capital expenditure of US$1.7 billion for 2019 to 2022. The higher capital expenditures are meant to drive the company’s growth over the next 10 to 15 years and to seize the opportunities management sees in the long-term expansion of the semiconductor market. But many stock market participants appear unconvinced. As of 30 September, excluding dividends, Texas Instruments’ stock price is down by 2% while the S&P 500 is up by 12% (both in US dollar terms). More importantly, at the end of August this year, an analyst from investment research firm Bernstein said (emphasis is mine):

> "We aren't suggesting TXN's strategy is "wrong" or "bad," they just have a longer investment horizon than most other companies. **However, this horizon is also likely longer than many investors have as well**."

As a "sell-side" firm in America's financial markets ecosystem, Bernstein's analysts likely have held multiple conversations with investors about Texas Instruments. So their view that many investors do not have the same investment horizon as management is probably an accurate read. This is despite the long-term track record of Texas Instruments' leaders and their sensible thoughts on capital allocation (even though there's a ramp-up in capital expenditure in the next few years, the company would likely still be able to produce healthy free cash flow). We think this episode with Texas Instruments demonstrates the long-term advantage that can accrue to patient investors. If there are investors who are aligned with the investment horizon of Texas Instruments' management and believe in the growth potential of the company, they can exploit the short-term weakness in the company's stock price to earn higher long-term returns.

Adyen, a company we added to earlier this month, is similarly in a situation where many investors are not aligned with management's investment horizon. The digital payments services provider (we described the company's business in our thesis **here**) released its 2023 first-half earnings on 17 August. It was a bad day for the company's stock price, which slid by nearly 40% to €898; the stock price has continued to fall in the weeks since, and ended September at €706. Shortly after Adyen's results were out, analysts from JPMorgan wrote (emphasis is mine):

> "[Management] kept **highlighting the focus on mid-long term on the call when most investors have 12-18 month investment horizon**."

During the first half of 2023, Adyen grew its revenue by 21.5% from a year ago to €739.1 million. But its free cash flow fell by 16.6% to €263.9 million as a result of its free cash flow margin compressing from 52.0% in the first half of 2022 to 35.7%. The company's revenue growth, while still healthy, was lower than expected for management and for some market participants. Adyen encountered stiffer price-competition in the USA, which induced some merchants to switch payment providers for some of their payment volume, as Adyen's management refused to participate in a price war. Meanwhile, the decline in Adyen's free cash flow margin was predominantly caused by management *choosing* to grow the company's headcount in the first half of the year; Adyen made 551 new hires, bringing its team to 3,883 full-time employees. Our previous addition to Adyen was this April. In my discussion of the addition in Compounder Fund's **2023 first-quarter letter**, I mentioned:

> "We also applaud Adyen's recent contrarian move in hiring. While technology companies in the West have mostly been cutting headcount in recent months, Adyen has continued to expand its team as talent has become more affordable and the company wants to support its long-term growth plans. Adyen plans to add around 1,200 employees in 2023, building on the 757 it added in the second half of 2022, an increase of nearly 30% from the first half of the year."

It turns out that Adyen's management has kept to their word and has continued to hire counter-cyclically, a move we support. In Adyen's shareholder-letter and earnings conference call for the first half of 2023, management mentioned that they are keen to bolster Adyen's headcount because it is the "primary means of investing in [the company's] future," even if it hurts the company's financials in the short-term. Management also took pains to share the following:

- They continue to have confidence in Adyen's long-term growth prospects. This stems from their belief that Adyen's payments platform - built entirely from scratch on a single code-base - offers the lowest total cost of ownership for merchants in the USA and elsewhere.
- Adyen's pace of hiring-growth would slow down in 2024. Management thinks Adyen would largely have the right amount of talent by then to seize the growth opportunities that exist.
- Operating leverage would show up in Adyen when hiring slows down. Moreover, management sees no change in Adyen's long-term EBITDA (earnings before interest, taxes, depreciation, and amortisation) margin target of 65%. For perspective, Adyen's EBITDA margin was 43.3% in the first half of 2023, down from 58.5% a year ago.

Jeremy and I are on the same page as Adyen's management, which explains why we added to our Adyen position to take advantage of the lower stock price. But we certainly are ***not*** on the same page as the investors with the "12-18 month investment horizon" whom JPMorgan's analysts interacted with. **In an environment where many investors cannot, or are unwilling to, invest with patience, being able to do so is a structural advantage. And at the risk of being repetitive, Jeremy and I cannot stress enough that this edge - of the behavioural variety - is possible *only* because of your gentle patience and keen understanding of our investing approach**. **I also want to emphasise that we're not taking this for granted, because we know it's not easy to do so**.

Fund manager Corey Hoffstein published an **article** recently to commemorate the 15th anniversary of his investment firm, Newfound Research. In it, he discussed the lessons he has learnt from his career. One of them is the difference between behavioural time and statistical time (emphasis is mine):

> "It is easy, in a backtest, to look at the multi-year drawdown of a low-Sharpe strategy and say, "I could live through that." **When it's a multi-decade simulation, a few years looks like a small blip – just a statistical eventuality on the path**. You live that multi-year drawdown in just a few seconds in your head as your eye wanders the equity curve from the bottom left to the upper right. **In the real world, however, a multi-year drawdown feels like a multi-decade drawdown**."

A number of our past investors' letters contain discussions on the huge short-term losses that some of the US stock market's big long-term winners have sat through despite healthy growth in their businesses. The examples include the "*Equanimity and patience"* section of our **2021 fourth-quarter letter**, the "*An unfortunate but necessary disconnect"* section of our **2022 third-quarter letter**, the introductory section of our **2022 fourth-quarter letter**, and the "*When genius failed (temporarily)"* section of our **2023 second-quarter letter**. Looking at, say, the 75% fall in Walmart's stock price from less than US$0.04 in August 1972 to US$0.01 in December 1974, and the subsequent rise to US$3.70 at the end of 1989, it's easy to think "What's so difficult with holding on?" **But to actually live through something like that - a situation we think many of Compounder Fund's holdings are experiencing right now,**

and which comes with the territory in long-term investing (see "*An unfortunate but necessary disconnect"*) - is *incredibly* difficult. As Hoffstein noted, behavioural time is not the same as statistical time. So once again, thank you.

House-keeping matters and what's next

Compounder Fund's audit for calendar year 2022, conducted by Baker Tilly, was wrapped up earlier this year. As a reminder, we sent a digital copy of Compounder Fund's audited financial statements for 2022 to all of the fund's investors on 16 May 2023, . If you did not receive it, or if you joined the fund as an investor after 16 May 2023 and would like a copy of the statements, please let Jeremy and me know.

As Jeremy and I have shared before, giving back to society is one of the four key pillars of Compounder Fund's mission to "Grow *Your* Wealth & Enrich Society." In the fund's website, we **mentioned** that "we are setting aside at least 10% of every dollar we earn from Compounder Fund in each year for charities of our choice" and that "we will audit our giving." The first audit for our giving, conducted by Baker Tilly, covered the period from November 2019 (when we started building the fund) to December 2021. Subsequent audits are for each calendar year and the audit report for 2022 - again with Baker Tilly as the auditor - was completed earlier this year. As a reminder, all the audit reports for our charitable giving are available on the fund's website **here**. If you are interested to know more about our charitable giving, feel free to reach out!

Another of the key pillars of Compounder Fund's mission involves investor education. To this end, Jeremy and I are running Compounder Fund transparently. We have released the investment theses for all of Compounder Fund's current holdings (for your convenience, all our theses can be **found here**). We will inform you when we publish any new theses.

Compounder Fund's next subscription window will close in the middle of December 2023 and it will have a dealing date on the first business day of January 2024 (which should be 2nd January). If you would like to increase your investment in the fund, please submit the relevant paperwork by the middle of December 2023. Jeremy and I are happy to assist with any queries you may have.

Optimism (as always!)

There are a myriad of important political, social, economic, and healthcare issues that are plaguing our globe today. But Jeremy and I are still long-term optimistic on the stock market. This is because we still see so much potential in humanity. There are more than 8.0 billion individuals in the world **right now**, and the vast majority of people will wake up every morning wanting to improve the world and their own lot in life. *This* - the desire for progress - is ultimately what fuels the global economy and financial markets. Miscreants and Mother Nature will occasionally wreak havoc but we have faith that humanity can clean it up. To us, investing in stocks is ultimately the same as having faith in the long-term ingenuity of humanity. We will remain long-term optimistic on stocks so long as we continue to have this faith.

The past few years may seem especially tumultuous because of the crises that have occurred. For example, in 2020, there was the COVID pandemic and oil prices turned negative for the first time in recorded history. In 2021, inflation in the USA rose to a level last seen in the early 1980s. In 2022, Russia invaded Ukraine. This year, there were the high-profile collapses of Silicon Valley Bank and First Republic Bank in the USA, and Credit Suisse in Europe; and just a few days ago, Israel was attacked by Hamas and Hezbollah militants. **But without downplaying the human tragedies, it's worth noting that crises are common**. Here's a (partial!) list of major crises in *every year* stretching back to 1990 that I've borrowed and added to (the additions are in square brackets) from an old Morgan Housel **article**:

> "[**2023 (so far)**: Collapse of Silicon Valley Bank and First Republic Bank in the USA; firesale of Credit Suisse to UBS; Israel gets attacked by Hamas and Hezbollah militants
> **2022**: Russia invades Ukraine
> **2021**: Inflation in the USA rises to a level not seen since early 1980s
> **2020**: COVID pandemic; oil prices turn negative for first time in history
> **2019**: Australia bush fires; US president impeachment; first sign of COVID
> **2018**: US-China trade war
> **2017**: Bank of England hikes interest rates for first time in 10 years; UK inflation rises to five-year high
> **2016**: Brexit; Italy banking system crises
> **2015**: Euro currency crashes against the Swiss franc; Greece defaults on loan to European Central Bank
> **2014**: Oil prices collapse
> **2013**: Cyprus bank bailouts; US government shuts down; Thai uprising
> **2012**: Speculation of Greek exit from Eurozone; Hurricane Sandy]
> **2011**: Japan earthquake, Middle East uprising.
> **2010**: European debt crisis; BP oil spill; flash crash.
> **2009**: Global economy nears collapse.
> **2008**: Oil spikes; Wall Street bailouts; Madoff scandal.
> **2007**: Iraq war surge; beginning of financial crisis.
> **2006**: North Korea tests nuclear weapon; Mumbai train bombings; Israel-Lebanon conflict.
> **2005**: Hurricane Katrina; London terrorist attacks.
> **2004**: Tsunami hits South Asia; Madrid train bombings.
> **2003**: Iraq war; SARS panic.
> **2002**: Post 9/11 fear; recession; WorldCom bankrupt; Bali bombings.
> **2001**: 9/11 terrorist attacks; Afghanistan war; Enron bankrupt; Anthrax attacks.
> **2000**: Dot-com bubble pops; presidential election snafu; USS Cole bombed.
> **1999**: Y2K panic; NATO bombing of Yugoslavia.
> **1998**: Russia defaults on debt; LTCM hedge fund meltdown; Clinton impeachment; Iraq bombing.
> **1997**: Asian financial crisis.
> **1996**: U.S. government shuts down; Olympic park bombing.
> **1995**: U.S. government shuts down; Oklahoma City bombing; Kobe earthquake; Barings Bank collapse.
> **1994**: Rwandan genocide; Mexican peso crisis; Northridge quake strikes Los Angeles; Orange County defaults.

1993: World Trade Center bombing.
1992: Los Angeles riots; Hurricane Andrew.
1991: Real estate downturn; Soviet Union breaks up.
1990: Persian Gulf war; oil spike; recession.”

Yet through it all, the [redacted], a good proxy for global stocks, is up by more than [redacted] in price alone (in US dollar terms) from January 1990 to 9 October this year, as shown in Figure 1. **I want to highlight that the trailing price-to-earnings (P/E) ratio of the index was roughly the same for the two time posts, which means the index’s rise was predominantly the result of its underlying earnings growth**. This is a testament to how human ingenuity always finds a way and to how stocks do reflect this over the long run.

Figure 1

Source: [redacted]

So, the only time Jeremy and I will turn pessimistic on the long-term returns of stocks is when they become wildly overpriced - and we don’t think this is the case today. This does *not* mean that stocks are cheap or that stocks won’t fall in the months or next year or two ahead (remember, we don’t know what the journey will look like). It only means that we think valuations are somewhat reasonable and that investing now will likely lead to a satisfactory outcome, *if* we have a multi-year time horizon and we’re invested in fast-growing companies. **With your support, we have both ingredients at Compounder Fund.**

Final words

If you have any questions related to Compounder Fund’s administrative matters or our general investment thinking, please know that our email inboxes are always open to you. Thank you again for trusting Jeremy and me with your hard-earned capital. We deeply appreciate your trust and support (especially in difficult times like these), your belief in

Compounder Fund's mission to "Grow *Your* Wealth & Enrich Society," and your understanding of the investing approach that we are taking.

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

You can expect to see Compounder Fund's 2023 fourth-quarter investors' letter in mid-January 2024. Till then, stay safe and take care.

Excelsior,
Chong Ser Jing
Co-founder and Portfolio Manager, Compounder Fund
11 October 2023

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

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