

Compounder Fund Investors' Letter: Fourth 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 fourth-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 11.1%. Over the same period, the dividend-adjusted Singapore-dollar returns for the [REDACTED] and the S&P 500 were [REDACTED] and 7.8%, 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%
Q3 2023	-5.0%	[REDACTED]	-2.3%
Oct 2023	-3.0%	[REDACTED]	-1.8%

Table 1 (continued from above)

Time period	Compounder Fund Class A (after fees)	██████████	S&P 500**
Nov 2023	10.9%	██████	6.6%
Dec 2023	3.3%	██████	3.1%
Q4 2023	11.1%	██████	7.8%
2023	36.7%	██████	24.4%
Total return since inception*	-14.3%	██████	51.7%
Annualised return since inception*	-4.4%	██████	12.8%

*Inception date: 13 July 2020

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

Table 2

Time period	Compounder Fund Class B (after fees)	██████████	S&P 500**
2020*	6.8%	██████	8.6%
2021	0.9%	██████	31.2%
2022	-44.1%	██████	-18.7%
Q1 2023	16.6%	██████	6.7%
Q2 2023	10.8%	██████	10.3%
Q3 2023	-5.0%	██████	-2.3%
Oct 2023	-3.0%	██████	-1.8%
Nov 2023	10.9%	██████	6.6%
Dec 2023	3.3%	██████	3.1%
Q4 2023	11.1%	██████	7.8%
2023	36.7%	██████	24.4%
Total return since inception*	-17.7%	██████	44.2%
Annualised return since inception*	-5.8%	██████	11.9%

*Inception date: 1 October 2020

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

Jeremy and I are comparing Compounder Fund's performance with the ██████████ and the S&P 500 to provide an indication of how the fund is faring against a broad group of stocks that are listed across the world and in the USA.

As you know, Compounder Fund's investment mandate is global in nature. This means the fund can invest in any listed stock in the world; it also makes the ██████████ a sensible index 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. 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. The late, great, Charlie Munger was once asked about the lessons he learnt from his investment fund's big losses in 1973 and 1974 (his total loss in that period was 53%). He said:

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

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

Judging our performance

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

On 6 December 2023, I [published an update](#) on Compounder Fund's portfolio on the fund's website and also notified all of you via email. In the update, I shared that we had fully exited Illumina and Upstart; our theses for their sales can be found [here](#) and [here](#), respectively. I also mentioned that Compounder Fund held 47 companies and that we used the cash from the sales of Illumina and Upstart to add to the fund's positions in Paycom Software and The Trade Desk. Since then, Alteryx has been sold from the portfolio.

Alteryx, which provides a software platform for companies to easily run complex data analytics, announced in mid-December 2023 that it would be acquired for US\$48 per share in cash by two private equity firms, Clearlake Capital and Insight Partners. The deal is expected to close in the first half of 2024. We sold Alteryx in early-January 2024 at US\$47 per share, which is just a hair's breadth from the acquisition price. Alteryx has been a disappointing investment for us, given that our initial investments in the company in July 2020 were made at an average stock price of US\$170. Alteryx had been in our *Potential Sell* list for some time given its relatively lacklustre revenue growth in recent quarters, and poor free cash flow margins stretching over multiple quarters - both are shown in Table 4 below. Over the three-plus years of Compounder Fund's ownership of Alteryx's shares, we had been increasingly leaning towards the thought that we were wrong about [the company's growth prospects and its business-quality](#). The announcement of the acquisition, the fact that Alteryx's stock price was nearly at the offered price, and our desire to add to an existing Compounder Fund holding, made it easy for us to sell before the deal closed.

Table 4

Quarter	Alteryx year-on-year revenue growth in the quarter	Alteryx free cash flow margin in the quarter
Q1 2021	9.1%	17.1%
Q2 2021	24.8%	-13.2%
Q3 2021	-4.8%	-0.6%
Q4 2021	8.3%	15.3%
Q1 2022	33.0%	-0.3%
Q2 2022	50.4%	-39.8%
Q3 2022	74.7%	-31.6%
Q4 2022	73.2%	-0.2%
Q1 2023	26.1%	16.4%
Q2 2023	3.9%	-20.7%
Q3 2023	7.9%	-26.7%

Source: Companies' earnings updates

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 13th subscription window since its initial

offering period (which ended on 13 July 2020) and raised a net amount of S\$0.03 million. Part of this new capital, together with the proceeds from Alteryx’s sale, was deployed quickly in the days after the last subscription window’s dealing date of 2 January 2024 and we added to one existing Compounder Fund holding: Medpace. As of this letter’s publication, we have released our investment theses on all the 46 companies that are currently in Compounder Fund’s portfolio and they can be [found here](#). In the future, if and when we add new companies to the portfolio or completely exit any of the fund’s holdings voluntarily, we will be releasing our detailed thoughts for these actions.

We first invested in Medpace, a company that helps biotechnology companies plan and run their drug trials (see [our thesis](#) for more), in August 2022. Since then, Medpace’s results have continued to impress us and management has also conducted buybacks intelligently, signalling astute capital allocation. Table 5 shows Medpace’s revenue growth and net income and free cash flow margins over the past few quarters - notice the healthy increases in revenue and the strong margins. As for Medpace’s buybacks, management has conducted stock buybacks over the past few quarters when valuations were attractive. For example, Medpace spent US\$120 million on buybacks in the first quarter of 2023 (it is the largest buyback for Medpace during a quarter in 2023 so far) at an average share price of US\$185 when the company’s P/FCF (price to free cash flow) ratio was just 18; Medpace’s stock price ended 2023 at US\$307. Adding cherries to the cake are three things. Firstly, Medpace has produced the impressive revenue growth rates seen in Table 5 even though biotechnology companies in general have been facing funding difficulties. Secondly, I shared in the “*More thoughts on artificial intelligence*” section of our [2023 third-quarter letter](#) that “our [Medpace] thesis included the possibility that AI could be a long-term tailwind for the development of biotechnology drugs” and that “we’ve observed more positive signs on AI’s impact on the biotechnology space” since our investment. Thirdly, Medpace’s trailing P/FCF ratio at the end of 2023 was an attractive 22.

Table 5

Quarter	Medpace revenue (US\$, million)	Medpace revenue year-on-year growth	Medpace net income margin	Medpace free cash flow margin
Q3 2022	383.7	29.8%	17.2%	26.4%
Q4 2022	394.1	27.7%	17.4%	32.3%
Q1 2023	434.1	31.2%	16.8%	16.3%
Q2 2023	460.9	31.2%	13.3%	16.1%
Q3 2023	492.5	28.3%	14.3%	21.5%

Source: Medpace earnings updates

Here’s how Compounder Fund’s portfolio of 46 companies looks like as of 7 January 2024:

Table 6

Company	Weighting	Country/Region of listing	Headquarters
Meta Platforms	7.2%	USA	USA
MercadoLibre	6.5%	USA	Argentina
Microsoft	4.5%	USA	USA
Netflix	4.3%	USA	USA
Amazon	4.2%	USA	USA
Costco	4.1%	USA	USA
Alphabet	3.7%	USA	USA
Chipotle Mexican Grill	3.6%	USA	USA
Tractor Supply	3.5%	USA	USA
Apple	3.3%	USA	USA
The Trade Desk	3.0%	USA	USA
Shopify	2.9%	USA	Canada
Adobe	2.9%	USA	USA
Mastercard	2.9%	USA	USA
Visa	2.9%	USA	USA
DataDog	2.9%	USA	USA
Intuitive Surgical	2.6%	USA	USA
ASML	2.6%	USA	Netherlands
Adyen	2.3%	Netherlands	Netherlands
Tesla	2.3%	USA	USA
MongoDB	2.1%	USA	USA
Markel	2.1%	USA	USA
Salesforce	1.9%	USA	USA
Medpace	1.9%	USA	USA
Tencent	1.8%	Hong Kong	China
Starbucks	1.6%	USA	USA
Veeva Systems	1.5%	USA	USA
TSMC	1.4%	USA	Taiwan
Wise	1.3%	UK	UK
PayPal	1.3%	USA	USA
Medistim	1.2%	Norway	Norway
Etsy	1.2%	USA	USA
Wix	1.0%	USA	Israel
Hingham	1.0%	USA	USA
Block	0.9%	USA	USA
Okta	0.8%	USA	USA

Table 6 (continued from above)

Company	Weighting	Country/Region of listing	Headquarters
DocuSign	0.8%	USA	USA
Paycom Software	0.8%	USA	USA
Haidilao	0.6%	Hong Kong	China
Zoom	0.6%	USA	USA
Meituan	0.5%	Hong Kong	China
dLocal	0.5%	USA	Uruguay
Fiverr	0.3%	USA	Israel
Sea	0.3%	USA	Singapore
Coupang	0.2%	USA	South Korea
Super Hi	0.0%	Hong Kong	Singapore
Cash	0.1%	-	-

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

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

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	-	6.5%
Canada	-	2.9%
China	-	2.9%
Hong Kong	3.0%	-
Israel	-	1.3%
Netherlands	2.3%	4.8%
Norway	1.2%	1.2%
Singapore	-	0.3%
South Korea	-	0.2%
Taiwan	-	1.4%
UK	1.3%	1.3%
Uruguay	-	0.5%
USA	92.1%	76.6%

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 third quarter of 2023.

Table 8 below shows the year-on-year revenue growth rates for all the 46 companies that are currently in Compounder Fund's portfolio (the ones in Table 6), as well as Alteryx, Illumina, and Upstart, for the following time periods: The whole of 2020, 2021, and 2022, and the first, second, and third quarters of 2023:

Table 8

Company	2020 revenue growth	2021 revenue growth	2022 revenue growth	Q1 2023 revenue growth	Q2 2023 revenue growth	Q3 2023 revenue growth
Adobe	17.3%	18.0%	11.5%	9.8%	10.3%	11.6%
Adyen	28.1%	46.4%	32.8%	21.5%	21.5%	22.0%
Alphabet	12.8%	41.2%	9.8%	2.6%	7.1%	11.0%
Amazon	37.6%	21.7%	9.4%	9.4%	10.8%	12.6%
Apple	9.9%	28.6%	2.4%	-2.5%	-1.4%	-0.7%
ASML	18.3%	33.1%	13.8%	90.9%	27.1%	15.5%
Block	101.5%	86.0%	-0.7%	26.0%	25.7%	24.4%
Chipotle Mexican Grill	7.1%	26.1%	14.4%	17.2%	13.6%	11.3%
Costco	12.8%	17.7%	11.5%	2.0%	9.5%	6.2%
Coupang	90.8%	53.8%	11.8%	13.4%	15.9%	21.2%
Datadog	66.3%	70.5%	62.8%	32.7%	25.4%	25.4%
dLocal	88.4%	134.4%	71.6%	57.0%	59.3%	46.5%
DocuSign	49.2%	45.0%	19.4%	12.3%	10.5%	8.5%
Etsy	110.9%	35.0%	10.2%	10.6%	7.5%	7.0%
Fiverr	77.0%	57.1%	13.3%	1.5%	5.1%	12.1%
Haidilao	7.8%	43.7%	-20.6%	24.6%	24.6%	-
Hingham	27.4%	20.3%	3.6%	-45.4%	-56.1%	-59.8%
Intuitive Surgical	-2.7%	31.0%	9.0%	14.0%	15.4%	12.0%
Markel	17.0%	20.0%	22.1%	8.3%	7.3%	6.6%
Mastercard	-9.4%	23.4%	17.8%	11.2%	14.0%	13.5%
Medistim	-0.2%	17.7%	15.1%	11.3%	16.9%	6.5%
Medpace	7.5%	23.4%	27.8%	31.2%	31.2%	28.3%
Meituan	17.7%	56.0%	22.8%	26.7%	33.4%	22.1%
Mercado-Libre	73.0%	77.9%	49.1%	35.1%	31.5%	39.8%
Meta Platforms	21.6%	37.2%	-1.1%	2.6%	11.0%	23.2%
Microsoft	14.7%	20.6%	10.4%	7.1%	8.3%	12.8%
MongoDB	40.0%	48.0%	47.0%	29.0%	39.6%	29.8%
Netflix	24.0%	18.8%	6.5%	3.7%	2.7%	7.8%
Okta	42.5%	55.6%	42.9%	24.8%	23.0%	21.4%
Paycom Software	14.1%	25.4%	30.3%	27.8%	26.6%	21.6%
PayPal	20.7%	18.3%	8.5%	8.6%	7.1%	8.4%

Table 8 (continued from above)

Company	2020 revenue growth	2021 revenue growth	2022 revenue growth	Q1 2023 revenue growth	Q2 2023 revenue growth	Q3 2023 revenue growth
Salesforce	24.3%	24.7%	18.3%	11.3%	11.4%	11.3%
Sea	101.1%	127.5%	25.1%	4.9%	5.2%	4.9%
Shopify	85.6%	57.4%	21.4%	25.2%	30.8%	25.5%
Starbucks	-14.1%	31.0%	8.4%	14.2%	12.5%	11.4%
Super Hi	-5.0%	41.1%	78.7%	31.8%	31.8%	-
Tencent	27.8%	16.2%	-1.0%	10.7%	11.3%	10.4%
Tesla	28.3%	70.7%	51.4%	24.4%	47.2%	8.8%
The Trade Desk	26.5%	43.1%	31.9%	21.4%	23.2%	24.9%
Tractor Supply	27.2%	19.9%	11.6%	9.1%	7.2%	4.3%
TSMC	25.2%	18.5%	42.6%	3.6%	-10.0%	-10.8%
Veeva Systems	32.7%	26.3%	16.4%	4.2%	10.5%	11.6%
Visa	-8.7%	18.6%	18.5%	11.1%	11.7%	10.6%
Wise	43.9%	32.3%	48.5%	45.3%	28.8%	22.3%
Wix	29.9%	29.0%	9.3%	9.5%	13.0%	13.9%
Zoom	325.8%	54.6%	7.1%	2.9%	3.6%	3.2%
Alteryx	18.5%	8.2%	59.5%	26.1%	3.9%	7.9%
Illumina	-8.6%	39.7%	1.3%	-11.1%	1.2%	0.4%
Upstart	42.0%	263.6%	-0.7%	-66.8%	-40.5%	-14.4%

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 9

Simple averages for revenue growth from year ago	Compounder Fund current portfolio	Compounder Fund current portfolio (including Alteryx, Illumina, and Upstart)
Q1 2020	31.4%	35.2%
Q2 2020	34.8%	31.5%
Q3 2020	44.2%	42.4%
Q4 2020	46.7%	44.6%
2020	39.0%	37.7%
Q1 2021	56.6%	55.3%
Q2 2021	52.7%	78.8%
Q3 2021	35.3%	39.1%
Q4 2021	31.2%	35.2%
2021	40.5%	44.4%
Q1 2022	26.6%	29.1%

Table 9 (continued from above)

Simple averages for revenue growth from year ago	Compounder Fund current portfolio	Compounder Fund current portfolio (including Alteryx, Illumina, and Upstart)
Q2 2022	22.4%	22.4%
Q3 2022	20.9%	20.5%
Q4 2022	17.3%	16.5%
2022	21.2%	21.1%
Q1 2023	16.4%	14.3%
Q2 2023	15.7%	14.0%
Q3 2023	13.2%	12.2%

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 healthy year-on-year revenue growth of 13.2% (this is a simple average) in the third quarter of 2023, and this continues from the impressive revenue growth rates seen in prior quarters going back to 2020.** Table 10 below gives perspective on the 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 (including Alteryx, Illumina, and Upstart)
Q1 2020	Around -2%	31.4%	35.2%
Q2 2020	Around -10%	34.8%	31.5%
Q3 2020	Around -2%	44.2%	42.4%
Q4 2020	Around -0.5%	46.7%	44.6%
Q1 2021	Around 10%	56.6%	55.3%
Q2 2021	Around 25%	52.7%	78.8%
Q3 2021	16.6%	35.3%	39.1%
Q4 2021	16.1%	31.2%	35.2%
Q1 2022	13.4%	26.6%	29.1%
Q2 2022	11.9%	22.4%	22.4%
Q3 2022	12.1%	20.9%	20.5%
Q4 2022	6.9%	17.3%	16.5%
Q1 2023	7.9%	16.4%	14.3%
Q2 2023	6.1%	15.7%	14.0%
Q3 2023	4.7%	13.2%	12.2%

Source: Yardeni Research for S&P 500 (data for S&P 500 is as of 13 December 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 third quarter**, I mentioned:

“It’s possible 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 pleased that the growth rate stepped down only slightly. During the third quarter of 2023, Compounder Fund’s portfolio companies produced an average year-on-year revenue growth rate of 13.2%, compared to 15.7% in the second quarter. Moreover, the growth rate of 13.2% is decent and comfortably exceeds the S&P 500’s corresponding revenue growth of 4.7%. But we do acknowledge that it is a significant deceleration from what was achieved throughout 2021 and 2022. The good thing is that 17 companies in Compounder Fund’s current portfolio saw higher year-on-year revenue growth in the third quarter of 2023 compared to the second quarter. More importantly, we invested in the companies that are currently in Compounder Fund’s portfolio because their businesses are riding on - or creating - durable and lasting long-term trends. This means they likely still have massive market opportunities to grow into over the long run (you can read about this in detail in our investment theses for each company; note the fact that their businesses were growing healthily before COVID).

It’s possible that Compounder Fund’s holdings will continue to post relatively-slow revenue growth in the next few quarters. But consistent with what I’ve been sharing in our past quarterly letters, Jeremy and I continue to think there’s a high chance that the fund’s portfolio companies will, in aggregate, produce pleasing year-on-year revenue growth in the years ahead. **And if these companies can sustain average annual revenue growth of around 20-25% 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 third quarter of 2023. Table 11 below shows two things for each company that’s currently in the portfolio, as well as for Alteryx, Illumina, and Upstart: (1) Their revenue growth for the quarter, and (2) the change in their free cash flow margins for the period. **During the third quarter of 2023, the simple-average free cash flow margin for all the fund’s current holdings was 22.0%, up from 16.8% a year ago. This means that Compounder Fund’s portfolio had, on average, grown its free cash flow by 48.2% during the quarter compared to a year ago.** Unlike a number of previous quarters where Compounder Fund’s holdings saw a year-on-year decline in their average free cash flow margin (the margin fell in the second, third, and fourth quarters of 2021, and each quarter in 2022), the third quarter of 2023 followed a similar path as the first and second quarters, where the free cash flow margin improved year-on-year (from 16.9% to 21.7% in the first quarter of 2023, and from 14.8% to 20.6% in the second quarter). We look forward to seeing continued improvements over time in the free cash flow margins of Compounder Fund’s companies. Given the nature and track records of these companies, we continue to think that their long-term average free cash flow margin can grow to around 25% eventually and be maintained at that level.

Table 11

Company	Revenue growth in Q3 2023 from a year ago	Free cash flow margin in Q3 2023	Free cash flow margin in Q3 2022
Adobe	11.6%	30.3%	49.2%
Adyen	22.0%	-	-
Alphabet	11.0%	29.3%	15.1%
Amazon	12.6%	6.1%	-3.9%
Apple	-0.7%	21.7%	23.1%
ASML	15.5%	9.3%	13.9%
Block	24.4%	8.1%	-0.5%
Chipotle Mexican Grill	11.3%	14.1%	9.6%
Costco	6.2%	6.2%	2.9%
Coupang	21.2%	8.6%	-4.4%
Datadog	25.4%	25.2%	15.4%
dLocal	46.5%	2.0%	74.2%
DocuSign	8.5%	34.3%	5.6%
Etsy	7.0%	32.6%	32.3%
Fiverr	12.1%	25.0%	6.4%
Haidilao	-	-	-
Hingham	-59.8%	-	-
Intuitive Surgical	12.0%	16.8%	13.8%
Markel	6.6%	-	-
Mastercard	13.5%	45.8%	61.8%
Medistim	6.5%	30.1%	18.0%
Medpace	28.3%	21.5%	26.4%
Meituan	22.1%	-	-
MercadoLibre	39.8%	21.7%	23.0%
Meta Platforms	23.2%	40.5%	1.0%
Microsoft	12.8%	34.5%	33.1%
MongoDB	29.8%	8.4%	-2.1%
Netflix	7.8%	22.1%	5.8%
Okta	21.4%	25.7%	1.2%
Paycom Software	21.6%	11.4%	13.0%
PayPal	8.4%	14.8%	23.0%
Salesforce	11.3%	15.7%	4.0%
Sea	4.9%	16.8%	-
Shopify	25.5%	16.1%	-10.8%
Starbucks	11.4%	13.3%	6.6%
Super Hi	-	-	-

Table 11 (continued from above)

Company	Revenue growth in Q3 2023 from a year ago	Free cash flow margin in Q3 2023	Free cash flow margin in Q3 2022
Tencent	10.4%	33.0%	19.7%
Tesla	8.8%	3.6%	15.4%
The Trade Desk	24.9%	37.3%	28.3%
Tractor Supply	4.3%	-0.6%	-5.7%
TSMC	-10.8%	12.4%	23.9%
Veeva Systems	11.6%	12.4%	24.8%
Visa	10.6%	76.9%	71.7%
Wise	22.3%	46.9%	0.9%
Wix	13.9%	11.4%	-6.5%
Zoom	3.2%	39.9%	25.8%
Alteryx	7.9%	-26.7%	-31.6%
Illumina	0.4%	8.4%	-10.7%
Upstart	-14.4%	-79.1%	-68.0%
Average for Compounder Fund's current portfolio	13.2%	22.0%	16.8%
Average for Compounder Fund's current portfolio (including Alteryx, Illumina and Upstart)	12.2%	18.2%	13.0%

Source: Companies' earnings updates

(As of the publication of this letter, there's no quarterly free cash flow data available for Adyen, Haidilao, Meituan, and Super Hi International. 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 12 below shows a few things for the period from 30 September 2023 to 31 December 2023 for the fund's current crop of 46 companies: The change in their trailing revenues-per-share; the change in their trailing P/S (price-to-sales) ratios; and the change in their stock prices. I'm using revenue instead of earnings or cash flow because some of Compounder Fund's holdings are still reinvesting in their businesses for future growth. As a result, they currently are deliberately loss-making, have negative free cash flow, or have low profit and/or free cash flow margins.

Table 12

Company	Trailing revenue per share on 30 Sep 2023	Trailing revenue per share on 31 Dec 2023	P/S ratio on 30 Sep 2023	P/S ratio on 31 Dec 2023	Trailing revenue per share change from 30 Sep 2023 to 31 Dec 2023	P/S ratio change from 30 Sep 2023 to 31 Dec 2023	Stock price change from 30 Sep 2023 to 31 Dec 2023
Adobe	US\$ 41.15	US\$ 42.29	12.4	14.1	2.8%	13.9%	17.0%
Adyen	€ 46.95	€ 49.35	15.0	23.6	5.1%	57.3%	65.3%
Alphabet	US\$ 22.63	US\$ 23.28	5.8	6.0	2.9%	3.7%	6.7%
Amazon	US\$ 51.75	US\$ 53.01	2.5	2.9	2.4%	16.7%	19.5%
Apple	US\$ 24.21	US\$ 24.24	7.1	7.9	0.1%	12.3%	12.5%
ASML	€ 65.63	€ 67.90	8.5	10.1	3.5%	19.2%	28.6%
Block	US\$ 32.58	US\$ 34.27	1.4	2.3	5.2%	66.1%	74.8%
Chipotle Mexican Grill	US\$ 334.35	US\$ 343.77	5.5	6.7	2.8%	21.4%	24.8%
Costco	US\$ 545.14	US\$ 552.77	1.0	1.2	1.4%	15.2%	16.8%
Coupang	US\$ 12.28	US\$ 12.85	1.4	1.3	4.7%	-9.0%	-4.8%
Datadog	US\$ 5.91	US\$ 6.23	15.4	19.5	5.3%	26.5%	33.3%
dLocal	US\$ 1.71	US\$ 1.88	11.2	9.4	10.3%	-16.3%	-7.7%
DocuSign	US\$ 12.74	US\$ 13.00	3.3	4.6	2.1%	38.7%	41.5%
Etsy	US\$ 18.81	US\$ 19.24	3.4	4.2	2.3%	22.7%	25.5%
Fiverr	US\$ 9.10	US\$ 9.37	2.7	2.9	2.9%	8.1%	11.2%
Haidilao	RMB 6.12	RMB 6.12	3.2	2.1	0.0%	-33.3%	-30.8%
Hingham	US\$ 34.63	US\$ 27.21	5.4	7.1	-21.4%	32.5%	4.1%
Intuitive Surgical	US\$ 18.69	US\$ 19.18	15.6	17.6	2.7%	12.4%	15.4%
Markel	US\$ 990.00	US\$ 1008.17	1.5	1.4	1.8%	-5.3%	-3.6%
Mastercard	US\$ 24.78	US\$ 25.68	16.0	16.6	3.6%	4.0%	7.7%
Medistim	NOK 28.7	NOK 29.12	7.4	7.3	1.5%	-1.0%	0.5%
Medpace	US\$ 52.5	US\$ 55.95	4.6	5.5	6.6%	18.8%	26.6%
Meituan	RMB 37.5	RMB 39.58	2.8	1.8	5.6%	-34.7%	-28.5%
Mercado-Libre	US\$ 237.22	US\$ 262.50	5.3	6.0	10.7%	12.0%	24.0%
Meta Platforms	US\$ 46.28	US\$ 48.40	6.5	7.3	4.6%	12.7%	17.9%
Microsoft	US\$ 28.36	US\$ 29.26	11.1	12.9	3.2%	15.5%	19.1%
MongoDB	US\$ 21.08	US\$ 22.38	16.4	18.3	6.2%	11.4%	18.2%
Netflix	US\$ 71.08	US\$ 72.55	5.3	6.7	2.1%	26.3%	28.9%
Okta	US\$ 12.74	US\$ 13.31	6.4	6.8	4.5%	6.3%	11.1%
Paycom Software	US\$ 26.83	US\$ 28.07	9.7	7.4	4.6%	-23.8%	-20.3%
PayPal	US\$ 25.41	US\$ 26.12	2.3	2.4	2.8%	2.2%	5.0%

Table 12 (continued from above)

Company	Trailing revenue per share on 30 Sep 2023	Trailing revenue per share on 31 Dec 2023	P/S ratio on 30 Sep 2023	P/S ratio on 31 Dec 2023	Trailing revenue per share change from 30 Sep 2023 to 31 Dec 2023	P/S ratio change from 30 Sep 2023 to 31 Dec 2023	Stock price change from 30 Sep 2023 to 31 Dec 2023
Salesforce	US\$ 33.51	US\$ 34.47	6.1	7.6	2.9%	26.1%	29.8%
Sea	US\$ 21.29	US\$ 21.58	2.1	1.9	1.4%	-9.1%	-7.8%
Shopify	US\$ 4.93	US\$ 5.20	11.1	15.0	5.4%	35.5%	42.8%
Starbucks	US\$ 30.4	US\$ 31.25	3.0	3.1	2.8%	2.3%	5.2%
Super Hi	US\$ 1.14	US\$ 1.14	1.7	1.2	0.0%	-32.5%	-32.7%
Tencent	RMB 60.16	RMB 62.09	4.7	4.2	3.2%	-10.4%	-4.1%
Tesla	US\$ 27.04	US\$ 27.46	9.3	9.0	1.6%	-2.2%	-0.7%
The Trade Desk	US\$ 3.47	US\$ 3.66	22.5	19.7	5.5%	-12.7%	-7.9%
Tractor Supply	US\$ 133.69	US\$ 135.41	1.5	1.6	1.3%	4.6%	5.9%
TSMC	NT 429.66	NT 416.86	6.5	7.7	-3.0%	17.4%	19.7%
Veeva Systems	US\$ 13.7	US\$ 14.08	14.9	13.7	2.8%	-7.9%	-5.4%
Visa	US\$ 15.22	US\$ 15.66	15.1	16.6	2.9%	10.0%	13.2%
Wise	£ 0.86	£ 0.90	7.9	9.7	4.5%	22.0%	27.5%
Wix	US\$ 25.18	US\$ 25.96	3.6	4.7	3.1%	30.0%	34.0%
Zoom	US\$ 14.63	US\$ 14.66	4.8	4.9	0.2%	2.6%	2.8%
Simple average	-	-	7.2	7.9	2.8%	-	-

Source: Companies' earnings updates

What Table 12 highlights: **Compounder Fund's businesses performed well over the past quarter, with average sequential trailing revenue growth of 2.8%. Importantly, 42 of them experienced growth in their trailing revenues per share for 31 December 2023 compared to 30 September 2023. On this occasion, many of Compounder Fund's businesses also saw their stock prices rise, a consequence of their business growth and an increase in their P/S ratios.**

This rise in the P/S ratio (from an average of 7.2 to 7.9) is a welcome change from the third quarter of 2023 when the stock prices of many of Compounder Fund's holdings fell because of a sharp compression in their P/S ratios despite growth in their businesses. **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, second, and third quarters, and 2022's second, third, and fourth quarters) and this bodes well for the fund's future return.** As of 31 December 2023, the companies currently in Compounder Fund's portfolio have an average trailing P/S ratio of 7.9 and an average trailing free cash flow margin of 21.0%, which equates to an average P/FCF ratio of 46. 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 7.9 would be even lower at 32. For perspective, the implied P/FCF ratio of 32 comes from a group of companies - Compounder Fund's current portfolio - that produced healthy average revenue growth rates of 39.0%, 40.5%, 21.2%, 16.4%, 15.7%, and 13.2% for the whole of 2020, 2021, 2022, and the first, second, and third quarters of 2023, respectively.

A homage to Charlie Munger

Neuroscientist David Eagleman once wrote:

“There are three deaths: the first is when the body ceases to function. The second is when the body is consigned to the grave. The third is that moment, sometime in the future, when your name is spoken for the last time.”

Along Eagleman's line of reasoning, Charlie Munger, who passed away peacefully on 28 November 2023, just 34 days shy of his 100th birthday, would be immortal since he would never experience the third death - his accomplishments, and the wisdom he has shared throughout his life, would see to it.

Jeremy and I both view Munger as one of the true greats in the investing world. He's also one of our investing heroes. In remembrance of his life, I would like to share my favourite lessons from him.

On the importance of thinking in reverse, or inverting

“Another idea that I discovered was encapsulated by that story Dean McCaffery recounted earlier about the rustic who wanted to know where he was going to die, so he wouldn't go there. The rustic who had that ridiculous sounding idea had a profound truth in his possession. The way complex adaptive systems work, and the way mental constructs work, problems frequently become easier to solve through inversion. If you turn problems around into reverse, you often think better. For instance, if you want to help India, the question you should consider asking is not: How can I help India? Instead, you should ask: How can I hurt India? You find what will do the worst damage, and then try to avoid it. Perhaps the two approaches seem logically the same thing. But those who have mastered algebra know that inversion will often and easily solve problems that otherwise resist solution. And in life, just as in algebra, inversion will help you solve problems that you can't otherwise handle.”

On the importance of being equanimous when investing

“If you're not willing to react with equanimity to a market price decline of 50% two or three times a century you're not fit to be a common shareholder and you deserve the mediocre result you're going to get compared to people who do have the temperament, who can be more philosophical about these market fluctuations.”

On the importance of incentives

“From all business, my favourite case on incentives is Federal Express. The heart and soul of their system - which creates the integrity of the product - is having all their airplanes come to one place in the middle of the night and shift all the packages from plane to plane. If there are delays, the whole operation can't deliver a product full of integrity to Federal Express customers. And it was always screwed up. They could never get it done on time. They tried everything - moral suasion, threats, you name it. And nothing worked. Finally, somebody got the idea to pay all these people not so much an hour, but so much a shift - and when it's all done, they can go home. Well, their problems cleared up overnight.”

On great career advice

“Three rules for a career: (1) Don't sell anything you wouldn't buy yourself; (2) Don't work for anyone you don't respect and admire; and (3) Work only with people you enjoy.”

On the importance of admitting mistakes

“There's no way that you can live an adequate life without many mistakes. In fact, one trick in life is to get so you can handle mistakes. Failure to handle psychological denial is a common way for people to go broke.”

On the importance of not letting rare events *completely* shape how you approach life

“Ben Graham had a lot to learn as an investor. His ideas of how to value companies were all shaped by how the Great Crash and the Depression almost destroyed him... It left him with an aftermath of fear for the rest of his life, and all his methods were designed to keep that at bay.”

On the importance of handling problems from many different angles

“Most people are trained in one model - economics, for example - and try to solve all problems in one way. You know the saying: “To the man with a hammer, the world looks like a nail.” This is a dumb way of handling problems.”

On the importance of getting a little wiser each day

“I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than they were when they got up, and boy, does that help, particularly when you have a long run ahead of you.”

On how to invest

“Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns 6% on capital over 40 years and you hold it for that 40 years, you're not going to make much different than a 6%”

return—even if you originally buy it at a huge discount. Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result. So the trick is getting into better businesses. And that involves all of these advantages of scale that you could consider momentum effects.”

On how to get others to agree with you

“Well, you'll end up agreeing with me because you're smart and I'm right.”

On the secret to a happy life

“I always say the same thing: realistic expectations, which is low expectations. If you have unreasonable demands on life, you're like a bird that's trying to destroy himself by bashing his wings on the edge of the cage. And you really can't get out of the cage. It's stupid. You want to have reasonable expectations and take life's results good and bad as they happen with a certain amount of stoicism.”

On courage and perseverance

I saved the most poignant lesson I've learned from Munger for the last. Not many may know this, but the first decade-plus of his adulthood was tragic.

Munger got married when he was 21, but the marriage ended when he was 29. He “lost everything in the divorce,” according to his daughter Molly Munger. Shortly after the divorce, Munger's son, Teddy Munger, was diagnosed with leukaemia. “In those days, there was no medical insurance - I just paid all the expenses” Munger once said. But more importantly, there was absolutely nothing doctors back then could do for leukaemia. When Munger was 31, Teddy passed on. Munger recounted the heart-wrenching episode: “I can't imagine any experience in life worse than losing a child inch by inch. By the time he died, my weight was down 10 to 15 pounds from normal.” One of Munger's friends, Rick Guerin, said that “when his [Munger's] son was in the bed and slowly dying, he'd go in and hold him for awhile, then go out walking the streets of Pasadena crying.”

So by the time Munger was 31, he had already gone through a divorce which cleaned out his finances and experienced the painful death of his son from an incurable disease.

But when Munger left the world, he was a billionaire, and was widely revered around the world for his wit, wisdom, and - most importantly - character. He taught us that with courage and perseverance, we can eventually build a better and admirable life for ourselves. “You should never, when faced with one unbelievable tragedy, let one tragedy increase into two or three because of a failure of will,” he admonished.

See you on the other side, Mr Munger.

Expanding our circle of competence

Some of you may notice that Compounder Fund has never had an oil & gas company in its portfolio since the beginning. The reason can be traced to the very first stocks I bought when

I started investing. Back then, **in October 2010**, I bought six US-listed stocks at one go, two of which were Atwood Oceanics and National Oilwell Varco (or NOV). Atwood was an owner of oil rigs while NOV supplied parts and equipment that kept oil rigs running.

I invested in them because I wanted to be diversified according to sectors. I thought that oil & gas was a sector that was worth investing in since the demand for oil would likely remain strong for a long time. My view on the demand for oil was right, but the investments still went awry. By the time I sold Atwood and NOV in September 2016 and June 2017, respectively, their stock prices were down by 77% and 31% from my initial investments.

It turned out that while global demand for oil did indeed grow from 2010 to 2016 - the consumption of oil increased from 86.5 million barrels per day to 94.2 million barrels - oil prices still fell significantly over the same period, from around US\$80 per barrel to around US\$50. I was not able to predict prices for oil and I had completely missed out on the important fact that these prices would have an outsized impact on the business fortunes of both Atwood and NOV. In its fiscal year ended 30 September 2010 (FY2010), Atwood's revenue and net income were US\$650 million and US\$257 million, respectively. By FY2016, Atwood's revenue had increased to US\$1.0 billion, but its net income barely budged, coming in at US\$265 million. Importantly, its return on equity fell from 21% to 9% in that period while its balance sheet worsened dramatically. For perspective, Atwood's net debt (total debt minus cash and equivalents) ballooned from US\$49 million in FY2010 to US\$1.1 billion in FY2016. As for NOV, from 2010 to 2016, its revenue fell from US\$12.2 billion to US\$7.2 billion and its net income collapsed from US\$1.7 billion to a loss of US\$2.4 billion. This experience taught me to be wary of companies whose business results have strong links to commodity prices, since I had no ability to foretell their movements.

Fast forward to the launch of Compounder Fund in July 2020, and I was clear that I still had no ability to divine oil prices - and neither did Jeremy. **Said another way, we were fully aware that companies related to the oil & gas industry were beyond our circle of competence.** Then 2022 rolled around and during the month of August, Jeremy and I came across a US-listed oil & gas company named Unit Corporation. At the time, the company had three segments that spanned the oil & gas industry's value chain: Oil and Natural Gas; Mid-Stream, and Contract Drilling. In the Oil and Natural Gas segment, Unit owned oil and natural gas fields in the USA - most of which were in the Anadarko Basin in the Oklahoma region - and was producing these natural resources. The Mid-Stream segment consisted of Unit's 50% ownership of Superior Pipeline Company, which gathers, processes, and treats natural gas, and owns more than 3,800 miles of gas pipelines (a private equity firm, Partners Group, controlled the other 50% stake). The last segment, Contract Drilling, is where Unit owned 21 available-for-use rigs for the drilling of oil and gas.

When we first heard of Unit in August 2022, it had a stock price of around US\$60, a market capitalisation of just over US\$560 million, and an enterprise value (market capitalisation minus net-cash) of around US\$470 million (Unit's net-cash was US\$88 million back then). But the company's intrinsic value could be a lot higher. In January 2022, Unit launched a sales process for its entire Oil and Natural Gas segment, pegging the segment's proven, developed, and producing reserves at a value of US\$765 million. This US\$765 million value came from the estimated future cash flows of the segment - based on oil prices we believe were around US\$80 per barrel - discounted back to the present at 10% per year. Unit ended the sales process for the Oil and Natural Gas segment in June 2022 after selling only a small

portion of its assets for US\$45 million. Nonetheless, when we first knew Unit, the Oil and Natural Gas segment probably still had a value that was in the neighbourhood of the company's estimation during the sales process, since oil prices were over US\$80 per barrel in August 2022. Meanwhile, we also saw some estimates in the same month that it would cost at least US\$400 million for someone to build the entire fleet of rigs that were in the Contract Drilling segment. As for the Mid-Stream segment, due to Superior Pipeline's ownership structure and the cash flows it was producing, the value that accrued to Unit was not significant*. So here's what we saw in Unit in August 2022 after putting everything together: **The value of the company's Oil and Natural Gas and Contract-Drilling segments (around US\$765 million and US\$400 million, respectively) dwarfed its enterprise value of US\$470 million**.**

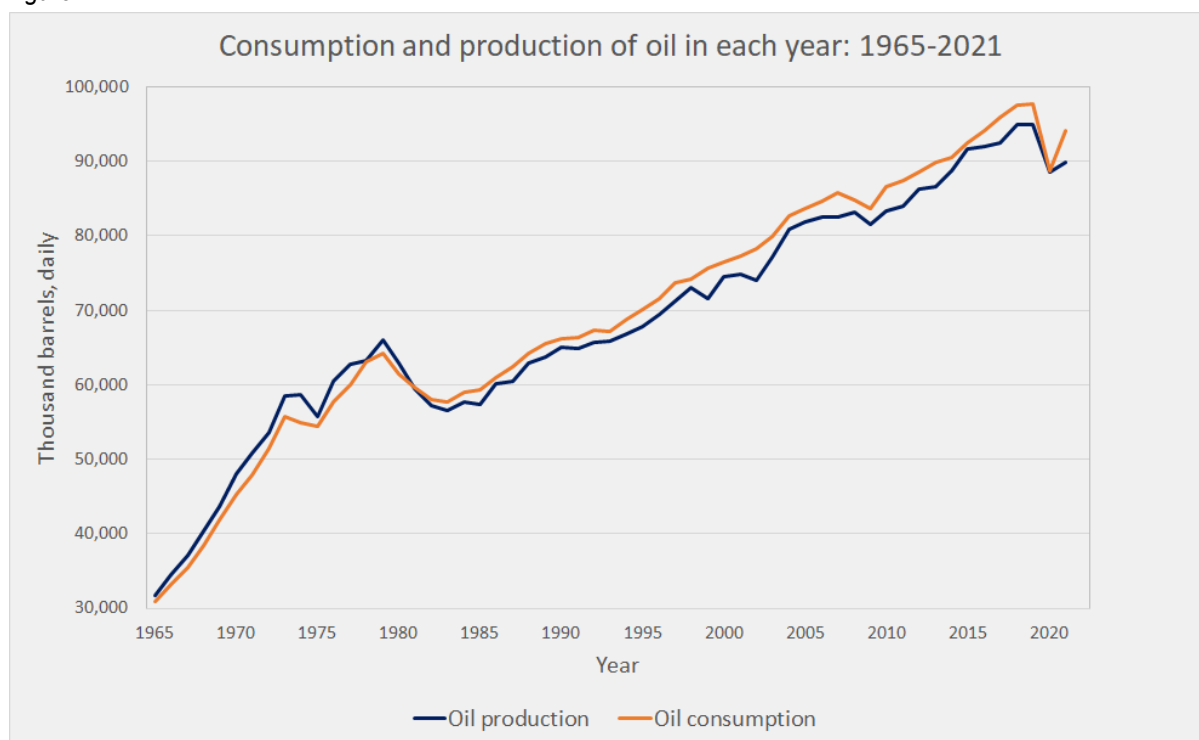
But there was a catch. **The estimated intrinsic values of Unit's two important segments - Oil and Natural Gas, and Contract Drilling - were based on oil prices in the months leading up to August 2022. This led Jeremy and I to attempt to expand our circle of competence: We wanted to better understand the drivers for oil prices.** There were other motivations. First, Warren Buffett was investing tens of billions of dollars in the shares of oil & gas companies such as Occidental Petroleum and Chevron in the first half of 2022. Second, we also came across articles and podcasts from oil & gas investors discussing the supply-and-demand dynamics in the oil market that could lead to sustained high prices for the energy commodity. So, we started digging into the history of oil prices and what influences it.

Here's a brief history on major declines in the price of WTI Crude over the past four decades:

- 1980 - 1986: From around US\$30 to US\$10
- 1990 - 1994: From around US\$40 to less than US\$14
- 2008 - 2009: From around US\$140 to around US\$40
- 2014 - 2016: From around US\$110 to less than US\$33
- 2020: From around US\$60 to -US\$37

Since oil is a commodity, it would be logical to think that differences in the level of oil's supply-and-demand would heavily affect its price movement - when demand is lower than supply, prices would crash, and vice versa. The UK-headquartered BP, one of the largest oil-producing companies in the world, has a [dataset](#) on historical oil production and consumption going back to 1965. BP's data is plotted in Figure 1 below and it shows that **from 1981 onwards, the demand for oil (consumption) was *higher* than the supply of oil (production) *in every year*. What this means is the price of oil has surprisingly experienced at least five major crashes over the past four decades despite its demand being higher than supply *over the entire period*.**

Figure 1



Source: BP

We shared our unexpected findings with our network of investor friends, which included **Vision Capital**'s Eugene Ng. He was intrigued and noticed that the U.S. **Energy Information Administration** (EIA) maintained its own database for long-term global oil consumption and production. After **obtaining similar results** from EIA's data compared to what we got from BP, Eugene asked the EIA how it was possible for oil consumption to outweigh production for decades. The EIA responded and Eugene kindly shared the answers with us. It turns out that there could be errors within EIA's data. The possible sources of errors come from incomplete accounting of Transfers and Backflows in oil balances:

- Transfers include the direct and indirect conversion of coal and natural gas to petroleum.
- Backflows refer to double-counting of oil-streams in consumption. Backflows can happen if the data collection process does not properly account for recycled streams.

The EIA also gave an example of how a backflow could happen with the fuel additive, MTBE, or methyl tert-butyl ether (quote is lightly edited for clarity):

“The fuel additive MTBE is an useful example of both, as its most common feedstocks are methanol (usually from a non-petroleum fossil source) and Iso-Butylene whose feedstock likely comes from feed that has already been accounted for as butane (or iso-butane) consumption. MTBE adds a further complexity in that it is often exported as a chemical and thus not tracked in the petroleum trade balance.”

Thanks to the EIA, we realised that BP's historical data on the demand and supply of oil might contain errors and how they could have happened. **But despite knowing this, Jeremy and I still could not tell what the actual demand-and-supply dynamics of oil**

were during the five major price crashes that happened from the 1980s to today^{***}. We tried expanding our circle of competence to creep into the oil & gas industry, but were stopped in our tracks. As a result, we decided to pass on investing in Unit.

By sharing how we attempted to enlarge our circle of competence, and our research process when studying Unit, I hope that you can gain a better understanding of the investing work that Jeremy and I conduct for Compounder Fund. Although we cannot promise that we will succeed, we can promise that we'll be constantly trying to widen our circle of competence.

**In April 2018, Unit sold a 50% stake in Superior Pipeline to entities controlled by Partners Group - that's how Partners Group's aforementioned 50% control came about. When we first studied Unit in August 2022, either Unit or Partners Group could initiate a process after April 2023 to liquidate Superior Pipeline or sell it to a third-party. If a liquidation or sale of Superior Pipeline were to happen, Partners Group would be entitled to an annualised return of 7% on its initial investment of US\$300 million before Unit could receive any proceeds; as of 30 June 2022, a sum of US\$354 million was required for Partners Group to achieve its return-goal. In the first half of 2022, the cash flow generated by Superior Pipeline was US\$24 million, which meant that Unit's Mid-stream segment was on track to generate around US\$50 million in cash flow for the whole of 2022. We figured that a sale of Superior Pipeline in April 2023, with around US\$50 million in 2022 cash flow, would probably fetch a total amount that was in the neighbourhood of the US\$354 million mentioned earlier that Partners Group was entitled to. So if Superior Pipeline was sold, there would not be much proceeds left for Unit after Partners Group has its piece.*

***In Compounder Fund's [Owner's Manual](#) and [website](#), we mentioned that "a small portion of Compounder Fund's capital could also be invested in stocks that are undergoing special situations or have hidden asset values." Unit looked like a company that had hidden asset values.*

****If anyone reading this happens to have insight on the actual historical levels of production and consumption of oil during the past crashes, we would deeply appreciate it if you could get in touch with us. Thanks in advance!*

House-keeping matters and what's next

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

As Jeremy and I have shared before, giving back to society is one of the four key pillars of Compounder Fund's mission to "Grow Your Wealth & Enrich Society." In the fund's website, we [mentioned](#) that "we are setting aside at least 10% of every dollar we earn from Compounder Fund in each year for charities of our choice" and that "we will audit our giving." The first audit for our giving, conducted by Baker Tilly, covered the period from November 2019 (when we started building the fund) to December 2021. Subsequent audits are for each

calendar year and the audit report for 2023 will again be done by Baker Tilly. We will share the audit report on the fund's website when it is ready; 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 March 2024 and it will have a dealing date on the first business day of April 2024 (which should be 1st April). If you would like to increase your investment in the fund, please submit the relevant paperwork by the middle of March 2024. Jeremy and I are happy to assist with any queries you may have.

Lastly, Compounder Fund has changed its fund administrator, as we communicated in an email to all of you on 22 December 2023. As a reminder, the important tasks of a fund administrator include: Processing investor subscriptions and redemptions; calculating and reporting the fund's monthly returns; and keeping a ledger of the fund's investors. These tasks were previously handled by Crowe Horwath First Trust for Compounder Fund, but has been taken over by NAV Fund Administration Group. NAV has more than 2,200 clients worldwide and assets under administration of US\$260 billion. Thanks to Jeremy's immense efforts and the excellence of the NAV team thus far, the transition has been smooth and we look forward to Compounder Fund's investors having a good experience with NAV as the fund administrator. Jeremy and I have thoroughly enjoyed our working relationship with Crowe over the past three-and-a-half years or so. We are very grateful for the team at Crowe, who have been nothing but professional and exceptional. We would like to thank them for being a reliable partner to Compounder Fund over the past few years and wish them all the best.

Optimism (as always!)

There are a myriad of important political, social, economic, and healthcare issues that are plaguing our globe today. But Jeremy and I are still long-term optimistic on the stock market. This is because we still see so much potential in humanity. There are nearly 8.1 billion individuals in the world [right now](#), and the vast majority of people will wake up every morning wanting to improve the world and their own lot in life. *This* - the desire for progress - is ultimately what fuels the global economy and financial markets. Miscreants and Mother Nature will occasionally wreak havoc but we have faith that humanity can clean it up. To us, investing in stocks is ultimately the same as having faith in the long-term ingenuity of humanity. We will remain long-term optimistic on stocks so long as we continue to have this faith.

There may be times in the future when it seems that mankind's collective ability to innovate is faltering (things are booming now with the AI rush). But here are three stories I learnt recently that would help Jeremy and me - and I hope you, too - keep the faith.

The first story is from Morgan Housel's latest book [Same As Ever](#). In it, he wrote:

“Author Safi Bahcall notes that Polaroid film was discovered when sick dogs that were fed quinine to treat parasites showed an unusual type of crystal in their urine. Those crystals turned out to be the best polarizers ever discovered. Who predicts that? Who sees that coming? Nobody. Absolutely nobody.”

What the quinine and polarizers story shows is that the root of innovative ideas can show up completely unexpectedly. This brings me to the second story, which is also from *Same As Ever*. This time, it is Housel’s recounting of how the invention of planes moved in an unpredictable path that led to the invention of nuclear power plants (nuclear power is a zero-emission, clean energy source, so it could play a really important role in society’s sustainable energy efforts), and how a 1960s invention linking computers to manage Cold War secrets unpredictably led to the photo-sharing social app Instagram:

“When the airplane came into practical use in the early 1900s, one of the first tasks was trying to foresee what benefits would come from it. A few obvious ones were mail delivery and sky racing. No one predicted nuclear power plants. But they wouldn’t have been possible without the plane. Without the plane we wouldn’t have had the aerial bomb. Without the aerial bomb we wouldn’t have had the nuclear bomb. And without the nuclear bomb we wouldn’t have discovered the peaceful use of nuclear power. Same thing today. Google Maps, TurboTax, and Instagram wouldn’t be possible without ARPANET, a 1960s Department of Defense project linking computers to manage Cold War secrets, which became the foundation for the internet. That’s how you go from the threat of nuclear war to filing your taxes from your couch—a link that was unthinkable fifty years ago, but there it is.”

This idea of one innovation leading to another, brings me to my third story. There was a breakthrough in the healthcare industry in November 2023 when the UK’s health regulator approved a drug named Casgevy - developed by CRISPR Therapeutics and Vertex Pharmaceuticals - for the treatment of blood disorders known as sickle cell disease and beta thalassaemia. Casgevy’s greenlight is groundbreaking because it is the first drug in the world to be approved that is based on the CRISPR (clustered regularly interspaced short palindromic repeats) gene editing technique. A few weeks after the UK’s decision, Casgevy became the first gene-editing treatment available in the USA for sickle cell disease (the use of Casgevy for beta thalassaemia in the USA is currently still being studied). Casgevy is a huge upgrade for sickle cell patients over the current way the condition is managed. Here’s Sarah Zhang, [writing](#) at *The Atlantic* in November 2023:

“When Victoria Gray was still a baby, she started howling so inconsolably during a bath that she was rushed to the emergency room. The diagnosis was sickle-cell disease, a genetic condition that causes bouts of excruciating pain—“worse than a broken leg, worse than childbirth,” one doctor told me. Like lightning crackling in her body is how Gray, now 38, has described the pain. For most of her life, she lived in fear that it could strike at any moment, forcing her to drop everything to rush, once again, to the hospital.

After a particularly long and debilitating hospitalization in college, Gray was so weak that she had to relearn how to stand, how to use a spoon. She dropped out of school. She gave up on her dream of becoming a nurse.

Four years ago, she joined a groundbreaking clinical trial that would change her life. She became the first sickle-cell patient to be treated with the gene-editing technology CRISPR—and one of the first humans to be treated with CRISPR, period. CRISPR at that point had been hugely hyped, but had largely been used only to tinker with cells in a lab. When Gray got her experimental infusion, scientists did not know whether it would cure her disease or go terribly awry inside her. The therapy worked—better than anyone dared to hope. With her gene-edited cells, Gray now lives virtually symptom-free. Twenty-nine of 30 eligible patients in the trial went from multiple pain crises every year to zero in 12 months following treatment.

The results are so astounding that this therapy, from Vertex Pharmaceuticals and CRISPR Therapeutics, became the first CRISPR medicine ever approved, with U.K. regulators giving the green light earlier this month; the FDA appears prepared to follow suit in the next two weeks.”

The manufacturing technologies behind Casgevy include electroporation, where an electric field is used to increase the permeability of a cell’s membrane. This enables molecules, such as genetic material and proteins, to be introduced in a cell for the purposes of gene editing. According to an expert-call on electroporation that we reviewed, the technology has been around for over four decades, but only started gaining steam in recent years with the decline in genetic sequencing costs; without affordable genetic sequencing, it was expensive to know if a gene editing process done via electroporation was successful. The relentless work of Illumina (a company we recently sold from Compounder Fund’s portfolio, as mentioned earlier in this letter) has played a huge role in lowering genetic sequencing costs over time. These show how one innovation (cheaper genetic sequencing) supported another in a related field (the viability of electroporation) that then enabled yet another in a related field (the creation of gene editing therapies).

The three stories I just shared highlight the different ways that innovation can happen. It can appear from the most unexpected places (quinine and polarizers); it can take unpredictable paths (from planes to nuclear power plants); and it can occur when supporting technologies improve over time (the development of Casgevy). **What they signify is that we shouldn’t lose hope in mankind’s creative prowess when it appears that nothing new of significance has been built for a while. Sometimes, what’s needed is just time.**

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

Final words

If you have any questions related to Compounder Fund's administrative matters or our general investment thinking, please know that our email inboxes are always open to you. Thank you again for trusting Jeremy and me with your hard-earned capital. We deeply appreciate your trust and support (especially in difficult times like these), your belief in Compounder Fund's mission to "Grow *Your* Wealth & Enrich Society," and your understanding of the investing approach that we are taking.

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

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

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

P.S.: You can find all of our [past investors' letters here](#).

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