Compounder Fund Investors' Letter: Second Quarter of 2024

Dear investors,

I'm presenting Compounder Fund's 2024 second-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 2.7%. Over the same period, the dividend-adjusted Singapore-dollar returns for the S&P 500 was 4.7%. Tables 1 and 2 below show the returns for Compounder Fund's two share classes (the earliest series for each share class) and the S&P 500 since the birth of the fund.

Table 1

Time period	Compounder Fund Class A (after fees)	S&P 500**
2020*	11.2%	14.2%
2021	0.9%	31.2%
2022	-44.1%	-18.7%
2023	36.7%	24.4%
Q1 2024	12.7%	13.1%
Apr 2024	-3.3%	-3.1%
May 2024	2.1%	4.0%
Jun 2024	4.0%	3.9%
Q2 2024	2.7%	4.7%
Year-to-date 2024	15.8%	18.5%
Total return since inception*	-0.8%	79.7%
Annualised return since inception*	-0.2%	15.9%

**Inception date: 13 July 2020*
***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%
2023	36.7%	24.4%
Q1 2024	12.7%	13.1%
Apr 2024	-3.3%	-3.1%
May 2024	2.1%	4.0%
Jun 2024	4.0%	3.9%
Q2 2024	2.7%	4.7%
Year-to-date 2024	15.8%	18.5%
Total return since inception*	-4.7%	70.8%
Annualised return since inception*	-1.3%	15.4%

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

Compounder Fund's investment mandate is global in nature. This means the fund can invest in any listed stock in the world. But we believe the S&P 500, a prominent US stock market index, 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 including a global index if there are significant changes to Compounder Fund's portfolio from a geographic perspective, or if US stocks start lagging their global peers.

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

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

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

Jeremy and I believe that investing for Compounder Fund in the manner we have been from the start - finding companies with the potential for strong long-term growth in their businesses and holding their shares - is the best way forward. This is because we think it will produce the best long-term results. The performance of Compounder Fund has been poor so far, and we understand why you may question this approach. But based on our experience investing in the past over longer time frames, we believe this is a way of investing that will very likely work if given the time to succeed. In the paragraph above, I highlighted sections from our previous letters that detailed severe dislocations between business and stock price performances seen in the past that were eventually corrected over time; these examples also lend weight to our belief (I explain our belief in greater detail in the "*Wonderful businesses"* section of this letter). Although the manner of our investing has not changed, **we have been - and will continue - attempting to improve the performance of the fund, a process I will discuss in the "*Improving our performance"* section of this letter.**

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

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

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

Judging our performance

Our target for Compounder Fund is to generate an annual return of 12% or more over the long run (a five- to seven-year period, or longer) for the fund's investors, net of all fees. When Warren Buffett was running an investment fund in the 1950s and 1960s, he shared his thoughts on a suitable time frame to assess the performance of an investment manager:

> "While I much prefer a five-year test, I feel three years is an absolute minimum for judging performance. It is a certainty that we will have years when the partnership performance is poorer, perhaps substantially so, than the [market]. If any three-year or longer period produces poor results, we all should start looking around for other places to have our money. An exception to the latter would be three years covering a speculative explosion in a bull market."

We're past 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 find the performance of the fund wanting by using the minimum three-year evaluation period, we understand.** But based on the business performances of Compounder Fund's holdings, we're confident that when the fund's *stock price* performance is eventually weighed in the fullness of time, a favourable judgement is likely to result - **I discuss the reason for our confidence in the *"Wonderful businesses"* section of this letter.**

It will be very disappointing for the both of us too if Compounder Fund fails to beat the S&P 500 over a five- to seven-year timeframe. Jeremy and I believe that having a thoughtful investment framework to find Compounders, and the willingness and ability to hold the shares of Compounders for years, will likely lead us to long-term market-beating returns. Do note, however, that we harbour *no* illusion that we're able to beat the indices each month, each quarter, or each year. The willingness comes from our ingrained long-term view towards the market. The ability, though, comes from *your* keen understanding of our investment approach.

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

Speaking of volatility, I want to discuss the important concept of the 'destination'. I first heard about it from a friend - an incredibly impressive young investor and person - who in turn learnt about it from Nicholas Sleep, one of the best investors I've read about. After retiring in the mid-2010s and initially wanting to be outside the public eye, Sleep published a collection of his investment letters in 2021 on the **website** of his charitable foundation, I.G.Y (do check out his letters - they're a fantastic read). To illustrate the concept, I will need you to think about two sequences of returns over a seven year period, shown in Table 3:

Table 3

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

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

Both sequences result in the same total return. But the **psychological** experience with Sequence A is vastly more difficult than with Sequence B because of Sequence A's much greater volatility. **It would also be really difficult for an investor in Sequence A to hold on from Year 1 to Year 4 because the overall return at the Year 4 mark would be -15%;** this compares with the overall return of 43% for Sequence B. The difference between Sequence A and Sequence B's psychological experience from Year 1 to Year 7, and the *indifference* in the overall result, 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 **2024 first-quarter letter** was published on 12 April 2024. In it, I shared all 46 holdings that were in the fund's portfolio at the time. In late June, we made some changes to the portfolio, the most prominent of which were the complete sales of the DocuSign and Etsy stakes, small trims to the Chipotle Mexican Grill and Costco positions, and a new investment in Nu Holdings.

We sold DocuSign and Etsy primarily because their revenue growth rates plummeted in 2023 and in the first quarter of 2024 - see Table 4 below - and we do not have confidence in both of their businesses returning to a high-growth state.

Table 4

Quarter	DocuSign year-on-year revenue growth rate	Etsy year-on-year revenue growth rate
Q1 2021	57.9%	141.5%
Q2 2021	49.6%	23.4%
Q3 2021	42.4%	17.9%
Q4 2021	34.8%	16.2%
Q1 2022	25.5%	5.2%
Q2 2022	21.6%	10.6%
Q3 2022	18.3%	11.7%
Q4 2022	13.6%	12.6%
Q1 2023	12.3%	10.6%
Q2 2023	10.5%	7.5%
Q3 2023	8.5%	7.0%
Q4 2023	8.0%	4.3%
Q1 2024	7.3%	0.8%

Source: DocuSign and Etsy earnings releases

In the case of **e-signature specialist** DocuSign, Allan Thygessen assumed the chief executive role in October 2022 and spoke of his desire to run a company with double-digit revenue growth rates during his first earnings conference call as CEO. But DocuSign's revenue growth has declined steadily since, as shown in Table 4. Moreover, guidance for DocuSign's revenue growth for 2024 was just 6%. Thygessen's new product strategy for the company, a platform named Intelligent Agreement Management, or IAM, was announced this April. It is a one-stop platform for users to create, manage, and learn from their agreements. But in the first quarter of 2019, DocuSign launched Agreement Cloud, a platform similar to IAM, that was billed as a solution for "how organisations prepare, sign, act on and manage their agreements." Agreement Cloud appears to have failed to achieve major commercial success and the last earnings conference call in which management voluntarily commented on the platform was for the first quarter of 2022. We'll be sharing more of our thoughts on DocuSign in a sell-thesis that will be published on Compounder Fund's website in the coming months. We will inform you when it's up.

As for Etsy, we now think we were wrong about the characteristics of its **namesake craft items ecommerce marketplace** (the italicised "Etsy" would refer to the company's *Etsy* marketplace, while the non-italicised "Etsy" would refer to the company). When we first invested, we considered "the *Etsy* marketplace to be well-differentiated from other ecommerce marketplaces due to its unique products." But according to an early-June 2024 **article** from *The Information*:

> "A September 2023 analysis by MoffettNathanson found that nearly 30% of Temu's top-selling women's clothing items were also listed for sale on Etsy, and 19 of Temu's top 25 jewelry items also appeared on Etsy, often listed at much higher prices."

This is not what a well-differentiated marketplace looks like to us. We were also alarmed by management's comments in Etsy's 2024 first-quarter earnings conference call regarding the company's Chinese competitors (Temu is an online marketplace of Chinese e-commerce company PDD Holdings):

> "I think what we've been saying all along is that we think that the Chinese competitors are more symptoms than a root cause. I think what we're observing again and again, both at Etsy and what we read in the commentary from so many others in our space, is that consumers feel really pressured in spite of what we're seeing about a generally healthy economy. Consumers feel really pressured and so they are seeking value in deep discounts and deep promotions. And so yes, the Chinese competitors are offering that, but Amazon and Walmart are, too."

The above excerpt suggests that Etsy's management sees a weak US economy and lower prices from Chinese competitors as the main challenges faced by the company. We think management is not seeing the key issue, which is the lack of differentiation with the *Etsy* marketplace. Similar to DocuSign, we will let you know once we have published our sell-thesis for Etsy in the coming months.

Regarding the trimming of Chipotle Mexican Grill and Costco, they were done because of valuation reasons and also because we wanted to free up some capital to invest in Nu Holdings. I mentioned in our 2024 first-quarter letter that we're "still really positive on the future growth potential of Chipotle and Costco's businesses" but that they "ended March 2024 with high price-to-earnings ratios of 66 and 48, and high price-to-free cash flow ratios of 66 and 53, respectively." Both conditions still hold true. Chipotle posted 14.1% year-on-year revenue growth in the first quarter of 2024, same-store sales growth of 7.0%, an impressive restaurant level operating margin of 27.5%, and a 23.9% increase in diluted earnings per share. As for Costco, same-store sales growth of 6.6% for the same quarter drove a 9.1% revenue increase, leading to a 29.0% jump in diluted earnings per share (or growth of 10.2%, excluding one-off charges in the year-ago quarter). At the end of June 2024, Chipotle's price-to-earnings and price-to-free cash flow ratios were 67 and 65, respectively, while Costco's were 52 and 51. Taking a small number of chips off the table still seems like a sensible move to us.

Coming to the latest addition to Compounder Fund's portfolio, Nu Holdings, you can expect to see our detailed investment thesis in the weeks ahead (and we'll be informing you when it's published). But meanwhile, here are some highlights on the company, which held its initial public offering in December 2021:

- Nu Holdings is the holding company of Nubank, which is today one of the largest digital banks in the world. Nubank is currently active in three Latin American markets - Brazil, Colombia, and Mexico - with Brazil being its most important geography by far.
- Nu Holdings' first product, the Nu Credit Card, a purple Mastercard-branded credit card, was launched in 2014 in Brazil. In just roughly a decade, the digital bank has

grown its total customer base impressively from *nothing* to more than 100 million as of May 2024; of the 100 million, around 83% are monthly active customers. In the first quarter of 2024, Nu Holdings had 91.8 million customers in Brazil, which was 54% of the country's adult population. The digital bank is well-loved by its customers, seeing as how it has (1) acquired a "significant part" of its customers since inception through word-of-mouth or direct unpaid referrals from existing customers, and (2) a net promoter score that management believes is much higher than other financial institutions in its geographies.
- Nu Holdings has expanded its product-suite significantly over time, and now has solutions to cover what it calls the "Five Financial Seasons" of its customers: Spending, saving, investing, borrowing, and protection (insurance). This has played a role in Nu Holdings' outstanding *annualised* growth of 124% in revenue and 48% in average revenue per active customer from the first quarter of 2021 to the first quarter of 2024.
- The digital bank has started to generate positive IFRS (International Financial Reporting Standards) net profit in the past few quarters and produced a strong annualised return on equity of 23% in the first quarter of 2024. But even better economics are likely to be on the way for a few reasons:
    - Nu Holdings held excess capital of US$2.4 billion at the holding level in the first quarter of 2024 when its shareholders' equity was US$6.8 billion.
    - The digital bank's operations in Mexico and Colombia are still loss-making, and the return on equity in the Brazil business alone was more than 40% in the first quarter of 2024.
    - In a May 2024 **interview** with *Bloomberg,* Nu Holdings' co-founder and CEO, David Velez, said that around 50% of the company's employees "today are working on products that are generating zero revenue." If any of these products succeed in becoming profitable, it will improve Nu Holdings' overall profitability.
    - Nu Holdings has maintained a low cost-to-serve per active customer while growing its revenue per active customer significantly over time.
    - Mature customer cohorts have an average revenue per active customer of around US$27 per month, nearly twice that of the company-wide average revenue per active customer of US$11.40 per month.
    - Nu Holdings had a low loan-to-deposit ratio of just 40% in the first quarter of 2024. Nu Holdings' excess deposits are invested in public bonds, which have much lower yields than its credit products. As management puts more of the deposits to work in credit products, the digital bank's profitability should trend upwards.
- Nu Holdings' retail financial services revenue opportunity in Brazil, Mexico, and Columbia was US$200 billion in 2023, with Brazil alone accounting for US$146 billion. In comparison, Nu Holdings' trailing revenue was US$9.2 billion. For another perspective, although Nu Holdings ended the first quarter of 2024 with nearly 100 million customers, it accounted for less than 5% of the Latin American continent's financial services revenue.
- Table 5 below shows Nu Holdings' quarterly revenue, revenue per active customer, net profit, annualised return on equity, and cost-to-serve since the first quarter of 2021.

Table 5

Quarter	Nu revenue (US$, billion)	Nu revenue per active customer (US$)	Nu net profit (US$, million)	Nu annualised return on equity	Nu cost-to-serve per active customer (US$)
Q1 2021	0.25	3.5	-49	N.M.	0.8
Q2 2021	0.34	4.0	-15	N.M.	0.8
Q3 2021	0.48	4.9	-34	N.M.	0.8
Q4 2021	0.64	5.6	-66	N.M.	0.9
Q1 2022	0.88	6.7	-45	N.M.	0.7
Q2 2022	1.16	7.8	-30	N.M.	0.8
Q3 2022	1.31	7.9	8	1%	0.8
Q4 2022	1.45	8.2	-298	N.M.	0.9
Q1 2023	1.62	8.6	142	11%	0.8
Q2 2023	1.87	9.3	225	17%	0.8
Q3 2023	2.14	10.0	303	21%	0.9
Q4 2023	2.41	10.6	361	23%	0.9
Q1 2024	2.74	11.4	379	23%	0.9

Source: Nu Holdings earnings presentations

There's one other thing we want to share about Nu Holdings in this letter: David Velez strikes us as a leader who believes that proactively delivering as much value as possible to customers, even if doing so would be a short-term negative for Nu Holdings, is the *right thing to do for building the company's long-term value*. We agree with his belief. During a recent **internal interview**, Velez shared the following story (emphases are mine):

> "A couple of years ago we had an analyst that came and said, "Hey, we're suddenly making more money per customer." Our cohorts were tilting up very fast. And we went in and took a look and see what was happening. And it turns out that there had been a bug in our system and we had stopped sending a reminder email to our customers. **Since the beginning - being we care about the values - we remind the consumer almost every day to pay on time**. **We don't want them to revolve unnecessarily**. So we remind the consumers and only the ones that really need to revolve will end up revolving and pay a late fee. So for us, having that consumer value was very easy to know what to do. **Not only we had to go back and put that email immediately, but also go beyond and send an email to all of our customers and apologize for having stopped reminding them to pay on time and reimburse that fee**.
>
> Now here some people might ask, "Well, what are you? Are you not for profit? You're not going to make that much money anymore. How is this consistent with long-term value creation?" And our view is that they're actually completely consistent, in the

> long run. **In the long run, that customer that has just received an email from Nubank apologizing for having done something that they didn't need to do and reimbursing that money will say, "Wow, this is a fundamentally different experience." And we have just earned a customer for the next 50 years**. **So that trust is extremely valuable and in the long run, sending that reminder email might make us make less money in the short-term but will help us have a customer working with us for a longer run**. And that's how that value and that strategy are completely consistent with each other and with maximizing for shareholder value in the long run."

This story is something that helps build our confidence that Nu Holdings' leaders are truly thinking about the long-term when growing the company. The actions of Velez and his team also reminds us of what Jeff Bezos wrote in Amazon's 2012 shareholders' letter:

> "Proactively delighting customers earns trust, which earns more business from those customers, even in new business arenas. Take a long-term view, and the interests of customers and shareholders align."

As of this letter's publication, we have released our investment theses on all 45 companies that are currently in Compounder Fund's portfolio, except for Nu Holdings, and they can be **found here**. As I already mentioned, our thesis for Nu Holdings will be out in the next few weeks while our Sell theses for DocuSign and Etsy will be released in the coming months. Here's how Compounder Fund's portfolio of 45 companies looks like as of 7 July 2024:

Table 6

Company	Weighting	Country/Region of listing	Headquarters
Meta Platforms	9.1%	USA	USA
MercadoLibre	5.7%	USA	Argentina
Netflix	5.1%	USA	USA
Amazon	4.8%	USA	USA
Microsoft	4.7%	USA	USA
Alphabet	4.3%	USA	USA
Chipotle Mexican Grill	3.6%	USA	USA
The Trade Desk	3.6%	USA	USA
Costco	3.6%	USA	USA
Tractor Supply	3.4%	USA	USA
Apple	3.4%	USA	USA
ASML	3.2%	USA	Netherlands
Intuitive Surgical	3.0%	USA	USA
DataDog	2.7%	USA	USA
Mastercard	2.6%	USA	USA
Visa	2.5%	USA	USA
Adobe	2.5%	USA	USA
Shopify	2.2%	USA	Canada

Table 6 (continued from above)

Company	Weighting	Country/Region of listing	Headquarters
Medpace	2.2%	USA	USA
Tencent	2.1%	Hong Kong	China
TSMC	2.1%	USA	Taiwan
Tesla	2.0%	USA	USA
Nu Holdings	1.9%	USA	Brazil
Adyen	1.9%	Netherlands	Netherlands
Markel	1.9%	USA	USA
Salesforce	1.7%	USA	USA
MongoDB	1.3%	USA	USA
Veeva Systems	1.2%	USA	USA
Wix	1.1%	USA	Israel
PayPal	1.1%	USA	USA
Starbucks	1.1%	USA	USA
Wise	1.0%	UK	UK
Okta	0.8%	USA	USA
Medistim	0.8%	Norway	Norway
Block	0.8%	USA	USA
Meituan	0.7%	Hong Kong	China
Hingham	0.7%	USA	USA
Haidilao	0.6%	Hong Kong	China
Coupang	0.6%	USA	South Korea
Paycom Software	0.5%	USA	USA
Zoom	0.4%	USA	USA
Sea	0.4%	USA	Singapore
dLocal	0.4%	USA	Uruguay
Fiverr	0.2%	USA	Israel
Super Hi	0.1%	Hong Kong	Singapore
Cash	**0.6%**	**-**	**-**

**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 July 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	-	5.7%
Brazil	-	1.9%
Canada	-	2.2%
China	-	3.4%
Hong Kong	3.5%	-
Israel	-	1.3%
Netherlands	1.9%	5.1%
Norway	0.8%	0.8%
Singapore	-	0.5%
South Korea	-	0.6%
Taiwan	-	2.1%
UK	1.0%	1.0%
Uruguay	-	0.4%
USA	92.2%	74.5%

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 first quarter of 2024.
Table 8 below shows the year-on-year revenue growth rates for all the 45 companies that are currently in Compounder Fund's portfolio (the ones in Table 6), as well as DocuSign and Etsy, for the following time periods: The whole of 2020, 2021, 2022, and 2023, and the first quarter of 2024.

Table 8

Company	2020 revenue growth	2021 revenue growth	2022 revenue growth	2023 revenue growth	Q1 2024 revenue growth
Adobe	17.3%	18.0%	11.5%	10.8%	10.2%
Adyen	28.1%	46.4%	32.8%	22.2%	21.0%
Alphabet	12.8%	41.2%	9.8%	8.7%	15.4%
Amazon	37.6%	21.7%	9.4%	11.8%	12.5%
Apple	9.9%	28.6%	2.4%	-0.5%	-4.3%
ASML	18.3%	33.1%	13.8%	30.2%	-21.6%
Block	101.5%	86.0%	-0.7%	25.0%	19.4%
Chipotle Mexican Grill	7.1%	26.1%	14.4%	14.3%	14.1%
Costco	12.8%	17.7%	11.5%	6.2%	9.1%
Coupang	90.8%	53.8%	11.8%	18.5%	22.6%
Datadog	66.3%	70.5%	62.8%	29.4%	26.9%
dLocal	88.4%	134.4%	71.6%	55.2%	34.3%
Fiverr	77.0%	57.1%	13.3%	7.1%	6.3%
Haidilao	7.8%	43.7%	-20.6%	33.6%	-
Hingham	27.4%	20.3%	3.6%	-54.5%	-39.1%
Intuitive Surgical	-2.7%	31.0%	9.0%	14.5%	11.5%
Markel	17.0%	20.0%	22.1%	5.6%	7.5%
Mastercard	-9.4%	23.4%	17.8%	12.9%	10.4%
Medistim	-0.2%	17.7%	15.1%	7.0%	3.5%
Medpace	7.5%	23.4%	27.8%	29.2%	17.7%
Meituan	17.7%	56.0%	22.8%	25.8%	25.0%
MercadoLibre	73.0%	77.9%	49.1%	37.4%	36.0%
Meta Platforms	21.6%	37.2%	-1.1%	15.7%	27.3%
Microsoft	14.7%	20.6%	10.4%	11.5%	17.0%
MongoDB	40.0%	48.0%	47.0%	31.1%	22.3%
Netflix	24.0%	18.8%	6.5%	6.7%	14.8%
Nu Holdings	20.4%	130.4%	182.2%	67.5%	69.0%
Okta	42.5%	55.6%	42.9%	21.8%	19.1%
Paycom Software	14.1%	25.4%	30.3%	23.2%	10.7%
PayPal	20.7%	18.3%	8.5%	8.2%	9.4%

Table 8 (continued from above)

Company	2020 revenue growth	2021 revenue growth	2022 revenue growth	2023 revenue growth	Q1 2024 revenue growth
Salesforce	24.3%	24.7%	18.3%	11.2%	10.7%
Sea	101.1%	127.5%	25.1%	4.9%	22.8%
Shopify	85.6%	57.4%	21.4%	26.1%	23.4%
Starbucks	-14.1%	31.0%	8.4%	11.5%	-1.8%
Super Hi	-5.0%	41.1%	78.7%	23.0%	16.6%
Tencent	27.8%	16.2%	-1.0%	9.8%	6.3%
Tesla	28.3%	70.7%	51.4%	18.8%	-8.7%
The Trade Desk	26.5%	43.1%	31.9%	23.3%	28.3%
Tractor Supply	27.2%	19.9%	11.6%	2.5%	2.9%
TSMC	25.2%	18.5%	42.6%	-4.5%	16.5%
Veeva Systems	32.7%	26.3%	16.4%	9.7%	23.6%
Visa	-8.7%	18.6%	18.5%	10.5%	9.9%
Wise	43.9%	32.3%	48.5%	28.6%	24.0%
Wix.com	29.9%	29.0%	9.3%	12.5%	12.2%
Zoom	325.8%	54.6%	7.1%	3.1%	3.2%
DocuSign	49.2%	45.0%	19.4%	9.8%	**7.3%**
Etsy	110.9%	35.0%	10.2%	7.1%	**0.8%**

Source: Companies' earnings updates

Here's a table showing the simple averages of the year-on-year revenue growth rates for the fund's current 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 DocuSign and Etsy)
Q1 2020	31.2%	31.4%
Q2 2020	32.2%	34.8%
Q3 2020	42.1%	44.2%
Q4 2020	44.5%	46.7%
2020	36.8%	38.6%
Q1 2021	54.6%	56.6%
Q2 2021	54.7%	53.9%
Q3 2021	39.5%	39.1%
Q4 2021	35.7%	35.2%
2021	42.5%	42.4%
Q1 2022	32.2%	31.5%
Q2 2022	27.6%	27.1%
Q3 2022	24.5%	24.1%
Q4 2022	19.9%	19.7%

Table 9 (continued from above)

Simple averages for revenue growth from year ago	Compounder Fund current portfolio	Compounder Fund current portfolio (including DocuSign and Etsy)
2022	25.0%	24.6%
Q1 2023	18.1%	17.9%
Q2 2023	17.0%	16.7%
Q3 2023	15.3%	14.9%
Q4 2023	15.2%	14.8%
2023	16.2%	15.8%
Q1 2024	**14.1%**	**13.6%**

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 14.1% (this is a simple average) in the first quarter of 2024, and this continues from the impressive revenue growth rates seen in prior quarters going back to 2020**. Table 10 below provides perspective on the superior growth rates for Compounder Fund's current 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
Q1 2020	Around -2%	31.2%
Q2 2020	Around -10%	32.2%
Q3 2020	Around -2%	42.1%
Q4 2020	Around -0.5%	44.5%
Q1 2021	Around 10%	54.6%
Q2 2021	Around 25%	54.7%
Q3 2021	16.6%	39.5%
Q4 2021	16.1%	35.7%
Q1 2022	13.4%	32.2%
Q2 2022	11.9%	27.6%
Q3 2022	12.1%	24.5%
Q4 2022	6.9%	19.9%
Q1 2023	7.9%	18.1%
Q2 2023	6.1%	17.0%
Q3 2023	4.7%	15.3%
Q4 2023	6.6%	15.2%
Q1 2024	**4.9%**	**14.1%**

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

In our letter for **2024's first quarter**, I mentioned:

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

This indeed came to pass, although we were pleased that the growth rate stepped down only slightly. During the first quarter of 2024, Compounder Fund's portfolio companies produced an average year-on-year revenue growth rate of 14.1%, compared to 15.2% in the fourth quarter of 2023. Moreover, the growth rate of 14.1% is decent and comfortably exceeds the S&P 500's corresponding revenue growth of 4.9%. We do acknowledge that it is a significant deceleration from what was achieved throughout 2021 and 2022. The good thing is that 22 companies in Compounder Fund's current portfolio saw higher year-on-year revenue growth in the first quarter of 2024 compared to the fourth quarter of 2023. 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).

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

Speaking of free cash flow, we're really pleased that Compounder Fund's holdings managed to strengthen their cash flow muscles in the first quarter of 2024. Table 11 below shows two things for each company that's currently in the portfolio: (1) Their revenue growth for the quarter, and (2) the change in their free cash flow margins for the period. **During the first quarter of 2024, the simple-average free cash flow margin for all the fund's current holdings was 24.5%, up from 22.0% a year ago. This means that Compounder Fund's portfolio had, on average, grown its free cash flow by 27% 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 first quarter of 2024 followed a similar path as each quarter in 2023 where the free cash flow margin improved year-on-year. We look forward to seeing continued growth over time in the free cash flow margins of Compounder Fund's companies. Given the nature and track records of these companies, we now think that their long-term average free cash flow margin can **reach the high-20s percentage range eventually** and be maintained at that level.

Table 11

Company	Revenue growth in Q1 2024 from a year ago	Free cash flow margin in Q1 2024	Free cash flow margin in Q1 2023
Adobe	10.2%	35.6%	41.8%
Adyen	21.0%	-	-
Alphabet	15.4%	20.8%	24.6%
Amazon	12.5%	2.8%	-7.4%
Apple	-4.3%	22.8%	27.0%
ASML	-21.6%	-12.8%	2.9%
Block	19.4%	7.7%	5.3%
Chipotle Mexican Grill	14.1%	16.2%	14.1%
Costco	9.1%	3.3%	1.3%
Coupang	22.6%	1.5%	7.0%
Datadog	26.9%	30.6%	24.2%
dLocal	34.3%	18.5%	58.8%
Fiverr	6.3%	22.2%	15.0%
Haidilao	-	-	-
Hingham	-39.1%	-	-
Intuitive Surgical	11.5%	1.2%	10.5%
Markel	7.5%	-	-
Mastercard	10.4%	20.3%	26.9%
Medistim	3.5%	13.8%	-1.2%
Medpace	17.7%	28.8%	16.3%
Meituan Dianping	25.0%	-	-
MercadoLibre	36.0%	31.5%	23.9%
Meta Platforms	27.3%	35.0%	23.5%
Microsoft	17.0%	31.3%	33.2%
MongoDB	22.3%	14.0%	14.4%
Netflix	14.8%	22.8%	25.9%
Nu Holdings	69.0%	-	-
Okta	19.1%	34.7%	23.9%
Paycom Software	10.7%	20.2%	23.4%
PayPal	9.4%	22.9%	14.2%
Salesforce.com	10.7%	66.6%	51.5%
Sea	22.8%	11.8%	16.6%
Shopify	23.4%	12.5%	5.7%
Starbucks	-1.8%	-1.8%	3.2%
Super Hi	16.6%	-	-
Tencent Holdings	6.3%	32.5%	34.5%

Table 11 (continued from above)			
Company	**Revenue growth in Q1 2024 from a year ago**	**Free cash flow margin in Q1 2024**	**Free cash flow margin in Q1 2023**
Tesla	-8.7%	-11.9%	1.9%
The Trade Desk	28.3%	35.9%	46.2%
Tractor Supply	2.9%	3.0%	-4.2%
TSMC	16.5%	43.0%	16.3%
Veeva Systems	23.6%	116.1%	95.6%
Visa	9.9%	48.5%	45.7%
Wise	24.0%	52.3%	32.0%
Wix.com	12.2%	25.2%	6.7%
Zoom	3.2%	49.9%	35.9%
Average for Compounder Fund's current portfolio	**14.1%**	**24.5%**	**22.0%**

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, Markel, and Nu Holdings because we don't think it's as important for them - Hingham is a **bank** as is Nu Holdings, 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 our companies. Table 12 below shows a few things for the period from 31 March 2024 to 30 June 2024 for Compounder Fund's current crop of 45 companies: The change in their trailing 12-month revenues-per-share; the change in their trailing P/S (price-to-sales) ratios; and the change in their stock prices.

Table 12

Company	Trailing 12-month revenue per share on 31 Mar 2024	Trailing 12-month revenue per share on 30 Jun 2024	P/S ratio on 31 Mar 2024	P/S ratio on 30 Jun 2024	Trailing 12-month revenue per share change from 31 Mar 2024 to 30 Jun 2024	P/S ratio change from 31 Mar 2024 to 30 Jun 2024	Stock price change from 31 Mar 2024 to 30 Jun 2024
Adobe	US$ 43.72	US$ 45.3	11.5	12.3	3.6%	6.3%	10.1%
Adyen	€ 52.19	€ 54.39	30.0	20.5	4.2%	-31.9%	-29.0%
Alphabet	US$ 24.16	US$ 25.4	6.2	7.2	5.1%	14.8%	20.7%
Amazon	US$ 54.78	US$ 55.36	3.3	3.5	1.1%	6.0%	7.1%
Apple	US$ 24.76	US$ 24.59	6.9	8.6	-0.7%	23.7%	22.8%
ASML	€ 69.23	€ 66.3	13.0	14.4	-4.2%	10.6%	5.4%
Block	US$ 35.69	US$ 35.9	2.4	1.8	0.6%	-24.2%	-23.8%
Chipotle Mexican Grill	US$ 7.12	US$ 7.39	8.2	8.5	3.7%	3.9%	7.8%
Costco	US$ 559.69	US$ 570.53	1.3	1.5	1.9%	13.8%	16.0%
Coupang	US$ 13.52	US$ 14.16	1.3	1.5	4.7%	12.5%	17.8%
Datadog	US$ 6.08	US$ 6.34	20.3	20.4	4.4%	0.5%	4.9%
dLocal	US$ 2.15	US$ 2.25	6.8	3.6	4.8%	-47.5%	-45.0%
Fiverr	US$ 9.23	US$ 9.27	2.3	2.5	0.4%	10.8%	11.2%
Haidilao	RMB 7.66	RMB 7.66	2.1	1.7	0.0%	-18.4%	-20.5%
Hingham	US$ 21.95	US$ 19.38	7.9	9.2	-11.7%	16.2%	2.5%
Intuitive Surgical	US$ 19.93	US$ 20.3	20.0	21.9	1.8%	9.4%	11.5%
Markel	US$ 1,012.49	US$ 1,047.17	1.5	1.5	3.4%	0.1%	3.6%
Mastercard	US$ 26.53	US$ 27.48	18.2	16.1	3.6%	-11.6%	-8.4%
Medistim	NOK 28.77	NOK 28.99	6.3	5.8	0.8%	-7.1%	-6.4%
Medpace	US$ 59.23	US$ 61.34	6.8	6.7	3.6%	-1.6%	1.9%
Meituan Dianping	RMB 43.93	RMB 46.25	2.0	2.2	5.3%	11.8%	14.8%
Mercado Libre	US$ 286.67	US$ 311.04	5.3	5.3	8.5%	0.2%	8.7%
Meta Platforms	US$ 51.31	US$ 54.37	9.5	9.3	6.0%	-2.0%	3.8%
Microsoft	US$ 30.49	US$ 31.68	13.8	14.1	3.9%	2.2%	6.2%
MongoDB	US$ 23.62	US$ 24.19	15.2	10.3	2.4%	-31.9%	-30.3%
Netflix	US$ 75.02	US$ 79.09	8.1	8.5	5.4%	5.4%	11.1%
Nu Holdings	US$ 1.65	US$ 1.87	7.2	6.9	13.2%	-4.6%	8.0%
Okta	US$ 13.83	US$ 14.1	7.6	6.6	2.0%	-12.3%	-10.5%
Paycom Software	US$ 29.21	US$ 30.8	6.8	4.6	5.4%	-31.8%	-28.1%

Table 12 (continued from above)

Company	Trailing 12-month revenue per share on 31 Mar 2024	Trailing 12-month revenue per share on 30 Jun 2024	P/S ratio on 31 Mar 2024	P/S ratio on 30 Jun 2024	Trailing 12-month revenue per share change from 31 Mar 2024 to 30 Jun 2024	P/S ratio change from 31 Mar 2024 to 30 Jun 2024	Stock price change from 31 Mar 2024 to 30 Jun 2024
PayPal	US$ 26.89	US$ 28.39	2.5	2.0	5.6%	-17.9%	-13.4%
Salesforce	US$ 35.42	US$ 36.29	8.5	7.1	2.4%	-16.7%	-14.6%
Sea	US$ 21.98	US$ 24.1	2.4	3.0	9.6%	21.3%	33.0%
Shopify	US$ 5.45	US$ 5.76	14.2	11.5	5.7%	-19.0%	-14.4%
Starbucks	US$ 32.16	US$ 32.17	2.8	2.4	0.0%	-14.8%	-14.8%
Super Hi International	US$ 1.23	US$ 1.28	1.5	1.5	3.9%	-0.7%	3.0%
Tencent Holdings	RMB 63.37	RMB 64.76	4.3	5.4	2.2%	23.1%	22.6%
Tesla	US$ 27.71	US$ 26.67	6.3	7.4	-3.8%	17.0%	12.6%
The Trade Desk	US$ 3.89	US$ 4.12	22.5	23.7	6.0%	5.4%	11.7%
Tractor Supply	US$ 132.63	US$ 135	2.0	2.0	1.8%	1.4%	3.2%
TSMC	NT 416.86	NT 433.04	10.4	13.1	3.9%	25.2%	27.8%
Veeva Systems	US$ 14.46	US$ 15.13	16.0	12.1	4.7%	-24.5%	-21.0%
Visa	US$ 16.31	US$ 16.72	17.1	15.7	2.5%	-8.3%	-6.0%
Wise	£ 0.95	£ 1	9.8	6.8	5.2%	-30.3%	-26.6%
Wix	US$ 26.74	US$ 27.41	5.1	5.8	2.5%	12.9%	15.7%
Zoom	US$ 14.67	US$ 14.47	4.5	4.1	-1.4%	-8.2%	-9.5%
Simple average	**-**	**-**	**8.5**	**8.0**	**3.0%**	-	-

Source: Companies' earnings updates

What Table 12 highlights: **Compounder Fund's businesses performed well over the last reported quarter, with average sequential trailing 12-month revenue per share growth of 3.0%. Importantly, 39 of them experienced growth in their trailing 12-month revenues per share for 30 June 2024 compared to 31 March 2024. During the quarter, many of Compounder Fund's holdings also saw their trailing P/S ratios compress, with the average trailing P/S ratio falling from 8.5 to 8.0.**

We continue to think that Compounder Fund's holdings **have more-than-reasonable valuations** (similar to what we saw when I wrote the letters for **2024's first quarter**, 2023's **first**, **second**, **third**, and **fourth** quarters, and 2022's **second**, **third**, and **fourth** quarters) **and this bodes well for the fund's future return**. As of 30 June 2024, the companies currently in Compounder Fund's portfolio **have an average trailing P/S ratio of 8.0 and an average trailing free cash flow margin of 21.9%, which equates to an average P/FCF ratio of 37.** If Compounder Fund's companies had an average free cash flow margin of 25%

today - around the level we think they could achieve, eventually - **the implied P/FCF ratio on the P/S ratio of 8.0 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 36.8%, 42.5%, 25.0%, and 16.2% for the whole of 2020, 2021, 2022, and 2023. In addition, there was average sequential trailing 12-month revenue growth of 2.9% in the first quarter of 2024. With the average FCF margin for Compounder Fund's current holdings expanding from 18.4% in 2020 to 21.9% in the 12 months ending in the first quarter of 2024, the companies have, on average, **grown their free cash flow at an outstanding annualised rate of 33% in that period (which is even faster than their annualised revenue growth of 26%). Importantly, we think the expansion in the free cash flow margin can continue. *This* is what gives us confidence** for the following passage in the "*Judging our performance*" section of this letter:

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

In an ideal world, growth in free cash flow would be similar to the growth in a stock's price. **But the world we inhabit is not ideal - the 33% annualised growth in free cash flow for Compounder Fund's portfolio companies has so far resulted in a flat return for the fund since inception***. But if Compounder Fund's companies can continue to grow their businesses - and we think they will - we believe we'll be rewarded with a pleasing positive return eventually. Yes, most of Compounder Fund's holdings carried high valuations when we first invested in them, as I mentioned in the introductory section of this letter, so we **fully expect** Compounder Fund's eventual return to be lower than the underlying growth of its holdings' businesses. **But history suggests that the yawning gap seen so far is likely to narrow in the fullness of time**.

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

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

> conclusion is that it was a mistake to invest in Walmart in August 1972 because of its high valuation. But as can be seen above, Walmart's business continued to grow and its stock price eventually soared to around US$3.70 near the end of 1989. Even by the end of 1982, Walmart's stock price was already US$0.48, up more than 10 *times* where it was in late-August 1972."

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

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

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

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

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

Walmart, Teledyne, and WPC are not idiosyncratic instances. Renowned Wharton finance professor Jeremy Siegel - of ***Stocks for the Long Run*** fame - penned an article in late-1998 titled ***Valuing Growth Stocks: Revisiting The Nifty-Fifty.*** In his piece, Siegel explored the

business and stock price performances from December 1972 to August 1998 for a group of US-listed stocks called the Nifty-Fifty. The group was perceived to have bright business-growth prospects in the early 1970s and thus carried high valuations. As Siegel explained, these stocks "had proven growth records" and "many investors did not seem to find 50, 80 or even 100 times earnings at all an unreasonable price to pay for the world's preeminent growth companies [in the early 1970s]." But in the brutal 1973-1974 bear market for US stocks, when the S&P 500 fell by 45%, the Nifty-Fifty did even worse. For perspective, here's Howard Marks' description of the episode in his book ***The Most Important Thing*** (emphasis is mine):

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

Not every member of the Nifty-Fifty saw their businesses prosper in the decades that followed after the 1970s. But of those that did, Siegel showed in *Valuing Growth Stocks* that their stock prices eventually tracked their business growth, and had also beaten the performance of the S&P 500. These are displayed in Table 13 below. There are a few important things to note about the table's information:

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

Table 13

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

Source: Jeremy Siegel

The examples of Walmart, Teledyne, WPC, and members of the Nifty-Fifty were all from the 1970s. You may wonder, "what if *this* time is different?" It's a legitimate concern. Economies change over time. Financial markets do too. But we believe the underlying driver for the initial divergence and eventual convergence in the paths that the companies' businesses and stock prices had taken in the past are alive and well *today.* This is because the driver was, in our opinion, the simple but important nature of the stock market: **It is a place to buy and sell pieces of a business**. This understanding leads to a logical conclusion that a stock's price movement over the long run depends on the performance of its underlying business. **The stock market, today, is still a place to buy and sell pieces of a business, which means the market is *still a weighing machine in the long run*. So, while the stock price performance of Compounder Fund has to-date left *much* to be desired, Jeremy and I are comforted by the underlying business performances and are "confident that when the fund's stock price performance is eventually weighed in the fullness of time, a favourable judgement is likely to result."**

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

Improving our performance

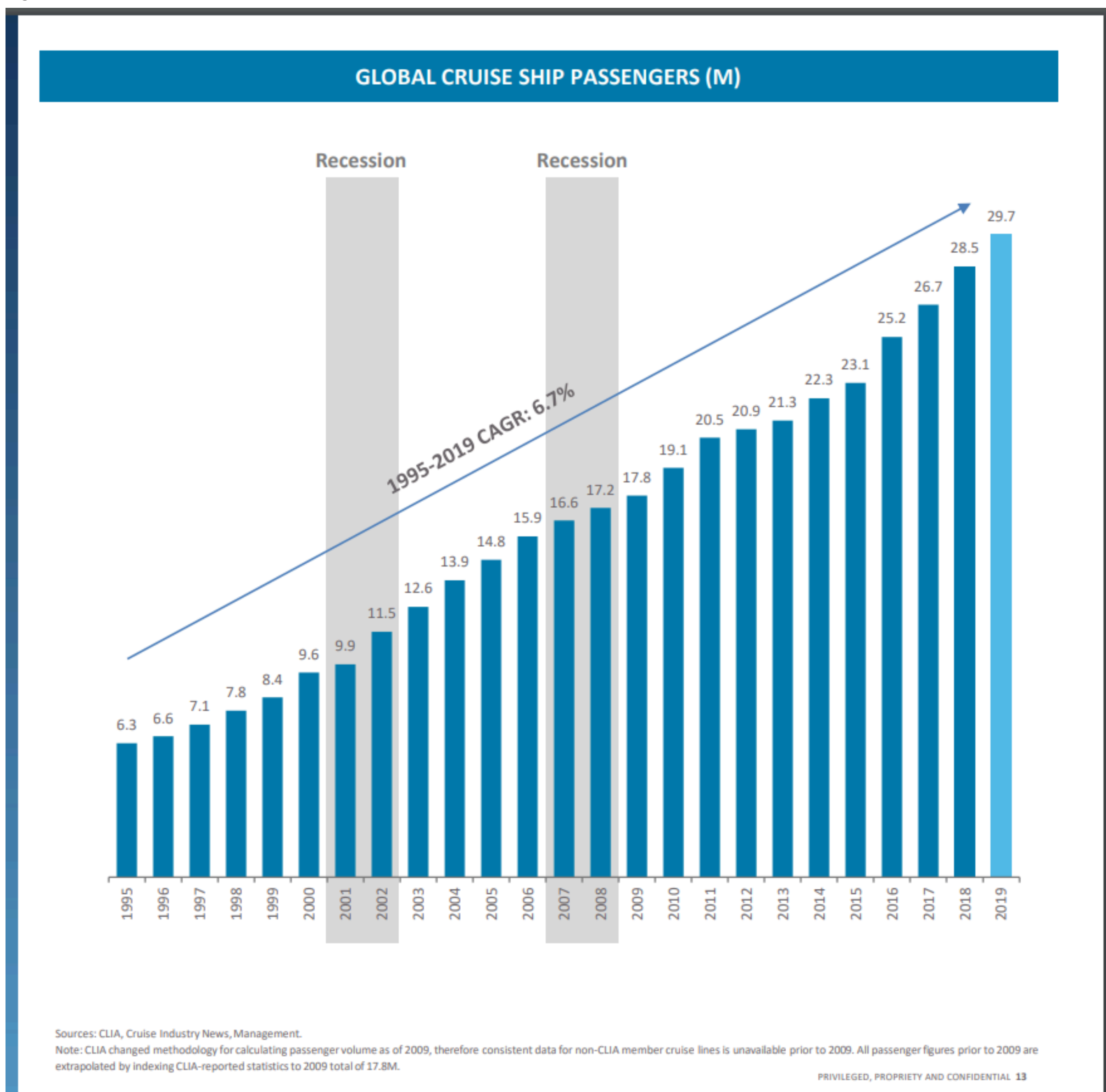
The best way Jeremy and I know of to improve the performance of Compounder Fund is to improve the quality of the companies within the fund. We define a high-quality company as one that can grow its free cash flow per share (or book value per share in the case of financial services companies) at sustainably high rates over many years and we think the investing framework we have - the **six traits we look out for within our investment framework** - help us separate the wheat from the chaff. These companies, which we call Compounders, should also be available at reasonable valuations. We frequently research companies that are not in the fund and compare them with the existing companies in the portfolio. If we can find companies that we think are higher quality than what the fund currently owns - the aforementioned addition of Nu Holdings to the portfolio in late-June this year is an example - that's how we believe we can improve the performance of the fund.

To provide more colour on our research process, I will share some examples of companies we studied and our thought processes on why they were not added to the portfolio, starting with the US-listed company OneSpaWorld. We chanced upon the company in early-May 2023 and found a number of attractive traits in our research:

- In 2022, OneSpaWorld earned US$546.3 million in revenue, of which 92.8% came from running health and wellness centres onboard cruise ships (think spa and beauty centres, thermal suites, medical-aesthetic centres, fitness centres and classes, and more) and the sale of related-products in these centres. The company controlled more than 90% of the global outsourced maritime health and wellness market and was more than 20 times larger than its closest competitor. In other words, **OneSpaWorld ran an effective monopoly**.
- The company had long-term revenue sharing agreements with the owners of cruise ships. As part of the agreements, cruise ship owners were typically responsible for the capital expenditures for the development, maintenance, and renovations of the health and wellness centres in the ships. This meant **OneSpaWorld had an asset-light business model**.

- OneSpaWorld's agreements with cruise ship owners averaged six years in length, had a high renewal rate of 94%, and had never been terminated prior to expiration. Put another way, the company had **high levels of recurring revenue from sticky long-term contracts**.
- Before COVID-19, as shown in Figure 1, global cruise ship passengers grew in a remarkably steady manner and at a healthy annualised rate of 6.7% from 6.3 million in 1995 to 29.7 million in 2019. There were increases even in 2008 and 2009, which were the years of the Great Financial Crisis. In addition, global cruise capacity was projected to increase by 4% annually from 29.5 million passengers in 2020 to 38.7 million in 2027. These passenger data signalled that OneSpaWorld **had an addressable market that was highly likely to continue growing**.

Figure 1



Source: OneSpaWorld 2023 February investor presentation

Given what we saw, we thought OneSpaWorld had a high probability of growing its revenue at a mid-to-high single digit percentage range over a multi-year period because of its dominant market share and the characteristics of the cruise industry. But we did not invest in it. When we first researched OneSpaWorld in early-May 2023, its market capitalisation was

around US$1.2 billion. Management expected revenue of US$710 million to US$730 million for 2023. We thought OneSpaWorld might grow its revenue by around 7% to US$780 million in 2024. If the company had an adjusted EBITDA (earnings before interest, taxes, depreciation, and amortisation) margin of 12% in 2024, that would mean US$94 million in adjusted EBITDA and US$84 million in FCF (free cash flow). For context, this was OneSpaWorld's historical financials:

- Revenue compounded at 5.7% per year from 2016 to 2019
- The adjusted EBITDA margin was between 10.0% and 10.5% from 2015 to 2019
- FCF in recent years was around 90% of adjusted EBITDA

With US$84 million in projected FCF in 2024, OneSpaWorld had a projected price-to-FCF (P/FCF) ratio of 14 based on the aforementioned market capitalisation of US$1.2 billion. We believed that, **at best, we could achieve only a high single-digit annualised return over the long term with this valuation, which is insufficient for us**. There are three main reasons for this: (1) We did not see much room for expansion in OneSpaWorld's P/FCF ratio in the future, (2) OneSpaWorld's annualised long-term revenue growth rate is likely to be at a mid-to-high single digit range, and (3) we thought it was unlikely for OneSpaWorld's adjusted EBITDA margin to expand materially from the 12% level we projected, meaning the company's FCF growth rate in the years ahead would likely mirror its revenue growth.

OneSpaWorld eventually produced revenue of US$794 million in 2023, and management is currently projecting revenue of US$850 million to US$870 million for 2024. But crucially, management's guidance for adjusted EBITDA in 2024 is between US$95 million to US$105 million. Even with the materially stronger revenue growth, the company's adjusted EBITDA is still similar to what we initially thought.

Another example is Azeus Systems, a Singapore-listed company that we first studied in late-July 2023. The company had two business segments. The first is IT Services, where Azeu Systems provides design and implementation services for IT projects that organisations undertake. The second is Azeus Products, where the company provides a document management software product named Convene Records, in addition to a suite of cloud software products such as Convene (enables companies to conduct virtual board meetings) and Convene AGM (enables companies to conduct virtual/hybrid shareholder meetings). Here's a brief summary of the attractive traits we saw in Azeus Systems:

- In FY2017 (fiscal year ended 31 March 2017), Azeus Systems' total revenue was HK$97.9 million, of which 12.1% came from Azeus Products and the remaining from IT Services. In FY2023, the company's revenue had more than doubled to HK$252.9 million, driven by growth in Azeus Products - the segment accounted for 69.3% of total revenue in the year. This was an impressive and positive change in Azeus Systems' revenue composition engineered by management, as it meant that **the company's business was increasingly driven by revenue from cloud software products that were likely to be recurring in nature**.
- From FY2017 to FY2023, **Azeus Systems' net profit and free cash flow also improved dramatically**, from -HK$21.6 million to HK$50.5 million for the former, and from -HK$25.5 million to HK$34.6 million for the latter.
- What really caught our eye was Azeus Systems' dividend in relation to its revenue and net income growth. The company's dividend in FY2022 and FY2023 was both

100% of its net income. Yet, revenue growth in both years was 22.2% and 16.2%, respectively, while net income growth was 104.8% and 4.3%. Moreover, Azeus Systems did not issue any shares to raise additional capital, nor did the company take on additional debt (total debt remained at zero). These figures suggested that Azeus Systems **did *not* need to reinvest capital to grow its business - in other words, it had an infinite return on invested capital**.

But we chose not to open a position in Azeus Systems for Compounder Fund. We had important questions about the company that we could not - and still cannot - answer. For example, we could not determine the client retention rate and net-dollar expansion rates for the Azeus Products segment, numbers which could tell us how sticky the company's software products truly are. We also could not figure out the market opportunities for Convene and Convene Records; both products were the key drivers of Azeus Systems' 16.2% increase in revenue in FY2023, and 25.8% revenue growth for the Azeus Products segment. If both products were nearing their saturation points, there would be limited room for the company's future growth, regardless of how impressive the historical return on invested capital was.

A low- or no-growth company with stable FCF could still be an excellent long-term investment *if* its shares have a really low valuation *and* management is willing to conduct large-scale share buybacks. **But both conditions were absent when we looked at the company**: Azeus Systems had trailing price-to-earnings (P/E) and P/FCF ratios of around 30 and 40, respectively, while large-scale share buybacks were not feasible because the company's founder and chairman, Lee Wan Lik, controlled 82.4% of its shares. **Since we also had important unanswered questions about Azeus Systems' business, we had no confidence in the company's ability to improve the quality of Compounder Fund's portfolio.** We were thus unwilling to invest.

Azeus Systems has continued to produce excellent results since our initial introduction to it. In FY2024, there was revenue growth of 30.1%, net income growth of 68.2%, and free cash flow growth of 179.1%. The dividend payout ratio (dividend as a percentage of earnings) was 98.8% - if Azeus Systems posts healthy growth in FY2025, the company's return on invested capital would again be sky high. We remain keen observers of Azeus Systems.

Vertiv Holdings, a US-listed company that offers digital infrastructure technologies, is another example. We first learnt about Vertiv in mid-March this year and here's what we found attractive:

- The company groups its customers according to three end-markets, namely, Data Centers, Communication Networks, and Commercial and Industrial. According to a November 2023 investor presentation, 75% of Vertiv's estimated revenue for 2023 came from Data Center customers; these customers included the largest cloud computing companies in the world, such as Alphabet, Amazon, and Microsoft. Vertiv's Data Center customers **allowed the company to ride on trends such as artificial intelligence (AI) and digital innovation**. In the November 2023 investor presentation, Vertiv's management estimated that the annualised growth rate for the base Data Center market from 2023 to 2028 would be 6%-8%, with AI boosting the annualised growth rate for the overall Data Center market to 9%-12%.

- Vertiv's infrastructure technologies for its data center customers include **thermal management, an area where the company holds the largest market share**. Thermal management is critical for AI data centers because the chips used in them "have higher thermal density properties compared to previous-generation architectures," according to Vertiv. In particular, the use of liquid cooling for thermal management is growing in importance because legacy air cooling technologies are no longer sufficient to cool AI data centers and liquid cooling can be up to 3,000 times more effective. **Vertiv provides the entire gamut of thermal management technologies (including liquid cooling), in addition to power management technologies that are also important in data center operations**.

Nonetheless, we decided that Vertiv was unlikely to improve the quality of Compounder Fund's portfolio for valuation reasons. Vertiv earned US$6.9 billion in revenue in 2023. Management's long-term growth targets that were shared in the November 2023 investor presentation called for annualised revenue growth of 8%-11% from 2023 to 2028. At the high end, this meant revenue of US$11.6 billion in 2028; for easy calculation, we rounded to US$12 billion. Management's 2028 operating margin target was "20%+". We decided to use 25%, which meant that Vertiv's 2028 operating profit would be US$3 billion. We assumed that Vertiv would be valued at 16 times operating profit in 2028 (this equates to a valuation multiple of roughly 20 times net profit at the 21% nominal corporate tax rate in the USA), which would bring its market capitalisation to US$48 billion. When we researched Vertiv in mid-March this year, it had a market capitalisation of US$28 billion. This meant that **the potential return - based on what we thought were generous assumptions - was inadequate at merely 71% overall in five years, *before* accounting for any future dilution**. For perspective on dilution, Vertiv's weighted average diluted share count increased by 5% in 2022 and 2% in 2023.

After we passed on Vertiv, the company released its 2024 first-quarter results and management raised guidance for the full year from what was provided when the 2023 fourth-quarter results were announced. But management's longer-term outlook on the business remained the same, as can be seen from the following exchange during the 2024 first-quarter earnings conference call (emphasis is mine):

> "[Question] The order growth number at 60% is extremely impressive and I get the compare's a bit easier… as you think about these orders really becoming revenues, should we start to think about revenue growth accelerating versus your longer-term targets in '25 and beyond at this point?
>
> [Answer] What does that mean in terms of the future years? It's probably premature. But again, **while we stick still to the conversation we had at Investor Day** in terms of the general dynamics of the market, **what we see today is on the -- is fairly on the upper end of the ranges that we shared with you**. So positive in that respect."

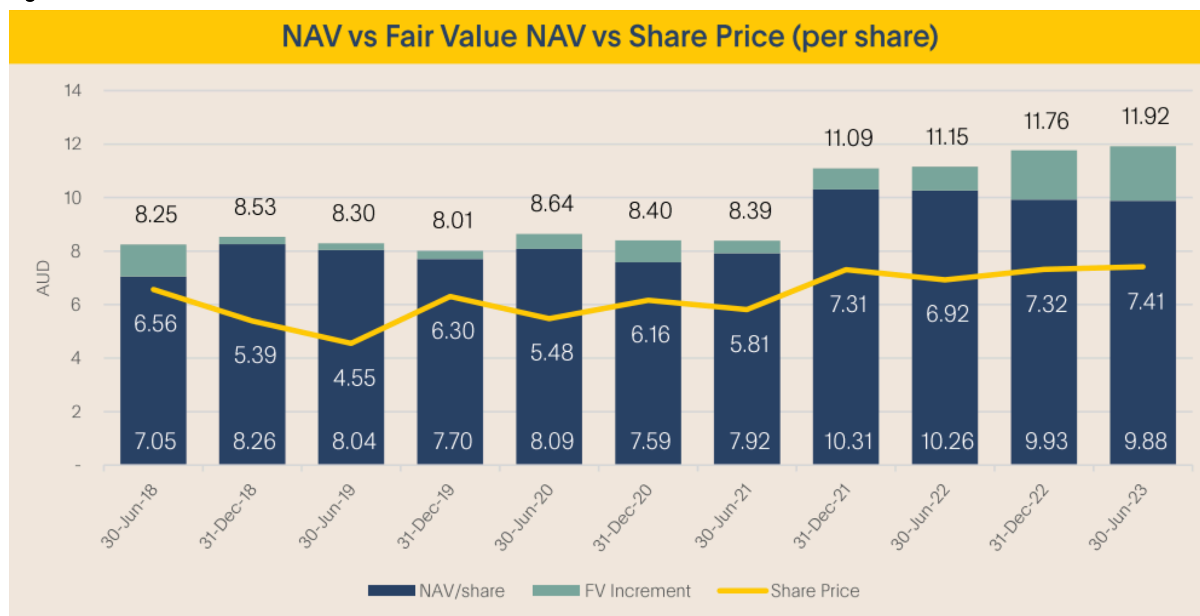
Besides strengthening the quality of the companies in Compounder Fund, Jeremy and I also believe that the performance of the fund could improve if we can find stocks that could produce a strong return in a relatively short span of time because they are undergoing special situations and/or have hidden asset values. This is why we mentioned in our **Owner's Manual** and **website** 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." But to be clear, we have so far *not* invested in any such stock for Compounder Fund since its inception.

In our **2023 fourth-quarter letter,** I discussed the oil & gas company Unit Corporation as a potential hidden asset value opportunity and why we eventually decided to not invest. An example of a stock undergoing a special situation that we looked at and passed, was the Australia-listed Pacific Current Group, which we first came across in late-October 2023.

Pacific Current Group, or PAC (the company's ticker symbol), invested in firms that provided investment management services and it had stakes in 16 such firms across the USA, Europe, Australia, and Asia. These investment firms had total funds under management of US$204.3 billion as of 30 June 2023 and the largest of them was GQG Partners; an important fact about GQG Partners I will bring up soon is that it was also public-listed. PAC reported A$606.3 million in total assets at the end of FY2023 (financial year ended 30 June 2023). Of this, A$514.6 million, or 85%, were in the accounting-values of the investment firms that PAC owns stakes in. PAC's *reported* NAV (net asset value) per share had grown steadily over time as shown in Figure 2 below. But IFRS (International Financial Reporting Standards) accounting rules meant that some of PAC's assets were reported at fair value, while some were reported only at investment cost. Importantly, the assets reported at investment cost can *only* be written down in value but not up. To help investors better understand the state of PAC's various investments (our guess), management disclosed a fair value NAV per share, which is also shown in Figure 2. As of 30 June 2023, PAC's reported NAV per share was A$9.88, but the fair value NAV per share was A$11.92.

Figure 2



Source: PAC 2023 September investor presentation

The special situation we found PAC in was **the potential for the company to be acquired soon at a price appreciably higher than the A$9.45 its stock was seen trading at when we first learnt about it**. Here's a brief description of what we saw in late-October 2023:

- On 26 July 2023, Regal Partners sent an unsolicited, non-binding, indicative proposal to acquire 100% of PAC. Under the proposal, PAC shareholders would receive value

of A$11.12 per PAC share, comprising A$7.50 in cash, and 2.2 GQG Partners shares (GQG Partners' stock price closed at A$1.655 on 25 July 2023, which gave 2.2 GQG Partners shares a value of A$3.62 per PAC share). The offer from Regal Partners was effectively 75% in cash, and 25% in GQG Partners shares. Regal Partners' offer to acquire PAC involved a team-up with River Capital.

- On 27 July 2023, GQG Partners announced that it would submit a non-binding indicative proposal to fully acquire PAC. No price was mentioned, but Tim Carver, GQG Partners' CEO, said (emphasis is mine):

> "**We believe that we can put forward a compelling proposal to PAC shareholders, and that we will be viewed as strategically compelling** to both PAC's underlying portfolio companies and management team."

- There were numerous ties between all the parties involved. Some examples:
  - GQG Partners was founded in 2016 by Rajiv Jain and Tim Carver (both of whom still led the company), and PAC was one of its early backers. As of 30 June 2023, PAC owned 4% of GQG Partners.
  - In 2006, Tim Carver co-founded one of PAC's predecessor firms with Paul Greenwood, who was appointed to PAC's board in December 2014 and became PAC's CEO in July 2018. Greenwood was also on GQG Partners' board.
  - When Regal Partners' offer was announced, Regal Partners and River Capital owned 12% and 19% of PAC, respectively.
  - Tony Robinson, the non-executive chairman of PAC, joined PAC's board in August 2015. He was also the chairman of River Capital.
- Because of the relationships between PAC, GQG Partners, Regal Partners, and River Capital, PAC established an Independent Board Committee, consisting of non-conflicted board members, after Regal Partners and GQG Partners revealed their acquisition offers. PAC also hired UBS as a deal-advisor.
- Regal Partners had actually submitted an initial non-binding, indicative offer for PAC in March 2023 and re-affirmed its 26 July 2023 offer in mid-September. On 28 September 2023, Regal Partners *withdrew* its offer to acquire PAC, complaining in the process:

> "Regal has been consistently disappointed with the engagement by the Pacific Current board since its initial NBIO in March 2023. Based on the manner in which Regal's Re-affirmed NBIO has been received, Regal has little confidence in the process being run."

- PAC published its FY2023 annual report on 11 October 2023, *after* Regal Partners announced its withdrawal. In the report, PAC's leaders - Tony Robinson and Paul Greenwood - **shared comments suggesting that a deal was still live and did not bring up the matter of Regal Partners dropping out of the race** (emphases are mine):

> "[Robinson] **Admittedly, we have struggled to convince enough people of PAC's inherent value as the trading share price has not, to date, approximated the fair value of our portfolio**. That situation has now led to indications of interest in a potential acquisition of PAC and the start of a

> competitive process. As has always been the case, **the goal in a competitive process would be to realise for shareholders the latent value we have always believed the company possessed**. An Independent Board Committee ("IBC") has been established to manage this process, given several Directors have or may have potential conflicts…
>
> …**We are hopeful for a great outcome for shareholders**. Either way, the outlook for FY2024 is positive and exciting…
>
> …[Greenwood] The fact that the acquisition prices being discussed are notably higher than the pre-offer trading price suggests our intuition about PAC's value may be right. **Ultimately, our job is to deliver value to our shareholders. It now appears possible that delivering this value will be best achieved by selling PAC**."

- Based on all the above about PAC, we suspected two things:
    - PAC's leaders thought the offer by Regal Partners and River Capital was too low, which led to Regal Partners "being disappointed with the engagement by the Pacific Current board."
    - The GQG Partners deal was still in play and the price would likely be (1) higher than what Regal Partners offered, **and (2) close to or higher than PAC's fair value NAV per share**.
- PAC, as I already mentioned, had a fair value NAV per share of A$11.92 as of 30 June 2023. After adjusting for a final dividend of A$0.23 per share PAC declared on 25 August 2023 and fluctuations in GQG Partners' stock price (the stock price seen in late-October 2023 was similar to that on 30 June 2023), we estimated **PAC's fair value NAV per share to be around A$11.69, which is more than 20% higher than the company's aforementioned stock price of A$9.45.**

But we ultimately decided to pass for two reasons. **First, we thought the presence of River Capital as a significant shareholder of PAC could be a stumbling block in the success of any offer from GQG Partners;** River Capital, as I mentioned earlier, had teamed up with Regal Partners to attempt acquiring PAC. **Second, there was no guarantee that the offer price from GQG Partners would be close to our estimate of PAC's fair value NAV per share; moreover, PAC's fair value NAV per share was itself in flux because GQG Partners was a public-listed entity**.

Eventually, GQG Partners announced on 1 November 2023 that it had made an indicative offer to acquire PAC for A$11.00 per share in cash and that it was trying to win the support of River Capital. But PAC shared on 13 November 2023 that River Capital had countered with its own offer on 7 November 2023 that involved a complicated series of transactions and valued PAC at A$10.50 per share. In the same 13 November 2023 announcement, PAC also mentioned that discussions between River Capital and GQG Partners had ended with a stalemate. Finally, on 16 November 2023, PAC concluded the acquisition talks and said that there would be no deal.

I trust that this sharing of how Jeremy and I have been attempting to improve the performance of Compounder Fund, using concrete examples, will allow you to better understand the investing work we're doing. We cannot promise that our actions will yield

results, but you can rest assured that we're constantly turning over rocks in search of better investment opportunities.

House-keeping matters and what's next

Compounder Fund's audit for calendar year 2023, conducted by Baker Tilly, has wrapped up. On 14 May 2024, we sent a digital copy of Compounder Fund's audited financial statements for 2023 to all of the fund's investors. If you did not receive it, or if you joined the fund as an investor after 14 May 2024 and would like a digital copy of the audited 2023 financial statements, please let Jeremy and me know.

As Jeremy and I have shared before, giving back to society is one of the four key pillars of Compounder Fund's mission to "Grow *Your* Wealth & Enrich Society." In the fund's website, we **mentioned** that "we are setting aside at least 10% of every dollar we earn from Compounder Fund in each year for charities of our choice" and that "we will audit our giving." The first audit for our giving, conducted by Baker Tilly, covered the period from November 2019 (when we started building the fund) to December 2021. Subsequent audits are for each calendar year and the audit report for 2023 was recently completed by Baker Tilly. As a reminder, all the audit reports for our charitable giving are available on the fund's website **here**. If you are interested to know more about our charitable giving, feel free to reach out!

Another of the key pillars of Compounder Fund's mission involves investor education. To this end, Jeremy and I are running Compounder Fund transparently. As I already mentioned, we have released our investment theses on all 45 companies that are currently in Compounder Fund's portfolio, except for Nu Holdings, and they can be **found here**. Our thesis for Nu Holdings will be out in the next few weeks while our Sell theses for DocuSign and Etsy will be released in the coming months. We will inform you once they are ready. In the future, we will also be publishing our theses if and when we add new companies to the portfolio or completely exit an existing holding voluntarily.

Compounder Fund's next subscription window will close in the middle of September 2024 and it will have a dealing date on the first business day of October 2024 (which should be 1st October). If you would like to increase your investment in the fund, please submit the relevant paperwork by the middle of September 2024. Jeremy and I are happy to assist with any queries you may have.

Optimism (as always!)

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

To us, investing in stocks is ultimately the same as having faith in the long-term ingenuity of humanity. We will remain long-term optimistic on stocks so long as we continue to have this faith. In our **2023 fourth-quarter letter**, I mentioned:

> "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 stories showed how innovation can (1) appear from the most unexpected places, (2) take unpredictable paths, and (3) occur when supporting technologies improve over time. I further wrote that "what they signify is that we shouldn't lose hope in mankind's creative prowess when it seems as though nothing new of significance has been built for a while. Sometimes, what's needed is just time." A fascinating article by Benjamin Reinhardt published in May this year, titled ***Getting materials out of the lab****,* had passages with a similar theme:

> "The long road from the lab to the material world might make the future of new materials seem bleak.
>
> One reason for optimism is that new materials might already be on the horizon. There is a shockingly consistent timescale for materials to become useful beyond their initial niches. It took roughly 50 years between Roger Bacon's discovery in 1958 and the flight of the first majority–carbon fiber airplane in 2009. The first lithium-ion battery was created by NASA in 1965, but most people didn't start interacting with them until the mid 2000s. The properties of pure carbon nanotubes weren't isolated until 1991. If there is indeed a 40- to 50-year timescale for lab-based materials to be useful in high-impact applications, we don't need to despair about a carbon nanotube space elevator being overdue until somewhere around 2040."

Over the course of history, newly invented materials have taken a *consistently* long amount of time - around five decades - for them to become widely used, according to Reinhardt. So there's really no reason to despair if we ever find society's innovation engine to be stuck. 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). **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 third-quarter investors' letter in mid-October 2024. Till then, stay safe and take care.

Excelsior,
Chong Ser Jing
Co-founder and Portfolio Manager, Compounder Fund
9 July 2024

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

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