Compounder Fund Investors' Letter: First Quarter of 2025

COMPOUNDER FUND
GROWING YOUR WEALTH AND ENRICHING SOCIETY

Dear investors,

I'm presenting Compounder Fund's 2025 first-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 -8.8%. Over the same period, the dividend-adjusted Singapore-dollar returns for the S&P 500 was -5.9%. 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%
2024	29.7%	29.5%
Jan 2025	5.9%	2.3%
Feb 2025	-5.3%	-1.9%
Mar 2025	-9.1%	-6.2%
Q1 2025	-8.8%	-5.9%
Year-to-date 2025	-8.8%	-5.9%
Total return since inception*	1.4%	84.9%
Annualised return since inception*	0.3%	13.9%

**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%
2024	29.7%	29.5%
Jan 2025	5.9%	2.3%
Feb 2025	-5.3%	-1.9%
Mar 2025	-9.1%	-6.2%
Q1 2025	-8.8%	-5.9%
Year-to-date 2025	-8.8%	-5.9%
Total return since inception*	-2.6%	75.8%
Annualised return since inception*	-0.6%	12.7%

**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 more than 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 and Class B shares are effectively flat since their inception and they have substantially underperformed the US stock market. **We are encouraged by the gains in the stock prices of the fund's holdings in 2023 and 2024, with strong outperformance over the market in 2023 and a slight outperformance in 2024** (see Tables 1 and 2). But progress was halted in the first quarter of 2025. Consequently, a huge gap still exists between the good performance of Compounder Fund's underlying businesses and the mediocre gains in their stock prices.

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 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, as I will detail in the "*Wonderful businesses"* section of this letter with the help of examples I've shared in some of our past letters. **I recently came across a quote from the late journalist Jacob Riis on stone-cutting that I thought is a beautiful metaphor for stock market investing in general and Compounder Fund in particular:**

> "When nothing seems to help, I go and look at a stonecutter hammering away at his rock perhaps a hundred times without as much as a crack showing in it. Yet at the hundred-and-first blow it will split in two, and I know it was not that blow that did it, but all that had gone before."

Just as a company's stock price can do nothing or even sit in a decline for a long time, even as its underlying business does really well, a rock that has been hammered for a hundred times can appear completely unchanged, as though zero progress has been made. But eventually, a company's stock price will reflect the growth of its underlying fundamentals, just as the rock will be split after the hundred-and-first blow as a reflection of all the work done in the past hundred blows. **I do not know when our metaphorical hundred-and-first blow will come, *but it will come*.**

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; I will 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 discussed in the "*Improving our performance"* section of our 2024 second-quarter 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. You should never underestimate the importance of your role in shaping Compounder Fund's long-term return. 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-plus 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 now over the four-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 identical 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 fourth-quarter letter** was published on 13 January 2025. In it, I shared all 45 holdings that were in the fund's portfolio at the time. Since then, there have been a number of changes. Firstly, we have sold all of the fund's positions in Block, dLocal, Fiverr, and Zoom Communications. Secondly, part of the capital from the sales were used to add to the portfolio's existing positions in Alphabet, Amazon, and The Trade Desk.

We'll be sharing our detailed theses for the complete sales on Compounder Fund's website in the coming months (you will be informed when they are published). But for now, here are brief explanations for our actions:

- Block has two important business ecosystems: (1) Square, which provides point-of-sales and banking services, among others, to enterprises, and (2) Cash App, which provides a wide variety of financial services, such as debit cards, savings accounts, and loans, to consumers. We have been disappointed with the growth in Square's GPV (gross payment volume), which has severely lagged that of peers such as Toast and Shift4, since our **initial investment in July 2020**. From 2021 to 2024, Square's GPV compounded at just 12.8% per year from US$167.7 billion to US$240.8 billion. Meanwhile, the compound annual growth rates in Toast's and Shift4's GPVs over the same period were 40.8% (from US$57.0 billion to US$159.1 billion) and 52.3% (from US$46.7 billion to US$164.8 billion), respectively. For 2025, Block's management is guiding for growth in Square's GPV to be in the high-single-digit to low-double-percentage range. For Toast, GPV is expected to increase in the low-to-mid 20% percentage rate in 2025 (if its take rate, defined as gross profit as a percentage of GPV, is assumed to remain constant); for Shift4, its GPV (termed end-to-end payment volume) growth is expected to be between 21% and 33%.

- dLocal is an emerging markets payments specialist. Its net take rate (gross profit as a percentage of total payment volume) has declined substantially from 1.91% in 2022, to 1.56% in 2023, and 1.15% in 2024. The decline in the net take rate is more severe than we expected when we **first invested in the company in October 2021**. We thought that processing payments in emerging markets for global merchants is a complex endeavour which would support dLocal's take rates, but it appears we were mistaken. Management has guided for the net take rate to fall further in 2025. The negative impact of falling take rates on gross profit growth can be mitigated by rapid increases in payment volume, but dLocal has not been particularly impressive on this front. For perspective, Adyen's payment volume in 2024 was €1.4 *trillion,* and was up 33%, whereas dLocal's payment volume in the same year was an order of magnitude lower at US$26 *billion* while growth was just 45%.
- Fiverr*,* which operates an online marketplace to connect freelancers with individuals and companies who need the freelancers' services, has produced disappointing growth in active buyers, and consequently, GMV (gross merchandise volume). When we **first invested in Fiverr in January 2021**, both its active buyers and spend per buyer were increasing rapidly, with the former and latter both nearly doubling from 2017 to 2020 (from 1.8 million to 3.4 million in the case of active buyers and from US$119 to US$205 in the case of spend per buyer). The two metrics continued rising initially in 2022, to 4.275 million and US$262. But over the last two years, Fiverr's active buyers had *shrunk* to 4.027 million in 2023 and 3.63 million in 2024. Although the spend per buyer did continue increasing to US$278 in 2023 and US$302 in 2024, Fiverr's GMV ultimately declined from US$1.118 billion in 2022 to US$1.098 billion in 2024. We invested in Fiverr on the premise that its active buyers and GMV would have a long run way to grow, but with the lack of growth in the past couple of years, our assessment looks wrong.
- Zoom Communications was thrust into the public spotlight during the COVID-era as its video conferencing platform became an indispensable tool for society to remain connected when social distancing was in place to prevent the disease's spread. As a result, during its fiscal year ended 31 January 2021 (FY2021), Zoom Communications posted outstanding revenue growth of 326%. But the company has since struggled to expand its business, as revenue rose by just 7.1% in FY2023, and 3.1% in both FY2024 and FY2025. Management has created successful new products and features in recent times. Examples include (1) Zoom Contact Center, which had 1,250 customers in the third quarter of FY2025, up 82% year-on-year, and (2) Zoom AI Companion, whose monthly active users increased by 68% sequentially

in the fourth quarter of FY2025. But overall revenue growth for Zoom Communications is still anaemic. For FY2026, management is guiding for revenue growth of merely 2.7%. In our view, Zoom Communications' high-growth days are over - and way sooner than we expected when we **first invested in the company in July 2020**.

The last additions we made to Alphabet and Amazon happened a few months ago in early-October 2024 and we discussed the reasons for our actions in the "*Portfolio changes"* section of our **2024 third-quarter letter**. In the case of Alphabet, I highlighted the following in the letter: A fortress balance sheet; a strong AI team; unmatched distribution-strength with six products with more than two billion users *each*; promising early-signs in the integration of AI into Alphabet's core Google Search product, and an undemanding valuation with price-to-earnings (P/E) and price-to-free-cash-flow (P/FCF) ratios of 24 and 34, respectively. These reasons either **still apply or have become even more prominent**:

- On the balance sheet, Alphabet ended 2024 with US$95.7 billion in cash and short-term investments, and just US$10.9 billion in total debt. And this is *despite* Alphabet's capital expenditures having increased by 69.4% from US$32.7 billion in 2023 to US$55.5 billion in 2024.
- On the AI team, the luminary leaders I mentioned in the 2024 third-quarter letter, Jeffrey Dean and Demis Hassabis, are still active in the company. Alphabet also continues to push the frontiers of AI models. Its latest thinking model, Gemini 2.5 Pro Experimental, **announced** in late-March 2025, "tops the LMArena leaderboard by a significant margin," outperforming leading models from competitors such as OpenAI, Anthropic, xAI, and DeepSeek.
- On the wide distribution, Alphabet now has *seven* products with more than two billion users each.
- On the AI-integration into Google Search, the latest progress has been excellent. Alphabet's management shared in the 2024 fourth-quarter earnings conference call that **AI Overviews in Google Search is monetising at a similar rate to traditional Google Search**. Management also mentioned in the call that (1) Google Search is used more with AI Overviews and the usage growth is *rising* over time, and (2) users are asking new types of questions with AI Overviews. I think it's important to also highlight the scale of Google Search: Management revealed in early-March this year that the service is handling more than five *trillion* searches annually, up from two trillion in 2016 (the last time such data was revealed).
- Lastly, on the valuation, Alphabet ended March 2025 with price-to-earnings (P/E) and price-to-free cash flow (P/FCF) ratios of 19 and 28, respectively.

Coming to Amazon, our reasons for adding to the position in late-September 2024 - given in our 2024 third-quarter letter - centred on (1) the surge in the company's free cash flow and the acceleration in AWS's year-on-year revenue growth rates in recent quarters, (2) long-term growth tailwinds from the e-commerce and cloud computing markets, and (3) a clear path toward higher FCF margins. **Some of these factors are still relevant, while some have seen changes that appear negative on the surface but which are positive upon deeper inspection**:

- Table 4 below shows Amazon's free cash flows and AWS's year-on-year revenue growth rates from the second quarter of 2022 to the fourth quarter of 2024. Amazon's free cash flows in the third and fourth quarters of 2024 were much lower than their respective year-ago numbers, but they were the result of much higher capital expenditures; Amazon's operating cash flow actually grew 22.4% year-on-year in the third quarter of 2024 and 7.5% in the fourth quarter. Amazon's management decided to invest heavily in AI infrastructure as AWS's growth was constrained by a lack of capacity relative to demand. For perspective, Amazon's capital expenditure in the second half of 2024 was US$50.5 billion, up from US$32.5 billion in the first half of the year, and nearly double from US$27.1 billion in the second half of 2023. Meanwhile, AWS's revenue growth continued accelerating in the third quarter of 2024 with only a small sequential step-down in the fourth quarter.

- Regarding the tailwinds: (a) e-commerce accounted for just 16.4% of total retail sales in the USA in the fourth quarter of 2024, implying significant room ahead for e-commerce penetration to increase, and (b) management continues to see enterprises migrating from on-premise computing workloads to the cloud, and a future where AI workloads will be mostly built on the cloud.
- As for the clear path toward higher FCF margins, there are now two offsetting forces. On one hand, in the fourth quarter of 2024, Amazon's e-commerce business experienced year-on-year operating margin improvement in both the North America and International segments for the eighth consecutive quarter; management also alluded to continued margin improvements in both segments in the years ahead during the 2024 third-quarter earnings conference call. On the other hand, management's guidance for Amazon's capital expenditure in 2025 is around US$105 billion, a significant increase from the US$83.0 billion seen in 2024. The higher expected capital expenditure would pressure Amazon's free cash flow margin in the near-term. But this could be a huge long-term positive for Amazon's future free cash flows ***if*** management's following view, shared during the 2024 fourth-quarter earnings conference call, turns out to be right (we currently agree with management):

> "The vast majority of that CapEx spend is on AI for AWS. The way that AWS business works and the way the cash cycle works is that the faster we grow, the more CapEx we end up spending because we have to procure data center and hardware and chips and networking gear ahead of when we're able to monetize it. We don't procure it unless we see significant signals of demand. And so when AWS is expanding its CapEx, particularly in what we think is one of these once-in-a-lifetime type of business opportunities like AI represents, I think it's actually quite a good sign, medium to long term, for the AWS business."

As icing on the cake for us when it comes to our addition to Amazon, its price-to-operating cash flow (P/OCF) at the end of March 2025 was just 18, which looks attractive to us and is also near the metric's all-time low (around 15, reached in mid-2024).

Table 4

Quarter	Amazon free cash flow (US$, billion)	AWS year-on-year revenue growth
Q2 2022	-6.76	33.3%
Q3 2022	-4.97	27.5%
Q4 2022	12.58	20.2%
Q1 2023	-9.42	15.8%
Q2 2023	5.02	12.2%
Q3 2023	8.74	12.3%
Q4 2023	27.88	13.2%
Q1 2024	4.06	17.2%
Q2 2024	7.66	18.7%
Q3 2024	3.35	19.1%
Q4 2024	17.80	18.9%

Source: Amazon quarterly earnings updates

The third company we added to was The Trade Desk. The company's stock price sank by 55% from US$122 on 12 February 2025, which was the day its 2024 fourth-quarter results was released after the market closed, to less than US$55 at the end of March 2025. Trade Desk's revenue grew 22.3% in the fourth quarter of 2024 to US$741.0 million, which is healthy. The problem is management's *own* guidance for the quarter was for revenue of "at least [US]$756 million." Excluding the COVID era, this was the first time since Trade Desk's initial public offering in September 2016 that the company had fallen short of management's targets.

Trade Desk's management took ownership for the missed-expectations and explained in the earnings conference call that it was the result of execution mis-steps. An important part of the mis-steps was the botched roll out of Kokai. As a replacement for Solimar, Kokai, launched in June 2023, is Trade Desk's latest AI-powered platform for advertisers to purchase digital advertising inventory. By the fourth quarter of 2024, the majority of Trade Desk's customers - which are buyers of advertising, be it advertising agencies or companies that want to buy advertising directly through Trade Desk - have transitioned to Kokai. But the roll out has been slower than expected. Media articles (**here** for example) and interviews of industry-insiders that we've reviewed have pointed out problems with Kokai, such as a lack of features that are important to advertising buyers and a drastically-changed user interface that some advertising buyers find complicated. **Importantly, we think the problems with Kokai *can be solved easily*. And once management addresses the issues, Kokai's adoption should accelerate** because the newer platform does deliver better results for advertisers when it's used, as management has shared (emphases are ours):

> "[From 2024 second-quarter earnings conference call] For those **campaigns that have moved from Solimar to Kokai in aggregate, incremental reach is up more than 70%. Cost per acquisition has improved by about 27% as data elements**

> **per impression have gone up by about 30%. In addition, performance metrics have improved by about 25%**, helping to unlock performance budgets on our platform for years to come. So our clients are getting more precise, more cost efficient, and then they're able to reinvest for even more reach and drive a much better return on ad spend.
>
> [From 2024 fourth-quarter earnings conference call] Goodway Group is one of our largest independent agency clients. They've been working in Kokai to create a blue list, which is a custom market that they can curate using our tools on our platform to provide their customers the best opportunities in the market as they see it. **With their blue list in Kokai, Goodway was able to prioritize impressions with better, clearer signal around factors such as genre, show title and content quality. In addition, they were able to measure the number of supply chain hops in those transactions. They found that 94% of the impressions they bought had only one supply chain hop, which is well ahead of the industry benchmarks**. All of this means that more campaign dollars can now be put to work more effectively in driving incremental reach…
>
> …We had some great case studies in Q4 around the world. **Boiron, a world leader in homeopathic products, was able to measure a 267% return on ad spend, or ROAS, on Kokai when using Kroger retail conversion data. This was well ahead of their typical benchmarks**. In addition, of the almost 2 million households that their recent campaign reached on our platform, 94% of them were new to the brand. In Hong Kong, **high-end skincare brand, Sulwhasoo, leveraged UID2 in Kokai to look-alike model prospective new audiences based on their most loyal customers**. In doing so, they were able to engage with those prospects across the customer journey at all steps of the marketing funnel across a range of digital channels. **As a result of this campaign approach, they were able to measure a 6x improvement in physical store visits, a 380% improvement in conversion rates and an 80% lower cost per acquisition**."

We acknowledge that there are uncertainties with Trade Desk's future take rates (revenue as a percentage of advertising spending on the company's platform). From 2015 to 2024, Trade Desk's take rate was consistently around 20%. But the take rate may be pressured in the years ahead depending on how advertising purchases in Connected TV (CTV) evolve. For context, Video, of which CTV is a part of, had the largest - *and growing* - share of Trade Desk's business in 2024 of more than 45%. Within CTV, there are two main ways that advertisers (or advertising agencies that represent advertisers) purchase advertising inventory. The first is known as Programmatic Guaranteed (PG), where *no* bidding for advertising inventory is involved. The second is known as PMP (Private Marketplace), where bidding is involved. Because **PG does not involve bidding, the take rate a DSP (demand-side platform) such as Trade Desk earns when an advertiser uses the DSP for buying PG advertising inventory is much lower compared to when buying PMP inventory**; in essence, with PG transactions, Trade Desk is merely acting as a dumb pipe. We've seen conflicting conclusions from industry-insiders on PG or PMP eventually being the dominant way advertising inventory is transacted in CTV. **Currently, we are leaning towards PMP being the winner because biddable advertising inventory should deliver better returns for advertisers. We thus think Trade Desk's future take rates are protected**.

The aforementioned sharp decline in Trade Desk's stock price in recent weeks has substantially lowered the company's valuation metrics. At the end of March 2025, Trade Desk had price-to-sales (P/S) and P/FCF ratios of 11 and 43, respectively. For perspective, we **last added to Trade Desk in November 2023** when its self-same ratios were at 18 and 56. For more context, the company's P/S ratio of 11 at the end of March 2025 is near the COVID-bottom of 10 that the ratio reached; moreover Trade Desk's P/S ratio had spent most of the time since the start of 2020 above 20.

Here's how Compounder Fund's portfolio of 41 companies looks like as of 13 April 2025:

Table 5

Company	Weighting	Country/Region of listing	Headquarters
Meta Platforms	9.7%	USA	USA
MercadoLibre	7.1%	USA	Argentina
Netflix	7.0%	USA	USA
Amazon	5.5%	USA	USA
Alphabet	4.2%	USA	USA
Microsoft	4.1%	USA	USA
Tractor Supply	3.5%	USA	USA
Visa	3.5%	USA	USA
Costco	3.5%	USA	USA
Apple	3.1%	USA	USA
Mastercard	3.0%	USA	USA
Chipotle Mexican Grill	3.0%	USA	USA
Intuitive Surgical	2.9%	USA	USA
Tencent	2.8%	Hong Kong	China
Shopify	2.8%	USA	Canada
Adyen	2.4%	Netherlands	Netherlands
Markel	2.2%	USA	USA
ASML	2.1%	USA	Netherlands
Tesla	2.0%	USA	USA
The Trade Desk	2.0%	USA	USA
DataDog	1.9%	USA	USA
TSMC	1.8%	USA	Taiwan
Salesforce	1.7%	USA	USA
Medpace	1.7%	USA	USA
Nu Holdings	1.6%	USA	Brazil
Adobe	1.6%	USA	USA
Veeva Systems	1.5%	USA	USA
Wise	1.3%	UK	UK

Table 5 (continued from above)			
Company	**Weighting**	**Country/Region of listing**	**Headquarters**
Wix	1.2%	USA	Israel
PayPal	1.1%	USA	USA
Meituan	1.0%	Hong Kong	China
Hingham	0.9%	USA	USA
Okta	0.9%	USA	USA
Haidilao	0.9%	Hong Kong	China
Medistim	0.8%	Norway	Norway
Paycom Software	0.7%	USA	USA
Sea	0.7%	USA	Singapore
Starbucks	0.7%	USA	USA
MongoDB	0.7%	USA	USA
Coupang	0.6%	USA	South Korea
Super Hi International	0.1%	Hong Kong	Singapore
Cash	**0.3%**	**-**	**-**

Table 6 below shows the high-level geographical breakdown of Compounder Fund's portfolio as of 13 April 2025:

Table 6

Country/Region	% of Compounder Fund's capital based on country of listing	% of Compounder Fund's capital based on location of headquarters
Argentina	-	7.1%
Brazil	-	1.6%
Canada	-	2.8%
China	-	4.7%
Hong Kong	4.8%	-
Israel	-	1.2%
Netherlands	2.4%	4.4%
Norway	0.8%	0.8%
Singapore	-	0.8%
South Korea	-	0.6%
Taiwan	-	1.8%
UK	1.3%	1.3%
USA	90.4%	72.5%

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 fourth quarter of 2024. Table 7 below shows the year-on-year revenue growth rates for all the 41 companies currently in Compounder Fund's portfolio for the following time periods: The whole of 2020, 2021, 2022, 2023, 2024, and each quarter of 2024.

Table 7

Com-pany	2020 revenue growth	2021 revenue growth	2022 revenue growth	2023 revenue growth	Q1 2024 revenue growth	Q2 2024 revenue growth	Q3 2024 revenue growth	Q4 2024 revenue growth	2024 revenue growth
Adobe	17.3%	18.0%	11.5%	10.8%	10.2%	10.6%	11.1%	10.3%	10.5%
Adyen	28.1%	46.4%	32.8%	22.2%	21.0%	26.1%	20.0%	23.9%	22.8%
Alphabet	12.8%	41.2%	9.8%	8.7%	15.4%	13.6%	15.1%	11.8%	13.9%
Amazon	37.6%	21.7%	9.4%	11.8%	12.5%	10.1%	11.0%	10.5%	11.0%
Apple	9.9%	28.6%	2.4%	-0.5%	-4.3%	4.9%	6.1%	4.0%	2.6%
ASML	18.3%	33.1%	13.8%	30.2%	-21.6%	-9.6%	11.9%	28.0%	2.6%
Chipotle Mexican Grill	7.1%	26.1%	14.4%	14.3%	14.1%	18.2%	13.0%	13.1%	14.6%
Costco	12.8%	17.7%	11.5%	6.2%	9.1%	1.0%	7.5%	9.0%	6.1%
Coupang	90.8%	53.8%	11.8%	18.5%	22.6%	25.4%	27.2%	21.4%	24.1%
Datadog	66.3%	70.5%	62.8%	29.4%	26.9%	26.7%	26.0%	25.1%	26.1%
Haidilao	7.8%	43.7%	-20.6%	33.6%	-	13.80%	-	-5.8%	3.1%
Hingham	27.4%	20.3%	3.6%	-54.5%	-39.1%	-20.4%	4.5%	43.4%	-8.1%
Intuitive Surgical	-2.7%	31.0%	9.0%	14.5%	11.5%	14.5%	16.9%	25.2%	17.2%
Markel	17.0%	20.0%	22.1%	5.6%	7.5%	3.5%	0.3%	-0.5%	2.6%
Master-card	-9.4%	23.4%	17.8%	12.9%	10.4%	11.0%	12.8%	14.4%	12.2%
Medistim	-0.2%	17.7%	15.1%	7.0%	3.5%	5.5%	7.0%	11.4%	6.9%
Medpace	7.5%	23.4%	27.8%	29.2%	17.7%	14.6%	8.3%	7.7%	11.8%
Meituan	17.7%	56.0%	22.8%	25.8%	25.0%	21.0%	22.4%	20.1%	22.0%
Mercado-Libre	73.0%	77.9%	49.1%	37.4%	36.0%	41.5%	35.3%	37.4%	37.5%
Meta Platforms	21.6%	37.2%	-1.1%	15.7%	27.3%	22.1%	18.9%	20.6%	21.9%
Microsoft	14.7%	20.6%	10.4%	11.5%	17.0%	15.2%	16.0%	12.3%	15.0%
MongoDB	40.0%	48.0%	47.0%	31.1%	22.3%	12.8%	22.3%	19.7%	19.2%
Netflix	24.0%	18.8%	6.5%	6.7%	14.8%	16.8%	15.0%	16.0%	15.6%
Nu Holdings	20.4%	130.4%	182.2%	67.5%	69.0%	52.4%	37.7%	24.3%	43.4%
Okta	42.5%	55.6%	42.9%	21.8%	19.1%	16.2%	13.9%	12.7%	15.3%
Paycom Software	14.1%	25.4%	30.3%	23.2%	10.7%	9.1%	11.2%	13.6%	11.2%

Table 7 (continued from above)

Com-pany	2020 revenue growth	2021 revenue growth	2022 revenue growth	2023 revenue growth	Q1 2024 revenue growth	Q2 2024 revenue growth	Q3 2024 revenue growth	Q4 2024 revenue growth	2024 revenue growth
PayPal	20.7%	18.3%	8.5%	8.2%	9.4%	8.2%	5.8%	4.2%	6.8%
Sales-force	24.3%	24.7%	18.3%	11.2%	10.7%	8.4%	8.3%	7.6%	8.7%
Sea	101.1%	127.5%	25.1%	4.9%	22.8%	23.0%	30.8%	36.9%	28.8%
Shopify	85.6%	57.4%	21.4%	26.1%	23.4%	20.7%	26.1%	31.2%	25.8%
Starbucks	-14.1%	31.0%	8.4%	11.5%	-1.8%	-0.6%	-3.2%	-0.3%	-1.5%
Super Hi	-5.0%	41.1%	78.7%	23.0%	16.6%	12.4%	14.6%	10.4%	13.4%
Tencent	27.8%	16.2%	-1.0%	9.8%	6.3%	8.0%	8.1%	11.1%	8.4%
Tesla	28.3%	70.7%	51.4%	18.8%	-8.7%	2.3%	7.8%	2.1%	0.9%
Trade Desk	26.5%	43.1%	31.9%	23.3%	28.3%	25.9%	27.3%	22.3%	25.6%
Tractor Supply	27.2%	19.9%	11.6%	2.5%	2.9%	1.5%	1.6%	3.1%	2.2%
TSMC	25.2%	18.5%	42.6%	-4.5%	16.5%	40.1%	39.0%	38.8%	33.9%
Veeva Systems	32.7%	26.3%	16.4%	9.7%	23.6%	14.6%	13.4%	14.3%	16.2%
Visa	-8.7%	18.6%	18.5%	10.5%	9.9%	9.6%	11.7%	10.1%	10.3%
Wise	43.9%	32.3%	48.5%	28.6%	24.0%	21.6%	16.2%	12.3%	18.2%
Wix.com	29.9%	29.0%	9.3%	12.5%	12.2%	11.7%	12.9%	14.0%	12.7%

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 8

Simple averages for revenue growth from year ago	Compounder Fund current portfolio	Compounder Fund current portfolio (including Block, dLocal, Fiverr, and Zoom Communications)
Q1 2020	24.2%	31.2%
Q2 2020	21.4%	32.2%
Q3 2020	28.7%	42.1%
Q4 2020	31.3%	44.5%
2020	25.9%	36.8%
Q1 2021	42.7%	54.6%
Q2 2021	49.1%	54.7%
Q3 2021	37.8%	39.5%
Q4 2021	33.9%	35.7%
2021	38.6%	42.5%
Q1 2022	32.1%	32.2%
Q2 2022	28.2%	27.6%

Table 8 (continued from above)		
Simple averages for revenue growth from year ago	**Compounder Fund current portfolio**	**Compounder Fund current portfolio (including Block, dLocal, Fiverr, and Zoom Communications)**
Q3 2022	24.5%	24.5%
Q4 2022	20.0%	19.9%
2022	25.2%	25.0%
Q1 2023	17.8%	18.1%
Q2 2023	16.4%	17.0%
Q3 2023	14.7%	15.3%
Q4 2023	14.3%	15.2%
2023	15.5%	16.2%
Q1 2024	13.9%	14.0%
Q2 2024	14.2%	13.5%
Q3 2024	14.8%	14.2%
Q4 2024	**15.8%**	**15.1%**
2024	**14.4%**	**13.9%**

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 15.8% (this is a simple average) in the fourth quarter of 2024**, **and this continues from the impressive revenue growth rates seen in prior quarters going back to 2020**. Table 9 below provides perspective on the superior growth rates for Compounder Fund's current holdings compared to the S&P 500.

Table 9

Simple averages for revenue growth from year ago in a certain quarter	S&P 500	Compounder Fund current portfolio
Q1 2020	Around -2%	24.2%
Q2 2020	Around -10%	21.4%
Q3 2020	Around -2%	28.7%
Q4 2020	Around -0.5%	31.3%
Q1 2021	Around 10%	42.7%
Q2 2021	Around 25%	49.1%
Q3 2021	16.6%	37.8%
Q4 2021	16.1%	33.9%
Q1 2022	13.4%	32.1%
Q2 2022	11.9%	28.2%
Q3 2022	12.1%	24.5%
Q4 2022	6.9%	20.0%
Q1 2023	7.9%	17.8%

Table 9 (continued from above)		
Simple averages for revenue growth from year ago in a certain quarter	**S&P 500**	**Compounder Fund current portfolio**
Q2 2023	6.1%	16.4%
Q3 2023	4.7%	14.7%
Q4 2023	6.6%	14.3%
Q1 2024	4.9%	13.9%
Q2 2024	6.2%	14.2%
Q3 2024	7.8%	14.8%
Q4 2024	**4.6%**	**15.8%**

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

The average year-on-year revenue growth rate for Compounder Fund's portfolio companies in the fourth quarter of 2024 also comfortably exceeds the S&P 500's corresponding revenue growth rate (15.8% vs 4.6%). We do acknowledge that the portfolio's 15.8% growth rate is a significant deceleration from what was achieved throughout 2021 and 2022, **but it is an acceleration from what was seen in the third quarter of 2024**. The other good thing is that 20 companies in Compounder Fund's current portfolio saw higher year-on-year revenue growth in the fourth quarter of 2024 compared to the third quarter of 2024. 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 even 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 healthy average annual revenue growth 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, Compounder Fund's holdings managed to strengthen their free cash flow margins in the fourth quarter of 2024. Table 10 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 fourth quarter of 2024, the simple-average free cash flow margin for all the fund's current holdings was 26.1%, up from 21.0% a year ago. This means that Compounder Fund's portfolio had, on average, grown its free cash flow by an outstanding 44% during the quarter compared to a year ago.** As a reminder, the average free cash flow margin of Compounder Fund's holdings increased on a year-on-year basis in the third quarter of 2024, so it's good to see this pleasing development continue. We look forward to seeing more increases over time in the free cash flow margins of Compounder Fund's companies, although there could be short-term fluctuations given the rising capital intensity of some of the larger holdings in the fund (see the *"AI ROI"* section of this letter for a discussion on the rising capital intensity). Given the nature and track records of these companies, we 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 10

Company	Revenue growth in Q4 2024 from a year ago	Free cash flow margin in Q4 2024	Free cash flow margin in Q4 2023
Adobe	10.3%	42.0%	21.2%
Adyen	23.9%	47.1%	46.2%
Alphabet	11.8%	25.7%	9.1%
Amazon	10.5%	9.5%	16.4%
Apple	4.0%	21.7%	31.4%
ASML	28.0%	95.4%	35.9%
Chipotle Mexican Grill	13.1%	12.4%	3.7%
Costco	9.0%	2.5%	-0.5%
Coupang	21.4%	5.8%	5.7%
Datadog	25.1%	32.7%	34.1%
Haidilao	-5.8%	-	-
Hingham	43.4%	-	-
Intuitive Surgical	25.2%	21.1%	-10.8%
Markel	-0.5%	-	-
Mastercard	14.4%	61.0%	58.5%
Medistim	11.4%	36.2%	18.3%
Medpace	7.7%	34.1%	29.4%
Meituan	20.1%	-	-
MercadoLibre	37.4%	43.2%	39.6%
Meta Platforms	20.6%	28.0%	29.3%
Microsoft	12.3%	7.3%	14.7%
MongoDB	19.7%	4.5%	11.3%
Netflix	16.0%	13.5%	17.9%
Nu Holdings	24.3%	-	-
Okta	12.7%	41.6%	27.4%
Paycom Software	13.6%	21.2%	16.9%
PayPal	4.2%	26.2%	30.8%
Salesforce	7.6%	38.2%	35.1%
Sea	36.9%	18.8%	5.9%
Shopify	31.2%	21.7%	20.8%
Starbucks	-0.3%	14.7%	19.0%
Super Hi	10.4%	-	-

Table 10 (continued from above)			
Company	**Revenue growth in Q4 2024 from a year ago**	**Free cash flow margin in Q4 2024**	**Free cash flow margin in Q4 2023**
Tencent	11.1%	2.6%	22.3%
Tesla	2.1%	7.9%	8.2%
The Trade Desk	22.3%	23.9%	10.5%
Tractor Supply	3.1%	7.2%	4.6%
TSMC	38.8%	29.7%	35.9%
Veeva Systems	14.3%	9.0%	7.9%
Visa	10.1%	53.1%	38.8%
Wise	12.3%	-	-
Wix.com	14.0%	28.6%	19.9%
Average for Compounder Fund's current portfolio	**15.8%**	**26.1%**	**21.0%**

Source: Companies' earnings updates

(As of the publication of this letter, there's no quarterly free cash flow data available for Haidilao, Meituan, Super Hi, and Wise. 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 and Nu Holdings are banks, while Markel has significant exposure to insurance businesses and investment holdings.)

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 11 below shows a few things for the period from 31 December 2024 to 31 March 2025 for Compounder Fund's 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 11

Company	Trailing 12-month revenue per share on 31 Dec 2024	Trailing 12-month revenue per share on 31 Mar 2025	P/S ratio on 31 Dec 2024	P/S ratio on 31 Mar 2025	Trailing 12-month revenue per share change from 31 Dec 2024 to 31 Mar 2025	P/S ratio change from to 31 Dec 2024 to 31 Mar 2025	Stock price change from 31 Dec 2024 to 31 Mar 2025
Adobe	US$ 47.79	US$ 50.31	9.3	7.6	5.3%	-18.1%	-13.8%
Adyen	€ 60.51	€ 63.85	23.7	22.0	5.5%	-7.3%	-2.2%
Alphabet	US$ 27.23	US$ 28.12	7.0	5.5	3.3%	-20.9%	-18.3%
Amazon	US$ 57.93	US$ 59.51	3.8	3.2	2.7%	-15.6%	-13.3%
Apple	US$ 25.38	US$ 26.12	9.9	8.5	2.9%	-13.8%	-11.3%
ASML	€ 66.66	€ 71.81	10.0	8.5	7.7%	-14.6%	-4.4%
Chipotle Mexican Grill	US$ 7.97	US$ 8.22	7.6	6.1	3.2%	-19.3%	-16.7%
Costco	US$ 581.73	US$ 593.6	1.6	1.6	2.0%	1.2%	3.2%
Coupang	US$ 16.11	US$ 16.58	1.4	1.3	2.9%	-3.1%	-0.2%
Datadog	US$ 7.10	US$ 7.48	20.1	13.3	5.5%	-34.2%	-30.6%
Haidilao	RMB 8.14	RMB 7.9	1.8	2.1	-3.0%	12.9%	10.4%
Hingham	US$ 18.39	US$ 20.23	13.8	11.8	10.0%	-14.9%	-6.4%
Intuitive Surgical	US$ 21.77	US$ 23.07	24.0	21.5	6.0%	-10.5%	-5.1%
Markel	US$ 1063.26	US$ 1065.34	1.6	1.8	0.2%	8.1%	8.3%
Mastercard	US$ 29.28	US$ 30.39	18.0	18.0	3.8%	0.3%	4.1%
Medistim	NOK 29.87	NOK 30.72	5.0	5.7	2.8%	13.2%	16.4%
Medpace	US$ 64.59	US$ 65.88	5.1	4.6	2.0%	-10.1%	-8.3%
Meituan	RMB 51.58	RMB 54.23	2.8	2.7	5.1%	-3.1%	2.7%
Mercado Libre	US$ 374.36	US$ 409.82	4.5	4.8	9.5%	4.8%	14.7%
Meta Platforms	US$ 59.74	US$ 62.93	9.8	9.2	5.3%	-6.5%	-1.6%
Microsoft	US$ 34.03	US$ 35.05	12.4	10.7	3.0%	-13.5%	-10.9%
MongoDB	US$ 26.08	US$ 26.91	8.9	6.5	3.2%	-27.0%	-24.7%
Netflix	US$ 85.47	US$ 88.79	10.4	10.5	3.9%	0.7%	4.6%
Nu Holdings	US$ 2.24	US$ 2.36	4.6	4.3	5.4%	-6.2%	-1.2%
Okta	US$ 14.92	US$ 14.91	5.3	7.1	-0.1%	33.6%	33.5%
Paycom Software	US$ 32.36	US$ 33.45	6.3	6.5	3.4%	3.1%	6.6%
PayPal	US$ 30.02	US$ 30.6	2.8	2.1	2.0%	-25.0%	-23.6%
Salesforce	US$ 38.14	US$ 38.91	8.8	6.9	2.0%	-21.3%	-19.7%
Sea	US$ 25.69	US$ 27.81	4.1	4.7	8.3%	13.6%	23.0%
Shopify	US$ 6.31	US$ 6.82	16.8	14.0	8.0%	-16.9%	-10.2%

Table 11 (continued from above)							
Company	**Trailing 12-month revenue per share on 31 Dec 2024**	**Trailing 12-month revenue per share on 31 Mar 2025**	**P/S ratio on 31 Dec 2024**	**P/S ratio on 31 Mar 2025**	**Trailing 12-month revenue per share change from 31 Dec 2024 to 31 Mar 2025**	**P/S ratio change from to 31 Dec 2024 to 31 Mar 2025**	**Stock price change from 31 Dec 2024 to 31 Mar 2025**
Starbucks	US$ 31.81	US$ 31.75	2.9	3.1	-0.2%	7.7%	7.5%
Super Hi	US$ 1.33	US$ 1.35	2.1	1.7	0.5%	-20.2%	-19.6%
Tencent	RMB 68.18	RMB 69.7	5.8	6.7	2.2%	15.7%	19.2%
Tesla	US$ 27.26	US$ 27.78	14.8	9.3	1.9%	-37.0%	-35.8%
The Trade Desk	US$ 4.62	US$ 4.87	25.5	11.2	5.5%	-55.9%	-53.4%
Tractor Supply	US$ 136.57	US$ 27.58	1.9	2.0	1.0%	2.8%	3.8%
TSMC	NT 511.26	NT 558.1	12.7	9.9	9.2%	-22.0%	-15.9%
Veeva Systems	US$ 16.11	US$ 16.62	13.0	13.9	3.2%	6.8%	10.2%
Visa	US$ 17.71	US$ 18.54	17.8	18.9	4.7%	5.9%	10.9%
Wise	£ 1.09	£ 1.13	9.8	8.4	3.0%	-13.9%	-11.4%
Wix	US$ 29.23	US$ 29.37	7.3	5.6	0.5%	-24.2%	-23.8%
Simple average	**-**	**-**	**9.1**	**7.9**	**3.7%**	-	-

Source: Companies' earnings updates

What Table 11 highlights: **Compounder Fund's businesses performed well over the last reported quarter, with average sequential trailing 12-month revenue per share growth of 3.7%. Importantly, 38 of them experienced growth in their trailing 12-month revenues per share for 31 March 2025 compared to 31 December 2024. But during the quarter, many of Compounder Fund's holdings saw their stock prices fall as a result of their trailing P/S ratios contracting from an average of 9.1 to 7.9.**

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, second, third and fourth quarters, 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 31 March 2025, 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 24.0%, which equates to an average price-to-free cash flow (P/FCF) ratio of 33.** If Compounder Fund's companies had an average free cash flow margin of 28% 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 28**.

For perspective, with the average FCF margin for Compounder Fund's current holdings expanding from 16.6% in 2020 to 24.0% in the 12 months ending in the fourth quarter of 2024, the companies have, on average, **grown their free cash flow at an outstanding annualised rate of 35% in that period (which is even faster than their annualised**

revenue growth of 23%). 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 35% annualised growth in free cash flow for Compounder Fund's portfolio companies has so far resulted in a mediocre 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 - the metaphorical splitting of the rock after the hundred-and-first blow *will come.***

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 - published 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 investor 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 12 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 12

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.*

Do tariffs make sense?

Arguably the biggest event in the financial markets so far this year has been the Reciprocal Tariff Policy introduced by the US government, under the Trump administration, on 2 April. The policy imposes a minimum tariff of 10% on all of the US's trading partners, with higher rates - some significantly so - for many countries. For example, China's rate is 34%, Taiwan's is 32%, India's is 27%, and the European Union's is 20%. The rates under the Reciprocal Tariff Policy represent the highest weighted average tariff rate - 24% - implemented by the US in more than 100 years, **according** to investment bank Evercore. Officially, the reciprocal tariff rates are half of what the Trump administration says are "tariffs charged to the U.S.A, including currency manipulation and trade barriers." In reality, the formula used was laughably simple and has nothing to do with tariffs charged to the US:

A country's reciprocal tariff rate = (US's trade deficit with the country) divided by (US's imports from the country) divided by (2)

A minimum of 10% is applied if the formula spits out a lower number.

On the day that the Reciprocal Tariff Policy was supposed to take effect, which is 9 April, the Trump administration announced a 90-day pause, although the minimum 10% tariff rate would still apply; the reciprocal tariff on China was also raised to 125% after the Asian giant engaged the US in a tariff-tit-for-tat in the days following the introduction of the Reciprocal Tariff Policy. Then on 12 April, the Trump administration announced that smartphones, computers, and semiconductors, among other electronic devices and components, that are imported into the US would be exempted from the Reciprocal Tariff policy.

The initially historic changes to the global trading system, and the subsequent walk-backs, have created widespread uncertainty, so it's useful to think about whether tariffs make any sense. For this, we can get some help from Warren Buffett's November 2003 essay titled ***America's Growing Trade Deficit Is Selling the Nation Out From Under Us. Here's a Way to Fix the Problem—And We Need to Do It Now*** where he laid out his thoughts on tariffs.

The first part of the essay discusses the reasons why Buffett even thought about tariffs: He saw risks in the American economy from sustained trade deficits. To illustrate his point, he used a hypothetical example of two islands - Thriftville and Squanderville - that trade only among themselves.

At the beginning, the populations of both Thriftville and Squanderville worked eight hours a day to produce enough food for their own sustenance. After some time, the population of Thriftville decided to work 16 hours a day, which left them with surplus food to export to Squanderville. The population of Squanderville are delighted - they could now exchange

Squanderbonds (denominated in Squanderbucks) for Thriftville's surplus food. But this exchange, when carried out for a long time, became a massive problem for Squanderville. Buffett explained:

> "Over time Thriftville accumulates an enormous amount of these bonds, which at their core represent claim checks on the future output of Squanderville. A few pundits in Squanderville smell trouble coming. They foresee that for the Squanders both to eat and to pay off—or simply service—the debt they're piling up will eventually require them to work more than eight hours a day. But the residents of Squanderville are in no mood to listen to such doomsaying.
>
> Meanwhile, the citizens of Thriftville begin to get nervous. Just how good, they ask, are the IOUs of a shiftless island? So the Thrifts change strategy: Though they continue to hold some bonds, they sell most of them to Squanderville residents for Squanderbucks and use the proceeds to buy Squanderville land. And eventually the Thrifts own all of Squanderville.
>
> At that point, the Squanders are forced to deal with an ugly equation: They must now not only return to working eight hours a day in order to eat—they have nothing left to trade—but must also work additional hours to service their debt and pay Thriftville rent on the land so imprudently sold. In effect, Squanderville has been colonized by purchase rather than conquest."

To ground the hypothetical example in reality, Buffett then discussed the US's actual trade deficits back then and their economic costs:

> "Our annual trade deficit now exceeds 4% of GDP. Equally ominous, the rest of the world owns a staggering [US]$2.5 trillion more of the U.S. than we own of other countries. Some of this [US]$2.5 trillion is invested in claim checks—U.S. bonds, both governmental and private— and some in such assets as property and equity securities.
>
> In effect, our country has been behaving like an extraordinarily rich family that possesses an immense farm. In order to consume 4% more than we produce—that's the trade deficit—we have, day by day, been both selling pieces of the farm and increasing the mortgage on what we still own.
>
> To put the [US]$2.5 trillion of net foreign ownership in perspective, contrast it with the [US]$12 trillion value of publicly owned U.S. stocks or the equal amount of U.S. residential real estate or what I would estimate as a grand total of [US]$50 trillion in national wealth. Those comparisons show that what's already been transferred abroad is meaningful—in the area, for example, of 5% of our national wealth.
>
> More important, however, is that foreign ownership of our assets will grow at about [US]$500 billion per year at the present trade-deficit level, which means that the deficit will be adding about one percentage point annually to foreigners' net ownership of our national wealth. As that ownership grows, so will the annual net investment income flowing out of this country. That will leave us paying ever-increasing dividends and interest to the world rather than being a net receiver of

them, as in the past. We have entered the world of negative compounding—goodbye pleasure, hello pain."

In the next part of his essay, Buffett shared the solution he has for the US's perceived problem with trade deficits: Import Certificates, or ICs. Each exporter in the US will be issued ICs in an amount equal to the value of its exports, meaning US$100 of exports will come with 100 ICs. Each **importer** in the US will then need to buy ICs when importing products into the US - to import US$150 worth of products, an importer will need to purchase ICs that were issued with US$150 of exports.

Buffett thought that the ICs would (1) have an "exceptionally liquid market*"* given the volume of the US's exports, (2) likely trade for 10 cents per dollar of exports, and (3) be viewed by US exporters as a reduction in cost, in this case, of 10%, given the likely trading price of the ICs. The reduction in cost from the ICs would allow US exporters to sell their products internationally at a lower cost while maintaining profit margins, leading to US exports becoming more competitive.

But there are costs that the American society has to pay for the IC plan. Buffett explained:

> "It would have certain serious negative consequences for U.S. citizens. Prices of most imported products would increase, and so would the prices of certain competitive products manufactured domestically. The cost of the ICs, either in whole or in part, would therefore typically act as a tax on consumers."

Those costs, however, are necessary when compared to the alternatives, as Buffett illustrated:

> "That is a serious drawback. But there would be drawbacks also to the dollar continuing to lose value or to our increasing tariffs on specific products or instituting quotas on them—courses of action that in my opinion offer a smaller chance of success. Above all, the pain of higher prices on goods imported today dims beside the pain we will eventually suffer if we drift along and trade away ever larger portions of our country's net worth."

So now we understand Buffett's view with the US's sustained trade deficits and his solution for the problem. But where do tariffs come into play? Buffett actually recognised that his IC solution "is a tariff called by another name." In other words, Buffett thought that a good solution for the US's trade deficits is to implement a tariff, which he named ICs. But crucially, the IC plan "does not penalize any specific industry or product" and "the free market would determine what would be sold in the U.S. and who would sell it."

Buffett also discussed the implications of ICs on global trade and geopolitics in his article. In short, he thought the risks were minor and manageable, **that foreign manufacturers would absorb at least part of the extra costs from the ICs**, and that the eventual outcome would be the US exporting more products around the world:

> "Foreigners selling to us, of course, would face tougher economics. But that's a problem they're up against no matter what trade "solution" is adopted—and make no mistake, a solution must come…

> …To see what would happen to imports, let's look at a car now entering the U.S. at a cost to the importer of $20,000. Under the new plan and the assumption that ICs sell for 10%, the importer's cost would rise to $22,000. If demand for the car was exceptionally strong, the importer might manage to pass all of this on to the American consumer. In the usual case, however, competitive forces would take hold, requiring the foreign manufacturer to absorb some, if not all, of the $2,000 IC cost…
>
> …This plan would not be copied by nations that are net exporters, because their ICs would be valueless. Would major exporting countries retaliate in other ways? Would this start another Smoot-Hawley tariff war? Hardly. At the time of Smoot-Hawley we ran an unreasonable trade surplus that we wished to maintain. We now run a damaging deficit that the whole world knows we must correct.
>
> For decades the world has struggled with a shifting maze of punitive tariffs, export subsidies, quotas, dollar-locked currencies, and the like. Many of these import-inhibiting and export-encouraging devices have long been employed by major exporting countries trying to amass ever larger surpluses—yet significant trade wars have not erupted. Surely one will not be precipitated by a proposal that simply aims at balancing the books of the world's largest trade debtor…
>
> …The likely outcome of an IC plan is that the exporting nations—after some initial posturing—will turn their ingenuity to encouraging imports from us."

Buffett also pointed out that in his IC plan, the value of ICs is designed to approach zero if the plan works, since if the volume of US exports grows significantly, the volume of ICs in existence would also grow proportionally, driving down their price.

It's clear that Buffett thought **intelligently-designed** tariffs are a good solution for the US's trade deficit problem. The US is still running a trade deficit today (interestingly, the trade deficit in 2024 was **3.1% of the US's GDP**, which is a **lower percentage than when** Buffett published his article on his IC plan) and this dynamic is a driving force behind the Trump administration's Reciprocal Tariff Policy. Unfortunately, the policy in its current form is poorly designed, as evidenced by how haphazardly the calculations were made. Moreover, the policy comes in the form of **increased tariffs**, which Buffett pointed out in his article had a low chance of success. So although some form of well-designed tariffs may be a good idea for the US economy - following Buffett's logic - **the way they are currently implemented by the Trump administration is *questionable at best*.**

It's also worth noting that **even Buffett's logic that sustained trade deficits are a problem may not be correct to begin with**. In the article, he mentioned that he had been worried about the US's trade deficits since 1987 and had been wrong since then. It has been more than 20 years since the publication of Buffett's article, and the US's GDP has grown to be around 2.5 times larger today. Moreover, according to **data** from the Federal Reserve, the net worth (assets minus liabilities) of ***US*** households has increased from US$51 trillion in 2003 to US$169 trillion today; over the same period, the net worth of ***US*** nonfinancial corporate businesses also increased from US$650 billion to US$2.6 trillion (data sets are again from the Federal Reserve; see **here** and **here**). Buffett mentioned in his article that the US had "entered the world of negative compounding" with sustained trade deficits - **but US**

households and corporations have continued to compound their wealth. So sustained trade deficits may not even be a bad thing for the US economy.

Ultimately, we think that anyone who claims they have a firm idea on what would happen to the US and global economy because of the Reciprocal Tariff Policy is likely lying (to others and/or to themselves). These things have second- and third-order consequences that could be surprising. As the late Charlie Munger once said, "If you're not a little confused about what's going on, you don't understand it."

Recession fears from tariffs (and what to do with tariffs?)

One of the fall outs from the Trump administration's Reciprocal Tariff Policy is the rising fear of a recession happening soon to the US. For example, earlier this month, Goldman Sachs raised the odds of a US recession happening in the next 12 months to 45% from a previous forecast of 35%. Given this backdrop, we think it's apt to bring up what I wrote about the relationship between US stocks and recessions in the *"Recession and interest rates (and the Federal Reserve)"* section of our **2024 third-quarter letter**:

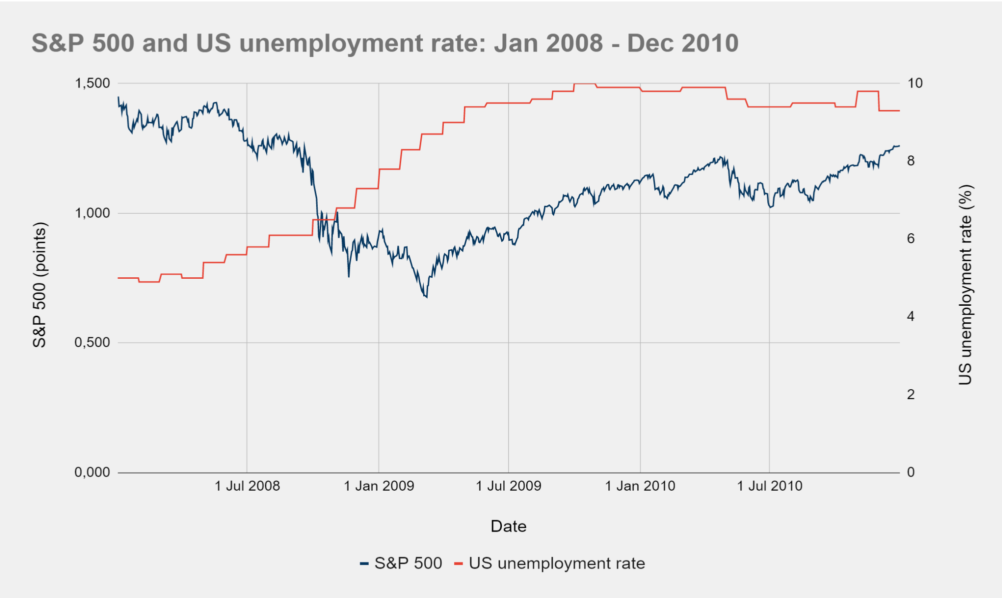
> "From our 2022 third-quarter letter:...
>
> > Lest you think jumping in and out of stocks depending on whether a recession or a rise in interest rates is on the cards is a good idea, it's not. Here's why:
> >
> > - **It's not a given that stocks will definitely fall during a recession**. **According** to Ben Carlson, Director of Institutional Asset Management at Ritholtz Wealth Management, there have been 12 recessions in the USA since World War II (WWII). The average return for the S&P 500 when all these recessions took place was 1.4%. There were some horrible returns within the average. For example, the recession that stretched from December 2007 to June 2009 saw the S&P 500 fall by 35.5%. But there were also decent returns. For the recession between July 1981 and November 1982, the S&P 500 gained 14.7%.
> > - **Holding onto stocks in the lead up to, through, and in the years after a recession, has mostly produced good returns**. Carlson also showed that if you had invested in the S&P 500 six months prior to all of the 12 recessions since WWII and held on for 10 years after each of them, you would have earned a positive return on every occasion. Furthermore, the returns were largely rewarding. The worst return was a total gain of 9.4% for the recession that lasted from March 2001 to November 2001. The best was the first post-WWII recession that happened from November 1948 to October 1949, a staggering return of 555.7%. After taking away the best and worst returns, the average was 257.2%.
> > - **Avoiding recessions flawlessly would have caused your return to drop significantly**. **Data** from Michael Batnick, Carlson's colleague, showed that a dollar invested in US stocks at the start of 1980 would be worth north of $78 around the end of 2018 if you had simply held the stocks and did nothing. But if you invested the same dollar in US stocks at the start of 1980 and expertly side-stepped the ensuing recessions to perfection, you would have less than $32 at the same endpoint.

- **Stocks tend to bottom *before* the economy does**. The three most recent recessions in the USA prior to COVID-19 would be the recessions that lasted from July 1990 to March 1991, from March 2001 to November 2001, and from December 2007 to June 2009. During the first recession in this sample, **data on the S&P 500** from Yale economist Robert Shiller showed that the S&P 500 bottomed in October 1990. In the second episode, the S&P 500 found its low 15 months after the end of the recession, in February 2003. This phenomenon was caused by the aftermath of the dotcom bubble's bursting. For the third recession, the S&P 500 reached a trough in March 2009, three months before the recession ended. Even if we are right today that the economy would be in worse shape in the months ahead, stocks may already have bottomed or be near one - only time can tell."...

…From our 2022 fourth-quarter letter:

> "We think it is apt, in this section, to bring up as well as expand on the following point we made in the third-quarter letter: **That stocks tend to bottom before the economy does.**
>
> When I wrote about stocks reaching a trough before the economy, I used historical examples. One of them involved the S&P 500's experience during the US's most recent recession prior to COVID, which lasted from December 2007 to June 2009. Back then, the S&P 500 reached a low of 676 in March 2009 (on the 9th, to be exact), three months before the recession ended; from its trough to 919 at the end of June 2009, the S&P 500 was up by 36%. Although the recession ended in June 2009, the US economy continued to worsen in at least one important way over the next few months. Figure 2 shows that the unemployment rate in the country was 8.7% in March 2009, rose to 9.5% in June, and crested at 10% in October. But by the time the unemployment rate peaked at 10%, the S&P 500 was 52% higher than its low in March 2009 and it has not looked back since.

Figure 2



Source: Federal Reserve Bank of St. Louis, Yahoo Finance

During an economic downturn, it's natural to assume that it's safer to invest when the coast is clear. **But history says that's wrong, and so do the wise**. At the height of the 2007-09 Great Financial Crisis, which was the cause of the aforementioned recession, Warren Buffett wrote a now-famous op-ed for the *New York Times* titled simply, "***Buy American. I Am.***" In it, Buffett wrote (emphasis is mine):

"A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records 5, 10 and 20 years from now.

Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month or a year from now. **What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up**. **So if you wait for the robins, spring will be over**."

If you wait for the robins, spring will be over. This is a really important lesson from Buffett that we should heed throughout our investing lives. Meanwhile, investing only when the coast is clear is a thought we should banish from our minds."

Regardless of what's going to happen to the US economy or the Federal Reserve's actions on interest rates, there's no change in how Jeremy and I are investing: We're simply going to stay invested mostly in shares of companies that we think are capable of growing their businesses at high rates over the long run."

Global stock markets have also been roiled by the Reciprocal Tariff Policy. The US market's bellwether, the S&P 500, fell for four consecutive days following the policy's announcement for a total decline of 12.1%. The Hang Seng Index in Hong Kong was down by 13.2% on 7 April 2025, and the declines on the same day for the Nikkei 225 in Japan, the DAX in Germany, and the FTSE 100 in the UK, were 7.8%, 4.1%, and 4.4%, respectively. Generally, our approach at Compounder Fund in dealing with macro-related issues is how I described it in the *"Recession, inflation, and interest rates"* section of our **2022 third-quarter letter**:

In the fund's **Owner's Manual** and **website**, Jeremy and I wrote:

"In essence, we're investing based on the strengths of a stock's business. We will *not* be investing Compounder Fund's capital based on predictions about financial markets, stock prices, economies, and politics."

> This does *not* mean we ignore macro worries in our investing process. We're just not interested in making predictions about big-picture issues because it's so hard to get them right. Howard Marks, the co-founder of Oaktree Capital and an investor we deeply respect, wrote recently:
>
> > "The problem, in short, is that I don't think there can be a process capable of consistently turning the large number of variables associated with economies and financial markets (the inputs) into a useful macro forecast (the output)."
>
> **Instead**, **how Jeremy and I approach macro concerns in managing Compounder Fund's capital is to simply accept that bad scenarios *inevitably* happen from time to time, but we just don't know when**. So what we do is to invest in companies that we think have both bright growth prospects in peaceful conditions *and* a high likelihood of making it through a crisis either relatively unscathed or in even better shape than before.

This very much applies to how we're dealing with the tariff situation. Companies will learn to deal with tariffs. This is where a strong balance sheet and high levels of recurring revenues will be very useful in giving a company as much time to adapt as possible - the portfolio of Compounder Fund is filled with such companies. We believe that when viewed with a multi-year perspective, this tariff-drama will be a blip, as companies learn to cope. **Importantly, the long-term tailwinds that are driving the businesses of Compounder Fund's portfolio are intact, tariffs or no-tariffs**.

AI ROI

Hyperscalers are companies that run data centres with immense data processing and storage capacity. Four of the largest hyperscalers in the USA - and globally - happen to be among the top holdings in Compounder Fund. They are, in alphabetical order, Alphabet, Amazon, Meta Platforms, and Microsoft. They also happen to have increased their capital expenditures significantly in recent years and have guided for even more growth in capital expenditures in their current fiscal years (see Table 13 below). The trend in the hyperscalers' capital expenditures have led to rising capital intensity in their businesses, where capital expenditure as a percentage of revenue has increased over time (also see Table 13 below).

Table 13

Metric	Alphabet	Amazon	Meta Platforms	Microsoft*
Capital expenditure in 2022 (US$, billion)	38.5	63.6	31.2	23.9
Capital expenditure as a percentage of revenue in 2022	13.6%	12.4%	27.9%	12.0%
Capital expenditure in 2023 (US$, billion) and growth from 2022	32.7 -14.8%	52.7 -17.2%	27.1 -14.8%	28.1 17.7%
Capital expenditure as a percentage of revenue in 2023	10.7%	9.2%	20.5%	13.3%
Capital expenditure in 2024 (US$, billion) and growth from 2023	55.5 69.4%	83.0 57.4%	37.3 35.6%	44.5 58.2%
Capital expenditure as a percentage of revenue in 2024	15.8%	13.0%	22.8%	18.1%
Estimated capital expenditure in 2025 (US$ billion) and growth from 2024	~75 ~35%	~105 ~27%	~62.5 ~67%	~63 ~42%

Source: Company earnings updates and conference calls
**For Microsoft, 2022, 2023, and 2024 refer to the fiscal years ended 30 June 2022, 30 June 2023, and 30 June 2024, respectively, while 2025 refers to the fiscal year ending 30 June 2025*

The most important driver for the hyperscalers' rising capital intensity has been their desire to build the computing infrastructure necessary for the development of leading-edge artificial intelligence (AI) technologies. This has led to questions from market participants on the return on investment (ROI) on the hyperscalers' AI-related capital expenditures. For example, there was a high-profile June 2024 **report** from the venture capital firm Sequoia Capital which pointed out that US$600 billion in annual AI-related revenues are required to justify the estimated spend on AI computing infrastructure by companies by the end of 2024 - and this was before the hyperscalers provided guidance on their capital expenditures for their current fiscal years. As such, we thought it was important to share our perspective on the hyperscalers' AI ROIs with you in this letter, especially since they are all large positions in Compounder Fund.

Our perspective has a few angles. The first is the relative riskiness of the hyperscalers' AI-related capital expenditures, which are a consequence of their underlying business activities. In our view, Meta's AI-related capital expenditure is the least risky, followed by Amazon and Alphabet (the two are tied), with Microsoft being the most risky.

Unlike the other three hyperscalers in question, Meta does *not* offer computing infrastructure for AI to external customers. The computing infrastructure Meta is spending on are for its own internal AI-needs, including (1) the development and deployment of AI models that power its content-recommendation systems and advertising-targeting and -measurement systems, (2) the development of its Llama family of open-source AI models, (3) serving Meta AI, the company's AI assistant, to users, (4) providing AI tools to help advertisers create advertising content, and (5) developing AI agents for businesses. Some of these efforts already have clear ROI for the company. For example:

- Advantage+, the company's AI-powered tools for advertisers to run automated advertising campaigns, has surpassed US$20 billion in annual revenue run rate in the fourth quarter of 2024 and grew 70% year-on-year
- Four million advertisers were already using at least one of Meta's generative AI creative tools in the fourth quarter of 2024, up from just one million six months ago
- Meta's partner for its Meta Ray-Bans smart-glasses product, Essilor Luxottica, revealed earlier this year that two million Meta Ray-Bans have been sold since their October 2023 debut; Essilor Luxottica also has plans to produce 10 million pairs of the Meta Ray-Bans annually by end-2026
- In the second half of 2024, Meta deployed a new machine learning system named Andromeda which has resulted in an 8% increase in the quality of advertising shown to users of the company's apps
- Meta AI crossed 700 million monthly active users in the fourth quarter of 2024, and has become the most widely-used AI assistant in the world, with management expecting the user base to surpass one billion this year.
- Management shared in the 2024 third-quarter earnings conference call that improvements to its content-recommendation systems has led to an 8% increase in time spent on Facebook and a 6% increase in time spent on Instagram

Meanwhile, the internal AI-use cases of Meta that do not have clear ROI currently have promising futures. For instance:

- Management sees direct-monetisation opportunities for Meta AI that include paid recommendations and a premium-tier
- AI agents for businesses is seen by management as a catalyst for dramatic growth in business-messaging revenue for Meta once these agents are deployed at scale
- Management is building an AI agent for software engineering primarily for Meta's internal use, but they see the possibility of this engineering agent becoming an external product

We think Meta's AI-related capital expenditure is the least risky because its spending has numerous internal use cases, many of which are already delivering ROI by improving the company's core digital advertising business or opening new business opportunities.

Coming to Alphabet and Amazon, the duo's computing infrastructure for AI is used for both their internal AI-needs as well as provided to external customers of their respective cloud-computing arms, GCP and AWS. Alphabet and Amazon's AI use-cases have similarities to Meta, in that they have content-recommendation and advertising-related needs within their businesses that can be improved through AI. In the case of Amazon, it has: A large e-commerce business, which would benefit from product-recommendations and personalised marketing; Prime Video, which would benefit from content-recommendation systems; and an increasingly important digital advertising business (US$56.2 billion in revenue in 2024, up 19.8% from 2023) which would benefit from advertising-targeting and -measurement systems. In the case of Alphabet, it has: Its core digital advertising business, which would benefit from advertising-targeting and -measurement systems; and content-streaming powerhouse Youtube, which would benefit from content-recommendation systems. Moreover, Alphabet is an important competitor in the race to develop leading-edge AI models with its Gemini family of models. It also has other AI-related businesses, such as Waymo, which focuses on autonomous vehicles.

In a similar manner to Meta, the AI-related capital expenditures of Alphabet and Amazon helps support many of their internal use cases. But their AI computing infrastructure that are provided to external customers of GCP and AWS come with higher risk. This is because, despite more than two years having passed since AI leapt into the zeitgeist with the public introduction of OpenAI's DALL-E2 and ChatGPT, there are only a handful of AI products that have high usage (this includes ChatGPT). **This means that customers of GCP and AWS that are renting AI computing infrastructure have yet to develop a plethora of commercially-successful AI products that can generate profits to pay back what the customers have spent - and are spending - on renting the infrastructure.** Although we are optimistic that great AI products will be developed over time, there's no guarantee this will happen. **If AI products turn out to be commercial duds, GCP and AWS's AI computing infrastructure will have much lower demand from customers in the future**. There's a saving grace for Alphabet and Amazon in this scenario: Both companies have strong internal use-cases for AI that could absorb some or perhaps all of the AI computing infrastructure that were initially meant for external customers.

Lastly, there's Microsoft. We think its capital expenditures are the riskiest among the hyperscalers. Just like Alphabet and Amazon, Microsoft provides computing infrastructure for AI to external customers through its cloud-computing arm, Azure. But unlike Alphabet and Amazon, we don't see strong internal use-cases yet for AI in Microsoft's products. There are signs of success, such as (1) GitHub being home to 150 million developers, up 50% from two years ago, through the help of GitHub Copilot, and (2) Copilot Studio being used by 160,000 organisations in the fourth quarter of 2024 to create 400,000 custom AI agents, more than double from the third quarter of 2024. But these are relatively small successes for Microsoft. For example, Microsoft's management shared that GitHub's annual revenue run rate was US$2 billion in the second quarter of 2024, with Copilot accounting for 40% of GitHub's overall revenue growth; Microsoft's revenue for the *quarter* was US$64.7 billion. **So if the scenario where AI products turn out to be commercial duds happens,** we think it will be difficult for Microsoft to internally absorb the AI computing infrastructure that was built to initially service Azure's customers.

The second angle of our perspective involves the hyperscalers' spending-discipline. The leaders of Alphabet, Amazon, and Microsoft are all guiding for higher capital expenditures in their current fiscal years partly for a great reason: All of them are seeing **demand for AI computing infrastructure exceed their capacities**. Here's the related-commentary from their latest earnings conference calls:

> "[From Alphabet] We do see and have been seeing very strong demand for our AI products in the fourth quarter in 2024. And we exited the year with more demand than we had available capacity. So, we are in a tight supply demand situation, working very hard to bring more capacity online.
>
> [From Amazon] It is true that we could be growing faster, if not for some of the constraints on capacity. And they come in the form of, I would say, chips from our third-party partners, come a little bit slower than before with a lot of midstream changes that take a little bit of time to get the hardware actually yielding the percentage-healthy and high-quality servers we expect.
>
> [From Microsoft] Azure growth included 13 points from AI services, which grew 157% year-over-year, and was ahead of expectations even as demand continued to be higher than our available capacity."

So the current situation is *not* a case of the hyperscalers wanting to spend tens of billions on computing infrastructure simply on blind faith that demand will materialise. In another example of their spending-discipline, there's Microsoft's management sharing in the latest earnings conference call that they "expect to continue investing against strong demand signals" in FY2026 (fiscal year ending 30 June 2026), but the growth rate of FY2026's capital expenditure will be lower than what was seen in FY2025. There's also Meta's management commenting in the latest earnings conference call that the company will be funding its data center investments through revenue growth that is driven by its AI advances.

The third angle of our perspective is on the financial strength of the hyperscalers. We think it's important contextually to realise that as colossal as the hyperscalers' AI capital expenditures are, **they are affordable for the hyperscalers and will not put their financial health at risk**. Table 14 below shows the free cash flows, free cash flow margins, and net-cash positions of the hyperscalers in 2024. Even with the rising capital intensity, they have managed to produce prodigious free cash flows and healthy free cash flow margins (Amazon is the exception in the free cash flow margin), while keeping their balance sheets incredibly strong.

Table 14

Metric	Alphabet	Amazon	Meta Platforms	Microsoft
Free cash flow in 2024 (US$, billion)	69.8	32.9	53.8	63.9
Free cash flow margin in 2024	20.0%	5.2%	32.7%	24.4%
Net cash position in 2024 (US$, billion)	73.1	48.6	49.0	26.6

Source: Company earnings updates and conference calls

Coming to the fourth and last angle, **the hyperscalers' plans for capital expenditures are not cast in stone.** The hyperscalers have flexibility to lower their plans when needed. We trust that the management teams of the hyperscalers would not blindly plow ahead with spending on AI computing infrastructure if AI-related demand turns out to be lukewarm or if there's simply no need to do so. Currently, the long-run capital intensity for the hyperscalers is unknown, as Meta's management discussed in the latest earnings conference call:

> "I think it is really too early to determine what long-run capital intensity is going to look like. There are so many different factors. The pace of advancement in underlying models, how efficient can they be? What is the adoption and use case of our Gen AI products, what performance gains come from next-generation hardware innovations, both our own and third party and then ultimately, what monetization or other efficiency gains our AI investments unlock."

To summarise our thoughts on the AI ROI of the hyperscalers:

- We think Meta's AI-related capital expenditures are the least at-risk among the hyperscalers because the company is using the computing infrastructure for its internal AI-needs.
- We think Alphabet and Amazon's AI-related capital expenditures have some risk to them because the two companies are renting AI computing infrastructure to external customers who have yet to develop commercially-successful AI products, thus putting future demand for computing infrastructure from these customers at risk; the saving grace here is Alphabet and Amazon both also have strong internal AI use-cases that could absorb the AI computing infrastructure that were originally catered for external customers.
- We think Microsoft's AI-related capital expenditures are the most at-risk because it has the least internal use-cases for AI, and so its business could have trouble absorbing AI computing infrastructure that support external customers if the demand from these customers falters.
- We see good discipline from the management teams of the hyperscalers in their AI capital expenditures, and the sums involved - while huge - will not damage their financial health. Moreover, the hyperscalers' spending plans can be lowered when needed.

House-keeping matters and what's next

Compounder Fund's audit for calendar year 2024 is conducted by Baker Tilly and is progressing smoothly. 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 2023 to all of the fund's investors on 14 May 2024. If you did not receive it, or if you joined the fund as an investor after 14 May 2024 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 2024 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 will be releasing our Sell-theses for Block, dLocal, Fiverr, and Zoom Communications in the coming months and will be informing you once they're ready (for your convenience, all our theses can be **found here**).

Compounder Fund's next subscription window will close in the middle of June 2025 and it will have a dealing date on the first business day of July 2025 (which should be 1st July). If you would like to increase your investment in the fund, please submit the relevant paperwork by the middle of June 2025. We 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 8.2 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 shared three stories that showed how innovation can (1) appear from the most unexpected places, (2) take unpredictable paths, and (3) occur when supporting technologies improve over time. Then in our **2024 second-quarter letter**, I brought up Benjamin Reinhardt's excellent May 2024 essay, ***Getting materials out of the lab***, which reinforced the third key takeaway from the three stories, and also showed how newly invented materials have, over the course of history, taken a consistently long amount of time of around five decades to become widely used. While writing our **2024 third-quarter letter**, we realised that developments in the field of artificial intelligence matches these observations and shared our learnings. We now have a new finding: It turns out that the story of something ubiquitous in modern society - quartz watches - also traces a similar arc.

During their outstanding **episode** on luxury watch brand Rolex, the hosts of the Acquired podcast, Ben Gilbert and David Rosenthal, talked about quartz watches. They mentioned that the first quartz clock was created in 1927 by Bell Labs and it was the size of a room. It wasn't till the late 1960s - roughly 40 years after quartz time-keeping technology was demonstrated, **a timeframe similar to what Reinhardt discussed in his essay for new materials to become useful** - that a quartz watch was invented. And the quartz watch was only made possible because of the existence of integrated circuits, which miniaturised electronic components and was invented in the late 1950s; in this instance, the integrated circuit was the supporting technology for the quartz watch that improved over time.

When I first discussed Reinhardt's essay, I also wrote that "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." Examples like the history of the quartz watch help sear this concept into our minds.

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 year 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 2025 second-quarter investors' letter in mid-July 2025. Till then, stay safe and take care.

Excelsior,
Chong Ser Jing
Co-founder and Portfolio Manager, Compounder Fund
14 April 2025

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

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