

Compounder Fund Investors' Letter: Second Quarter of 2025



COMPOUNDER FUND
GROWING YOUR WEALTH AND ENRICHING SOCIETY

Dear investors,

I'm presenting Compounder Fund's 2025 second-quarter investors' letter together with my co-founder Jeremy Chia. During the quarter, Compounder Fund's overall net-of-fee return for the earliest series of its Class A and Class B shares were both 10.7%. Over the same period, the dividend-adjusted Singapore-dollar returns for the S&P 500 was 5.0%. 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%
Q1 2025	-8.8%	-5.9%
Apr 2025	-0.2%	-3.4%
May 2025	7.7%	5.0%
Jun 2025	2.9%	3.6%
2025 Q2	10.7%	5.0%
2025 year-to-date	0.9%	-1.1%
Total return since inception*	12.2%	94.4%
Annualised return since inception*	2.3%	14.3%

*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%
Q1 2025	-8.8%	-5.9%
Apr 2025	-0.2%	-3.4%
May 2025	7.7%	5.0%
Jun 2025	2.9%	3.6%
2025 Q2	10.7%	5.0%
2025 year-to-date	0.9%	-1.1%
Total return since inception*	7.8%	84.6%
Annualised return since inception*	1.5%	13.1%

*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 over the long run.

At the publication of this letter, it's been five 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 have positive returns since their inception but 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). The fund also continued to make progress in the first half of 2025, with a slight year-to-date return that was ahead of the market's loss.** Nonetheless, 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.

There's 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 culmination 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. 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 five years, you have helped us produce this edge. **Thank you.**

Judging our performance

When Jeremy and I started investing Compounder Fund's capital on 13 July 2020, our target for Compounder Fund was 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; we also thought it would be very disappointing for the both of us if Compounder Fund fails to beat the S&P 500 over the same time frame.

We're now at the five-year mark at Compounder Fund and as I mentioned in the introductory section of this letter, the performance of the fund has been poor. **If you find the performance of the fund wanting, 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.**

Going forward, our target for Compounder Fund remains unchanged: We're still aiming to generate an annual return of 12% or more over the long run, net of all fees, and we're looking to beat the S&P 500 over the same time period. **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 in the past few years (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.**

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

Portfolio changes

Compounder Fund's [2025 first-quarter letter](#) was published on 14 April 2025. In it, I shared (1) all 41 holdings that were in the fund's portfolio at the time, (2) that we had sold all of the fund's positions in Block, dLocal, Fiverr, and Zoom Communications, and (3) that we would be "sharing our detailed theses for the complete sales on the fund's website in the coming months." The theses for the complete sales were published a few days ago, and they can be found [here](#).

There has been one change to Compounder Fund's portfolio since the publication of the 2025 first-quarter letter, which is the addition of a new company: Shinhan Financial Group. The new investment, made in late-June, was funded by pro-rata partial sales of nearly all of Compounder Fund's existing positions. You can expect to see our detailed investment thesis in the weeks ahead (and we'll be informing you when it's published). But meanwhile, I'll share some highlights on the company.

We invested in Shinhan Financial Group (abbreviated as SFG from here on in this section) because we believe it's currently undergoing a special situation. In Compounder Fund's [website](#) and [Owner's Manual](#), we described such situations as "stocks where step-changes in regulations or market conditions are likely to benefit their businesses in the future." We think SFG is in the midst of a regulatory-driven change in its business that makes it a good bargain.

SFG is a financial conglomerate based in the Republic of Korea (South Korea). Its roots can be traced back to 1982 with the formation of Shinhan Bank. In 2001, SFG was created. Over the years, the company has made multiple acquisitions of many different types of financial institutions, such as securities firms, investment advisory firms, asset management firms, life insurers, banks, and more. Banking, however, remains the cornerstone for SFG, with assets from banking businesses accounting for 83% of the financial conglomerate's total assets of ₩746.2 trillion (around US\$551.8 billion) as of 31 March 2025. Today, Shinhan Bank is among the four largest banks in South Korea and is the mainstay of SFG.

Although SFG has business interests in many parts of the world (including the North American and European continents), nearly all of its revenue is generated in South Korea.

In February 2024, South Korea's government introduced the Corporate Value-Up Program. The government's intention is to improve valuations sustainably among companies listed in the South Korean stock market after becoming frustrated with the "Korean discount". For perspective, a 2023 report from the Korea Capital Market Institute - titled [Analysis of the causes of Korea Discount](#) - found that the price-to-book (P/B) ratio of South Korea's stocks was ranked 41st out of 45 countries. The Corporate Value-Up Program, which encourages public-listed South Korean companies to raise their valuations through means such as hiking dividends, repurchasing shares, and improving business operations, draws inspiration from Japan's corporate-reform program.

Japan has been engaging in corporate reform since 2014. But the efforts ramped up significantly in March 2023 when the Tokyo Stock Exchange requested Japanese companies listed on the Prime and Standard Markets to improve their capital efficiency and valuations if they are low. The Tokyo Stock Exchange tightened the screw in early-2024 when it started a monthly list, naming companies that have complied with the request and effectively shaming companies that have not.

SFG is one of the first few companies to embrace South Korea's Corporate Value-Up Program. In July 2024, SFG's management presented the Value-Up Plan and guided for the the company to achieve the following in 2027: (1) An increase in the return on equity from 8.6% in 2023 to 10% while maintaining a strong balance sheet, (2) shareholder returns - which are share repurchases and dividends as a percentage of net income - of 50%, up from 36% in 2023, (3) a decrease in the number of shares from 513 million in 2023 to 450 million, and (4) growth in tangible book value per share, or TBPS, from ₩92,642 in 2023 to ₩130,000.

When the Value-Up Plan was formulated, SFG's management realised that the company's P/B ratio had shrunk over the years - from a high of 1.65 in 2001 to 0.45 in June 2024 - because of a decline in its return on equity from 13.7% to 8.6% over the same period.

Management also realised the way to improve SFG's P/B ratio to 1 or more will be to raise the company's return on equity, which involves increasing its profitability and shareholder returns. SFG's management is committed to the Value-Up Plan and provided an update in the company's 2025 first-quarter earnings presentation: The targets for 2027 remained in place while targets for 2025 were given. For this year, SFG's management will continue with share repurchases to bring the share count down, and is gunning for an ROE of at least 8.9% and a shareholder return of more than 42%.

Why do we think SFG is a bargain? If SFG meets the 2027 targets under the Value-Up Plan, it would have a TBPS of ¥130,000, which is around US\$96 at the exchange rate of US\$1 to ¥1,352 at the end of June 2025. SFG's US-listed shares* ended June 2025 at a price of US\$45 each. If SFG has a P/B ratio of 1 when its TBPS is at US\$96 at the end of 2027, **we're looking at an upside of more than 100% based on the current stock price.** SFG's latest results, for the first quarter of 2025, has its TBPS at ¥102,966, which translates to US\$76 with the aforementioned exchange rate. This gives the company a P/B ratio of 0.6 at the end of June 2025. It's also possible that SFG's P/B ratio **starts to rise rapidly from 0.6 to around 1 way before the end of 2027, in which case we would earn a handsome return too.** But this raises two important questions: Is it likely for SFG to achieve its 2027 targets, and why should SFG's P/B ratio rise to 1?

There are two angles we want to highlight regarding the first question. The first angle is that SFG's management has so far made promising progress toward the 2027 targets. In 2024, SFG's shareholder return was 40%, up from 36% in 2023. Also, the share count dropped from 513 million to 499 million while the TBPS increased from ¥92,642 to ¥100,096. The only negative change is that SFG's return on equity dipped slightly from 8.6% in 2023 to 8.4%. Meanwhile, in the first quarter of 2025, SFG's return on equity had increased from 10.4% a year ago to 11.4%, share repurchases caused the share count to decline further to 493 million, and the company's TBPS stepped up to ¥102,966. The second angle is that we think management's incentives are well-aligned with shareholders' interests. A material portion of the compensation of SFG's CEO, Jin Okdong, is tied to multi-year improvement in the company's return on equity (among other metrics); changes in SFG's return on equity, as I mentioned earlier, should have an important influence on the company's P/B ratio.

Coming to the second question, there are no guarantees, **but we think the recent experience of public-listed Japanese banks is instructive.** Japan's four largest public-listed banks are Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group, Mizuho Financial Group, and Japan Post Bank. They have all heeded the Tokyo Stock Exchange's corporate-reform request that was mentioned previously. Table 4 below shows the clear upward trend in the Japanese banks' returns on equity in the past few years, especially *after* the reform request was announced (this would be the financial years ended 31 March 2024 and 31 March 2025). In particular, Mitsubishi UFJ Financial Group's return on equity is now just a hair below 10% while Sumitomo Mitsui Financial Group and Mizuho Financial Group's returns on equity have reached the high single-digit percentage range. Table 5 shows the four Japanese banks' P/B ratios in June 2023 (shortly after the Tokyo Stock Exchange issued its reform request), June 2024, and June 2025.

Table 4

Financial year (FY)	Mitsubishi UFJ Financial Group return on equity	Sumitomo Mitsui Financial Group return on equity	Mizuho Financial Group return on equity	Japan Post Bank return on equity
FY ended 31 Mar 2021	5.6%	4.5%	5.3%	3.1%
FY ended 31 Mar 2022	7.8%	5.9%	5.8%	3.8%
FY ended 31 Mar 2023	7.0%	6.5%	6.1%	3.4%
FY ended 31 Mar 2024	8.5%	7.0%	7.0%	3.7%
FY ended 31 Mar 2025	9.9%	8.0%	8.5%	4.3%

Source: Banks' earnings presentations and annual reports

Table 5

Date	Mitsubishi UFJ Financial Group P/B ratio	Sumitomo Mitsui Financial Group P/B ratio	Mizuho Financial Group P/B ratio	Japan Post Bank P/B ratio
30 Jun 2023	0.70	0.65	0.56	0.40
30 Jun 2024	1.02	0.96	0.80	0.55
30 Jun 2025	1.11	0.96	0.96	0.62

Source: Banks' quarterly earnings reports and Yahoo Finance

As it turns out, **the Japanese banks' P/B ratios in June 2023 are around SFG's current P/B ratio. By June 2024, the P/B ratios of the Japanese banks had approached or exceeded 1 and were maintained at a similar level in June 2025.** The exception was Japan Post Bank, whose P/B ratio is still far from 1, but had nonetheless increased by more than 50% from 0.40 to 0.62. The big gap in Japan Post Bank's P/B ratio from 1 makes sense to us, since the bank's return on equity remains low, unlike the other three Japanese banks. **We think it's likely that SFG's P/B ratio can trace a similar arc as what the Japanese banks' P/B ratios have done in the recent past if the Korean financial conglomerate's return on equity improves according to management's projection.**

Here's how Compounder Fund's portfolio of 42 companies looks like as of 13 July 2025:

Table 6

Company	Weighting	Country/Region of listing	Headquarters
Meta Platforms	10.4%	USA	USA
Netflix	7.7%	USA	USA
MercadoLibre	6.9%	USA	Argentina
Amazon	5.4%	USA	USA
Microsoft	4.3%	USA	USA
Alphabet	3.9%	USA	USA
Shinhan Financial Group	3.3%	USA	South Korea
Tractor Supply	3.1%	USA	USA
Shopify	3.0%	USA	Canada
Visa	2.9%	USA	USA
Costco	2.8%	USA	USA
Chipotle Mexican Grill	2.7%	USA	USA
Tencent	2.7%	Hong Kong	China
Apple	2.7%	USA	USA
Mastercard	2.8%	USA	USA
The Trade Desk	2.5%	USA	USA
Intuitive Surgical	2.4%	USA	USA
DataDog	2.3%	USA	USA
Adyen	2.3%	Netherlands	Netherlands
TSMC	2.2%	USA	Taiwan
Tesla	2.0%	USA	USA
ASML	2.0%	USA	Netherlands
Markel	2.0%	USA	USA
Nu Holdings	1.6%	USA	Brazil
Veeva Systems	1.5%	USA	USA
Medpace	1.5%	USA	USA
Salesforce	1.4%	USA	USA
Adobe	1.3%	USA	USA
Wise	1.3%	UK	UK
PayPal	1.1%	USA	USA
Medistim	0.9%	Norway	Norway
Hingham	0.9%	USA	USA
Wix	0.9%	USA	Israel
Meituan	0.7%	Hong Kong	China
Sea	0.7%	USA	Singapore

Table 6 (continued from above)

Company	Weighting	Country/Region of listing	Headquarters
MongoDB	0.7%	USA	USA
Coupang	0.7%	USA	South Korea
Okta	0.6%	USA	USA
Haidilao	0.6%	Hong Kong	China
Starbucks	0.6%	USA	USA
Paycom Software	0.6%	USA	USA
Super Hi	0.1%	Hong Kong	Singapore
Cash	0.1%	-	-

Table 7 below shows the high-level geographical breakdown of Compounder Fund's portfolio as of 13 July 2025:

Table 7

Country/Region	% of Compounder Fund's capital based on country of listing	% of Compounder Fund's capital based on location of headquarters
Argentina	-	6.9%
Brazil	-	1.6%
Canada	-	3.0%
China	-	4.0%
Hong Kong	4.1%	-
Israel	-	0.9%
Netherlands	2.3%	4.3%
Norway	0.9%	0.9%
Singapore	-	0.8%
South Korea	-	4.0%
Taiwan	-	2.2%
UK	1.3%	1.3%
USA	91.3%	70.1%

*SFG has been listed on the South Korean and US stock markets since September 2001 and September 2003, respectively. The US-listed shares are known as American Depositary Shares (ADS). For convenience, Compounder Fund owns SFG's ADS instead of the South Korean shares. One SFG ADS is equivalent to one SFG South Korea-listed share and there is currently an **immaterial** price difference between the two types of shares. At the end of June 2025, SFG's South Korea-listed shares had a price of ₩61,400 each, which translates to US\$45.41 based on the exchange rate of US\$1 to ₩1,352 on the same date; meanwhile, each SFG ADS had a price of US\$45.18 at the end of June 2025.

Wonderful businesses

Jeremy and I are pleased to report that the companies in Compounder Fund's portfolio have in aggregate continued to deliver healthy revenue growth in the first quarter of 2025. As a reminder, we invested in Shinhan Financial Group for the fund as a special situation, so all mention of Compounder Fund's portfolio in this section excludes the South Korean financial conglomerate.

Table 8 below shows the year-on-year revenue growth rates for all the 41 companies currently in Compounder Fund's portfolio that we consider to be Compounders (all the companies in Table 6 except for Shinhan Financial Group) for the following time periods: The whole of 2020, 2021, 2022, 2023, and 2024, and the first quarter of 2025.

Table 8

Company	2020 revenue growth	2021 revenue growth	2022 revenue growth	2023 revenue growth	2024 revenue growth	2025 Q1 revenue growth
Adobe	17.3%	18.0%	11.5%	10.8%	10.5%	10.6%
Adyen	28.1%	46.4%	32.8%	22.2%	22.8%	22.1%
Alphabet	12.8%	41.2%	9.8%	8.7%	13.9%	12.0%
Amazon	37.6%	21.7%	9.4%	11.8%	11.0%	8.6%
Apple	9.9%	28.6%	2.4%	-0.5%	2.6%	5.1%
ASML	18.3%	33.1%	13.8%	30.2%	2.6%	46.3%
Chipotle Mexican Grill	7.1%	26.1%	14.4%	14.3%	14.6%	6.4%
Costco	12.8%	17.7%	11.5%	6.2%	6.1%	8.0%
Coupang	90.8%	53.8%	11.8%	18.5%	24.1%	11.2%
Datadog	66.3%	70.5%	62.8%	29.4%	26.1%	24.6%
Haidilao	7.8%	43.7%	-20.6%	33.6%	3.1%	-
Hingham	27.4%	20.3%	3.6%	-54.5%	-8.1%	76.5%
Intuitive Surgical	-2.7%	31.0%	9.0%	14.5%	17.2%	19.2%
Markel	17.0%	20.0%	22.1%	5.6%	2.6%	-1.0%
Mastercard	-9.4%	23.4%	17.8%	12.9%	12.2%	14.2%
Medistim	-0.2%	17.7%	15.1%	7.0%	6.9%	35.7%
Medpace	7.5%	23.4%	27.8%	29.2%	11.8%	9.3%
Meituan	17.7%	56.0%	22.8%	25.8%	22.0%	18.1%
MercadoLibre	73.0%	77.9%	49.1%	37.4%	37.5%	37.0%
Meta Platforms	21.6%	37.2%	-1.1%	15.7%	21.9%	16.1%
Microsoft	14.7%	20.6%	10.4%	11.5%	15.0%	13.3%
MongoDB	40.0%	48.0%	47.0%	31.1%	19.2%	21.9%
Netflix	24.0%	18.8%	6.5%	6.7%	15.6%	12.5%
Nu Holdings	20.4%	130.4%	182.2%	67.5%	43.4%	18.7%
Okta	42.5%	55.6%	42.9%	21.8%	15.3%	11.5%
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Table 8 (continued from above)

Company	2020 revenue growth	2021 revenue growth	2022 revenue growth	2023 revenue growth	2024 revenue growth	2025 Q1 revenue growth
Paycom Software	14.1%	25.4%	30.3%	23.2%	11.2%	6.1%
PayPal	20.7%	18.3%	8.5%	8.2%	6.8%	1.2%
Salesforce	24.3%	24.7%	18.3%	11.2%	8.7%	7.6%
Sea	101.1%	127.5%	25.1%	4.9%	28.8%	29.6%
Shopify	85.6%	57.4%	21.4%	26.1%	25.8%	26.8%
Starbucks	-14.1%	31.0%	8.4%	11.5%	-1.5%	2.3%
Super Hi	-5.0%	41.1%	78.7%	23.0%	13.4%	5.4%
Tencent	27.8%	16.2%	-1.0%	9.8%	8.4%	12.9%
Tesla	28.3%	70.7%	51.4%	18.8%	0.9%	-9.2%
Trade Desk	26.5%	43.1%	31.9%	23.3%	25.6%	25.4%
Tractor Supply	27.2%	19.9%	11.6%	2.5%	2.2%	2.1%
TSMC	25.2%	18.5%	42.6%	-4.5%	33.9%	41.6%
Veeva Systems	32.7%	26.3%	16.4%	9.7%	16.2%	16.7%
Visa	-8.7%	18.6%	18.5%	10.5%	10.3%	9.3%
Wise	43.9%	32.3%	48.5%	28.6%	18.2%	11.6%
Wix.com	29.9%	29.0%	9.3%	12.5%	12.7%	12.8%

Source: Companies' earnings updates

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

Table 9

Simple averages for revenue growth from year ago	Compounder Fund current portfolio (excluding Shinhan Financial Group)
2020 Q1	24.2%
2020 Q2	21.4%
2020 Q3	28.7%
2020 Q4	31.3%
2020	25.9%
2021 Q1	42.7%
2021 Q2	49.1%
2021 Q3	37.8%
2021 Q4	33.9%
2021	38.6%
2022 Q1	32.1%
2022 Q2	28.2%
2022 Q3	24.5%
2022 Q4	20.0%

Table 9 (continued from above)

Simple averages for revenue growth from year ago	Compounder Fund current portfolio (excluding Shinhan Financial Group)
2022	25.2%
2023 Q1	17.8%
2023 Q2	16.4%
2023 Q3	14.7%
2023 Q4	14.3%
2023	15.5%
2024 Q1	13.9%
2024 Q2	14.2%
2024 Q3	14.8%
2024 Q4	15.8%
2024	14.4%
2025 Q1	16.5%

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 16.5% (this is a simple average) in the first quarter of 2025, and this continues from the impressive revenue growth rates seen in prior quarters going back to 2020.** Table 10 below provides perspective on the superior growth rates for Compounder Fund’s current holdings compared to the S&P 500.

Table 10

Simple averages for revenue growth from year ago in a certain quarter	S&P 500	Compounder Fund current portfolio (excluding Shinhan Financial Group)
2020 Q1	Around -2%	24.2%
2020 Q2	Around -10%	21.4%
2020 Q3	Around -2%	28.7%
2020 Q4	Around -0.5%	31.3%
2021 Q1	Around 10%	42.7%
2021 Q2	Around 25%	49.1%
2021 Q3	16.6%	37.8%
2021 Q4	16.1%	33.9%
2022 Q1	13.4%	32.1%
2022 Q2	11.9%	28.2%
2022 Q3	12.1%	24.5%
2022 Q4	6.9%	20.0%
2023 Q1	7.9%	17.8%
2023 Q2	6.1%	16.4%
2023 Q3	4.7%	14.7%
2023 Q4	6.6%	14.3%

Table 10 (continued from above)

Simple averages for revenue growth from year ago in a certain quarter	S&P 500	Compounder Fund current portfolio (excluding Shinhan Financial Group)
2024 Q1	4.9%	13.9%
2024 Q2	6.2%	14.2%
2024 Q3	7.8%	14.8%
2024 Q4	4.6%	15.8%
2025 Q1	4.5%	16.5%

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 first quarter of 2025 also comfortably exceeds the S&P 500's corresponding revenue growth rate (16.5% vs 4.5%). We do acknowledge that the portfolio's 16.5% growth rate is a significant decline from what was achieved throughout 2021 and 2022, **but it is an acceleration from what was seen in the fourth quarter of 2024**; in fact, there has been an **acceleration in the year-on-year revenue growth rate going back to the first 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 first quarter of 2025 compared to the fourth 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 saw their free cash flow margin dip slightly in the first quarter of 2025. Table 11 below shows two things for each company that's currently in the portfolio: (1) Their revenue growth for the quarter, and (2) the change in their free cash flow margins for the period. **During the first quarter of 2025, the simple-average free cash flow margin for the holdings was 24.1%, a smidge lower than 24.5% a year ago. But this also means that Compounder Fund's portfolio had, on average, still grown its free cash flow by a healthy 15% year-on-year during the quarter.** In Compounder Fund's [2025 first-quarter letter](#), I cautioned that "there could be short-term fluctuations [in the portfolio's free cash flow margins] given the rising capital intensity of some of the larger holdings in the fund." This played out. But 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. We look forward to seeing more increases over time in the free cash flow margins of Compounder Fund's companies.

Table 11

Company in Compounder Fund (excluding Shinhan Financial Group)	Revenue growth in 2025 Q1 from a year ago	Free cash flow margin in 2025 Q1	Free cash flow margin in 2024 Q1
Adobe	10.6%	34.2%	35.6%
Adyen	22.1%	-	-
Alphabet	12.0%	21.0%	20.9%
Amazon	8.6%	-5.1%	2.8%
Apple	5.1%	21.9%	22.8%
ASML	46.3%	-6.1%	-12.8%
Chipotle Mexican Grill	6.4%	14.3%	16.2%
Costco	8.0%	3.7%	3.3%
Coupang	11.2%	1.5%	1.5%
Datadog	24.6%	32.1%	30.6%
Haidilao	-	-	-
Hingham	76.5%	-	-
Intuitive Surgical	19.2%	20.6%	1.2%
Markel	-1.0%	-	-
Mastercard	14.2%	27.9%	20.4%
Medistim	35.7%	7.9%	13.8%
Medpace	9.3%	20.7%	28.8%
Meituan	18.1%	-	-
MercadoLibre	37.0%	12.8%	31.5%
Meta Platforms	16.1%	26.2%	35.2%
Microsoft	13.3%	27.6%	31.3%
MongoDB	21.9%	19.7%	14.0%
Netflix	12.5%	25.2%	22.8%
Nu Holdings	18.7%	-	-
Okta	11.5%	34.6%	34.7%
Paycom Software	6.1%	27.3%	20.2%
PayPal	1.2%	12.4%	22.9%
Salesforce	7.6%	64.1%	66.6%
Sea	29.6%	12.1%	11.8%
Shopify	26.8%	15.4%	12.5%
Starbucks	2.3%	-3.4%	-1.8%
Super Hi	5.4%	-	-
Tencent	12.9%	26.2%	32.5%

Table 11 (continued from above)

Company in Compounder Fund (excluding Shinhan Financial Group)	Revenue growth in 2025 Q1 from a year ago	Free cash flow margin in 2025 Q1	Free cash flow margin in 2024 Q1
Tesla	-9.2%	3.4%	-11.9%
The Trade Desk	25.4%	37.3%	35.9%
Tractor Supply	2.1%	2.2%	3.0%
TSMC	41.6%	35.1%	43.0%
Veeva Systems	16.7%	114.8%	116.1%
Visa	9.3%	45.5%	48.5%
Wise	11.6%	57.8%	53.2%
Wix.com	12.8%	30.1%	25.2%
Average for Compounder Fund's current portfolio	16.5%	24.1%	24.5%

Source: Companies' earnings updates

(As of the publication of this letter, there's no quarterly free cash flow data available for Adyen, Haidilao, Meituan, and Super Hi. 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 12 below shows a few things for the period from 31 March 2025 to 30 June 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 12

Company	Trailing 12-month revenue per share on 31 Mar 2025	Trailing 12-month revenue per share on 30 Jun 2025	P/S ratio on 31 Mar 2025	P/S ratio on 30 Jun 2025	Trailing 12-month revenue per share change from 31 Mar 2025 to 30 Jun 2025	P/S ratio change from 31 Mar 2025 to 30 Jun 2025	Stock price change from 31 Mar 2025 to 30 Jun 2025
Adobe	US\$ 50.31	US\$ 52.20	7.6	7.4	3.7%	-2.8%	0.9%
Adyen	€ 63.85	€ 66.94	22.0	23.3	4.8%	5.7%	10.8%
Alphabet	US\$ 28.12	US\$ 29.27	5.5	6.0	4.1%	9.5%	14.0%
Amazon	US\$ 59.51	US\$ 60.25	3.2	3.6	1.3%	13.9%	15.3%
Apple	US\$ 26.12	US\$ 26.51	8.5	7.7	1.5%	-9.0%	-7.6%
ASML	€ 71.81	€ 78.25	8.5	8.7	9.0%	1.9%	20.9%
Chipotle Mexican Grill	US\$ 8.22	US\$ 8.44	6.1	6.7	2.7%	8.9%	11.8%
Costco	US\$ 593.6	US\$ 604.20	1.6	1.6	1.8%	2.8%	4.7%
Coupang	US\$ 16.58	US\$ 16.88	1.3	1.8	1.8%	34.1%	36.6%
Datadog	US\$ 7.48	US\$ 7.81	13.3	17.2	4.3%	29.8%	35.4%
Haidilao	RMB 7.90	RMB 7.90	2.1	1.7	0.0%	-17.0%	-15.1%
Hingham	US\$ 20.23	US\$ 23.32	11.8	10.6	15.3%	-9.4%	4.4%
Intuitive Surgical	US\$ 23.07	US\$ 23.90	21.5	22.7	3.6%	5.9%	9.7%
Markel	US\$ 1065.34	US\$ 1079.54	1.8	1.9	1.3%	5.4%	6.8%
Mastercard	US\$ 30.39	US\$ 31.80	18.0	17.7	4.7%	-2.1%	2.5%
Medistim	NOK 30.72	NOK 33.33	5.7	6.3	8.5%	10.7%	20.1%
Medpace	US\$ 65.88	US\$ 69.13	4.6	4.5	4.9%	-1.8%	3.0%
Meituan	RMB 54.23	RMB 56.34	2.7	2.0	3.9%	-24.3%	-19.6%
Mercado Libre	US\$ 409.82	US\$ 441.42	4.8	5.9	7.7%	24.4%	34.0%
Meta Platforms	US\$ 62.93	US\$ 65.78	9.2	11.2	4.5%	22.5%	28.1%
Microsoft	US\$ 35.05	US\$ 36.17	10.7	13.8	3.2%	28.4%	32.5%
MongoDB	US\$ 26.91	US\$ 25.97	6.5	8.1	-3.5%	24.1%	19.7%
Netflix	US\$ 88.79	US\$ 91.94	10.5	14.6	3.5%	38.7%	43.6%
Nu Holdings	US\$ 2.36	US\$ 2.46	4.3	5.6	4.4%	28.4%	34.0%
Okta	US\$ 14.91	US\$ 14.75	7.1	6.8	-1.0%	-4.0%	5.0%
Paycom Software	US\$ 33.45	US\$ 33.99	6.5	6.8	1.6%	4.2%	5.9%
PayPal	US\$ 30.60	US\$ 31.92	2.1	2.3	4.3%	9.2%	13.9%
Salesforce	US\$ 38.91	US\$ 39.78	6.9	6.9	2.3%	-0.6%	1.6%
Sea	US\$ 27.81	US\$ 28.25	4.7	5.7	1.6%	20.7%	22.6%
Shopify	US\$ 6.82	US\$ 7.24	14.0	15.9	6.1%	13.8%	20.8%

Table 12 (continued from above)

Company	Trailing 12-month revenue per share on 31 Mar 2025	Trailing 12-month revenue per share on 30 Jun 2025	P/S ratio on 31 Mar 2025	P/S ratio on 30 Jun 2025	Trailing 12-month revenue per share change from 31 Mar 2025 to 30 Jun 2025	P/S ratio change from 31 Mar 2025 to 30 Jun 2025	Stock price change from 31 Mar 2025 to 30 Jun 2025
Starbucks	US\$ 31.75	US\$ 31.91	3.1	2.9	0.5%	-7.0%	-6.6%
Super Hi	US\$ 1.35	US\$ 1.33	1.7	1.5	-1.6%	-12.1%	-12.8%
Tencent	RMB 69.70	RMB 73.02	6.7	6.3	4.8%	-5.5%	1.2%
Tesla	US\$ 27.78	US\$ 27.19	9.3	11.7	-2.1%	25.2%	22.6%
The Trade Desk	US\$ 4.87	US\$ 5.11	11.2	14.1	4.9%	25.4%	31.6%
Tractor Supply	US\$ 27.58	US\$ 28.00	2.0	1.9	1.5%	-5.7%	-4.2%
TSMC	NT 558.1	NT 605.68	9.9	10.9	8.5%	10.5%	36.4%
Veeva Systems	US\$ 16.62	US\$ 17.18	13.9	16.8	3.3%	20.3%	24.3%
Visa	US\$ 18.54	US\$ 19.01	18.9	18.7	2.5%	-1.2%	1.3%
Wise	£ 1.13	£ 1.16	8.4	9.0	2.7%	7.2%	10.1%
Wix	US\$ 29.37	US\$ 30.05	5.6	5.3	2.3%	-5.2%	-3.0%
Simple average	-	-	7.9	8.6	3.4%	-	-

Source: Companies' earnings updates

What Table 12 highlights:

- **Compounder Fund's businesses performed well over the last reported quarter, with average sequential trailing 12-month revenue per share growth of 3.4%.**
- **Importantly, 35 of them experienced growth in their trailing 12-month revenues per share for 30 June 2025 compared to 31 March 2025.**
- **During the quarter, many of Compounder Fund's holdings saw their stock prices increase as a result of both growth in their trailing P/S ratios (from an average of 7.9 to 8.6) and underlying businesses.**

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 2025's **first quarter**, 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 30 June 2025, the companies currently in Compounder Fund's portfolio **have an average trailing P/S ratio of 8.6 and an average trailing free cash flow margin of 23.1%, which equates to an average price-to-free cash flow (P/FCF) ratio of 37**. 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 8.6 would be even lower at 31**.

For perspective, with the average FCF margin for Compounder Fund's current holdings expanding from 16.6% in 2020 to 23.1% in the 12 months ending in the first quarter of 2025, the companies have, on average, **grown their free cash flow at an outstanding annualised rate of 32% 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 a company's free cash flow would be similar to the growth in the company's stock price. **But the world we inhabit is not ideal - the 32% 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.** As I alluded to in the introductory section of this letter, Compounder Fund's portfolio is starting to close some of the gap between their stock price and business performances - **to this point, the annualised return of Compounder Fund* since 2023 is 26.2% (which is also significantly better than the S&P 500's annualised return of 20.5% over the same period).**

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 13 below. There are a few important things to note about the table’s information:

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

Table 13

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

Source: Jeremy Siegel

The examples of Walmart, Teledyne, WPC, and members of the Nifty-Fifty were all from the 1970s. You may wonder, “what if *this* time is different?” It’s a legitimate concern. Economies

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

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

Potential bargains in a niche corner (part 2)

In Compounder Fund's [2024 fourth-quarter letter](#), I discussed thrift conversions in the "*Potential bargains in a niche corner*" section and why they could be, well, potential bargains. As a brief reminder, here's what I wrote in the 2024 fourth-quarter letter on what thrift conversions are:

"For the purpose of our discussion, thrifts, which have roots in the USA tracing back to the early 19th century, are small community banks in the country that are mutually owned by their depositors. The mutual ownership structure means that these thrifts have no shareholders. As a result, a thrift's depositors - despite being owners - have no legal way to access its economics. In the 1970s, regulations were introduced to allow thrifts to convert their ownership structure (hence the term "thrift conversions") and become public-listed companies with shareholders. Today, there are two main ways for thrifts to convert:

- The first is a standard conversion, where a thrift converts fully into a public-listed entity at one go.
- The second is a two-step conversion. In the first-step, a thrift converts only a minority interest in itself into a public-listed entity and thus still has a partial mutual ownership structure. In the second-step, a thrift that has undergone the first-step conversion process goes on to convert fully into a public-listed entity. As far as we know, there's no time limit for a thrift that has undergone the first-step conversion to partake in the second-step of the process."

My focus in the section was mostly on thrifts that have undergone either the standard conversion or the second-step of the two-step conversion process. This was because we thought that only such thrifts could be acquired - generally a thrift's economic value that accrues to shareholders is unlocked only upon its acquisition.

Recently, through an [article](#) from the experienced US-community-bank investor Phil Timyan and our further subsequent research, we learnt that thrifts that have undergone just the first-step of the two-step conversion process can **also be acquired***. In this section, I will explain first-step thrift conversions, how such thrifts can be acquired, and their potential for

generating good returns for shareholders. I will use Rhinebeck Bancorp as an example so that the discussion is rooted in real-life data. Rhinebeck Bancorp, which will be referred to as RBKB from here on (the ticker symbol for the thrift is RBKB), was also the subject of the Timyan article I referenced.

Here's how the first-step of a two-step conversion process works:

- RBKB is a public-listed company that currently owns 100% of Rhinebeck Bank. Rhinebeck Bank is the operating bank that was established in 1860.
- Currently, 57% of RBKB is owned by Rhinebeck Bancorp MHC, which was established in 2004 as a mutual holding company (or non-stock corporation) to house ownership of Rhinebeck Bank; as a non-stock corporation, Rhinebeck Bancorp MHC **has no shareholders**. Meanwhile, 43% of RBKB is owned by public shareholders.
- In January 2019, Rhinebeck Bank completed its first-step conversion process. Prior to the conversion, 100% of Rhinebeck Bank's shares were owned by Rhinebeck Bancorp MHC. During the conversion, 4.787 million shares of RBKB were sold. Crucially, **6.346 million shares of RBKB were also issued to Rhinebeck Bancorp MHC but these shares were never sold**. As mentioned above, Rhinebeck Bancorp MHC is a non-stock corporation, so at no point before and after the first-step conversion process did it have any shareholders.
- The 6.346 million shares of RBKB held by Rhinebeck Bancorp MHC are not trading. The shares also **cannot claim the economics of Rhinebeck Bank until Rhinebeck Bancorp MHC chooses to convert its mutual ownership structure to a stockholder ownership structure**; this change in ownership structure, if effected, is known as the second-step of the two-step conversion process.

Here's how an acquisition of a first-step thrift conversion works, and why it could generate good returns for the thrift's shareholders:

- Let's assume that RBKB has received an acquisition offer from another financial institution. At the point of acquisition, shares of RBKB owned by Rhinebeck Bancorp MHC **will be cancelled, so 100% of the economics of Rhinebeck Bank will then belong to shareholders of RBKB**, instead of the initial 43%.
- As of 31 March 2025, RBKB has total shares outstanding of 11.095 million. After deducting the 6.346 million shares owned by Rhinebeck Bancorp MHC, the remaining shares of RBKB that will be left in the acquisition** is 4.749 million.
- The latest financials for RBKB (as of 31 March 2025) show its stockholders' equity to be US\$125.975 million. RBKB's stock price is US\$11.73 as of 30 June 2025. On the surface, RBKB has a book value per share of US\$11.35 (US\$125.975 million divided by 11.095 million shares), which gives it a P/B ratio of 1.06. But if the acquisition math above is used, RBKB's **true book value per share becomes US\$26.53** (US\$125.975 million divided by 4.749 million shares), **which gives it a P/B ratio of just 0.44**.
- If the acquirer pays, say, **US\$20 per share for RBKB - which works out to be a P/B ratio of just 0.75 - the acquirer only has to cough up US\$94.98 million (US\$20 multiplied by 4.749 million shares) for US\$125.975 million in stockholders' equity**. This becomes a win-win transaction for both the acquirer and existing shareholders of RBKB.

There have been completed or ongoing acquisitions of first-step thrift conversions in a manner similar to the hypothetical situation involving RBKB that I described above. Timyan's article that I referenced earlier brought up two examples briefly and I would be delving into their details.

Wake Forest Bancshares, which was the owner of the operating bank Wake Forest Federal Savings & Loan Association, is one of them. In January 2024, Wake Forest Bancshares (shortened to WAKE from here on) was acquired by Piedmont Financial Holding Company for US\$34 per share in cash. Before the acquisition, Wake Forest Bancorp MHC owned 0.635 million of the 1.070 million WAKE shares that were outstanding in total. Wake Forest Bancorp MHC was a mutual holding company, so it had no shareholders. At the point of the acquisition by Piedmont Financial Holding Company, Wake Forest Bancorp MHC's 0.635 million WAKE shares were cancelled, which resulted in 100% of the economics of Wake Forest Federal Savings & Loan Association belonging to WAKE's remaining shareholders.

Based on the latest financials that I could find for WAKE*** prior to the acquisition, it had stockholders' equity of US\$26.507 million, **which translates to a book value per share of US\$61** based on the 0.435 million shares of WAKE remaining after the cancellation of Wake Forest Bancorp MHC's stake. At a stock price of US\$34 for WAKE, Piedmont Financial Holding Company **paid a P/B ratio of just 0.56**. But public shareholders of WAKE still enjoyed substantial gains, as WAKE's **stock price was significantly lower than US\$20 for months prior to the acquisition**. If WAKE's stock price was, say, US\$17 before the acquisition, it would have an **optically higher P/B ratio of 0.69 but a true P/B ratio of just 0.28**.

CFSB Bancorp, the owner of the operating bank Colonial Federal Savings Bank, is another instance. CFSB Bancorp (shortened to CFSB from here on) completed its first-step conversion process in January 2022. As of 31 March 2025, CFSB has:

- 6.549 million outstanding shares, of which 3.587 million belongs to 15 Beach MHC, the mutual holding company - again, with no shareholders - that owns a portion of CFSB.
- Stockholders' equity of US\$75.715 million, which **gives CFSB a book value per share of US\$26** if 15 Beach MHC's shares are cancelled.

Hometown Financial Group announced on 20 May 2025 that it will be acquiring CFSB for US\$14.25 per share, subject to regulatory approval. If the acquisition is successful, it will be a mutually beneficial situation for both Hometown Financial Group and public shareholders of CFSB. Hometown Financial Group will be buying CFSB **at an effective P/B ratio of just 0.55**, while CFSB's public shareholders get to earn a healthy return, seeing that the thrift's stock price was only US\$8.19 just prior to the deal's announcement. For perspective, a US\$8.19 stock price for CFSB translates into an optical P/B ratio of 0.70 but a true P/B ratio of just 0.32.

When I discussed thrift conversions in our 2024 fourth-quarter letter, I shared the traits we looked out for. They apply to first-step thrift conversions too. In fact, CFSB ticks most of the boxes against our criteria for investing in thrifts:

- The equity-to-assets ratio: As of 31 March 2025, CFSB has total assets of US\$366.2 million and total stockholders' equity of US\$75.715 million, giving it a high equity-to-assets ratio of 20.7%
- The P/B ratio: Earlier, I mentioned that CFSB's true P/B ratio was just 0.32 before Hometown Financial Group jumped into the scene
- Share buybacks: CFSB announced a plan on 5 April 2024 to repurchase up to 0.152 million shares (around 5% of its outstanding shares then); as of the first quarter of 2025, CFSB has bought back more than half of the number of shares under the plan
- Non-performing assets as a percentage of total assets: CFSB had no non-performing assets in its fiscal years ended 30 June 2024 and 30 June 2023
- Net income: CFSB was profitable in each of its fiscal years ended 30 June 2022, 30 June 2023, and 30 June 2024, but made a small loss of US\$0.16 million in the nine months ended 31 March 2025 (the loss is immaterial against the bank's total stockholders' equity)
- Change in control provisions: CFSB's CEO, Michael McFarland, can receive up to three times the average of his effective annual compensation in the five years prior to a change in control
- Management's compensation: McFarland controlled 61,549 CFSB shares as of 4 October 2024; the shares were worth slightly more than US\$0.5 million at the stock price of US\$8.19 before Hometown Financial Group's involvement and the value of the shares was also higher than McFarland's annual compensation of US\$0.35 million for the fiscal year ended 30 June 2024; It's worth noting too that McFarland is already 71 this year, so there is even more incentive for him to cash out from CFSB

With the new learnings on first-step thrift conversions I detailed in this section, Jeremy and I believe we have recently expanded our circle of competence when it comes to investing in thrifts. We now have an even larger universe of thrifts to look at as possible investment opportunities. This said, in the 2024 fourth-quarter letter, I also cautioned that "not every thrift conversion [referring to standard conversions or thrifts that have completed the second-step of the two-step conversion process] leads to a happy ending." We think this stands with first-step thrift conversions too. Jeremy and I have yet to make an investment in any thrift for Compounder Fund as we're waiting for fat pitches. If any of you reading this letter is interested to have deeper conversations about investing in thrifts, please reach out, we would love to engage.

A thrift that has undergone only the first-step of the two-step conversion process when it is acquired is giving its public shareholders the advantage of time. This is because if the thrift in question undergoes the second-step of the two-step conversion process, it can only be acquired three years **after the second-step is completed.*

***To keep things simple, in calculating the remaining shares of RBKB that will be left after Rhinebeck Bancorp MHC's stake is cancelled in the event of RBKB being acquired, we did **not** adjust for items such as unexercised options, unvested restricted stock, and unearned ESOP (employee stock ownership plan) shares, which should net out to a number of shares that will **not** materially change what an acquirer will have to pay for.*

****Publicly-available historical financials for WAKE are currently scarce and the latest we could find was for the fiscal year ended September 2021 (fiscal 2021). Despite the time-gap between WAKE's acquisition in January 2024 and the financials we could find, we think the numbers are still relevant. This is because WAKE's total assets just prior to its acquisition and at the end of fiscal 2021 were US\$121 million and US\$110.5 million, respectively.*

House-keeping matters and what's next

Compounder Fund is managed under Galilee Investment Management, which held its fifth-anniversary celebration dinner event on 20 June 2025. During the dinner, **I gave a presentation titled “*Breaking Investment Myths*”**. I discussed six myths and one of them was about US government debt and the perceived weakness of the US government's balance sheet. **The presentation deck, along with my speech, can be found in the Appendix of this letter** - I hope you'll enjoy the presentation and if you have any feedback, you know how to reach me!

Compounder Fund's audit for calendar year 2024, conducted by Baker Tilly, has wrapped up. On 13 June 2025, we sent a digital copy of Compounder Fund's audited financial statements for 2024 to all of the fund's investors. If you did not receive it, or if you joined the fund as an investor after 13 June 2025 and would like a digital copy of the audited 2024 financial statements, please let Jeremy and me know.

As Jeremy and I have shared before, giving back to society is one of the four key pillars of Compounder Fund's mission to “Grow *Your Wealth & Enrich Society*.” In the fund's website, we **mentioned** that “we are setting aside at least 10% of every dollar we earn from Compounder Fund in each year for charities of our choice” and that “we will audit our giving.” The first audit for our giving, conducted by Baker Tilly, covered the period from November 2019 (when we started building the fund) to December 2021. Subsequent audits are for each calendar year and the audit report for 2024 was recently completed by Baker Tilly. As a reminder, all the audit reports for our charitable giving are available on the fund's website **here**. If you are interested to know more about our charitable giving, feel free to reach out!

Another of the key pillars of Compounder Fund's mission involves investor education. To this end, Jeremy and I are running Compounder Fund transparently. We have released our investment theses on (1) all the companies that we have completely sold out of Compounder Fund and (2) all the 42 companies that currently remain in the portfolio, except for Shinhan Financial Group. The write-ups can be found **here**. Our thesis for Shinhan Financial Group will be out in the next few weeks and we will inform you once it is ready. In the future, we will also be publishing our theses if and when we add new companies to the portfolio or completely exit an existing holding voluntarily.

Compounder Fund's next subscription window will close in the middle of September 2025 and it will have a dealing date on the first business day of October 2025 (which should be 1st October). If you would like to increase your investment in the fund, please submit the relevant paperwork by the middle of September 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 nearly 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. **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 third-quarter investors' letter in mid-October 2025. Till then, stay safe and take care.

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

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

Appendix: “*Breaking Investment Myths*” presentation on 20 June 2025

Slide 1



Compounder Fund:
Breaking Investment Myths
Chong Ser Jing
20 June 2025



COMPOUNDER FUND
GROWING YOUR WEALTH AND ENRICHING SOCIETY

1

Thank you everyone for being with us tonight for this meaningful event. Some of you have known me for a number of years, some of you may not know me. I’m Ser Jing, and I’m the co-founder and portfolio manager of Compounder Fund, one of the investment funds operating under Galilee Investment Management. My co-founder, Jeremy Chia, is also here today. At Compounder Fund, we invest in the shares of public-listed companies around the world. We are long-term investors, with a strong focus on the business results of the companies we’re invested in over a 5, 10, 15-year period.

Before I begin my presentation, I want to thank the entire team at Galilee, in particular Joseph Ong, Lawrence Lim, and Franklin Chua, for their unwavering support of Compounder Fund since Day 1 of the fund. It has been an absolute pleasure working alongside the Galilee team and it gives Jeremy and me great joy to see Galilee celebrating its 5th anniversary - may there be many more anniversaries to celebrate.

Slide 2

Introduction

Cambridge dictionary defines “myth” as “*a commonly believed but false idea*”

False ideas can lead us astray in investing, so let’s break some common myths!



2



My presentation today is about breaking investment myths. The word “myth” is defined in the dictionary as “a commonly believed but false idea”. Myths are dangerous in the financial markets because they are false ideas, and having false ideas can lead us astray in investing - hence my presentation today, trying to break some investment myths.

Slide 3

Myth #1

Myth #1:

Hot commodity price = hot stock price for commodity producer



3



The myths are presented in no particular order, although some of them may feel more pertinent with the important geopolitical events happening in the world currently.

The first myth is this idea that a hot commodity price would equate to a hot *stock price* for the commodity's producer.

Slide 4

Myth #1

October 2023: **“Gold miners tend to outperform gold bullion when the price rises and underperform when the gold price falls”** - VanEck



4



What I have is a recent quote that showcases the entrenchment of the myth and it is from VanEck, an investment firm with a large exchange-traded fund business. Back in October 2023, VanEck mentioned that gold miners tend to outperform gold when the price rises.

Slide 5

Myth #1

Gold's price has really shined the last 2 years



5



Some of you, especially if you invest in gold, may have noticed that the price of gold has really shined - pun intended - in the past two years. You can see in the chart that the price of gold has increased by around 70% in US-dollar terms in that time frame.

Slide 6

Myth #1

If we could travel back in time to 2 years ago, should we invest in gold producers?

Answer: *It depends!*

Company	Stock price: 1 June 2023	Stock price: 1 June 2025	Percentage change
Newmont	US\$42.47	US\$52.72	23%
Barrick Mining	US\$17.45	US\$19.16	10%
Agnico Eagle Mines	US\$52.35	US\$124.28	137%
S&P 500	4221.02	5911.69	40%



6



So this is the million-dollar question: If we could travel back in time to two years ago, should we invest in gold producers? Given the theme of my presentation today, the answer should be fairly obvious, you think?

The answer is, it **depends**.

The table here shows the stock prices of three of the largest gold miners in the world today from June 2023 to June 2025. The gold miners, Newmont, Barrick Mining, and Agnico Eagle Mines, all happen to be listed in America, so it makes sense to compare their stock price performances with the S&P 500, and it also makes it convenient when juxtaposing their stock price movements with the price of gold. As it turns out, two of the three gold miners have had poor stock price returns despite the approximately 70% surge in the price of gold. Agnico Eagle Mines is the standout, with an impressive 137% jump in its stock price.

Slide 7

Myth #1

Myth #1:

Hot commodity price = hot stock price for commodity producer

Reality:

Hot commodity price \neq hot stock price for commodity producer



7



So the **reality** behind Myth #1 is that a hot commodity price does *not* automatically equate to a hot *stock price* for the commodity's producer.

Slide 8

Myth #2

Myth #2:

The US government is heavily in debt and the economy is doomed



8



The second myth is one of the pertinent myths, and it's the idea that the US government is heavily in debt, which then leads to the idea that the US economy is doomed.

Slide 9

Myth #2

January 2024: “*Though **our level of debt is dangerous for both our economy and for national security**, America just cannot stop borrowing*” - Maya MacGuineas, president of the Committee for a Responsible Federal Budget

June 2025: “**America’s current debt level stands at roughly 121% of GDP... The debt burden is no longer just a distant concern. It is a present and pressing problem**” - Market Watch

June 2025: “[The US government] has accumulated a big debt—approximately six times the amount that it is bringing in each year (**about \$30 trillion**), which equals **about \$230,000 per household that you have to take care of**” - Ray Dalio



9



As I did with the first myth, I have collected some recent quotes to highlight how the second myth has taken root in public.

In the first quote, you have an important politician who said in January 2024 that America cannot stop borrowing, even though the country’s level of debt is already dangerous for both economic and national security reasons.

The second quote is from a prominent financial news outlet, Market Watch, which pointed out earlier this month that America’s debt-to-GDP ratio is at a high level of 121% and it is a pressing problem.

Thirdly, Ray Dalio, who is the founder of one of the largest - if not the largest - hedge fund in the world, BridgeWater, also commented earlier this month on American debt. He said that the US government has accumulated US\$30 trillion in debt, which is a huge amount, and it has saddled American households with around U\$230,000 in debt per household.

Slide 10

Myth #2

Wait a minute... the US govt is heavily in debt - but what about its **assets**?

According to the Federal Reserve, the **US govt has US\$5.6 trillion in assets** and **US\$45.5 trillion in liabilities** as of September 2024, most of which (US\$28.3 trillion) are government debt - **Oh no!!**

BUT, according to the Institute of Energy Research, the US govt also owns a vast mineral estate (oil, natural gas, and coal) that **were worth US\$150 trillion in January 2013**; so the US govt's **assets are much higher than its liabilities**

Also, US households have a **total net worth (household assets minus household liabilities) of US\$169 trillion in 2024**, much higher than US govt liabilities



10



The thing about debt is that there are two sides to the coin. A balance sheet for a company has both assets and liabilities and the same goes for a country. So while the US government has plenty of debt, which are liabilities, it also has **assets**.

And what does the government's assets look like? According to the Federal Reserve, the US government's assets have a value of just US\$5.6 trillion, which is far lower than its liabilities of US\$45.5 trillion, most of which are US\$28.3 trillion in government debt. That does **not** look good.

But, according to the Institute of Energy Research, the US government has ownership of a huge mineral estate, consisting of natural resources such as oil, natural gas, and coal, which had a value of US\$150 trillion as of January 2013. If you compare the prices of oil, natural gas, and coal today with what they were back in January 2013, they are at around similar levels, which means the US government's US\$150 trillion in mineral assets back then would have around the same value today - and this also means that the US government's **assets are much higher than its liabilities**.

One more point worth noting is that American households have a total net worth - that would be household assets *minus* household liabilities - of US\$169 trillion in 2024. This net worth is again much higher than US government liabilities. The US\$230,000 in debt per US household that Ray Dalio said the US government has saddled the country's population with, turns out to be much lower than US households' net worth.

Slide 11

Myth #2

Myth #2:

The US government is heavily in debt and the economy is doomed

Reality:

The US government *cannot* keep running a large budget deficit (~7% of GDP currently), but its balance sheet is still really healthy, as are US households' balance sheets



11



So when it comes to the myth of the US government being heavily in debt, which leads to a doomed economy, I think the reality is different.

The US government has been borrowing like a drunken sailor, with a budget deficit that currently runs at around 7% of GDP. That is **not** sustainable in the long run. But right now, the balance sheet of the US government is still really healthy when the true value of the US government's assets is considered.

When it comes to discussions on US government debt, especially in the media, I find that the asset-part of the US government's balance sheet - and also the assets of American households - is often missing. This is something we should all be aware of.

Slide 12

Myth #3

Myth #3:

Fundamentals don't matter anymore because index fund flows are distorting the market



12



The third myth I'm talking about today is the idea that company-fundamentals do not matter anymore because fund-flows into index funds are distorting the market.

Slide 13

Myth #3

November 2023: “[Michael Burry] said **index fund inflows are now distorting prices for stocks and bonds** in much the same way that CDO purchases did for subprime mortgages more than a decade ago.” - Bloomberg

November 2024: “The **passive people, they don't care what the value is...** I view the markets as **fundamentally broken**” - David Einhorn



13



As I have done previously, here are some quotes that show this myth being prevalent in public.

The first quote is from the financial news and data giant Bloomberg. In November 2023, Bloomberg quoted investor Michael Burry, who gained fame for successfully shorting the US

housing market during the 2008 financial crisis, saying that index fund inflows are distorting the prices of stocks and bonds.

The second quote is from a high-profile investor, David Einhorn, who said in November 2024 that the markets are fundamentally broken because of passive people - and by passive people, Einhorn was referring to index funds.

Slide 14

Myth #3

Alphabet, Match Group, and Meta Platforms are the only 3 companies in the S&P 500 that belong to the same GICS (Global Industry Classification Standard) sub-industry known as “Interactive Media & Services”

Match Group was the last entrant to the S&P 500 among the trio, joining the index on 20 September 2021; if index fund flows is the most important factor in a stock’s performance, Match Group’s stock price should be doing well since inclusion



14



The companies within the S&P 500 can be grouped according to the GICS sub-industry and within the “Interactive Media & Services” sub-industry, there are only three companies, Alphabet, Match Group, and Meta Platforms.

In particular, Match Group is the last entrant into the S&P 500 among the three companies, with its inclusion on 20 September 2021. So the scenario is this: If fund-flows into index funds are truly distorting the market, then Match Group’s stock price should be doing well since its entry into the S&P 500. In fact, Match Group should be the best-performer among the trio in the “Interactive Media & Services” sub-industry since there would be a flood of new capital buying up its stock.

Slide 15

Myth #3

Company	Stock price: 20 September 2021	Stock price: 1 June 2025	Price change
Alphabet	US\$138.72	US\$171.74	24%
Match Group	US\$151.46	US\$29.94	-80%
Meta Platforms	US\$355.70	US\$647.49	82%



15



It turns out that the Match Group's performance has been the *worst*, with its stock price **down by 80%** from 20 September 2021, the date it entered the S&P 500, to the first of June 2025. Meanwhile, Alphabet and Meta Platforms both delivered positive double-digit returns.

Slide 16

Myth #3

Company	Trailing free cash flow 2021 Q3	Trailing free cash flow 2025 Q1	Free cash flow change
Alphabet	US\$65.7 billion	US\$74.9 billion	14%
Match Group	US\$873.8 million	US\$793.0 million	-9%
Meta Platforms	US\$35.7 billion	US\$52.3 billion	46%



16



The discrepancy in their stock prices becomes understandable when we look at their business fundamentals. Over the same time period, Alphabet and Meta Platforms have both produced double-digit increases in their free cash flow, whereas Match Group's free cash flow **declined**.

Slide 17

Myth #3

Myth #3:

Fundamentals don't matter anymore because index fund flows are distorting the market

Reality:

Fundamentals (and valuation*) still matter

**Match Group was trading at over 60-times free cash flow in September 2021*



17



So I think the reality behind the myth of the market being distorted by index funds, and of fundamentals no longer mattering, is that fundamentals still matter. And as an important side-note, valuations still matter too, because contributing to the severe decline in Match Group's stock price is the fact that the company had a high trailing price-to-free cash flow ratio of more than 60 in September 2021, when the company entered the S&P 500.

Slide 18

Myth #4

Myth #4:

The Federal Reserve is an all-powerful entity that controls all aspects of the US financial markets



18



We now come to Myth #4, which is the idea that the Federal Reserve, the central bank of the United States, is an all-powerful entity that controls all aspects of the US financial markets.

Slide 19

Myth #4

November 2023: “If investors failed to heed the '**don't fight the Fed**' mantra this year, they should be doubly cautious about ignoring it again next year...**betting against the Fed is risky**, no matter where the economic or policy cycles are” - Reuters

September 2024: “The Federal Reserve cut U.S. short-term borrowing costs on Wednesday... **a lower policy rate should translate to cheaper borrowing costs for most kinds of loans**” - Reuters

June 2025: “You go through these periods of time, like 2017, 18. I would go travel the country... and speak to audiences or clients even. I would get one question. **What month will the Fed raise interest rates? That's all they ask**” - Howard Marks



19



As I have done for the past few myths, I want to show recent quotes that illustrate how pervasive this myth is among the investing ecosystem.

The first quote, from November 2023, is from Reuters and it says that investors should not fight the Fed.

The second quote, from September 2024, is again from Reuters. This time, the financial news publication said that if the Federal Reserve lowers interest rates, then the interest rates on most kinds of loans would also decline accordingly.

The last quote is from Howard Marks, who is the co-founder of the distressed debt investment firm Oaktree Capital, and an investor I respect deeply. He said earlier this month that while he was on speaking engagements around the world in 2017 and 2018, the only question he was asked by the audience was when the Federal Reserve would raise interest rates. I think this is the best quote of the bunch in showing just how important the Federal Reserve looks in the eyes of most market participants.

Slide 20

Myth #4

The Federal Reserve controls **only one interest rate - the federal funds rate** - which is the interest rate banks charge to borrow from each other overnight

Most types of loans that consumers and businesses deal with are not pegged to the federal funds rate; moreover, many types of corporate and government bonds have interest rates that are set by market forces



20



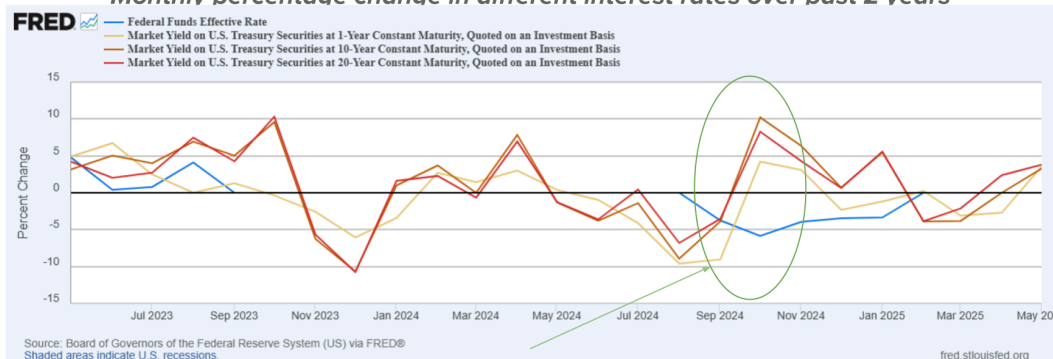
When it comes to interest rates, the truth of the matter is that the Federal Reserve controls **only one interest rate, which is the federal funds rate**. The federal funds rate is the interest rate that banks charge each other for overnight loans.

Most types of loans that consumers and businesses interact with are **not** pegged to the federal funds rate. In addition, many types of corporate bonds and government bonds have interest rates that are set by market forces, not the Federal Reserve.

Slide 21

Myth #4

Monthly percentage change in different interest rates over past 2 years



Fed funds rate had *negative* monthly change while 1Y, 10Y, & 20Y gov't bonds had positive change



21



This chart here shows the monthly percentage change for a few different interest rates over the past two years. There's the federal funds rate, which is the blue line; there's the interest rate for 1-year US Treasuries, which is the orange line; there is the interest rate for 10-year US Treasuries, which is the brown line; and lastly, there is the interest rate for 20-year US Treasuries, which is the red line.

You can see that the monthly percentage change for these four different interest rates **do not move in lock-step**. In fact, in the green circle, you can see that all three Treasuries saw a monthly *increase* in their interest rates around October 2024 when the federal funds rate **declined**. This would not have happened if the Federal Reserve was all-powerful.

Slide 22

Myth #4

The Federal Reserve has a big role to play in stabilising financial asset prices during crises (such as what Ben Bernanke and his colleagues attempted during the 2008/09 Great Financial Crisis) but outside of financial crises, the Federal Reserve's impact on stocks is **far from being clear-cut**



22



As for the stock market, the Federal Reserve's impact on stocks is unclear, outside of severe crises where the central bank can play a role in stabilising asset prices - as it did during the 2008 financial crisis.

Slide 23

Myth #4

Time period	Change in yield of 3-month Treasury bill*	S&P 500 annualised return
1954 - 1964	1.2% → 4.4%	21%
1960s	4% → 8%	7.7%
1970s	8% → 12%	6%

Source: Ben Carlson

*The 3-month Treasury bill is a good proxy for the fed funds rate



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This table shows a few time periods in the past where the interest rate on the 3-month Treasury bill had increased significantly. It's important to note that the 3-month Treasury bill is a close proxy for the federal funds rate, so the time periods when the interest rate on the 3-month Treasury bill increased would also be times when the Federal Reserve had **raised interest rates**.

It turns out that the three time periods of rising interest rates actually saw the S&P 500 produce annualised returns ranging from a **decent 6% to an outstanding 21%**.

So, there have been past episodes where US stocks **have done well over the long run even when the Federal Reserve was raising the federal funds rate**.

Slide 24

Myth #4

Date of Federal Reserve rate cut	Return of US stocks in the next 12-months after rate cut
October 1957	17%
October 1973	-36%
February 1982	32%
September 2007	-24%

Source: Joshua Brown



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This table shows a few dates in the past where the Federal Reserve had **cut the federal funds rate** and how US stocks performed over the next 12 months. It turns out that US stocks have done very well, as well as done very poorly, in the 12 months **after the Federal Reserve had lowered interest rates**.

Slide 25

Myth #4

Myth #4:

The Federal Reserve is an all-powerful entity that controls all aspects of US financial markets

Reality:

The Federal Reserve is **far** from being all-powerful; the markets set their own course



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So the reality of the situation, when it comes to the Federal Reserve, is that it is **far from being all-powerful**. There are many aspects of the US financial markets where the central bank has little to no control.

This is also why Jeremy and I spend very little time thinking about or keeping track of what the Federal Reserve is doing when making investment decisions for Compounder Fund.

Slide 26

Myth #5

Myth #5:

US tariffs will be a disaster for the American economy because companies cannot plan for the future



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Myth #5 is perhaps the most pertinent when seen from the context of what's happening in the world right now, and it is the idea that US tariffs, enacted by the Trump administration, will be a disaster for the American economy because American companies are unable to plan for the future.

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Myth #5

April 2025: *"Businesses are putting everything on hold. **They literally can't plan from one day to the next**"* - Washington Post

April 2025: *"Many other major U.S. companies warned that shape-shifting tariff threats **make it virtually impossible to plan** and are spooking consumers"* - Wall Street Journal



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The relevant quotes are both from April 2025 and they come from The Washington Post and the Wall Street Journal. Both entities are major news outlets in the US and they wrote about how US companies cannot plan for the future because of the ever-shifting situation with the Trump administration's tariffs.

Slide 28

Myth #5

Turns out, companies can actually be great at adapting; a brilliant example is Costco:

1) *"We continue to move more Kirkland Signature product sourcing into the countries or regions where the items are sold, and **this is helping us to lower costs and mitigate some of the potential impacts of tariffs**"*

2) *"During the third quarter, **we rerouted many goods sourced from countries with large tariff exposure to our non-U.S. markets. In the U.S., we pulled forward some items that we had planned for the summer and sourced additional locally produced goods to reduce tariff impacts**"*

3) *"While the impacts of tariffs and the outlook for the economy, in general, remain unknown, **we are confident in the ability of our operators and merchants to rise to the challenges**"*



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It turns out that American companies can actually be great at adapting. A wonderful example is the warehouse retail giant Costco. The quotes here are from Costco's most recent quarterly earnings conference call held last month.

Management said that Costco has been able to move product sourcing into countries where the items are actually sold and this is something that can mitigate the impact of tariffs.

Management also shared the actions they have taken to minimise the impact of tariffs, such as (1) rerouting goods sourced from countries with large tariff exposure to Costco's non-US markets, (2) pulling-forward the ordering of certain products in the USA, and (3) sourcing additional locally-produced products in the USA.

Management also said that the Costco team stands ready to deal with any challenges, despite the uncertainties that are related to the tariffs.

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Myth #5

Another good example is Tractor Supply:

1) *“This management team has a strong track record of navigating complexity with discipline and clarity. **We've been through many other battles together, whether it was during the prior rounds of tariffs, inflationary spikes or supply chain disruption**”*



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Another good example is Tractor Supply, which retails products for a rural and farming lifestyle. During Tractor Supply's earnings conference call in April this year, management shared their experience in dealing with past challenges and how they have always managed to pull through.

Slide 30

Myth #5

Myth #5:

US tariffs will be a disaster for the American economy because companies cannot plan for the future

Reality:

Companies can be great at adapting even in the face of extreme uncertainty



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So the reality of the situation, when it comes to tariffs, is that American companies - some of them, at least - can be great at adapting even in the face of extreme uncertainty.

Slide 31

Myth #6

Myth #6:

The best stocks give investors a smooth ride



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We're down to the last investing myth for today, which is the idea that the best stocks give investors a smooth ride. Unlike the previous myths, where I had seen quotes from my readings that can show how the myths were widespread, this time it's more of a personal observation from conversations I've had with friends and the public, going back all the way to my start in the investment industry.

Slide 32

Myth #6

Even the **best** stocks in the S&P 500 over a 30-year period **have given investors a wild ride**

Company	Annualised return, 1985-2024	Max drawdown
S&P 500	11.8%	-58%
Amgen	22.7%	-64%
Apple	21.6%	-83%
Paychex	20.8%	-67%
Home Depot	20.5%	-76%
Progressive Corporation	20.4%	-74%

Source: Michael Mauboussin, Dan Callahan



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The table you see here is created from data from a recent research report published by Morgan Stanley titled [Drawdowns and Recoveries](#) and it was written by Michael

Mauboussin and Dan Callahan. Mauboussin, in particular, is a prolific investment researcher and writer.

The table shows the annualised returns of the S&P 500 from 1985 to 2024 as well as its maximum drawdown. The maximum drawdown refers to the maximum decline from top to bottom that the S&P 500 had experienced in the same period. The table also shows the same data for the five stocks that Mauboussin and Callahan had calculated as having the best annualised returns within the S&P 500 from 1985 to 2024. You can see that the five stocks all had annualised returns that were nearly double that of the S&P 500. But all of them also had **sickening maximum drawdowns that were much deeper than the S&P 500's while they were on their way to producing those excellent returns.**

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Myth #6

Myth #6:

The best stocks give investors a smooth ride

Reality:

Even the best stocks in history have **given investors a stomach-churning experience** en-route to big gains



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So even for the best stocks in the market, they **have not given investors a smooth ride at all - in fact, they have given investors vomit-inducing drawdowns while enroute to their excellent returns.**

As Morgan Housel from the Collaborative Fund once said, volatility is a **feature of the markets, not a big.**

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The End

Thanks!



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GALILEE
HEALTHCARE MANAGEMENT

With that, I have come to the end of my presentation, and I hope all of you in the audience will have useful takeaways. Thank you!

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