Compounder Fund Investors' Letter: Third Quarter of 2025

COMPOUNDER FUND
GROWING YOUR WEALTH AND ENRICHING SOCIETY

Dear investors,

I'm presenting Compounder Fund's 2025 third-quarter investors' letter together with my co-founder Jeremy Chia. During the quarter, Compounder Fund's overall net-of-fee return for the earliest series of its Class A and Class B shares were both 4.5%. Over the same period, the dividend-adjusted Singapore-dollar returns for the S&P 500 was 9.7%. Tables 1 and 2 below show the returns for Compounder Fund's two share classes (the earliest series for each share class) and the S&P 500 since the birth of the fund.

Table 1

Time period	Compounder Fund Class A (after fees)	S&P 500**
2020*	11.2%	14.2%
2021	0.9%	31.2%
2022	-44.1%	-18.7%
2023	36.7%	24.4%
2024	29.7%	29.5%
Q1 2025	-8.8%	-5.9%
Q2 2025	10.7%	5.0%
Jul 2025	1.6%	4.4%
Aug 2025	0.5%	0.8%
Sep 2025	2.4%	4.2%
Q3 2025	4.5%	9.7%
Year-to-date 2025	5.4%	8.5%
Total return since inception*	17.2%	113.2%
Annualised return since inception*	3.1%	15.6%

**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%
Q2 2025	10.7%	5.0%
Jul 2025	1.6%	4.4%
Aug 2025	0.5%	0.8%
Sep 2025	2.4%	4.2%
Q3 2025	4.5%	9.7%
Year-to-date 2025	5.4%	8.5%
Total return since inception*	12.6%	102.5%
Annualised return since inception*	2.3%	14.5%

**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 more than 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 annualised returns of 25.5% each for both series of shares since 2023, which are better than the S&P 500's annualised return of 22.5% over the same period.** Nonetheless, a huge gap still exists between the good performance of Compounder Fund's underlying businesses and the mediocre gains in their stock prices since inception.

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-plus 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**.

Portfolio changes

Compounder Fund's 2025 second-quarter letter was published on 14 July 2025. In it, I shared all 42 holdings that were in the fund's portfolio at the time. Since then, there have been no material changes to the portfolio. Table 4 shows Compounder Fund's portfolio of 42 companies and their weightages as of 12 October 2025:

Table 4

Company	Weighting	Country/Region of listing	Headquarters
Meta Platforms	9.9%	USA	USA
Netflix	7.3%	USA	USA
MercadoLibre	6.0%	USA	Argentina
Amazon	5.1%	USA	USA
Alphabet	5.0%	USA	USA
Microsoft	4.2%	USA	USA
Shopify	4.0%	USA	Canada
Tencent	3.5%	Hong Kong	China
Shinhan Financial Group	3.2%	USA	South Korea
Apple	3.0%	USA	USA
Tractor Supply	2.9%	USA	USA
Visa	2.8%	USA	USA

Table 4 (continued from above)			
Company	**Weighting**	**Country/Region of listing**	**Headquarters**
DataDog	2.6%	USA	USA
Costco	2.6%	USA	USA
Tesla	2.6%	USA	USA
Mastercard	2.6%	USA	USA
TSMC	2.6%	USA	Taiwan
ASML	2.3%	USA	Netherlands
Medpace	2.2%	USA	USA
Adyen	2.1%	Netherlands	Netherlands
Intuitive Surgical	2.0%	USA	USA
Chipotle Mexican Grill	1.9%	USA	USA
Markel	1.9%	USA	USA
Nu Holdings	1.8%	USA	Brazil
The Trade Desk	1.7%	USA	USA
Veeva Systems	1.5%	USA	USA
Salesforce	1.2%	USA	USA
Adobe	1.2%	USA	USA
Wise	1.1%	UK	UK
MongoDB	1.0%	USA	USA
PayPal	1.0%	USA	USA
Medistim	1.0%	Norway	Norway
Hingham	0.9%	USA	USA
Sea	0.8%	USA	Singapore
Wix	0.8%	USA	Israel
Coupang	0.7%	USA	South Korea
Okta	0.6%	USA	USA
Meituan	0.6%	Hong Kong	China
Haidilao	0.5%	Hong Kong	China
Paycom Software	0.5%	USA	USA
Starbucks	0.5%	USA	USA
Super Hi	0.1%	Hong Kong	Singapore
Cash	**0.2%**	**-**	**-**

Table 5 below shows the high-level geographical breakdown of Compounder Fund's portfolio as of 12 October 2025:

Table 5

Country/Region	% of Compounder Fund's capital based on country of listing	% of Compounder Fund's capital based on location of headquarters
Argentina	-	6.0%
Brazil	-	1.8%
Canada	-	4.0%
China	-	4.6%
Hong Kong	4.7%	-
Israel	-	0.8%
Netherlands	2.1%	4.4%
Norway	1.0%	1.0%
Singapore	-	0.9%
South Korea	-	3.9%
Taiwan	-	2.6%
UK	1.1%	1.1%
USA	90.9%	68.9%

Wonderful businesses

Jeremy and I are pleased to report that the companies in Compounder Fund's portfolio have in aggregate continued to deliver healthy revenue growth in the second quarter of 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 company; we will discuss Shinhan Financial Group in the "*Special situation"* section of this letter.

Table 6 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 4 except for Shinhan Financial Group) for the following time periods: The whole of 2020, 2021, 2022, 2023, and 2024, and the first two quarters of 2025.

Table 6

Company	2020 revenue growth	2021 revenue growth	2022 revenue growth	2023 revenue growth	2024 revenue growth	2025 Q1 revenue growth	2025 Q2 revenue growth
Adobe	17.3%	18.0%	11.5%	10.8%	10.5%	10.6%	10.7%
Adyen	28.1%	46.4%	32.8%	22.2%	22.8%	22.1%	17.5%
Alphabet	12.8%	41.2%	9.8%	8.7%	13.9%	12.0%	13.8%
Amazon	37.6%	21.7%	9.4%	11.8%	11.0%	8.6%	13.3%
Apple	9.9%	28.6%	2.4%	-0.5%	2.6%	5.1%	9.6%
ASML	18.3%	33.1%	13.8%	30.2%	2.6%	46.3%	23.2%
Chipotle Mexican Grill	7.1%	26.1%	14.4%	14.3%	14.6%	6.4%	3.0%
Costco	12.8%	17.7%	11.5%	6.2%	6.1%	8.0%	8.1%
Coupang	90.8%	53.8%	11.8%	18.5%	24.1%	11.2%	16.4%
Datadog	66.3%	70.5%	62.8%	29.4%	26.1%	24.6%	28.1%
Haidilao	7.8%	43.7%	-20.6%	33.6%	3.1%	-3.7%	-3.7%
Hingham	27.4%	20.3%	3.6%	-54.5%	-8.1%	76.5%	74.0%
Intuitive Surgical	-2.7%	31.0%	9.0%	14.5%	17.2%	19.2%	21.4%
Markel	17.0%	20.0%	22.1%	5.6%	2.6%	-1.0%	5.1%
Mastercard	-9.4%	23.4%	17.8%	12.9%	12.2%	14.2%	16.8%
Medistim	-0.2%	17.7%	15.1%	7.0%	6.9%	35.7%	16.7%
Medpace	7.5%	23.4%	27.8%	29.2%	11.8%	9.3%	14.2%
Meituan	17.7%	56.0%	22.8%	25.8%	22.0%	18.1%	11.7%
Mercado-Libre	73.0%	77.9%	49.1%	37.4%	37.5%	37.0%	33.8%
Meta Platforms	21.6%	37.2%	-1.1%	15.7%	21.9%	16.1%	21.6%
Microsoft	14.7%	20.6%	10.4%	11.5%	15.0%	13.3%	18.1%
MongoDB	40.0%	48.0%	47.0%	31.1%	19.2%	21.9%	23.7%
Netflix	24.0%	18.8%	6.5%	6.7%	15.6%	12.5%	15.9%
Nu Holdings	20.4%	130.4%	182.2%	67.5%	43.4%	18.7%	28.8%
Okta	42.5%	55.6%	42.9%	21.8%	15.3%	11.5%	12.7%
Paycom Software	14.1%	25.4%	30.3%	23.2%	11.2%	6.1%	10.5%
PayPal	20.7%	18.3%	8.5%	8.2%	6.8%	1.2%	5.1%
Salesforce	24.3%	24.7%	18.3%	11.2%	8.7%	7.6%	9.8%
Sea	101.1%	127.5%	25.1%	4.9%	28.8%	29.6%	38.2%
Shopify	85.6%	57.4%	21.4%	26.1%	25.8%	26.8%	31.1%
Starbucks	-14.1%	31.0%	8.4%	11.5%	-1.5%	2.3%	3.8%
Super Hi	-5.0%	41.1%	78.7%	23.0%	13.4%	5.4%	8.5%
Tencent	27.8%	16.2%	-1.0%	9.8%	8.4%	12.9%	14.5%
Tesla	28.3%	70.7%	51.4%	18.8%	0.9%	-9.2%	-11.8%

Table 6 (continued from above)							
Company	**2020 revenue growth**	**2021 revenue growth**	**2022 revenue growth**	**2023 revenue growth**	**2024 revenue growth**	**2025 Q1 revenue growth**	**2025 Q2 revenue growth**
Trade Desk	26.5%	43.1%	31.9%	23.3%	25.6%	25.4%	18.7%
Tractor Supply	27.2%	19.9%	11.6%	2.5%	2.2%	2.1%	4.5%
TSMC	25.2%	18.5%	42.6%	-4.5%	33.9%	41.6%	38.6%
Veeva Systems	32.7%	26.3%	16.4%	9.7%	16.2%	16.7%	16.7%
Visa	-8.7%	18.6%	18.5%	10.5%	10.3%	9.3%	14.3%
Wise	43.9%	32.3%	48.5%	28.6%	18.2%	11.6%	9.2%
Wix.com	29.9%	29.0%	9.3%	12.5%	12.7%	12.8%	12.4%

Source: Companies' earnings updates

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

Table 7

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%
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%

Table 7 (continued from above)	
Simple averages for revenue growth from year ago	**Compounder Fund current portfolio (excluding Shinhan Financial Group)**
2024 Q4	15.8%
2024	14.4%
2025 Q1	16.0%
2025 Q2	**16.6%**

Source: Companies' earnings updates

As I mentioned in the "*Judging our performance"* section of this letter, it's been so far, so good for the business results of Compounder Fund. **The fund's current crop of portfolio companies produced healthy year-on-year revenue growth of 16.6% (this is a simple average) in the second quarter of 2025, and this continues from the impressive revenue growth rates seen in prior quarters going back to 2020**. Table 8 below provides perspective on the superior growth rates for Compounder Fund's current holdings compared to the S&P 500.

Table 8

Simple averages for revenue growth from year ago in a certain quarter	S&P 500	Compounder Fund current portfolio (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%
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%	16.0%
2025 Q2	**5.9%**	**16.6%**

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 second quarter of 2025 also comfortably exceeds the S&P 500's corresponding revenue growth rate (16.6% vs 5.9%). We do acknowledge that the portfolio's 16.6% 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 first quarter of 2025**; 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 27 companies in Compounder Fund's current portfolio saw higher year-on-year revenue growth in the second quarter of 2025 compared to the first quarter of 2025. 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 increase in the second quarter of 2025. Table 9 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 second quarter of 2025, the simple-average free cash flow margin for the holdings was 19.2%, up from 18.4% a year ago. This also means that Compounder Fund's portfolio had, on average, grown its free cash flow by an excellent 22% 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." Despite this, the fund's average free cash flow margin increased in the second quarter of 2025 and that's a pleasing development. Nonetheless, our view on the fluctuations in the free cash flow margin still stands. 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 9

Company in Compounder Fund (excluding Shinhan Financial Group)	Revenue growth in 2025 Q2 from a year ago	Free cash flow margin in 2025 Q2	Free cash flow margin in 2024 Q2
Adobe	10.7%	35.2%	34.9%
Adyen	17.5%	45.4%	41.7%
Alphabet	13.8%	5.5%	15.8%
Amazon	13.3%	0.2%	5.2%
Apple	9.6%	26.0%	31.1%
ASML	23.2%	4.1%	6.2%
Chipotle Mexican Grill	3.0%	13.1%	14.2%
Costco	8.1%	2.2%	1.7%
Coupang	16.4%	2.9%	6.6%
Datadog	28.1%	20.0%	22.3%
Haidilao	-3.7%	9.1%	15.1%
Hingham	74.0%	-	-
Intuitive Surgical	21.4%	23.0%	15.5%
Markel	5.1%	-	-
Mastercard	16.8%	54.0%	40.8%
Medistim	16.7%	17.5%	14.7%
Medpace	14.2%	23.6%	19.6%
Meituan	11.7%	5.2%	12.4%
MercadoLibre	33.8%	38.7%	33.5%
Meta Platforms	21.6%	18.9%	28.5%
Microsoft	18.1%	31.2%	34.0%
MongoDB	23.7%	12.1%	-0.5%
Netflix	15.9%	20.5%	12.7%
Nu Holdings	28.8%	-	-
Okta	12.7%	22.3%	12.1%
Paycom Software	10.5%	12.6%	19.8%
PayPal	5.1%	8.3%	17.3%
Salesforce	9.8%	5.9%	8.1%
Sea	38.2%	29.9%	14.5%
Shopify	31.1%	15.7%	16.3%
Starbucks	3.8%	4.6%	10.4%
Super Hi	8.5%	6.2%	8.5%
Tencent	14.5%	23.3%	25.1%
Tesla	-11.8%	0.6%	5.3%
The Trade Desk	18.7%	16.8%	9.7%

Table 9 (continued from above)			
Company in Compounder Fund (excluding Shinhan Financial Group)	**Revenue growth in 2025 Q2 from a year ago**	**Free cash flow margin in 2025 Q2**	**Free cash flow margin in 2024 Q2**
Tractor Supply	4.5%	13.0%	8.6%
TSMC	38.6%	21.4%	25.5%
Veeva Systems	16.7%	29.4%	13.3%
Visa	14.3%	62.0%	53.2%
Wise	9.2%	-	-
Wix.com	12.4%	30.1%	25.9%
Average for Compounder Fund's current portfolio	**16.6%**	**19.2%**	**18.4%**

Source: Companies' earnings updates

(As of the publication of this letter, there's no quarterly free cash flow data available for Wise. We did not include free cash flow data for Hingham, Markel, and Nu Holdings because we don't think it's as important for them - Hingham and Nu Holdings are banks, while Markel has significant exposure to insurance businesses and investment holdings.)

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

There's more to share on the business and stock price performances of our companies. Table 10 below shows a few things for the period from 30 June 2025 to 30 September 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 10

Company	Trailing 12-month revenue per share on 30 Jun 2025	Trailing 12-month revenue per share on 30 Sep 2025	P/S ratio on 30 Jun 2025	P/S ratio on 30 Sep 2025	Trailing 12-month revenue per share change from 30 Jun 2025 to 30 Sep 2025	P/S ratio change from 30 Jun 2025 to 30 Sep 2025	Stock price change from 30 Jun 2025 to 30 Sep 2025
Adobe	US$ 52.20	US$ 53.91	7.4	6.5	3.3%	-11.7%	-8.8%
Adyen	€ 66.94	€	23.3	19.8	3.2%	-15.1%	-12.4%
Alphabet	US$ 29.27	US$ 30.33	6.0	8.0	3.6%	33.1%	37.9%
Amazon	US$ 60.25	US$ 62.04	3.6	3.5	3.0%	-2.8%	0.1%
Apple	US$ 26.51	US$ 27.15	7.7	9.4	2.4%	21.2%	24.1%
ASML	€ 78.25	€ 81.72	8.7	10.1	4.4%	16.2%	20.8%
Chipotle Mexican Grill	US$ 8.44	US$ 8.54	6.7	4.6	1.2%	-31.0%	30.2%
Costco	US$ 604.20	US$ 618.78	1.6	1.5	2.4%	-8.7%	-6.5%
Coupang	US$ 16.88	US$ 17.45	1.8	1.8	3.5%	3.9%	7.5%
Datadog	US$ 7.81	US$ 8.35	17.2	17.1	6.9%	-0.9%	6.0%
Haidilao	RMB 7.90	RMB 7.75	1.7	1.6	-1.8%	-8.0%	-9.9%
Hingham	US$ 23.32	US$	10.6	9.9	14.7%	-7.4%	6.2%
Intuitive Surgical	US$ 23.90	US$ 25.10	22.7	17.8	5.0%	-21.6%	-17.7%
Markel	US$ 1079.54	US$ 1098.56	1.9	1.7	1.8%	-6.0%	-4.3%
Mastercard	US$ 31.80	US$ 33.20	17.7	17.1	4.4%	-3.0%	1.2%
Medistim	NOK 33.33	NOK 34.72	6.3	6.6	4.2%	4.7%	9.1%
Medpace	US$ 69.13	US$	4.5	6.9	7.0%	53.1%	63.8%
Meituan	RMB 56.34	RMB 58.57	2.0	1.6	3.9%	-19.6%	16.6%
Mercado Libre	US$ 441.42	US$ 475.29	5.9	4.9	7.7%	-17.0%	10.6%
Meta Platforms	US$ 65.78	US$ 69.30	11.2	10.6	5.4%	-5.6%	-0.5%
Microsoft	US$ 36.17	US$ 37.74	13.8	13.7	4.4%	-0.2%	4.1%
MongoDB	US$ 25.97	US$ 27.28	8.1	11.4	5.1%	40.7%	47.8%
Netflix	US$ 91.94	US$ 95.64	14.6	12.5	4.0%	-13.9%	-10.5%
Nu Holdings	US$ 2.46	US$	5.6	6.1	6.7%	9.4%	16.7%
Okta	US$ 14.75	US$ 15.24	6.8	6.0	3.3%	-11.2%	-8.%
Paycom Software	US$ 33.99	US$ 34.81	6.8	6.0	2.4%	-12.2%	-10.1%
PayPal	US$ 31.92	US$ 32.68	2.3	2.1	2.4%	-11.9%	-9.8%
Salesforce	US$ 39.78	US$ 40.89	6.9	5.8	2.8%	-15.4%	-13.1%
Sea	US$ 28.25	US$ 30.46	5.7	7.8	7.8%	37.4%	48.2%
Shopify	US$ 7.24	US$ 7.65	15.9	19.4	5.7%	21.9%	28.8%

Table 10 (continued from above)							
Company	**Trailing 12-month revenue per share on 30 Jun 2025**	**Trailing 12-month revenue per share on 30 Sep 2025**	**P/S ratio on 30 Jun 2025**	**P/S ratio on 30 Sep 2025**	**Trailing 12-month revenue per share change from 30 Jun 2025 to 30 Sep 2025**	**P/S ratio change from 30 Jun 2025 to 30 Sep 2025**	**Stock price change from 30 Jun 2025 to 30 Sep 2025**
Starbucks	US$ 31.91	US$ 32.21	2.9	2.6	0.9%	-8.5%	-7.7%
Super Hi	US$ 1.33	US$	1.5	1.4	2.0%	-7.5%	-6.5%
Tencent	RMB 73.02	RMB 75.90	6.3	8.0	3.9%	27.1%	31.8%
Tesla	US$ 27.19	US$ 26.34	11.7	16.9	-3.1%	44.5%	40.0%
The Trade Desk	US$ 5.11	US$ 5.37	14.1	9.1	5.0%	-35.2%	-31.9%
Tractor Supply	US$ 28.00	US$ 28.41	1.9	2.0	1.5%	6.2%	7.8%
TSMC	NT 605.68	NT	10.9	13.0	8.3%	18.7%	23.3%
Veeva Systems	US$ 17.18	US$ 17.74	16.8	16.8	3.3%	0.1%	3.4%
Visa	US$ 19.01	US$ 19.71	18.7	17.3	3.7%	-7.3%	-3.9%
Wise	£ 1.16	£ 1.18	9.0	8.8	2.2%	-2.6%	-0.5%
Wix	US$ 30.05	US$ 31.14	5.3	5.7	3.6%	8.2%	12.1%
Simple average	**-**	**-**	**8.6**	**8.6**	**4.0%**	-	-

Source: Companies' earnings updates

What Table 10 highlights:

- **Compounder Fund's businesses performed well over the last reported quarter, with average sequential trailing 12-month revenue per share growth of 4.0%.**
- **Importantly, 39 of them experienced growth in their trailing 12-month revenues per share for 30 September 2025 compared to 30 June 2025.**
- **Compounder Fund's positive return during the quarter was driven by the underlying growth of its businesses as the average trailing P/S ratio of its holdings did not change (an average of 8.6 as of 30 June 2025 and 30 September 2025).**

We continue to think that Compounder Fund's holdings **have more-than-reasonable valuations** (similar to what we saw when I wrote many of our recent quarterly letters, with the most recent being for 2025's second quarter), **and this bodes well for the fund's future return**. As of 30 September 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, the average free cash flow margin for Compounder Fund's current holdings has expanded from 16.6% in 2020 to 23.1% in the 12 months ending in the second quarter of 2025. This means the companies have, on average, **grown their free cash flow at an outstanding annualised rate of 34% in that period (which is even faster than their annualised revenue growth of 24%). 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 34% 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[1]**. 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 **with an annualised return[1] since 2023 of 25.5% (which is also better than the S&P 500's annualised return of 22.5% 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 11 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 11

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."**

[1] Referring to the earliest series for Compounder Fund's Class A shares.

Special situation

As a brief reminder, our thesis for Shinhan Financial Group (abbreviated as SFG from here on) rests on the company achieving the following 2027 targets set by management:

- Increase its return on equity to 10%
- Increase its shareholder return - which refers to share repurchases and dividends as a percentage of net income – to 50%
- Reduce its share count to 450 million through buybacks
- Grow its tangible book value per share (TBPS) to ₩130,000

Our view is that if SFG can do what its management has laid out, when its TBPS is at the 2027 target of ₩130,000, the financial conglomerate's price-to-book (P/B) ratio would likely have risen from 0.6 when we first invested to around 1. This provides Compounder Fund with an upside of more than 100%. We also think it's possible that SFG's P/B ratio could rise to around 1 way before the end of 2027, in which case Compounder Fund would also earn a handsome return.

Since our initial investment in SFG, the company has made good progress towards its 2027 targets. Here's SFG's performance in the first half of 2025:

- Its return on equity increased from 10.7% a year ago to 11.4%
- Its shareholder return for the reporting period was ₩1,205 billion (₩650 billion in share buybacks and ₩555 billion in dividends), compared with ₩1,788 billion for the whole of 2024 and ₩998 billion in the first half of 2024
- Its share count declined by 2.6% from end-2024 to 485.5 million
- Its TBPS grew 9.8% from a year ago to ₩105,518

At the end of September 2025, SFG's stock price was US$50[1], which translated to a P/B ratio of 0.67. This is higher than when we first invested in the company, so it's another sign of positive progress towards our thesis coming to fruition.

[1] SFG's shares are listed in both the South Korean and US stock markets. Compounder Fund owns SFG's US-listed shares.

AI froth

Jeremy and I have noticed growing froth in the stock market for some companies that are associated with the AI theme. Given the massive amount of capital chasing AI opportunities in the US economy[1], we thought it's an important topic to address. We have three related-observations that we think points to froth.

The first observation is **the lack of appropriate skepticism from stock market participants on huge but questionable AI deals.** Oracle, AMD, and Broadcom's recent partnerships with OpenAI are instructive examples.

Oracle's management projected stupendous future growth for its Cloud Infrastructure business during its FY2026 (fiscal year ending 31 May 2026) first-quarter earnings conference call:

> "We have signed significant cloud contracts with the who's who of AI, including OpenAI, xAI, Meta, NVIDIA, AMD and many others. At the end of Q1, remaining performance obligations, or RPO, now to [US]$455 billion. This is up 359% from last year and up [US]$317 billion from the end of Q4. Our cloud RPO grew nearly 500% on top of 83% growth last year…
>
> …The enormity of this RPO growth enables us to make a large upward revision to the Cloud Infrastructure portion of our financial plan. We now expect Oracle Cloud Infrastructure will grow 77% to [US]$18 billion this fiscal year and then increase to [US]$32 billion, [US]$73 billion, [US]$114 billion and [US]$144 billion over the following 4 years. Much of this revenue is already booked in our [US]$455 billion RPO number, and we are off to a fantastic start this year."

For context, Oracle ended FY2025 with total revenue and Cloud Infrastructure revenue of US$57.4 billion and US$10.2 billion, respectively. During the earnings conference call, which happened in early-September, Oracle's management did not name the customers responsible for the massive increase in the company's RPO. But an article from the *Wall Street Journal* published shortly after revealed that OpenAI had recently signed a US$300 billion, five-year deal with Oracle for 4.5 gigawatts of compute capacity - in other words, **nearly 95%** of Oracle's sequential US$317 billion increase in RPO in the first quarter of FY2026 **came from just OpenAI.** Given that Oracle's total RPO at the end of FY2026's first-quarter was US$455 billion, **OpenAI is poised to be Oracle's largest customer, by far, in the future**.

As for AMD, the GPU (graphics processing units) and CPU (central processing unit) designer announced a partnership with OpenAI on 6 October 2025. OpenAI will be deploying 6 gigawatts of AMD GPUs over a multi-year period. The estimated capital expenditure for a 1 gigawatt data center ranges from **US$25 billion to US$70 billion, with GPUs making up 50% or more of the sum.** Given AMD's revenue of US$25.8 billion 2024 and that no customer accounted for more than 10% of revenue for the year, **it's likely that OpenAI will soon become AMD's largest customer**.

Broadcom's deal with OpenAI was announced on 13 October 2025. The two companies will co-develop ASICs (application specific integrated circuits) for AI and OpenAI will deploy 10 gigawatts of these ASICs in data centers from the second half of 2026 to the end of 2029.

Broadcom's products that are likely to be used in the 10 gigawatts of data centers OpenAI will be building include networking and ASICs. We think it's reasonable to assume that **Broadcom's dollar-content in OpenAI's 10 gigawatts of data centers is around 40%**. Earlier, I mentioned that the "estimated capital expenditure for a 1 gigawatt data center ranges from US$25 billion to US$70 billion, with GPUs making up 50% or more of the sum." Networking tends to be around 10% or less of an AI data center's capital expenditure. Meanwhile, we assume only 30 percentage points of the 50%-share of GPUs in AI data center capital expenditures would flow to Broadcom because the ASICs (which replaces GPUs in the OpenAI/Broadcom AI datacenters) are co-developed by OpenAI and Broadcom. With Broadcom's trailing revenue of US$59.9 billion and the 40% assumption of the company's dollar-content in the 10 gigawatts of data centers in question, **OpenAI is likely to soon be a meaningfully large customer for Broadcom, perhaps the largest.**

Customer-concentration can be a headache for any company. But when said customer is incinerating cash, it can be a thunderclap headache. OpenAI's leaders expect the company to earn around US$13 billion in revenue this year. But its deal with Oracle **works out to an annual average spend of US$60 billion** while its deals with AMD and Broadcom could **see total spending of US$400 billion to US$1.12 *trillion*.** In late-September 2025, OpenAI announced a "strategic partnership" with NVIDIA that would see OpenAI "deploy at least 10 gigawatts of NVIDIA systems" and receive investments of up to US$100 billion. **But even with NVIDIA's US$100 billion, OpenAI still requires an *additional* US$150 billion to $600 billion for the buildout of 10 gigawatts of datacentres**. It's worth noting that OpenAI's deals with Oracle, AMD, Broadcom, and NVIDIA **are separate projects**. So OpenAI is **on the hook for US$850 billion to US$2.12 *trillion* in spending over the next, say, five years, with *just* Oracle, AMD, Broadcom, and NVIDIA** (US$300 billion with Oracle, US$150 billion to US$420 billion with AMD, US$250 billion to US$700 billion with Broadcom, and US$150 billion to US$600 billion with NVIDIA after accounting for NVIDIA's US$100 billion investment). This excludes OpenAI's deals with other cloud computing providers such as Microsoft Azure and Coreweave. As a reminder, OpenAI is projecting 'merely' US$13 billion in revenue this year. OpenAI's spending plans with Oracle, AMD, and Broadcom **will thus have to depend on the largesse of its current and future investors and lenders**, **so it's very far from certain that OpenAI will have access to funding in the future**.

In the meantime, Oracle will have to procure AI chips **ahead of time** to support its RPO, which requires lots of capital given the aforementioned estimated sums for data-center builds. Oracle's **not in the best financial shape for this**. As of 31 August 2025, Oracle had US$11.0 billion in cash and marketable securities, but **a staggering US$91.3 billion in debt**, giving a **high net-debt position of US$80.3 billion**. If Oracle's operating lease liabilities are included, the net-debt position rises further to US$94.4 billion. Oracle's trailing operating cash flow and net income are US$21.5 billion and US$12.4 billion, respectively. Using the lower net-debt figure gives Oracle net-debt-to-operating-cash-flow and net-debt-to-net-income ratios of 3.7 and 6.5. These ratios suggest **Oracle is unable to increase its debt significantly without risking its financial health**. To be clear, the ratios are high *not* because Oracle's trailing operating cash flow and net income are temporarily compressed; Table 12 below shows Oracle's operating cash flows and net incomes for FY2021-FY2025.

Table 12

Year	Oracle operating cash flow (US$, billion)	Oracle net income (US$, billion)
FY2021	15.9	13.7
FY2022	9.5	6.7
FY2023	17.2	8.5
FY2024	18.7	10.5
FY2025	20.8	12.4

Source: Oracle earnings releases

Cloud Infrastructure has been Oracle's fastest-growing business in the past few years and its revenue is likely all reported under the company's Cloud services and license support segment. From FY2023 to FY2025, the Cloud services and license support segment's operating expense has grown much faster than its revenue, suggesting Cloud Infrastructure is a lower-margin business for Oracle. **This dynamic raises doubts about how much Oracle's net income and cash flow can benefit from its already-questionable forecast for rapid Cloud Infrastructure revenue growth.** Table 13 below shows the changes in Oracle's Cloud Infrastructure revenue and total revenue for FY2023-FY2025, as well as the growth rates for the same period for the Cloud services and license support segment's operating expense and revenue.

Table 13

Year	Oracle Cloud Infrastructure revenue (US$, billion)	Oracle total revenue (US$, billion)	Oracle cloud services and license support revenue growth (US$, billion)	Oracle cloud services and license support operating expenses growth
FY2023	4.5	50.0	17%	49%
FY2024	6.9	53.0	12%	21%
FY2025	10.3	57.4	12%	23%

Source: Oracle earnings releases

Despite the potential landmines associated with Oracle and OpenAI's partnership that I've detailed so far in this section, Oracle's stock price **surged 36%,** from US$242 to US$328, the day after its FY2026 first-quarter earnings was released. This was the **biggest one-day jump since 1992**. It's also worth noting that the pop happened when Oracle (1) **already had a high P/E ratio of 56 prior to its earnings release,** and (2) had produced **pedestrian annualised revenue and earnings per share growth of 7% and -1%,** respectively, from FY2021 to FY2025. As of 13 October 2025, Oracle had a high trailing P/E ratio of 71 with its stock price of US$308. On the respective days their deals with OpenAI were announced, AMD's stock price jumped 24% to US$204 while Broadcom's rose 10% to US$357. Unlike Oracle, AMD and Broadcom do not require massive capital expenditure to support their respective partnerships with OpenAI, nor are their profit margins likely to be under significant pressure in the future. But AMD and Broadcom's deals with OpenAI still face a similar concern that plagues Oracle and OpenAI's partnership: **the high revenue-concentration**

from a risky customer in OpenAI. And in a similar manner to Oracle, the swing in AMD's and Broadcom's stock prices happened with the backdrop of them carrying high trailing P/E ratios just prior to the announcements of their OpenAI deals (95 for AMD and 83 for Broadcom); as of 13 October 2025, AMD and Broadcom's P/E ratios were 125 and 91, respectively. **We think Oracle's, AMD's, and Broadcom's stock price jumps and current high valuations demonstrates the lack of an appropriate-level of skepticism from stock market participants on huge but questionable AI deals.**

Our second observation is the sign of **giddy optimism on AI economics from the management teams of some companies**. I will use Oracle and NVIDIA to illustrate this phenomenon.

Oracle's management was asked during the company's FY2026 first-quarter earnings conference call about the capital expenditures needed to fulfill the aforementioned RPO. Management was coy and suggested that the projected growth for the Cloud Infrastructure business would happen in an asset-light way:

> "As I mentioned in the prepared remarks, and as I've said very clearly beforehand, we do not own the property. We do not own the buildings. What we do own and what we engineer is the equipment. And that's equipment that is optimized for the Oracle Cloud. It has extremely special networking capabilities. It has technical capabilities from Larry and his team that allows us to run these workloads much, much faster. And as a result, it's much cheaper than our competitors. and depending on the workload.
>
> Now because of that, what we do is we put in that equipment only when it's time and usually very quickly, assuming that our customer accepts it, we're already generating revenue right away. The faster they accept the system and that it meets their needs, the faster they start using it, the sooner we have revenue. This is, in some ways, I don't want to call it asset-light from the finance world, but it's asset pretty light."

We disagree with management's "asset pretty light" characterisation. Earlier, I mentioned that Cloud Infrastructure's revenue was expected to increase from US$10.2 billion in FY2025 to US$18 billion in FY2026. During the earnings conference call, management projected US$35 billion in capital expenditure in FY2026, up 65% from US$21.2 billion in FY2025. It's reasonable to assume that most of the US$35 billion in expected capital expenditure for FY2026 will be for the Cloud Infrastructure business. As shown in Table 14 below, Oracle's capital expenditure in FY2025 was significantly higher than in recent prior years, and that was driven by growth in Oracle's cloud-related RPO. **So we're looking at a capital-expenditure-to-revenue-ratio of nearly 2 in FY2026 (US$35 billion over US$18 billion) for the Cloud Infrastructure business**. **That's hardly "asset pretty light"**.

Table 14

Year	Oracle capital expenditure (US$, billion)
FY2021	2.1
FY2022	4.5
FY2023	8.7
FY2024	6.9
FY2025	21.2

Source: Oracle annual reports and earnings releases

Exacerbating the capital-problem for Oracle is that its operating cash flow in FY2025 was just US$20.8 billion, meaning it had negative free cash flow during the year. Unless Oracle's operating cash flow increases by nearly 70% in FY2026, the company will have to raise capital externally for its projected capital expenditures. I already mentioned that Oracle's heavy net-debt position is an obstacle to any large future increases in debt. This said, issuing shares could work, given Oracle's market capitalisation of US$878 billion as of 13 October 2025. Oracle's high price-to-earnings (P/E) ratio of 71 also makes issuing shares a palatable option. **Nonetheless, there could still be material dilution given the potentially significant capital expenditures needed to support Oracle's RPO**. We also think it's **very unlikely for Oracle's operating cash flow to increase by 70% in FY2026 because of Cloud Infrastructure's lower margin**, as I had already discussed.

Coming to NVIDIA, management has commented on a number of occasions that its customers can earn multiples in revenue compared to what they spend on its AI chips. Here are some recent instances (emphases are ours):

> "[Said in August 2025] For instance, a $3 million investment in GB200 infrastructure can generate $30 million in token revenue, **a 10x return**…
>
> …[Said in June 2024] **Every dollar a cloud provider spends on buying a GPU, they're going to make it back at $5 over 4 years**. The second thing we're seeing is growth in token serving, just building and providing AI inference, whether it be a Llama or a Mistral, or Gemma and providing it to the community's users to serve tokens. Here, the economics are even better. **So every $1 spent, there's $7 earned over that same time period and growing.**"

The comments from NVIDIA's management suggest that the company's customers can generate revenue of anywhere between $5 to $10 for every dollar they spend on AI chips. **The numbers from NVIDIA's customers suggest otherwise.** The identities of NVIDIA's largest customers are not officially revealed, but given the extent of spending by the major cloud computing providers (Amazon Web Services, Google Cloud Platform, and Microsoft Azure) and Meta Platforms, they are likely to be NVIDIA's main customers. Let's look at Amazon as an example here, since AWS's numbers are cleanly disclosed, unlike GCP and Azure, where their revenues are mixed with the respective companies' other cloud computing services in the reporting.

Table 15

Year	AWS revenue (US$, billion)	Amazon total capital expenditure (US$, billion)	Amazon estimated capital expenditure on AWS (US$, billion)
2022	80.1	N/A	N/A
2023	90.8	52.7	42.2
2024	107.6	83.0	66.4

Source: Amazon annual reports

Table 15 above shows AWS's revenues for 2022-2024, along with Amazon's capital expenditures for 2023 and 2024. The table also shows the estimated capex Amazon had spent on AWS in 2023 and 2024, assuming that 80% of Amazon's capital expenditures in each year are for AWS[2]. With this assumption, Amazon's capital expenditure for AWS in 2023 was likely US$42.2 billion. If we then assume that all of the US$16.8 billion increase in AWS's revenue in 2024 (US$107.6 billion minus US$90.8 billion) came from the estimated capital expenditure of US$42.2 billion in 2023, that extrapolates to roughly twice that, or **US$84 billion**, in total revenue[3] from AWS's capital expenditure for 2023. **This is nowhere near the amount of revenue that NVIDIA's management thinks its customers can earn from its systems.**

The third observation **is related to the idea that the return on investment (ROI) of AI spending *remains unclear***. According to *The Information,* OpenAI is projecting significant revenue growth, from US$13 billion this year to US$86 billion in 2028, but the company's **annual cash flow *burn* is also expected to increase materially over the same period, from around US$8 billion to a staggering US$45 billion.** It's unclear if the cash flow burn figures have accounted for the spending associated with OpenAI's recent deals with AMD, Broadcom, Oracle, and NVIDIA that I discussed earlier - if they have not, **then OpenAI's expected cash flow burn is likely to be much higher** than *The Information's* reporting**.** OpenAI's revenue growth, while impressive, **comes with deeply negative economics at the moment**. There was also a high-profile study from MIT published in July 2025 that found **95% of organisations that collectively invested US$30 billion to US$40 billion in generative AI projects saw zero return**. This means **there is still yet to be any important, broadly applicable enterprise use-cases for AI.** In the "*AI ROI"* section of our 2025 first-quarter letter, I wrote the following, which we think is still entirely applicable today (emphases are new):

> "This is because, **despite more than two years having passed since AI leapt into the zeitgeist [it's nearly three years now!] with the public introduction of OpenAI's DALL-E2 and ChatGPT, there are only a handful of AI products that have high usage (this includes ChatGPT)**. This means that customers of GCP and AWS that are renting AI computing infrastructure have yet to develop a plethora of commercially-successful AI products that can generate profits to pay back what the customers have spent - and are spending - on renting the infrastructure. **Although we are optimistic that great AI products will be developed over time, there's no guarantee this will happen.**"

Despite the uncertain ROI on AI spending, **stock market participants and management teams appear sanguine, as I've detailed in the first two observations**.

There are four other important things associated with the froth in the stock market for AI-themed companies that Jeremy and I wish to share, apart from what I've already covered in this section.

Firstly, in the "*AI ROI"* section of our 2025 first-quarter letter, I wrote that "we see good discipline from the management teams of the hyperscalers in their AI capital expenditures." It gives us comfort that the hyperscalers in question (namely, Alphabet, Amazon, Meta Platforms, and Microsoft), all of whom are among Compounder Fund's largest holdings, continue to be disciplined in their spending on AI infrastructure. **They are currently *not* participating in the most egregious deals**, such as Oracle's US$300 billion contract with OpenAI (and we hope this remains the case!). In particular, Microsoft's management deserves the most praise because the company has the right of first refusal on any of OpenAI's new demands for compute capacity; since Oracle won the order, it means that Microsoft's management had declined to build for OpenAI. The hyperscalers are also increasing their capital expenditures in 2025 because they continue to see demand outstrip supply. Here's the related-commentary on the demand-and-supply situation from their latest earnings conference calls:

> "[From Alphabet] We have been working hard to increase capacity and have improved the pace of server deployment. We expect to remain in a tight demand-supply environment going into 2026.
>
> [From Amazon] In the rapidly evolving world of generative AI, AWS continues to build a large, fast-growing triple-digit year-over-year percentage multibillion-dollar business with more demand than we have supplied for at the moment.
>
> [From Microsoft] I talked about, my gosh, in January and said I thought we'd be in better supply demand shape by June. And now I'm saying I hope I'm in better shape by December. And that's not because we slowed CapEx. Even with accelerating the spend and trying to pull leases in and get CPUs and GPUs in the system as quickly as we can, we are still seeing demand improve."

Secondly, the major cloud computing service providers still retain good economics even though they may not be generating the amount of revenue that NVIDIA's management thinks they can earn from its GPUs. To this point, if I continue with Amazon as the example as I did earlier, AWS's operating margin has remained stellar in recent times as its revenue has grown. This is shown in Table 16.

Table 16

Time period	AWS revenue (US$, billion)	AWS operating margin
Year 2022	80.1	28.5%
Year 2023	90.8	27.1%
Year 2024	107.6	37.0%
First half of 2025	60.1	36.1%

Source: Amazon annual reports and earnings releases

Thirdly, the ideas that AI is currently frothy and AI can massively shape the world for the better over the long run, just like how the internet has done, **can coexist**. Jeremy and I are seeing froth and risky behaviour[4] right now. But we are optimistic about the long-term developments of AI and its potential impacts on the world. I will borrow the words of Amazon's founder and executive chairman, Jeff Bezos, to sum up our thoughts. In a recent appearance on *Italian Tech Week 2025,* Bezos said:

> "But the great thing about industrial bubbles - this is a kind of industrial bubble as opposed to financial bubbles, and I'll tell you what I mean by that. If you go back, the '90s had a biotech bubble. There were a bunch of pharma startup companies that were designing drugs and using new techniques, and the world got very excited, the investment world got very excited. As a group, they all lost money. But we did get a couple of life-saving drugs. A bubble like a banking bubble, a crisis in the banking system - that's just bad. That's like 2008. Those bubbles, society wants to avoid. The ones that are industrial are not nearly as bad. It could even be good, because when the dust settles and you see who are the winners, society benefits from those inventions. They still get those life-saving drugs. And that's what's going to happen here, too. This is real. The benefits to society from AI are going to be gigantic."

Lastly, us seeing froth in the AI-theme **does *not* mean we expect the stock market to crash in the near future**. We have no idea what the market will do. **In terms of Compounder Fund's positioning, we're going to continue doing what we have been doing all these while**, unless we see signs of an overwhelming bubble forming across the entire market. The fund will remain nearly fully-invested in the shares of companies that we think will grow their underlying intrinsic values at high rates over the long run, while a small portion of the fund's assets may be invested from time to time in special situations or companies with hidden value.

[1] Reuters *reported earlier this month that "as much as one-third of the [US] economy's near 4% annualised expansion over the past two quarters may be accounted for by this digital gold rush [of capital expenditure on AI]".*

[2] *Amazon's management has commented in earnings calls that the company's capital expenditures for 2023 and 2024 are mostly to support AWS's growth.*

[3] *The US$84 billion figure comes from AWS's publicly-disclosed useful lifespan of five years for servers and equipment (US$84 billion equals US$16.8 billion multiplied by five)*

[4] *We think OpenAI's deals to secure compute capacity is risky behaviour because the company is currently incredibly far from being capable of self-financing its compute needs, and yet it is signing deals worth hundreds of billions of dollars or more. In a post on the social platform X (formerly Twitter) weeks **after** signing the US$100 billion deal with NVIDIA, OpenAI's CEO Sam Altman said "we plan to increase our NVIDIA purchasing over time," indicating OpenAI's coming plans for even more data center buildouts apart from what I've already discussed. The willingness of OpenAI's partners to continue working with it, despite the gargantuan dollar-amounts involved in the deals and the fact that OpenAI is so far from being able to self-finance its business, also looks like risky behaviour to us.*

House-keeping matters and what's next

Compounder Fund's audit for calendar year 2024, conducted by Baker Tilly, was wrapped up earlier this year. 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 for 2024 was completed by Baker Tilly earlier this year. As a reminder, all the audit reports for our charitable giving are available on the fund's website here. If you are interested to know more about our charitable giving, feel free to reach out!

Another of the key pillars of Compounder Fund's mission involves investor education. To this end, Jeremy and I are running Compounder Fund transparently. We have released 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. The write-ups can be found here. 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 December 2025 and it will have a dealing date on the first business day of January 2026 (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 December 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 8.25 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, even though we do see froth in the AI-corner of the market, as I described in the *"AI froth"* section.** 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 fourth-quarter investors' letter in mid-January 2026. Till then, stay safe and take care.

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

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

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