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Dear Clients,

It is an honor to write you the 2021 Missions Services (MS) annual investor letter.

In last year's letter, I said that Year 2020 was an extraordinary year, socially, economically and market-wise. I have been thinking about a word that can describe Year 2021. Extraordinary came to mind again, but it is more "unexpected", to me at least. If you had surveyed me at the beginning of 2021, I would not expect the S&P500 returned 27% for the year, definitely not at the same time predicting Covid would keep tragically spreading across the world.

MS had a mediocre year as shown in the table below, especially compared to the market. The main reason for the unsatisfactory return is due to our investment in Alibaba which I will discuss in detail.

Missions Services After-Fee Returns vs S&P500

Return	MS ¹	S & P 500
2020 (since inception: July, 13 2020 - Dec. 31, 2020)	12.1% to 14.6%	9.6%
2021	-4.2% to 9.3%	26.9%
Cumulative return	-4.2% to 25.3%	39.1%

Note: The return differs among clients mainly due to the difference in clients' inception date and clients' assets inflow and outflow. The negative return of -4.2% is of a client with inception in 2021Q2. The S&P 500 returns are of the market index, dividend included; since the fee of the S&P 500 funds is only a few percentage points, the S&P 500 funds return is a little lower, but not much a difference.

For the reasons discussed in last year's letter, namely money printing, speculation and overall market valuation, I restate my opinion that the annualized return of the U.S. stock market in the decade to come will be significantly lower than the one of the recent past. Although I have been and still am a cheerful optimist of U.S. stocks in the longer term, I grew worried about the return of the next 5-10 years.² I would be very surprised if the market would double again in the next three years from here.³ In fact, I would be surprised if the market would give a 10% annualized return in the next 5 to 10 years, the long term average return of the U.S. market.

OK, that is enough negative assessment -- I hope the lowered expectation will bring positive surprises. Besides, I say it to set to tune for Alibaba.

Why Alibaba

Although I do not discuss individual stocks for the reason in MS' firm brochure, I think it is worthy of an exception for our holding of Alibaba. MS started to buy Alibaba in July at price

¹ The returns are after the fees of either 1% of assets under management or 25% after 5% return.

² I have 1-2 years in mind when saying short term or short run; 3-5 years when saying med-term and mid-run; and 5-10 year for long term or long run.

³ The S & P 500 roughly doubled in the past three years, from Jan. 1, 2019 to Dec. 31, 2021.



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around \$210 and continued buying all the way down to price about \$130. When I started buying it, I thought it was cheap, and when I bought it at \$130, I thought it was a steal. It had reached a low at less than \$110 and is now at about \$125. If MS had not purchased Alibaba, its return would have been comparable with, if not better than, the market's return. It is understandable that many, including me, have doubts. Is it a mistake?

Well, my timing is off and that is a fact written in stone. It proved (sadly) my point that market is not predictable in the short run. By the same token, I won't know where the price of Alibaba would go from here in the next day, next month or even next year. Ben Graham says that market is a voting machine in the short run but a weighing machine in the long run. I am fairly confident that Alibaba will grow its weighs (value) for years to come for the following reasons:

1. Its valuation. It won't do much good here to elaborate the valuation of Alibaba by discounting its future cash flows to its present day's value. Many intelligent investors have done that with valuation models, justifying Alibaba's 2020 peak price of \$317. At that time of euphoria, some investors had valued Alibaba a \$500 to \$1000 stock in a year or two. But I would say this: I had been on the sideline watching Alibaba for many years and had not seen it cheap enough until I started the position. Its current price to earning ratio is the cheapest since it went a public company in Sep. 2014.
2. Its strong financial position. Alibaba has \$60B net cash on its balance sheet. That is about 20% of its current market capitalization. We all run our own family finance and we can all appreciate how advantageous a position is if, after paying off all the debt, we still have 20% of our net worth in cash.
3. Its repurchase. Alibaba had repurchased \$5.1B stocks at an average price of \$143 in 2021Q2. It has increased its repurchase program to \$15B in Aug. 2021.
4. Its business structure and its market position. Alibaba is deeply embedded in Chinese life, not only its ecommerce but also its cloud and logistic business. Its businesses have the characteristics of network effect, stickiness, capital light, economy of scale, etc. (you name it -- it is an ultimate great business if you look at it from a pure economic lens). Its businesses are structured in a way to seamlessly interconnect and mutually supportive. Best of all, its businesses are all in growing market with economic tailwind.
5. The regulatory headwind and the U.S. China friction have create enough negative sentiment in the financial community. Most of western investors think China is run by an authoritarian government and therefore it is un-investable. The media is likely exacerbating the negative sentiment -- a tycoon being dressed down gets more airplay than a new business line being opened. I am not diminishing the political and regulatory risk, and I am not appreciative of many aspects of how China is run, but it seems that "greedy when others are fearful and fearful when others are greedy" is a motto suitable to the situation.



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6. The regulatory headwind is not all negative to Alibaba. Concerns of regulators in China are no different to regulators in the U.S. They include platform power, employment conditions of gig workers, income inequality, and so on. The biggest difference between China and the West is in approach. Having identified a problem, regulators in China can swiftly act. In the West by contrast and which I detest, attempts at regulation typically take years to work their way through the political and judicial system if indeed they can work their way through at all. If China's approach is more efficient and effective, it is a net positive for Alibaba in competing with its western counterparts.

But will too quick and too tough a regulation kill Alibaba before tasting any net positive? It is clear that China's stellar performance in the past 40 years is not a lucky aberration and coincident. I think it is likely to continue since I do not think the Chinese government is now looking to destroy its internet champions. The media and investors, at the moment, retreat to the cliché such as the threats to market system, private property rights, and so on. However, it misses the forest for the trees. I do not see much of a discussion in the media and among investors on if China's regulation has been principle-based and evenly applied, and if the intended regulatory outcomes are sensible.

That said, there is always risks in investing. I used to quote the American rustics "I only want to know where I am going to die so I will never go there" to express how tough, in my opinion, investing in China is. There is nothing more disastrous than a rational investment policy in an irrational world. I see myself as a rational investor and I hope that "irrational world" is in the past. I am comfortable with our Alibaba position. In fact, I have invested more in China after Alibaba purchase and will likely invest further in China.

Our Focus is still the U.S. market

Time will tell us on Alibaba and investment in China, but make no mistake. MS will still focus on investing in the U.S. market, as stated in MS' firm brochure. This focus is a result of careful deliberation. The reason is partly the strong track record of the U.S market -- It is well-known that the long-term annualized return of the U.S. stock market is about 10% in the past, looking back 100, 50, or 30 years. But as the saying goes, if the past perfectly predicts the future, the most wealthy people are the librarians. The more important reason is that the best of the U.S. is yet to come.⁴ I am an admirer of the U.S. innovation and entrepreneurship (not only FANNG and Tesla at present time, but also Coke, Disney, IBM, Walmart, Costco, Boeing and too many others over time). I am a believer of the U.S. system in terms of its law, market, education and political institutions (I exclude virtually all the current politicians from the last one though).

That said, I now explain to you my take on the U.S. market in the coming year(s).

⁴ If you are interested, I recommend Erynjolfsson's book "The Second Machine Age". I am convinced that our grandchildren will live far better than us, not only in the U.S., but in the world in general.



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Monetary tightening.

In last year's letter I stated the fact that the fiscal and monetary stimulations have driven the economic recovery and stimulated the market surge. Now, we started to see their side effects – the CPI inflation is highest in 42 years and wage growth is pressuring the businesses across the economy. The Fed is starting to scale back its security purchases and guiding the market to brace for 4 interest rate increases in 2022.

The most important factor to stock price is interest rate as interest rate to stocks is like gravity to apples. It is common sense that people will start to move their assets from stocks to bonds when interest rate is on the rise. We already tasted a flavor of that gravity in the past month – S&P 500 has dropped about 5.2% and the high-flying stocks got crashed, many dropping 50% or more from their highs. MS managed to have about 2% return in January as MS has avoided interest-sensitive high-flying stocks. It is not because we predicted the increase in interest rate and inflation, but because MS has humbly admitted the unknownables (i.e., where the interest rate and inflation would be) and avoided investing in too-hard-to-evaluate stocks.

Speculation, Cryptocurrency, SPAC, IPO and the Like

In last year's letter, I had used Tesla and GameStop as two examples of the speculation phenomenon of the market. Throughout 2021, the market remained euphoria in general and maniac in some sectors. However, the market started 2022 with quite drastic movement. The price of GameStop, AMC and the other meme stocks dropped quickly and significantly. For example, GameStop is now at \$110 and AMC at \$16, both down about 80% from its high. It is too early to tell if the speculation game in meme stocks is over – I hope it is because it does no good to our society to turn stock market into a casino and draw innocent people into the loser's game.

Cryptocurrency and SPAC both fell out of favor for now too. I do not have any insight on where they will go in the short term, quoting Ben Graham: "Many shall be restored that now are fallen and many shall fall that now are in honor." I know where MS stands – never go near it with a 100 yard pole.

The price of Tesla and stocks in the software sector recently withdrew 30% to 80% from their highs too. Along with the bloodbath, many truly valuable stocks in this group were throttled, which shall and will recover and move to new highs, but it is hard to identify who and when these stocks are. I hope I can wise up a little bit in finding one or two.

MS Approach

I copied here last year's letter as I think the approach equally applies. Quote:

"This leads me to MS's approach in the coming years. As stated in MS firm brochure, we are value investors. With the market this high, in fact, higher than its intrinsic value in my opinion, should we exit for now and hold cash for opportunities? Only if we are smart enough to know when the tide turns. My experience, both direct and vicarious, tells me that market is not only



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unpredictable, but also often stays that way longer than the prediction. Had a person thought market was too high one, three, five years ago and stayed out, which seems perfectly rational and justified decisions at the time, he would have missed the 18%, 49% and 103% returns since⁵.

Fortunately, stock prices are not universally high. It is no secret to many of you knowing me for many years that my favorite stock is Berkshire Hathaway. In my opinion, its current price is moderate compared to its intrinsic value. As a matter of fact, because of the present tendency of investors and speculators alike to concentrate on more glamorous issues, I should hazard the statement that the middle-ground stocks, meaning the ones between the Teslas and Gamestops, tend to sell on the whole rather below their independently determinable values. They thus have a margin-of-safety factor supplied by the same market preferences and prejudices which tend to destroy the margin of safety in the more glamorous issues.

You may grumble that is a nice way to explain that holding Berkshire so far has not paid handsomely. Yes, Berkshire is too quaint and it tests one's patience. No matter, I ask you more patience."

The patience paid us well in 2021 -- Berkshire has had a great year in 2021, returned 29% and closed the year at price of \$299. It has performed well so far this year, ended January at \$313. I have every reason to keep holding it, believing that it will continue compounding its value at a satisfactory rate. Besides, it has \$150B cash at its figure tips waiting for opportunities to be deployed.

Again, I am truly appreciate your trust. You will have my best effort and attention.

Happy Chinese New Year!

Yours truly,

Zhaogang Qiao (Principal)

02/01/2022

⁵ Based on Dec. 31, 2020 closing price.