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Dear Clients,

It is an honor to write you the 2023 Missions Services (MS) Annual Investor Letter. From the beginning of my tenure managing MS and its predecessor, Qiao partnership, I was aware that we would encounter both challenging and prosperous periods. This year has been favorable, contrasting with the difficulties we faced last year. Embracing the inevitability of fluctuating performance, I have always adhered to our foremost principle -- “Skin in the Game”.

As in the previous years’ letters, the table below reports MS’ returns since its inception. MS’ return in 2023 was broadly in line with the S&P 500’s.

#### Missions Services After-Fee Returns vs S&P500

Return	MS <sup>1</sup>	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%
2022	-19.3 to -8.7%	-18.1%
2023	19.5%-35.1%	26.3%
Cumulative return <sup>2</sup>	5.5% to 52.4%	43.9%

*Note: Client returns vary mainly due to different inception dates and asset flows. The S&P 500 returns are of the market index, dividend included; the returns of S&P 500 funds are slightly lower but comparable to the index.*

The S&P 500’s cumulative return is 43.9% for the period since MS’ inception – an impressive achievement in roughly 3.5 years. The strong market performance in 2023, amidst the preceding bear market, rapid interest rate hikes, geopolitical tensions, and economic recession fears, has been a surprise to many. While I always refrained from making market predictions (believing those who did so either did not know what they were doing, or were fooling themselves), the actual return of 26.3% for the year was remarkably high. Should my previous insights regarding future returns hold true, it would be wise to keep our expectations moderate going forward. That said, the vigor of the 2023 market underscores what I often refer to as the quintessential dynamism of American market. This encompasses respect for private property rights, adherence to the rule of law, advanced financial infrastructure and systems, a robust education system, the creativity and entrepreneurship, and shareholder friendliness, among others. This dynamism, with the collection of its factors, is the primary reason MS has focused on the U.S. market, as detailed in previous communications. It is a subject I intended to discuss a little further shortly (if you cannot wait, see “Success in Magnificent 7”).

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<sup>1</sup> The MS returns are after the fees of either 1% of assets under management or 25% after 5% return.

<sup>2</sup> The MS cumulative return may not be comparable to the S&P 500’s due to the different time frame. For example, the 5.5% of cumulative return is for a client who started on 2021Q2, a period where the S&P 500 cumulative return would be 2.3%; the 52.4% of cumulative return is for a client who started on the inception of MS and did not add funds since, a period where the S&P 500 cumulative return is 43.9% as reported in the table.



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Another point I want to reiterate is the importance of having “skin in the game” in investing, a principle demonstrated effectively by the S&P 500’s 43.9% cumulative return. This simple principle, however, seems too simple for most people to follow. This is due to many factors. Just name a few: 1) People tend to overestimate themselves in buying and selling the right stocks at the right time. 2) People, especially those in the financial advising and management, love actions. Pascal once said: “All of humanity’s problems, stem from man’s inability to sit quietly in a room alone”. 3) People often overlook the power of compounding as its effects are not immediately apparent.

Yet, having humility and acknowledging one’s ignorance can transform a perceived disadvantage into a strategic advantage. Here is how:

In last year’s letter, I referenced the 13 bear markets since World War II, highlighting that the average duration from peak to trough is 12 months, with the recovery from the trough back to the peak taking 21 month. The 2022 bear market was shorter than the average, with the peak back to peak cycle of exactly two years. If anyone can successfully timing the market, i.e., buying at the bottom and selling at the top, Kudos to them. I know I cannot (why try to overestimate myself). Moreover, I understand that selling at the bottom only to see the market rebound is a mistake. History has shown that your return would have been close to zero by missing just the 7% best days in the market (why try to be Pascal’s man?). After all, the market is mostly going up with long-term return being the best among different asset classes (why unnecessarily interrupt the compounding machine?).

Recognizing these facts, it becomes clear that 2022 was a good time to buy stock. As stated in my last year’s letter, *“MS’ focus is investing in the U.S. market. The recent drawdown in stock price is actually good news for long-term investors. In fact, I am more comfortable in terms of the value of MS’ holdings now than anytime of the last two years or so. I am so thankful that you are similar minded – as you and I have many years in the investment journey, this bear market and all future downturns should be looked at as an opportunity. As we are the net savers in the years ahead, we should be thankful for stock market crashes. They allow us to pick up stocks on sale at lower prices and higher dividend yields.”*

So, the best investing policy is “Skin in the Game” and let the compounding does its job. Had we listened to economists or been scared by the news headlines, and act as such, our results would have been most economical.

## Success in Magnificent 7

Reflecting on the successes of 2023, I recall a statement from last year’s letter, where I acknowledged my early missteps in purchasing stocks, often referred to as “falling knives” in the beginning of 2022. At that time, I believed the prices were favorable, but in hindsight, they were still relatively high. Despite not timing the market precisely, my hope was that good and



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bad times would balance over time. Most importantly, I hoped that my assessment of their business prospects and my confidence in the U.S. enterprises and system were correct.

The year 2023, as it turned, was a market of those stocks. The media named them “Magnificent 7”. This moniker was given by the media only after those stocks demonstrated exceptional performance. Nevertheless, it is a fitting term in retrospect to describe their impact.

The S&P 500 returned 26.3% in 2023. However, if we exclude the Magnificent 7 stocks, the return would have been 8%. This indicates that the returns from the 7 companies were nearly double that of the other 496 companies combined. Such a large disparity is unprecedented and deviates significantly from historical norms.

The table in the last page presents a ranking of the largest companies in the world by market capitalization. There are a total of nearly 8,000 companies with a total of market cap of 97 trillion. A striking observation is the U.S. dominance, with the top 10 spots all U.S. companies (excluding Aramco which is basically a country listed) and the top 20 spots dominated by U.S. companies. The combined market cap of the “Magnificent 7” is almost 12 trillion, reflecting the strength of the U.S. technology sector and U.S. innovative capacity and its pivotal role in the global economy.

Surprise, surprise. But I call it “very much America”, encapsulating the unique blend of cultural, economic, and structural advantages that underpin the U.S.'s commanding position in the global market. It implies that the country's success in nurturing and housing these top-performing companies is not merely a matter of economic might but also of a distinctive American ethos that emphasizes enterprise, innovation, and a forward-thinking mentality. Moreover, the “Magnificent 6”, i.e., excluding Tesla, can be run without any capital. The world changes as always, but it has moved and keeps moving to a direction that deviates from historical norms.

Will this last forever? Of course not, but that is all I give to the U.S. naysayers. Meanwhile, I can only see the **relative** strength of the U.S. largest companies and the nation in general being stronger than ever.

### [Another update on Alibaba](#)

I have discussed extensively on Alibaba previously. Now, after 2.5 years since we first bought its share, it is time to conduct a post-mortem and admit I was wrong. Alibaba has faced a multitude of tremendous pressures since we bought it, be it regulatory challenges, increasing competition and the deteriorating state of China's economy and international relations.

While I was aware of regulatory pressure, I underestimated the intensity of competition and failed to foresee the decline of China's economy and such. Most importantly, I strayed from a



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guiding principle of mine: “I only want to know where I will die so that I will never go there.” As a result, MS paid dear price due to my mistakes.

After many hopes have been repeatedly busted in the past few years, people are, rightly so, extremely disappointed and concerned about China’s future. It is beyond me to predict when China will emerge from such a despondent state. Drawing parallels with Japan, which took 33 years for its stock index to revisit its peak from 1989, the recovery timeline for China, and Alibaba by extension, could be protracted.

Recent actions by Alibaba’s founders, Jack Ma and Joe Tsai, who purchased about \$200 million worth of Alibaba shares, signals a renewed vote of confidence in the company. Coupled with Alibaba’s current dirty cheap valuation, marked by prevalent pessimism and widespread fear, this scenario might suggest a favorable buying opportunity. Yet, it is prudent to take it with a grain of salt, akin to parents’ inherent bias toward their own children.

With all factors considered, what’s the next step? Given the complexities and uncertainties involved, it is challenging to definitely answer. I guess I will provide you another update next year.

### The U.S. market

I have laid out why we focus on MS on U.S. market both in MS’ brochure and previous letters. I again restate this focus. While the economy may still look bleak to some, and the uncertainties are with us as always, I am confident that long-term investment in U.S. businesses will work.

To end the letter in a higher note: both the S&P 500 and MS has moved higher in 2024 so far. Let’s hope 2024 will again be a prosperous year for us all.

Once again, I deeply appreciate your trust. You will have my best effort and attention.

Happy Chinese New Year!









































Yours truly,

Zhaogang Qiao (Principal)

02/10/2024



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Largest Companies by Market Cap							
companies: 7,978   total market cap: \$97.309 T							
Rank by <span>Market Cap</span> <span>Earnings</span> <span>Revenue</span> <span>Employees</span> <span>P/E ratio</span> <span>Dividend %</span> <span>Market Cap gain</span> <span>More +</span>							
Rank	Name	Market Cap	Price	Today	Price (30 days)	Country	
☆ 1	 Apple AAPL	\$3.007 T	\$194.50	▼ 0.35%		USA	
☆ 2	 Microsoft MSFT	\$2.991 T	\$402.56	▲ 0.92%		USA	
☆ 3	 Saudi Aramco 2222.SR	\$2.046 T	\$8.46	▲ 0.16%		S. Arabia	
☆ 4	 Alphabet (Google) GOOG	\$1.870 T	\$150.35	▲ 1.12%		USA	
☆ 5	 Amazon AMZN	\$1.621 T	\$156.87	▲ 0.54%		USA	
☆ 6	 NVIDIA NVDA	\$1.515 T	\$613.62	▲ 2.49%		USA	
☆ 7	 Meta Platforms (Facebook) META	\$1.004 T	\$390.70	▲ 1.43%		USA	
☆ 8	 Berkshire Hathaway BRK.B	\$819.12 B	\$376.59	▲ 1.20%		USA	
☆ 9	 Tesla TSLA	\$660.67 B	\$207.83	▼ 0.63%		USA	
☆ ▲1 10	 TSMC TSM	\$604.32 B	\$116.52	▲ 2.09%		Taiwan	
☆ ▼1 11	 Eli Lilly LLY	\$601.57 B	\$633.70	▲ 0.64%		USA	
☆ 12	 Broadcom AVGO	\$586.98 B	\$1,254	▲ 2.25%		USA	
☆ 13	 Visa V	\$558.29 B	\$271.65	▲ 0.14%		USA	
☆ 14	 JPMorgan Chase JPM	\$490.47 B	\$170.50	▲ 0.89%		USA	
☆ ▲1 15	 UnitedHealth UNH	\$474.69 B	\$513.23	▼ 0.44%		USA	
☆ ▼1 16	 Novo Nordisk NVO	\$472.15 B	\$105.21	▼ 0.15%		Denmark	
☆ 17	 Walmart WMT	\$432.10 B	\$160.50	▼ 1.41%		USA	
☆ 18	 Mastercard MA	\$411.40 B	\$438.70	▼ 0.01%		USA	
☆ ▲1 19	 Exxon Mobil XOM	\$398.07 B	\$99.60	▲ 1.73%		USA	
☆ ▼1 20	 Johnson & Johnson JNJ	\$382.66 B	\$158.96	▼ 0.53%		USA	