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Dear Clients,

It is my honor to present the 2024 Missions Services (MS) Annual Investor Letter. Building on the success of 2023, 2024 has been another favorable year.

As in the previous years' letters, the table below reports MS' returns since its inception. In 2024, MS' return closely mirrored the S&P 500's. While these results align with the market index, they are not particularly noteworthy, as similar performance could be achieved by investing in S&P 500 index funds.

At MS, we strive to outperform our yardstick, the S&P 500 index, over time. While 2024 did not bring any groundbreaking ideas, we achieved satisfactory results by adhering to our foremost principle: "Skin in the Game". (Please refer to last year's letter for a detailed explanation of the power of this principle.)

#### 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%
2024	24.6-25.6%	25%
Cumulative return <sup>2</sup>	32.5% to 91.3%	79.9%

*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 79.9% for the period since MS' inception – an **outstanding** achievement in roughly 4.5 years. However, if my previous insights regarding future returns hold true, it is **essential** to keep our expectations moderate going forward.

This year's letter is shorter than usual, as there is little news to report. I will offer two updates and share one thought.

#### Magnificent 7: the only game in town, so far

The S&P 500 returned 26.3% and 25% in 2023 and 2024 respectively, with 60.7% and 53.7% of these returns attributable to the performance of the "Mag 7" stocks. This means that the

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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 directly comparable to the S&P 500's mainly due to the different time frame. For example, the 32.5% of cumulative return represents a client who started on 2021Q2, a period where the S&P 500 cumulative return would be 27.9%; Similarly, a cumulative return of 90.5% (a figure not explicitly shown in the table) corresponds to a client who invested at MS's inception of and did not add funds afterward, a period where the S&P 500 cumulative return was 79.9% as reported in the table.



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returns from the 7 companies were significantly more than those of the other 490+ companies combined. As a result, “Mag 7” is 33% of the S&P 500’s market capitalization, doubling the proportion of 5 years ago and unprecedented historically.

While there are strong reasons for this development (as explained in last year’s letter), I believe it has now been overdone. As the saying goes, “What the wise does in the beginning, the fool does in the end”. Consequently, we trimmed our allocation to “Mag. 7” in 2024. Had it not for tax reasons, I would have sold all the holdings (more on this later).

Although the prices of “Mag. 7” are now higher than when we trimmed them, I do not consider the action a mistake. We will never catch the top or bottom of the price actions. We will continue trimming them if prices rise and may add them if prices decline.

### Alibaba: a lingering disappointment

Alibaba’s stock price remained flat in 2024, a significant drag on MS’s portfolio. In hindsight, selling the stock at any point over the past 3.5 years of holding it would have been better. However, investment is a forward-looking game, and mistakes are part of the process. While I stated last year that buying Alibaba was a mistake, the context has changed. A stock purchased at one price at a certain time could be a misstep, while buying the same stock at a lower price at another time may prove to be a wise decision.

There were several positive developments in Alibaba’s financial and business performance in 2024:

- **Stock Repurchases:** Alibaba repurchased a total of \$16 billion in stocks in 2024.
- **Dividend Payments:** It distributed \$2.64 per ADR in dividends during 2024.
- **Revenue and Earnings Growth:** Alibaba returned to annual revenue and earnings growth, with an 8% year-over-year increase in revenue and a 14% year-over-year increase in adjusted net earnings in the fourth quarter of 2024.
- **Technological Advancements:** Alibaba Cloud division achieved profitability for the first time in 2024.
- **Regulatory Resolution:** In August 2024, Alibaba successfully concluded a three-year rectification period imposed by China's State Administration for Market Regulation.

As Ben Graham famously stated, the stock market is a voting machine in the short run but a weighing machine in the long run. While the stock price has yet to reflect this positive development, I am cautiously optimistic. Based on my estimation of its intrinsic value, the stock is cheap, and we will continue to hold it.

### The thought: investment in 2025



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I restate my belief that long-term investment in U.S. stock market, and by extension, U.S. businesses, will work. Since the 2008-09 financial crisis, skeptics have repeatedly, at one point or another, predicted trouble – arguing the U.S. stock market won't keep rising and worrying the U.S. economy is bound to falter, much like virtually all other economies in the world. Yet, along the way, the U.S. has led a disruptive digital revolution, and its economy has consistently stood in stark contrast to gloom elsewhere.

I have mentioned to you before that, personally, I have always fully invested in the market in the past 12 years, the year since I started my investment journey ("Skin in the Game"). While the market price seems high -- and it is high -- but may not be as high as it seems. Over the long term, the values of great businesses can outgrow their prices.

Why would 2025 be any different? While I do not make market predictions (as I have repeatedly stated), I acknowledge two important truths: 1) the world is finite, and 2) optimism often overshoots, particularly in new areas or sectors like AI and quantum computing. In addition, it is often a good idea to be fearful when others are greedy. So, all factors considered, in the second half of 2024, I started reducing my investment in S&P 500 index funds in my retirement and HAS accounts, as well as my children's 529 accounts. New contributions to these accounts have been allocated to money market funds. My thoughts are as follows:

1. **Tax-Free Adjustment:** Selling assets in these accounts does not trigger tax obligations. In the case of my children's 529 accounts, my daughter will begin college in 2 years, so I expect to withdraw money relatively soon.
2. **Money Market Yield:** The current yields of the money market funds of 4%, plus their optional value, compare favorably to my expectations for short-term S&P returns.
3. **A Small Percentage of My Overall Portfolio:** Even though I view the market as being on the high side, the selling is only about 10% of my overall investment portfolio.

This raises the question why MS has not followed suit. The answer is:

1. Selling in MS accounts would trigger capital gain taxes.
2. MS investments are not restricted to mutual fund types, allowing greater flexibility in stock selection.
3. At the risk of being subjected to my own biases, I believe the stocks in MS portfolio are, on balance, undervalued compared to the broader market.
4. "Skin in the Game". Please refer to last year's letter for a detailed explanation of the power of this principle.
5. Your investment in MS is long-term oriented and more opportunistic, often sourced from additional family funds. Unlike accounts such as retirement and child education, it is designed to align with broader wealth-building objectives.

Tax consideration is the most important out of the five. If your tax situation differs -- for example, if you are not subject to the U.S. capital gain taxes or anticipate lower tax obligation in 2025, please reach out to discuss potential strategies.



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

Happy Chinese New Year!

Yours truly,

Zhaogang Qiao  
Principal

01/26/2025