LAKEHOUSE GLOBAL GROWTH FUND LETTER
31 DECEMBER 2017

Companies Held:	2
Cash Allocation:	94.1%
Top 5 Portfolio Holdings:	5.9%
Net Asset Value per Unit:	$0.9740
Fund Net Asset Value:	$65.6 million
Benchmark:	MSCI All Country World Index Net Total Returns (AUD)

Dear Lakehouse Investor,

Welcome to the first monthly letter of the Lakehouse Global Growth Fund. December was an exciting month for our team as we began putting the Fund's capital to work. Before diving into where we stand and where we're headed, though, allow us to quickly tell you a bit more about our monthly letters.

The Fund's monthly letters to investors serve two purposes. The first is to provide investors with clarity and context around the Fund's performance so that they can judge how we're pacing against our objective of long-term outperformance. The second is to cast a light on our approach, strategy, and key holdings so that investors can have a deeper understanding of our thinking and the Fund's holdings. The exact substance of the Fund's letters will evolve over time as we build out the portfolio and we take on your feedback.

We plan to typically send the Fund's monthly letters within the first 10 business days or so of each month, though the timing can vary because our team is often busily focused on exploring new opportunities, meeting with companies, and responding to market news and events. Investors who want updates on unit pricing between monthly letters, though, can always visit the footer of the Lakehouse Capital website to see the latest weekly unit pricing data.

All that said, let's dive right in and discuss the Fund's performance to date. The Lakehouse Global Growth Fund returned -2.6% net of fees and expenses in December compared to a -1.4% return for the benchmark. The biggest headwind to performance has been that the value of the Fund's position in US dollars fell modestly in value relative to a strengthening Aussie dollar. For context, we've parked most (62.0%) of the Fund's net assets in US dollars as it is the world's reserve currency and we plan to make many investments in the US. The Fund also has 18.7% and 13.4% of its net assets in euro and Aussie dollars, respectively.

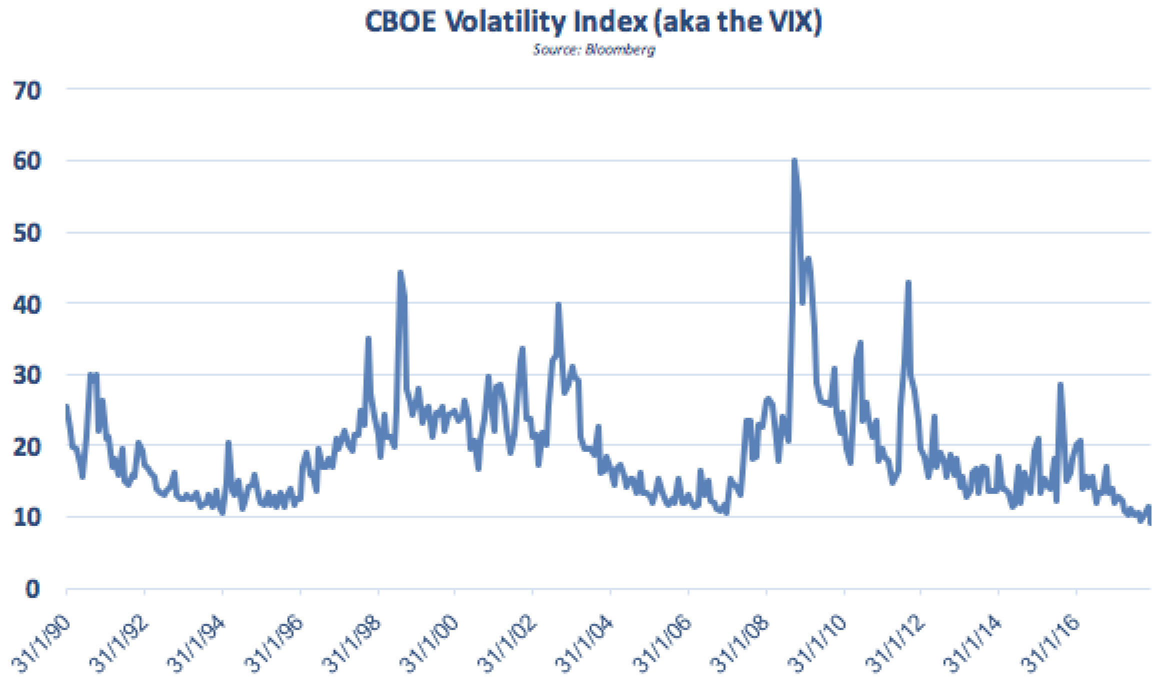
Currency swings come with the territory of global investing and, at different points along the way, a strong or weak Aussie dollar will hamper or enhance the absolute performance of the Fund. Over the long run, though, we expect the impact of shifting exchange rates will be dwarfed by the impacts of our team's stock selection, position sizing, and the fundamental performance of our portfolio companies.

To that end, we will stress here a message that you will hear from us in some shape or form in every investor letter, in good times or bad. While we do write monthly letters in order to foster a greater sense of accountability and transparency, our team does not judge itself based on short-term results and neither should investors who embrace our long-term, high-conviction strategy.

Where We Stand

Our plan is to put at least 75% of the Fund's capital to work over the first 6 months of its life. We're not in a rush as we want opportunities to come to us -- a view that we think is all the more justified given that global markets have been on a tear. The Fund's benchmark increased by 20% in calendar 2017 and, for the first time ever, the S&P 500 increased in every single month of the year.

Volatility is also startingly low with the CBOE Volatility Index, better known as the VIX, at the lowest level in the 27-plus years of the measure's existence:



The one-two punch of high prices and low volatility means that fewer of the companies on our radar are selling for prices that we think make for attractive entry points. Sure, we're among those who are pleased to see growth happening in a coordinated fashion in major economies around the world, but we also think the current market dynamic merits a bit more selectivity and patience than usual. We're running a marathon, not a sprint.

The Fund did open positions in 2 companies during the month, however, which I (Joe here) have long owned and followed: **Alphabet** (Nasdaq:GOOG) and **Visa** (NYSE:V). We're excited about the long-term prospects of both companies, which respectively make up 3.9% and 2.0% of the Fund's capital. We will also take a few minutes to walk investors through our thinking on Alphabet, which is the larger of our current holdings and an investment that speaks well to the kinds of companies investors should expect us to seek to back.

The ABCs of Alphabet

Alphabet is best known as the parent company of Google, a business whose reach and consumer insights are hard to overstate. Google has 7 different services that have reached more than 1 billion monthly users -- search, Android, Maps, YouTube, Chrome, Gmail, and Google Play -- which intertwine to provide Google with an unparalleled view into the lives of its users.

The dominance of Google's platforms is staggering. Google search has 92% global market share. Chrome is the world's most widely used web browser. Android is the world's most popular mobile operating system with 2 billion-plus active users. YouTube is watched for more than 1 billion hours a day. We could go on for a while -- a long while -- but the broad point is that Google has multiple pillars beyond the core search business for which it is most widely known.

An underappreciated facet of Google's strength is the self-reinforcing nature of its leadership positions. Google search results continue to be refined at the global, national, regional, local, and personal levels thanks to the trillions of searches that flow through each year, 15% of which have never been searched before. YouTube continues to draw more viewers because it is drawing more content: more than 500 hours of video are uploaded to YouTube every minute. And Android, which is a tremendous strategic asset, continues to attract more app developers, device makers, and users in a virtuous circle.

Even more lucrative to Google than those towering individual pillars, though, is the intersection of user profiles, data, and experiences that makes for a meta-layer of lock-in on top of an already strong degree of loyalty within the individual product verticals. This is the ghost in the Google machine that allows it to serve up increasingly more relevant ads to users, and indeed advertising makes up around 88% of the company's revenue.

The company has a long history of impressive growth -- revenue in the latest quarter grew 24% year on year on a constant currency basis -- and we think there is still significant room to run given the self-reinforcing dynamics of Google's leading products, the ongoing shift towards digital advertising, increasing internet adoption rates, faster connectivity, a widening array of device touch points, and improving content and device functionality.

Alphabet also has numerous other irons in a fire that it has stoked with almost US$16 billion into R&D over the past year, amounting to more than 15% of revenue. Some of that spend is on the more mundane side, such as on new applications and features, while others are large in scope such as the Google Cloud Platform. Even more ambitious are projects focused on driverless cars (Waymo), smart homes (Nest), and combating aging (Calico). Whether Alphabet hits any home runs with these initiatives is to be determined but, given the company's impressive history of innovation, we would not be surprised.

It helps that Alphabet has about US$100 billion in cash which, for a sense of scope, is larger than the combined market values of **Telstra**, **Woolworths**, and **Macquarie**. Even after stripping away a modest amount of debt and some taxes related to repatriating foreign profits back to the US, we figure Alphabet has around US$87 billion in net cash, or about 11.6% of the company's current market capitalisation. It's rare, and very appealing, to see a growing and highly profitable business that is so cashed up. Such a vast trove of cash also provides an immense amount of strategic optionality.

We also think Alphabet is attractively priced given its strong growth, competitive position, and balance sheet. The shares are selling for just over 32 times trailing earnings after stripping out one-time items. Notably, this includes the US$3 billion burn rate on Alphabet's 'Other Bets' and and neglects the company's $125 or so in net cash per share. Australian investors might also note that Alphabet, unlike most young Australian technology companies, does not capitalise a material amount of its software development costs.

While we are fond of the business we are not oblivious to risks or challengers. While we don't foresee someone outGoogling Google at its core offerings, we're mindful that **Facebook** has joined Google as a fellow dominant online ad platform. The company must also carefully balance complex relationships with powerful frenemies including the likes of **Apple**, **Amazon**, publishers, ad agencies, online travel agents, and the manufacturers of Android devices.

And then there are regulators. Alphabet has also been the target of regulators in the US, Europe, and elsewhere over concerns that it has become too powerful or anti-competitive. It's not surprising -- as Wilt Chamberlain once said, nobody roots for Goliath -- and has proven costly as the EU recently slapped a US$2.7 billion fine on the company. We expect regulators to extract more cash from the company at points along the way, and potentially twist its arm on cross-promotion of products, but the company can easily pay such fines and it is hard to put the competitive genie back in the bottle.

One last point of note on Alphabet: Suzanne Frey, who is an executive at Alphabet, is a member of the board of directors of Lakehouse Capital's ultimate parent company, The Motley Fool. Naturally, our organisation has sufficient internal controls and Chinese walls in place to ensure that that neither us or Suzanne would ever possess information the other shouldn't have -- it helps that we have never met and live in different hemispheres -- but we're big on transparency and thought investors would appreciate the disclosure.

What's Next

The next couple of months should be lively as companies around the world will report either quarterly or half-yearly results. We look forward to progressively yet patiently deploying more of the Fund's capital during that stretch.

Thanks to all our investors for your time and trust. We're honoured to have you with us and look forward to what the future holds.

Best Regards,

Joe Magyer, CFA
Chief Investment Officer