

Dear Lakehouse Investor,

Following on the heels of a busy July earnings season, August was a relatively quiet month for the Lakehouse Global Growth Fund. Nonetheless, we continue to seek new opportunities and opened a new position in Chinese internet giant **Tencent Holdings** during the month. More on that in a bit.

The Fund returned 7.7% net of fees and expenses in August compared to 3.6% for its benchmark. Thus far in a 2-month-old fiscal year, the Fund has returned a net 8.9% compared to 6.1% for the benchmark. Since inception at the start of December 2017, the Fund has returned 18.2% compared to 10.3% for its benchmark.

Companies Held:	19
Cash Allocation:	17.6%
Top 5 Portfolio Holdings:	34.3%
Net Asset Value per Unit:	\$1.1817
Fund Net Asset Value:	\$94.1 million
Benchmark:	MSCI All Country World Index Net Total Returns (AUD)

A soft Australian dollar, which is hovering near its lowest level relative to the US dollar since January 2017, has been a tailwind to absolute performance. That said, the performance of the Fund's holdings in local currency terms has driven solid but early outperformance. We're pleased that the Fund is off to a good start towards its objective of long-term outperformance, particularly given our outsized cash position. We do not read much into early performance, though, and neither should investors who embrace our long-term, high-conviction strategy.

The Fund held 19 positions as of the end of August, which is one shy of our typical range of 20 to 40, though we expect to shift into a normal range in short order. In terms of the Fund's most meaningful holdings, the Fund's 5 largest positions in order of sizing at the end of July were **Facebook, Alphabet, PayPal, Visa** and **Monster Beverage**.

Meanwhile, the Fund's position in cash, which is held mainly in US dollars, Aussie dollars and Euros decreased slightly from 20.3% to 17.6% as we put more money to work and the Fund's holdings increased in value. Similar to the Fund's position count, the Fund's cash balance is outside of its typical range of 5% to 15%. We similarly expect it will be within a typical range soon, however, investors should expect us to remain patient stewards of the Fund's capital.

Zooming out to sector-level allocations, the Fund's largest sector allocations as of the end of August were to information technology (48.7%), consumer discretionary (16.9%), and consumer staples (11.1%). Notably, the Fund's sector allocations will look a fair bit different as of the end of September as the overseers of the Global Industry Classification Standard (GICS) structure on which we break out our holdings are recategorising some of the Fund's holdings. Our strategy

and holdings will not change based on this reclassification, though. Instead, think of it as though we're reclassifying Facebook as navy instead of dark blue. Call it navy, call it dark blue, but either way it's still Facebook.

Let's zoom back in for a discussion on key contributors, detractors, and holdings. The biggest contributor to performance during the month was **Paycom** (+50.0%), which surprised the market with second-quarter revenue and adjusted EBITDA growth of 31.2% and 46.2%, respectively, on a year-on-year adjusted basis as well as increasing its guidance ranges for the full year. We were pleased and continue to value both the high visibility of the company's revenue as well as its upside to higher interest rates in the US.

Meanwhile, the largest detractor to performance during the month was **iQiyi** (-7.3%). While iQiyi's growth remains impressive -- the number of total paying subscribers increased roughly 85% year-on-year through the end of June -- Chinese investments are out of favour right now given the much discussed trade war tussle. It is unclear what Donald Trump will do or say next, how China might reciprocate, and what the potential knock-on effects might be. What is more clear is that iQiyi is growing at impressive rates, and we remain patient holders of a business while acknowledging the position is among our higher risk ones and with a wide range of outcomes.

Top-five holding Monster Beverage also reported yet another stellar quarter with overall sales increasing 11% in constant currency terms, and sales of its Monster Energy Drinks segment up more than 12%. We think these numbers are impressive, particularly in light of a challenging global environment for soft drink producers. We were also pleased to see Monster continuing its trajectory of strong execution -- during the quarter, the company gained market share in 23 markets, including the US, and only lost share in a single market (South Africa). Monster continues to make progress on its international expansion plans into new markets including India and China, and, separately, announced a new share buyback program of US\$500 million. Safe to say, the company is tracking well against our long-term thesis.

The Fund also opened a new position in the month in Hong Kong-listed, China-based Tencent. Tencent is not a household name to most Australians, however, more than 1 billion people use its platforms each month, most notably WeChat. WeChat has smoothly transitioned from a messaging application into an all-in-one platform consisting of mini programs with varying uses from public transport to dining out. WeChat has leveraged its considerable user base to provide mobile payments and has now surpassed 800 million mobile payment monthly active users with an opportunity for global expansion.

Outside of WeChat, Tencent is also a force in gaming, video and music streaming, cloud services, and advertising. The company has also made the most of its strong market position to make strategic investments in a host of other fast-growing Chinese businesses in spaces such as e-commerce, peer-to-peer ridesharing and food delivery, among others. We believe Tencent can

continue capturing valuable mindscape among its target user base of Chinese consumers and has latent monetisation optionality therein.

Tencent's shares have fallen from their highs on both Trump-centric concerns but also regulatory moves that have created increased uncertainty for its payments and gaming businesses. On payments, the company's interest income is fading because the People's Bank of China is progressively pushing the business to shift deposits to non-interest-bearing accounts in full by January 2019. Even though this change is pushing Tencent to evolve its business model, we think a payments business with more than 800 million active users -- more than triple that of PayPal's 244 million annual users -- and 40% growth in average daily transaction volumes is well placed to find new ways to engage and monetise its network.

On the gaming side, in response to the Ministry of Education's concerns over rising myopia among Chinese youth, the number of new game licenses is being throttled and a recommendation has been made to limit the time spent playing video games. Neither is positive for Tencent as 34% of its revenue is derived from gaming. However, we note that the underlying desire to play online games is unlikely to change, that Tencent can still monetise games with existing licenses, and that the proportion of group revenue from gaming is down from 42% in the same period last year.

Of course, uncertainty and opportunity often go hand in hand, and the heightened anxiety around how Tencent will navigate these changes explains much of why the Fund was able to build a position at an average price that was about 29% below the shares' January highs. It's also worth noting that, despite the challenges in payments and gaming, gross profit still increased 21.7% year on year. That's not to say we're oblivious to Tencent's China-centric risks or, for that matter, its complex corporate structure. Given the position is among the Fund's smallest, though, plus a portfolio of strong franchises and a share price well off its highs, we're comfortable today with what is still a wide range of outcomes.

## **Looking Ahead**

We are pleased with how the Fund is pacing, however, it is still early days. Rather than obsessing over short-term performance, our priorities right now are on uncovering promising new opportunities and tracking the early progress of our portfolio companies against our long-term investment theses.

We thank you for your time and trust, and look forward to updating you again next month on our progress.

Best Regards,



**Joe Magyer, CFA**  
Chief Investment Officer

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