

Dear Lakehouse Investor,

January was a good month for global equity markets as investors cheered the prospect of a slowdown in US interest rate hikes and a warming of trade relations between the US and China.

We try not to overthink such macro matters, though, and instead prefer to focus our time, energy, and capital on businesses that we think have bright long-term prospects regardless of where the trade war stands. To that end, I'm writing this letter from a hotel room in Silicon Valley, where I'm catching up on the latest trends in enterprise software as well as getting a closer look at current and potential portfolio companies. It's been a fun, insightful trip but, wow, this coffee is terrible.

We'll turn to performance and portfolio company news momentarily, however, we first want to highlight a planned change to the Fund that we think investors will be pleased about. The Fund plans to move from weekly to daily unit pricing starting on 15 February, which means investors will get more frequent pricing on their investments and that applications and redemptions will typically be processed sooner. The Fund will issue an updated product disclosure statement as part of the change and, naturally, we encourage existing and potential investors to give it a read. (As a reminder, investors can always find the latest unit pricing of the Fund on our [website](#)).

Turning to performance, the Fund returned 6.5% net of fees and expenses in January compared to 4.2% for its benchmark. Thus far in fiscal 2019, the Fund has returned a net 2.9% compared to -0.5% for the benchmark. Since inception at the start of December 2017, the Fund has returned 11.5% compared to 3.4% for its benchmark.

We are pleased with the Fund's early progress towards our objective of long-term outperformance, particularly since we were patient in putting the Fund's capital to work. It is still early days, though, and we do not read much into early performance -- and neither should investors who embrace our long-term, high-conviction strategy.

The Fund held 21 positions as of the end of January, the 5 largest of which in order of sizing were **Facebook, Alphabet, PayPal, Visa** and **Atlassian**. Zooming out to sector-level allocations, the Fund's largest allocations as of the end of January were to information technology (32.4%), communication services (21.7%) and consumer discretionary (20.5%). We're larger than the

Companies Held:	21
Cash Allocation:	7.4%
Top 5 Portfolio Holdings:	35.7%
Net Asset Value per Unit:	\$1.1168
Fund Net Asset Value:	\$92.0 million
Benchmark:	MSCI All Country World Index Net Total Returns (AUD)

benchmark in all three sectors and expect that will consistently be the case over time as we view these sectors, or at least subsets of them, as having superior economics and long-term prospects.

Portfolio Company Activity

Let's zoom back in for a discussion on the portfolio's most impactful positions. The biggest contributor to performance during the month was Facebook (+23.3%), which notched up an impressive set of results, which we'll discuss shortly. Meanwhile, the largest detractor to performance was **Interactive Brokers** (-8.1%), which delivered robust growth in the fourth quarter of 2018 but not quite enough to satiate investors. Earlier during the month, Interactive Brokers' founder, CEO, and Chairman Thomas Peterffy announced that he would step away from being CEO but will stay on as Chairman. It wasn't a big surprise given Peterffy is 74 years old and his successor, Milan Galik, was elevated to President in 2014. Galik has been with the company for nearly three decades, so he seems like a safe pair of hands.

Many of the Fund's holdings reported quarterly earnings during January. It would be tempting to comment on all of them, however, a quarter is a short time against our long-term approach. Further, this is a Fund performance report, not the financial press or a newsletter, and so we'll restrict our commentary to substantive news on impactful and key positions.

Facebook reported fourth-quarter and year-end results which were well received by investors. Revenue increased 33% year on year in constant currency terms and in spite of the negative press, daily active users on the Facebook platform increased 9% vs 2017. Furthermore, the company now has 2.7 billion users who access at least one of its 'family' of properties (Facebook, Messenger, Instagram and WhatsApp) on a monthly basis. Given Facebook is not present in China (which alone has roughly 800 million internet users), it's hard to understate how ubiquitous Facebook has become.

Whilst there have been concerns over Facebook's integrity during the past year, we feel comfortable knowing that management has made (and will continue to make) the necessary investment required. One such example is that Facebook now has more than 30,000 employees working to enhance the safety and security of its users, up from 10,000 only a few years ago.

Separately, we were excited to learn of Facebook's plans to develop several new user experiences in 2019. In particular, CEO Mark Zuckerberg highlighted Facebook Watch, payments on WhatsApp, and commerce on Instagram as focus areas for future growth. Overall, we are pleased with the company's progress over what has been a challenging 2018 and remain patient investors.

Alphabet saw another stellar quarter with revenue increasing by 23% year on year in constant currency terms thanks mostly to strong results from the company's mobile search advertising business, but also helped by YouTube, Cloud and desktop search. Notably, YouTube now has 2

billion monthly active users, and the number of YouTube channels with more than 1 million subscribers has doubled over 2018. Alphabet's Cloud business is growing quickly too -- its Google Cloud Platform doubled the number of multi-year contracts signed during the year, while G Suite now has more than 5 million paying customers. Long story short, we see multiple ways to win with this position and believe that the company, which is cashed up and wildly profitable, is well placed to continue growing at high rates for a long time to come.

PayPal reported a good set of numbers but followed that up with cautious guidance due to the deceleration in eBay's business, which is undergoing its own transition. PayPal's operational metrics have been tracking well, with continued growth in total payment volume (up 25% year on year), acceleration in active accounts growth (+17%) and average transactions per account (+9%). Venmo's already strong growth in total payment volume accelerated to US\$18.8 billion during the quarter (up 80% year on year), which means Venmo's payment volume has now surpassed that from eBay. We think PayPal's transition to an open platform will enable the company to add more value-accretive partnerships in the future, which, in turn, should help PayPal grow active accounts and payment volume. We remain enthused about the company's long-term prospects.

Continuing in the same vein, Visa's fiscal first quarter results were pleasing though the company's guidance sounded a tad cautious. Visa has a different fiscal year end to most global companies (September vs December), and as such we're not worried by management choosing not to over-promise this early in the year. Visa Direct continues to post strong results, with transaction growth north of 100% due to expanding use cases, geographies and frequency of usage. As some of our investors may know, the US is far behind Australia when it comes to contactless payments. The winds of change are blowing, though, with banks including Chase and Wells Fargo issuing 'tap-enabled' cards. Taking our cue from their success here in Australia, we think contactless payments could be an important medium-term growth driver for Visa.

Finally, Australia's own Atlassian also reported a strong set of results with fourth-quarter revenue increasing 39% year on year. Investors were particularly impressed as the company managed to grow its customer base by 23%, in spite of having implemented a double digit price increase across its product suite. The company completed its acquisition of Opsgenie (a leading incident reporting platform) in October last year, which management believes has the potential to act as a significant growth driver going forward. We remain enthused about the long-term prospects of this business, which curiously gets little attention within Australia itself save for where its co-founders rank on the latest Rich List.

Looking Ahead

As always, thanks to all our investors for your time and trust. It's still early days for the Fund but we're pleased with our start and feel good about the long-term prospects of the portfolio of companies we've assembled.

Best Regards,



Joe Magyer, CFA

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Chief Investment Officer, Lakehouse Capital

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