Dear Lakehouse Investor,

Companies Held:	20
Cash Allocation:	9.1%
Top 5 Portfolio Holdings:	34.8%
Net Asset Value per Unit:	$1.2033
Fund Net Asset Value:	$101.1million
Benchmark:	MSCI All Country World Index Net Total Returns (AUD)

February was another strong month for global equity markets as investors cheered the prospects of looser monetary policy and constructive trade talks between the US and China. It was also a notable month for the Fund because it exited a position for the first time since it launched 14 months ago. More on that shortly.

The Fund returned 7.7% net of fees and expenses for the month compared to 5.2% for its benchmark. Thus far in fiscal 2019, the Fund has returned 10.9% compared to 4.7% for the benchmark. Since inception at the start of December 2017, the Fund has returned 20.2% compared to 8.8% 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 20 positions as of the end of February, the five largest of which in order of sizing were **Facebook, Alphabet, PayPal, Visa** and **Atlassian.** Zooming out to the sector-level, the Fund's largest allocations at month end were to information technology (34.1%), consumer discretionary (19.9%) and communication services (18.3%). We are larger than the 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

At the portfolio level, the biggest contributor to performance during the month was **Paycom** (+25.7%), which rallied in response to strong results, including an increase in client retention rates for the first time in 6 years, and the news that its peer, Ultimate Software, would be acquired and taken private.

Meanwhile, the largest detractor to performance was **Booking Holdings** (-5.1%), which had robust growth in the fourth quarter of 2018 but followed that up with its usual cautious guidance, this time chalked up to macroeconomic softness in Europe. We note that Booking has a history of setting low expectations, though, and has beaten the top end of its next-quarter guidance range for revenue or gross profit in 11 of the past 12 quarters.

It is also worth flagging that Booking said for the first time that direct bookings now make up more than 50% of total room nights and that alternative accommodations now make up 20% of overall revenue. Importantly, both those categories are growing faster than the total business. The combination of these trends, along with powerful network effects and ongoing investments in the company's brand and technology, lead us to think that Booking has a stronger competitive position than it is given credit for at only 17 times forward earnings estimates.

February was also notable in that it marked the sale of the Fund's first share since inception, as we made the decision to exit our position in the Chinese video streaming service, **iQiyi**. While iQiyi's growth remains impressive -- the number of total paying subscribers increased 69% over 2018 -- we have become more wary of the potential risks. Namely, the continued deterioration in the outlook for the Chinese domestic economy and the company's escalating cash burn -- the quarterly operating loss more than quadrupled year-on-year as the company invests heavily for growth.

We have always acknowledged that iQiyi was one of our higher-risk positions with a wide range of possible outcomes, and as such, we felt it was prudent to exit upon seeing smoke rather than waiting to see a fire. We aren't fussed about realising a 36.9% gain on an investment where the thesis was drifting, though, and we'll continue to watch the business for a possible re-entry should cash burn trends change or the company demonstrates it has the latent pricing power that we think it does.

We also want to comment briefly on the increased chatter in the US regarding the potential breakup of major tech companies, which of relevance to the Fund would include Facebook, Alphabet, and **Amazon**. It will take more than just talk to break up these companies, though, and it is worth noting that the gravity for US antitrust law centres around consumer harm. We think proving that case would be a steep hill to climb as the huge majority of Facebook and Alphabet's services are free and highly valued by consumers.

How much do consumers value these services? A recent study of just over 1,300 Facebook users in the US revealed that the average user would have to be paid more than US$1,800 to give up Facebook for a year, which is almost 17 times the ad revenue Facebook generated per monthly active user in North America last year. Meanwhile, a recent survey by Morning Consult showed that Amazon was the most loved brand in America for the second year in a row.

But aren't these companies hurting competition? Well, Facebook and Google have dramatically reduced the barriers to entry in advertising, particularly for small and medium-sized businesses, enabling them to reach and engage with potential customers on far smaller ad budgets. Meanwhile, over 300,000 small US businesses started selling on Amazon in 2017 and Amazon

Web Services has made it far easier and cheaper for startups to go 'live' and grow. In fact, AWS has cut prices 67 times since it launched in 2006. No doubt there has been creative destruction along the way, and each of these tech titans plays to win, but proving that they are harmful in the aggregate to consumers and merchants strikes us as more difficult than headlines might suggest.

It also isn't obvious to us that breaking these businesses up would change very much -- most of the pieces would still have their own natural self-reinforcing advantages via scale or network effects -- or that the net outcome would be negative for shareholders. For example, while Alphabet's owning and supporting YouTube over the years undoubtedly enhanced YouTube's value, it is possible that Alphabet's ownership of the platform is now holding YouTube back because current and potential YouTube partners rightly do not view YouTube as being platform agnostic. The same could be said of Amazon Web Services.

It is also possible that, should these units be broken apart from their parents, the market might actually value them higher in their independent form than they are currently lumped in with one another. In any case, while we think the odds and impacts of breaking up these businesses are overblown, we will continue to watch the space and situation closely.

Looking Ahead

Lastly, we're pleased to share that Randi Zuckerberg has joined the board of directors at our parent company, The Motley Fool. Apart from being a well-known entrepreneur, investor and best-selling author, Randi was Facebook's first marketing manager and is the creator of Facebook Live, a live video streaming product that has become a highly-engaged and monetised platform for Facebook. We don't normally go out of our way to mention board changes at our parent company but we thought investors would appreciate the transparency given Randi's ties to one of our portfolio companies.

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
Portfolio Manager, Lakehouse Global Growth Fund
Chief Investment Officer, Lakehouse Capital