

Dear Lakehouse Investor,

April was a busy month for the Lakehouse Global Growth Fund. We dug through piles of fresh news as most of the Fund's companies reported earnings and adjusted some of the Fund's position sizes in light of the market's recent run.

The Fund returned 5.9% net of fees and expenses for the month compared to 4.3% for its benchmark. Thus far in fiscal 2019, the Fund has returned 20.5% compared to 10.7% for the benchmark. Since inception at the start of December 2017, the Fund has returned 30.6% compared to 15.1% for its benchmark.

We are pleased with the Fund's early progress towards our objective of long-term outperformance, particularly given the Fund's conservative cash position. 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 April, the five largest of which in order of sizing were **Facebook**, **PayPal**, **Alphabet**, **Visa** and **Amazon**. Zooming out to the sector-level, the Fund's largest allocations at month end were to information technology (30.1%), consumer discretionary (20.6%) and communication services (18.5%).

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. Also, we do not feel a great compulsion to allocate capital to sectors that are notoriously cyclical, competitive, or capital-hungry, and thus we expect to remain underweight the likes of materials, energy, and utilities.

Portfolio Company Activity

At the portfolio level, the biggest contributor to performance during the month was Facebook (+16.7%), which reported first quarter results (more on that later). Meanwhile, the largest detractor to performance was **MercadoLibre** (-4.0%), though we'll note the Buenos Aires-based payments and ecommerce star reported tremendous first quarter results subsequent to the end of April.

Companies Held:	21
Cash Allocation:	12.1%
Top 5 Portfolio Holdings:	34.3%
Net Asset Value per Unit:	\$1.3076
Fund Net Asset Value:	\$115.8 million
Benchmark:	MSCI All Country World Index Net Total Returns (AUD)

Many of the Fund's holdings reported earnings in April. 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 a newsletter, and so we'll restrict our commentary to substantive news on impactful and key positions.

Rumours of Facebook's death appear to be greatly exaggerated. First quarter revenue grew 30% year on year in constant currency terms and the number of monthly active users of the core Facebook 'blue' product increased by 179 million year on year, which is greater than the population of the world's eighth-most populous country, Bangladesh. The company also noted that 2.1 billion people use at least one of Facebook, Messenger, Instagram, or WhatsApp on a daily basis, or roughly equal to the combined populations of Australia, South America, North America, Europe, and Africa. Meanwhile, for all the headlines that might suggest that engagement is an issue, the proportion of daily average users relative to monthly active users remains at the same 66% level where it has hovered over the past three years.

Such scale and stickiness affords considerable optionality -- we are particularly intrigued by the prospects for Instagram Checkout, the enablement of transacting within Facebook Marketplace, the planned integration of the company's messaging services, and potential large-scale forays into payments. For all that strength and optionality, plus with no debt and around 7% of the company's market capitalisation held in net cash, we think the price tag of around 24 times consensus forward earnings is more than reasonable for the long-term investor.

Alphabet reported mixed first-quarter results with top-line growth coming in slightly below the market's expectations. Year-on-year constant currency growth decelerated from 23% a year ago to 19% over the past year. The initial reaction in the stock price was sharp, with Alphabet selling off over 7% the next day. However, it is important to view this move in context and we note that even after the selloff, Alphabet is still up 13% year to date. Many feared that the deceleration in revenue was a reflection of growing competitive pressures in the digital advertising space, however, we'll note that the company was rolling over a tremendous prior comparable period from a year ago.

Management also suggested that some recent product changes, aimed at increasing engagement and better capitalising on AI, were responsible for the short term dip in demand. All in all, while the headline result was underwhelming, we take comfort in management's strategic focus and will never fault a business for trading short-term pain for long-term gain. Alphabet remains an exceptionally strong business with healthy growth prospects, a fortress balance sheet, and a very attractive valuation, and we are happy to remain patient holders.

PayPal posted another good quarter despite concerns about eBay's transition. PayPal's operational metrics have been strong and consistent, with continued growth in total payment volume (up 25% year on year in constant currency terms), active accounts (+17%) and average transactions per account (+9%). Whilst losing slower-growing eBay's business was unfavourable,

it opened up partnerships with other faster growing marketplaces, which collectively have posted total payment volumes of US\$90 billion in the last 12 months and are growing at 39%.

Meanwhile, PayPal has expanded its relationship with Facebook, powering Instagram Checkout and Facebook Marketplace. They have also made a strategic investment of US\$750 million into a company very familiar to us, MercadoLibre. We're pleased by both those partnerships and think that all parties stand to gain. We also expect to see more strategic investments and partnerships with other fast-growing companies, particularly once the operating agreement with eBay rolls off in August 2020. Also notable is that Venmo continues to deliver solid results, with total payment volume of US\$21.3 billion, up by 73% year on year, with more than 40 million active accounts. Management has executed well and we remain optimistic about PayPal's long term prospects.

Visa's quarterly result was business as usual. The company processed 47 billion transactions on its network, driving US\$2.8 trillion in total volume, and is expected to post another year of double digit growth. Visa has recently introduced a platform, Visa Next, with tools to test new products and functionality for issuers to create better user experiences.

Ultimately, like PayPal, we are seeing large payments networks open up their platforms to expand use cases and embed themselves into as many payment and transaction flows as possible. This can be in business-to-business (B2B), peer-to-peer (P2P) payments, partnerships with fintechs, digital banks, or wallets. Visa Direct's cross-border remittance and P2P market opportunity alone is estimated to be a US\$6-7 trillion market opportunity. So, whilst Visa's current scale seems to be quite sizable already, we see much larger opportunities ahead. We are confident of Visa's competitive position in this growing market and remain patient investors.

Amazon's quarterly results probably carry less weight than any other business we follow given their intense emphasis on long-term performance and mile-wide guidance. Nonetheless, the key numbers and operating metrics all suggest the business continues to increase in value at impressive rates. Net revenue increased 19% year on year in constant currency terms and, thanks to operating leverage and rapid growth in high-margin business lines, operating income increased 129%.

The golden child of the business, Amazon Web Services (AWS), grew 41% year on year and is running at a US\$30 billion annualised revenue run-rate. Even better is that the business is significantly profitable with an operating margin of just under 29%. Contrast that to the operating margin in the more well known North American retail-centric business of just 6.4% and you begin to see why more analysts are waking up to the potential of AWS.

We were also pleased to see the operating loss for the ex-AWS, ex-North America business -- which has long been a drain on cash as Amazon invests to build ecommerce capabilities in less mature markets -- shrank from US\$622 million to US\$90 million. The confluence of these data points along with points we have made in prior letters underscore the shifting economics of the business and our long-term confidence in its trajectory.

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.

We are also pleased to share that Lakehouse Capital is hiring for an operations manager to help support our growing business. If you or someone in your network might be interested, please check out or pass along the [job posting](#).

Best Regards,



Joe Magyer, CFA
Portfolio Manager, Lakehouse Global Growth Fund
Chief Investment Officer, Lakehouse Capital

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