Dear Lakehouse Investor,

Companies Held:	21
Cash Allocation:	12.9%
Top 5 Portfolio Holdings:	33.7%
Net Asset Value per Unit:	$1.2937
Fund Net Asset Value:	$119.3 million
Benchmark:	MSCI All Country World Index Net Total Returns (AUD)

May was a volatile month in global markets as investors once again became concerned about the prospects of slowing global growth and escalating trade tensions between the US and China. On our part, we remain focused on identifying, analysing, backing, and following businesses that should continue to thrive no matter what the US President tweeted yesterday.

The Fund returned -1.1% net of fees and expenses for the month compared to -4.4% for its benchmark. Thus far in fiscal 2019, the Fund has returned 19.2% compared to 5.8% for the benchmark. Since inception at the start of December 2017, the Fund has returned 29.2% compared to 10.0% 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 May, 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 (30.5%), consumer discretionary (20.2%) and communication services (17.7%).

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 **Mercadolibre** (+19.7%), which reported a strong set of first quarter results. More on that shortly. Meanwhile, the largest detractor to performance was Facebook (-6.8%), which did not have much in the way of news during the month.

A big bang went off subsequent to the end of the month, though, with the news that the U.S. Department of Justice (DoJ), the Federal Trade Commission (FTC), and the House Judiciary Committee are preparing investigations and hearings into anticompetitive behavior among large technology companies, among them portfolio holdings Facebook, Alphabet, and Amazon.

Investors were quick to sell down the shares by mid-single-digit percentages in response, and we'll speak to the risks to our individual holdings shortly, but it's important to keep some context. First, just because investigations or hearings occur does not mean there will be a thesis-altering outcome. For example, a review of Google by the FTC in 2013 concluded with nothing more than some voluntary changes to the company's business practices, none of which stopped the business from continuing to thrive.

Second, the crux of U.S. antitrust law centres on the question of whether a strong market position is harmful to consumers, and establishing such a case might prove more slippery than it appears at first blush. For example, given that Alphabet spends more than US$20 billion annually on research and development and provides free access to valuable products and services including Google Search, Maps, Chrome, YouTube, and Android, among others, it isn't obvious that the company's size is harmful to consumers.

Or take Facebook. Does the company's also owning Instagram contribute to a heavyweight position in the digital advertising market? Yes. That said, given the lack of consumer-facing integration between the products, it's hard to picture how consumers would be any better off if Facebook and Instagram, both of which are free to users, were forcibly separated. If anything, the ads consumers would be served would be less relevant and advertisers would probably get a lower return on investment on their marketing spend, which does not sound exciting to any of these parties.

Amazon? The company has been the top-ranked business in the American Customer Satisfaction Index for eight of the past nine years. Amazon plays to win and there's always room for improvement, but it's hard to argue that the company's competitive practices have been detrimental to consumers.

We could go on for longer -- and will in the upcoming annual letter -- but we think that splash of context should suffice for now. Naturally, we continue to monitor the situation closely as well as the ongoing underlying fundamentals of each business.

Less dramatically, we recently had a chat with MercadoLibre after they posted an amazing quarterly result. Revenue growth accelerated in all of the company's core markets. Operational performance has been strong, led by growth in total payment volume (+83%), followed by steady marketplace gross merchandise volume growth (+27%). Similar to what happened to eBay, PayPal eventually outgrew the marketplace business that initially supported it. We think this is what's playing out at this moment for MercadoLibre.

The Latin American market has all the right traits for new payment companies to flourish: a large and growing market, around half of the population is underbanked, 40% of payment transactions are carried out in cash, combined with incumbent banks abusing market power. Coincidentally, as we've mentioned in last month's letter, PayPal recently made a strategic investment of US$750 million in MercadoLibre. All that said, the marketplace business is also doing well. Increasing internet penetration and improvement in the company's delivery services will create better consumer experiences that drive more e-commerce adoption. We see a long runway of growth in all segments of their business.

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.

Finally, please note your June 2019 monthly Market Value Statement will be sent separately (and earlier) to the investor letter. Instead of our usual monthly letter, we'll release a more comprehensive Annual Letter reflecting the Fund's performance for fiscal 2019. Expect to receive the 30 June 2019 Market Value Statement in early July, and the Annual Letter in late July.

Best Regards,

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

noted. Past performance is not indicative of future performance. The PDS and AIB can be obtained by visiting www.oneinvestment.com.au/lakehouse

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