

Dear Lakehouse Investor,

Markets continue to obsess over the trade war. For our parts, we remain focused on finding and backing businesses that we think have the potential to thrive no matter what Trump tweets next. To that end, the Fund opened a new position during the month and, subsequent to the end of the period, put more cash to work as market volatility picked up.

The Fund returned 3.7% net of fees and expenses for the month compared to 2.1% for its benchmark. Since inception at the start of December 2017, the Fund has returned 38.9% compared to 18.2% 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. We do not read much into early performance, though, and neither should investors who embrace our long-term, high-conviction strategy.

The Fund held 22 positions as of the end of the month. Going forward, in the interest of transparency, we plan to disclose the Fund's ten largest positions in descending order in each letter. Below were the largest positions as of the end of the month:

Companies Held:	22
Cash Allocation:	11.0%
Top 10 Portfolio Holdings:	55.3%
Net Asset Value per Unit:	\$1.3730
Fund Net Asset Value:	\$134.0 million
Benchmark:	MSCI All Country World Index Net Total Returns (AUD)

Company	Industry
Facebook	Interactive Media and Services
Alphabet	Interactive Media and Services
PayPal	Data Processing and Outsourced Services
Visa	Data Processing and Outsourced Services
Amazon	Internet and Direct Marketing Retail
Monster Beverage	Soft Drinks
Booking Holdings	Internet and Direct Marketing Retail
Adyen	Data Processing and Outsourced Services
Interactive Brokers	Investment Banking and Brokerage
LVMH	Apparel, Accessories and Luxury Goods
Total for Top 10	55.3%

Zooming out to the sector-level, the Fund's largest allocations at month end were to information technology (27.3%), consumer discretionary (21.0%) and communication services (18.6%). 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 **Alphabet** (+15.5%), which reported a strong set of second quarter results. More on that shortly. Meanwhile, the largest detractor to performance was **Interactive Brokers** (-7.1%), which despite posting another solid set of results, continued to be under pressure due to heightened concerns around the Chinese economy and declining interest rates.

Many of the Fund's holdings reported quarterly earnings in July. 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.

Facebook reported yet another thesis-affirming result. Each of its core platforms are growing and the company estimates that more than 2.7 billion people use at least one of Facebook, Instagram, WhatsApp, or Messenger on a monthly basis. Indeed, for all the bad press, daily and monthly average users for the core Facebook platform were up 8% year on year to 1.6 billion and 2.4 billion, respectively. The broad-based growth in users and impressions helped drive a 32% year-on-year uplift in revenue in constant currency terms. We were also pleased to hear that the company is progressing with plans to make each of its messaging platforms interoperable, that payments will soon go live in new markets, that hundreds of millions of users are using Facebook's Marketplaces each month, and that early feedback from partners on Instagram Checkout has been exciting.

Also of note was Facebook's US\$5 billion settlement with the US Federal Trade Commission to resolve the FTC's inquiry into Facebook's platform and user data practices. Facebook is taking a number of steps to enhance its practices and processes for privacy compliance and oversight as a result that, while costly in the short-term, will improve the robustness of the platform and, ironically, further increase barriers to entry for social media companies. The FTC settlement will not be the last regulatory issue Facebook faces, however, with more than US\$40 billion in cash, strong growth across its platforms, significant optionality, and a valuation that isn't demanding at 22 times forward earnings estimates, we think regulatory risks are already factored into the price.

Alphabet reported 19% year-on-year revenue growth -- 22% in constant currency -- which caught investors flat-footed. Traffic acquisition costs (TAC) fell to 22% of Google advertising revenue from 23% a year ago despite the increasing mix of higher-average-TAC mobile sessions as growth of Google's own properties (e.g. YouTube) outstrips that of its external network partners. We were also pleased to hear that Google Photos now has more than 1 billion monthly active users, that the company had increased its share repurchase authorisation by US\$25 billion, and that Google Cloud, which encompasses G Suite and Google Cloud Platform, is now on an \$8 billion annual revenue run-rate. The business remains cashed up -- more than 12% of the market capitalisation is held in net cash -- leaving plenty of room for additional share repurchases, reinvestment in existing and new products and business lines, and potentially acquisitions. We remain patient holders.

PayPal reported a good set of numbers -- total payment volume (TPV) increased 26% year-on-year in constant currency terms -- but the market reacted negatively to lower than expected revenue guidance for the full year, mainly due to delays in product integration and pricing increases. We're not too concerned about this ephemeral issue as PayPal continues to gain share of a growing market. TPV excluding eBay increased by 30% on a constant currency basis, active accounts grew 17% and, demonstrating that network effects are alive and well, average transactions per account grew by 9%. We're also impressed by continued strong growth at Venmo (TPV increased 70%) and the company's significant operating leverage (non-transaction expenses only increased 6% on an adjusted basis). Lastly, we note that the integration of recently acquired iZettle and fellow Fund portfolio company MercadoLibre could open new doors for growth. All in all, we remain patient holders in PayPal and enthused about its long-term prospects.

Visa delivered another solid quarter with cross-border payment growth no longer an issue and adjusted earnings per share increasing 14% year-on-year. Visa Direct continues to post transaction growth of more than 100%, with 60 million Visa credentials using this functionality in the last 12 months. Like PayPal, Visa is undergoing a shift as it embraces new partnerships and opens up its platform. The company has forged partnerships in cross-border payments, such as the one with Western Union, and invested in up-and-coming 'Super Apps' or fintechs such as GoJek in Indonesia and Paymate in India. In its recent quarter, Visa has been busy acquiring companies to help develop and offer network-agnostic payments capabilities and value added services. This means Visa will be able to offer a single connection that enables clients to transfer funds to cards or to most banks in 88 countries. We believe that the recent deals expand the company's addressable market and improve its already enviable competitive position.

Amazon also delivered an impressive result as net sales increased 21% year-on-year in constant currency terms thanks to continued broad-based growth, but particularly thanks to 37% growth at Amazon Web Services (AWS). The new free one-day delivery program for Prime has been well received, so the company is pushing harder at enabling the service across more of its network. We're very pleased with the push as one-day shipping will spin the flywheel even faster as well as further increase barriers to entry, plus it doesn't hurt that a lot of the costs for standing up one-day shipping are one-off in nature. We continue to think that the market underestimates the

length of the runway ahead in the core retail business (note that e-commerce sales in the US still only make up 10.2% of total retail sales) and the mix shift towards higher-margin, faster-growing services including AWS, Prime, and Music.

Lastly, we'll wrap things up with a brief introduction to the Fund's newest position, the Charles Schwab Corporation. Charles "Chuck" Schwab started a brokerage house over 45 years ago with the founding principle that investing should be available to the average American. Since then, Schwab has come a long way and is now not only the largest retail broker in the United States, based on client assets, but also has a meaningful presence in banking and asset management. Schwab has been successful at cultivating a customer-first, low-cost-provider culture within the organisation that has established a great deal of trust with customers: the company has 12 million brokerage accounts and US\$3.7 trillion in assets under management (AUM). Since 2008, Schwab has reduced its expense of average client assets by a third to 16bps, which is well below its primary competitors. This has contributed to a tripling of the firm's AUM and enabled Schwab to invest heavily in the customer experience and pricing, which in turn, helps attract further assets.

We acknowledge that there will always be a degree of cyclicity to Schwab's business model due to the inherent leverage to interest rates and asset movements. Indeed, we note that net interest income along with asset management and administration fees make up around 61% and 29% of total revenue. Beyond this cyclical turbulence lies a strong secular growth story, though, as the confluence of the long-term growth in the number of investors, the value of their assets, and Schwab's scale advantage and cost leadership allow it to grow client assets at attractive rates (around 11% annualised over the past decade). Ultimately, we see no structural reason why Schwab's asset-gathering machine will be any less effective over the next five years than it has been in the past.

As such, given the shares are about 30% below their recent highs on concerns over falling interest rates, we took the opportunity to establish a starter position in a high-quality franchise that we believe has a deeply entrenched competitive position and a very long runway. For our parts, while we do not have strong short-term views on the direction of interest rates, we also value having a modest natural hedge to higher rates built into the portfolio given the now very strong consensus that rates will continue to head south.

## 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,



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Chief Investment Officer, Lakehouse Capital

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