

Companies Held:	22
Cash Allocation:	14.1%
Top 10 Portfolio Holdings:	57.3%
Net Asset Value per Unit (mid):	\$1.4607
Fund Net Asset Value:	\$153.5 million
Benchmark:	MSCI All Country World Index Net Total Returns (AUD)

Dear Lakehouse Investor,

February was a volatile month for global equity markets given the rapid spread of the coronavirus disease (COVID-19) beyond China's borders. The last week of the month stood out as being the worst since the GFC for most major indices.

The Fund returned -3.0% net of fees and expenses for the month compared to -4.6% for its benchmark. Over the past 12 months the Fund has returned 23.0% compared to 14.6% for its benchmark. Since inception at the start of December 2017, the Fund has returned 47.8% compared to 24.7% for its benchmark. In annualised terms, the Fund has returned 19.0% since inception compared to 10.3% for its benchmark.

February was a good reminder of the virtue of a long-time horizon. Over the span of a single month, it is broader market moves and short-term company news that tend to shape the Fund's returns. Over the measure of years, though, the performance of the Fund gravitates towards the fundamental performance of its portfolio companies, which we'll speak more about in a moment.

First, though, we'll address the elephant in the room, COVID-19. Our view on the situation is a balanced one. On the one hand, the virus is blowing past containment efforts, as we [predicted](#)

last week, creating a genuine public health crisis and introducing short-term risks around demand and supply chains that investors would do well to observe. Indeed, the number of countries with confirmed cases has swelled from 41 to 81 since our article was published last week, only increasing our conviction that the mounting risks must be taken seriously.

On the other hand, we are long-term optimists -- a mindset that has served patient investors well more often than not. For that matter, we should not overlook that stocks have already corrected, government bond yields are at or near record lows in most developed countries, and a tidal wave of fiscal and monetary stimulus is likely on the way. To that end, the U.S. Federal Reserve announced an emergency interest rate cut this week for the first time since 2008.

Our ongoing strategy right now is to reduce exposure to companies that have outsized exposure to demand, operational, or supply risks caused by a probable broad-based outbreak and containment initiatives. Conversely, we have been actively increasing our holdings in companies with strong balance sheets, highly loyal customers, digital-first business models, and those with network dynamics where adoption curves might be pulled forward from changes that might result in how we all live, work, and play. In other words, we are leaning even harder than usual into our preferred style of companies. We are also very comfortable with a conservative cash position of 14.1% that should allow us to play offense if this volatility keeps up.

The Fund held 22 positions as of the end of the month, one of which is new but that we're not ready to reveal just yet, and the ten largest of which are listed below:

Company	Headquarters	Industry
Facebook	USA	Interactive Media and Services
Alphabet	USA	Interactive Media and Services
PayPal	USA	Data Processing and Outsourced Services
Adyen	Netherlands	Data Processing and Outsourced Services
Visa	USA	Data Processing and Outsourced Services
Amazon	USA	Internet and Direct Marketing Retail
Constellation Software	Canada	Application Software
MercadoLibre	Argentina	Internet and Direct Marketing Retail
Monster Beverage	USA	Soft Drinks
ServiceNow	USA	Systems Software

The Fund's largest sector allocations at month end were to information technology (36.0%), communication services (18.2%) and consumer discretionary (14.8%). The Fund is larger than the benchmark in all three sectors and we expect that will consistently be the case over time as Lakehouse views these sectors, or at least subsets of them, as having superior economics and long-term prospects.

Also, our team does 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. Incidentally, we expect these industries we tend to sidestep on a structural basis to have deeply cyclical issues, as well as suffer from by-products of containment efforts around COVID-19.

Company News

Let's zoom back in for a discussion on the portfolio's most impactful positions. The biggest contributor to performance during the month was **Tencent** (+6.0%), which performed reasonably well despite being the Fund's sole China-based holding. Investors have rightly become concerned about how the spread of and efforts to contain COVID-19 will impact the Chinese economy, however, it's important to consider that some sectors might actually benefit as people shift from activities such as going to the mall or to the cinema to gaming, streaming, shopping, or networking online. As a leading player in many of these areas, Tencent appears relatively well placed to weather the epidemic and we were not that surprised to see the stock hold up relatively well.

Meanwhile, the largest detractor to performance was **M3** (-10.8%), which fell on no company-specific news but was likely affected by the market-wide selloff due to COVID-19 and Japan's weak GDP figures. Interestingly, M3 has recently announced a partnership with LINE and Novartis, launching a remote health consultation service platform. Though there are short-term risks in the current scenario, there are also potential medium-term benefits as consumers potentially accelerate the adoption of remote health consultations.

We also had a fair bit of fresh news from some of our portfolio companies. The Fund's second-largest position, **Alphabet**, reported fourth quarter revenue growth of 17% year over year (19% constant currency) which was slightly below analysts' expectations. Sundar Pichai, who took the helm as Alphabet CEO from co-founder Larry Page in December 2019, did not disappoint in providing investors with something to talk about as the company provided financial disclosures for YouTube and Google Cloud for the first time.

YouTube's ad business is a monster, growing 36% year-on-year to US\$15.1 billion in 2019. In addition to this, YouTube's non-advertising revenue was pegged at an annual run rate of US\$3 billion, primarily subscriptions for its premium and TV services. Meanwhile, Google Cloud revenue, which encompasses Google Cloud Platform and G Suite, grew 53% year over year to

US\$8.9 billion. Overall, we were pleased to see the additional transparency and remain patient holders.

Adyen posted impressive half-year results with total processed volume up 52% year-on-year to €135 billion. The company continues to delight its large merchant partners with volume churn at less than 1%, with more than 80% of incremental volume coming from existing clients. Adyen has made strides into physical point-of-sale terminals as well, launching with H&M, Gap and Hugo Boss, to name a few, and point-of-sale volumes grew by 82% year-on-year. Adyen is capitalising on the strong demand for its services by hiring aggressively and opening new offices in Tokyo and Mumbai while still retaining 56% EBITDA margins on a net revenue basis. Pleasingly, Adyen noted that it has yet to see any material impact from the spread of COVID-19 due to its diversified client base and conservative pricing structure. We are excited for what the future holds for this company.

Lastly, we note that **PayPal** recently announced a mild downgrade for the March quarter by lowering its year-on-year revenue growth forecast by one percentage point due to weakness in international cross-border e-commerce activity. Management believes the company's diversified business will help partially offset this weakness, and we broadly agree. We would not be surprised to see a short-term negative impact to PayPal's growth given the broader economic backdrop, however, we also expect the experience of containment to accelerate the shift towards plastic and digital wallets in-store and enhance the adoption of online shopping at-large.

Looking Ahead

Lakehouse continues to closely monitor the rapidly evolving COVID-19 situation, in particular the economic impacts that may unfold and how they will impact current and potential investments. The Fund's cash holding is at the higher end of the typical range, allowing us to play offense and remain on the hunt for compelling opportunities to deploy our investors' capital during this bout of volatility.

Thanks again to all our investors for your time and trust. It's an honour and a privilege to serve such an aligned, long-view group.

Best Regards,
Lakehouse Capital

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