LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 OCTOBER 2020

LAKEHOUSECAPITAL

Dear Lakehouse Investor,

October was a relatively busy month for the Fund as a number of portfolio companies reported earnings. The Fund began building a position in a new holding in Japan, which we look forward to detailing in future letters, and also made the decision to exit our long-held stake in **Atlassian**. More on that shortly.

The Fund returned 2.9% net of fees and expenses for the month compared to -0.4% for its benchmark. Over the last 12 months, the Fund has returned 44.9% compared to 2.9% for its benchmark. Since inception at the start of December 2017, the Fund has returned a total of 94.4% compared to 24.6% for its benchmark. In annualised terms, the Fund has returned 25.6% since inception compared to 7.8% for its benchmark.

	1 Month	**3 Month**	**1 Year**	**2 Year (p.a.)**	**Inception (p.a.)**
Lakehouse Global Growth Fund	2.9%	4.1%	44.9%	34.5%	25.6%
Benchmark	-0.4%	2.3%	2.9%	9.2%	7.8%
Excess Return	3.3%	1.8%	42.0%	25.3%	17.8%

The Fund's largest sector allocations at month end were to information technology (35.4%), communication services (22.9%) and consumer discretionary (14.4%). The Fund's position is larger than the benchmark in all three sectors and we 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.

The Fund held 20 positions as of the end of October, the ten largest of which are listed below:

Company	**Headquarters**	**Lakehouse Investing Fascination**
Facebook	USA	Networks, IP
PayPal	USA	Networks, Loyalty, IP
Adyen	Netherlands	Loyalty, IP
Charles Schwab	USA	Loyalty, IP, Networks
Amazon	USA	Loyalty, Networks, IP
Monster Beverage	USA	IP
MercadoLibre	Argentina	Networks, Loyalty
Tencent	China	Networks, IP, Loyalty
Alphabet	USA	IP, Networks
Avalara	USA	Loyalty, IP

The Fund has a good-sized US presence as the market continues to offer access to the largest source of quality growth companies and comprises around 59% of our benchmark, but the Fund also has stakes in companies headquartered in the Netherlands, Canada, Argentina, France, China, Japan, and Norway. It's also worth noting that our U.S.-based companies tend to be very global themselves and 57% of portfolio company revenue flows from outside the US.

At the portfolio level, the biggest contributor to performance during the month was **Charles Schwab** (+15.8%), which delivered a strong result that we'll discuss shortly. Meanwhile, the largest detractor to performance was **Adyen** (-6.7%), whose share price had been on a run before cooling off a touch. More on the company in a moment. Many of the Fund's holdings also reported earnings in October, and while it would be tempting to comment on all of them, we will restrict our commentary to substantive news on key positions.

The Fund's largest position, **Facebook**, reported another robust set of results with revenue growing 21% year-on-year in constant currency terms despite the challenging economic environment. The core metrics of network health, user growth and engagement, were also very impressive. The number of daily active users for the core Facebook platform grew 12% year-on-year to 1.82 billion, which was the highest rate of user growth since the second quarter of 2018.

Ultimately, more users and more time spent on the platform increases the appeal of the platform to advertisers. We believe that the pandemic and associated acceleration in the shift of commerce from offline to online will only serve to increase the stickiness of the platform for merchants going forward as they become increasingly reliant on the network for advertising and business services. Indeed, more than 200 million businesses now have Facebook pages but only 9 million are paying for ads, leaving plenty of headroom for growth in Facebook's ad business. With all that context and more than US$50 billion in net cash, we believe that 28 times forward consensus earnings is simply too cheap for a business of Facebook's quality.

Fund Metrics	
Fund Net Asset Value	$231.5 million
Net Asset Value per Unit (mid)	$1.8465
Cash Allocation	9.8%
Top 10 Portfolio Holdings	62.0%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

Adyen shared a short trading update, which reported processed volume and net revenue up 26% and 25% year-on-year, respectively. In-store volumes have rebounded to pre-COVID levels and volume run-rates towards the end of the quarter point to a more positive fourth quarter. Adyen continues to be extremely profitable with 60% EBITDA margins despite strong investment in the company's headcount. We support the company as it continues to reinvest to capitalise on the large and growing market opportunity.

Charles Schwab delivered another solid quarter with revenue and earnings coming in ahead of analysts' expectations. Revenue declined 10% year-on-year to US$2.45 billion, however, this was largely expected given the challenging interest rate environment over 2020. The more telling metrics were that the company added 592,000 new brokerage accounts -- the second-best quarter on record -- and that client assets grew by a healthy 17% year-on-year to a record US$4.4 trillion. We were also pleased to see the acquisition of TD Ameritrade close in October, enhancing the company's scale in an industry where scale is paramount.

Amazon's third quarter was very impressive. Net sales increased by 36% year-on-year in constant currency terms and operating income roughly doubled from US$3.2 billion to US$6.2 billion despite significant ongoing investment and COVID-driven expense headwinds. The company continues to benefit from the online shopping curve being abruptly pulled forward due to the pandemic and in typical Amazon fashion, they are reinvesting heavily back into the business. The company added 350,000 employees in just four months alone and has now grown their total headcount by 50% year-on-year. As long-time Amazon followers, we are more than happy for the company to make such long-term investments and expect the company's competitive position to strengthen in the coming months and years.

Lastly, we'll wrap things up with some brief thoughts on our decision to sell Atlassian. Atlassian remains a high-quality business and we remain optimistic on the long-term outlook for the leading provider of developer-focused software solutions. That said, the confluence of a demanding valuation, slowing revenue growth, and other suitable alternatives led us to exit our position. Management's formal decision to discontinue their on-premise solutions and fully transition their customer base to the cloud could also cause some headaches over the next 12 to 24 months as 75% of customers currently use at least one on-premise solution.

While we ultimately believe that Atlassian will be stronger as a result of the transition, we could no longer justify holding the stock at current levels based on our expectations for future growth, the risks related to the transition, and the prevailing opportunity set. The Fund had gradually reduced the position over the past 12 months on earlier valuation concerns and, all in, we realised a 209% total return on the position in Australian dollar terms.

Thank You

The Lakehouse Global Growth Fund will celebrate its third birthday at the end of this month. While it doesn’t impact anything in our day-to-day process, it’s a brief opportunity to reflect on what we have achieved and to again thank you, our loyal investors, for your time and trust. We appreciate it a great deal.

Best Regards,

Lakehouse Capital

P.S. We’re very pleased to announce our inaugural ‘Return to Work’ internship designed for financial services professionals seeking to transition back into the workforce after putting their careers on hold to focus on family. The Lakehouse ‘Return to Work’ internship is a competitively-remunerated, 4-month program to refresh investing skills, add to existing valuable experience, and build confidence to re-enter the workforce. More information on this Sydney-based role is available here.

For more information call us on +61 2 8188 1510, email investorsupport@lakehousecapital.com.au or visit www.lakehousecapital.com.au

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