

LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

30 November 2020



Dear Lakehouse Investor,

November was a wild month in global markets between the conclusion of the US election and multiple rounds of good news regarding vaccines for Covid. We welcome the end of such a contentious election and, more importantly, the welcome news of light at the end of the Covid tunnel.

The removal of election uncertainty and the prospect of a post-Covid life both bode well for global growth, even if it will be a good while longer until enough of us are vaccinated for life to return to normal. Practically speaking, in terms of the Fund and the digital-first leaning of many of our holdings, we note that it will have been well longer than a year since the first wave of Covid lockdowns began before most of the developed world is vaccinated, by which time new habits around the ways we live, work, play, consume, and spend will have significantly and sustainably changed.

The Fund returned 5.8% net of fees and expenses for the month compared to 7.1% for its benchmark. Over the last 12 months, the Fund has returned 42.2% compared to 5.6% for its benchmark. Since inception at the start of December 2017, the Fund has returned a total of 105.8% compared to 33.4% for its benchmark. In annualised terms, the Fund has returned 27.2% since inception compared to 10.1% for its benchmark.

Fund Metrics	
Fund Net Asset Value	\$255.8 million
Net Asset Value per Unit (mid)	\$1.9541
Cash Allocation	9.0%
Top 10 Portfolio Holdings	61.5%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

	1 Month	3 Month	1 Year	3 Year (p.a.)	Inception (p.a.)
Lakehouse Global Growth Fund	5.8%	8.0%	42.2%	27.2%	27.2%
Benchmark	7.1%	6.5%	5.6%	10.1%	10.1%
Excess Return	-1.3%	1.5%	36.6%	17.1%	17.1%

The Fund's largest sector allocations at month end were to information technology (37.0%), communication services (22.5%) and consumer discretionary (14.5%). 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 November, the ten largest of which are listed below:

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

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 58% 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 58% of portfolio company revenue flows from outside the US.

At the portfolio level, the biggest contributor to performance during the month was **MercadoLibre** (+21.9%), which delivered a strong result that we'll discuss shortly. Meanwhile, the largest detractor to performance was **Tencent** (-9.2%), whose shares sold off with the broader Chinese tech sector over fears that new government regulations could constrain the industry's future growth. Whilst a degree of regulatory risk will remain ever-present given Tencent's scale, we believe that Tencent is relatively well placed to deal with the concerns raised in the initial draft proposal and also take comfort in the fact that management expressed a strong willingness to work closely with regulators going forward.

A few of the Fund's holdings also reported earnings in November, and while it would be tempting to comment on all of them, we will restrict our commentary to substantive news on key positions. We'll start with PayPal, which is among the Fund's oldest and largest holdings. The result was impressive with net revenue and operating income increasing by 25% and 45% year-on-year and in constant currency terms, respectively, thanks to the confluence of rising spend from new and existing users with a cost base that has considerable inherent operating leverage.

More and more merchants are also accepting PayPal -- the count has leaped from 23 to 28 million in the past year -- which makes PayPal even more relevant to current and potential users. To that end, the increasing utility of PayPal makes for continually rising incremental user lifetime values which, when combined with the company's operating leverage, helps explain why most investors continually underestimate this business (PayPal has topped consensus estimates for adjusted pre-tax profits in 17 of the last 20 quarters).

We were also pleased to learn more about new growth initiatives PayPal has going. Standouts include Venmo, which now has 65 million users and the company expects to turn profitable in 2022, and the rollout of QR code in-store capabilities at 10 major retailers including CVS, Nike, and Bed Bath and Beyond. We were also happy to hear that US demand for the company's buy now, pay later offering has been "tremendous" and that the French rollout is well beyond PayPal's expectations. The company's shares have run considerably recently but, given the continual underestimation of the business and such valuable growth levers being pulled, we remain confident long-term owners.

MercadoLibre posted very strong results with revenue growth accelerating to 148%, eclipsing the already strong performance in the previous quarter due to initial lockdowns. The company achieved a milestone when it reported revenue of more than US\$1 billion for a single quarter. The marketplace business continues to see strong growth in key markets, such as Argentina, Brazil and Mexico with items sold and gross merchandise value growing by 110% and 117%, respectively, despite the gradual reopening of physical stores.

The payments business also remains on fire with total payment volume growing at 161%, a marked acceleration from the 142% year-on-year growth from last quarter and 94% year-on-year growth in the third quarter of 2019. MercadoPago now has roughly 60 million unique paying users, which is a massive base yet still only roughly 10% of the Latin American population. To that end, we note that e-commerce penetration of pre-Covid total retail spend in MercadoLibre's core markets ranges from 3% to 6%, reflecting that this industry leader has a long growth runway ahead. We expect MercadoLibre's share price to remain volatile given its rapid growth but remain enthused about the company's long-term prospects.

We will also take a moment here to speak to one of the Fund's newest additions, Norwegian-based **Adevinta**. Adevinta operates online classifieds businesses across 12 countries in Europe, Latin America and North Africa. The business has significant scale with an average of 1.4 billion visits per month across its collection of leading brands across generalist, automotive, real estate and job classifieds. Adevinta was recently spun off from Schibsted, a multinational media and internet conglomerate, which still owns a significant chunk of the business. The company is run by long-tenured management, Rolv Erik Ryssdal, who

was the CEO of Schibsted for most of the prior decade. Schibsted's shares delivered a total return of roughly 1,000% in the nine-plus years that Ryssdal led Schibsted, speaking volumes about his operating and capital allocation chops.

Adevinta's leading brand is Leboncoin, which is the dominant generalist portal in France with more than 28 million average monthly visits. Leboncoin has leveraged its user base to build market leading positions in automotive and real estate classifieds, working with roughly 20 thousand car dealers and 40 thousand real estate agents in France. Think of Gumtree, Carsales and REA all under one roof. More recently, Leboncoin has been working on transitioning from a pure classifieds business to participate in the transactions that happen on its platform. The business has strong network effects, as more users attract more listings and vice versa, creating long-term sustainable advantages with increasing optionality. The company is also seeking to replicate the success in France into faster growing markets, namely Spain and Brazil, which are in earlier phases of their digital transformation.

The thesis recently strengthened when Adevinta announced the acquisition of eBay's classifieds business, which eBay viewed as non-core. The acquisition gives Adevinta access into new markets such as Germany, Canada, Benelux, the UK and Australia (including Gumtree itself) to create a globally scaled classifieds leader. Notably, eBay will become a major shareholder in Adevinta as part of this deal, speaking well to its view of the quality of the assets Adevinta is buying and the ability of Adevinta's leadership team to enhance their value. We're excited to invest alongside patient capital in a company with market leading positions and long runways for growth.

3 Years On

The Lakehouse Global Growth Fund celebrated its third birthday at the end of November. We've come a long way since then, with the Lakehouse team growing from 3 to 11 and the Fund delivering a net 27.2% annualised total return during that period. We've had a lot of fun along the way and hope our progress towards our goal of long-term outperformance has been pleasing for those of you who backed us early.

Thank you again for your time and trust. We appreciate it a great deal.

Best Regards,

Lakehouse Capital

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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