LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 December 2020

LAKEHOUSECAPITAL

Dear Lakehouse Investor,

December was a relatively quiet month for the Fund in terms of fundamental newsflow as most companies avoid making important announcements over the holidays.

Unfortunately, global COVID-19 case numbers continued to climb during December with record new daily numbers surpassing 800,000 a number of times. It is perhaps a sign of fatigue or complacency that new records are being realised at the same time as global distribution of vaccines are accelerating in earnest. In any case, these events reinforce that the pandemic is far from over, it continues to have real human and economic consequences, and we continue to think through the implications with a focus on the long-lasting changes to how we live, work, and play. And there's also the global government and central bank response: the largest fiscal and monetary stimulus the world has ever seen.

The confluence of evolving factors continues to give us plenty to work through as a team. Broadly speaking, though, we remain comfortable with our positioning and high-conviction portfolio of businesses that are collectively gaining share of large, growing markets. We also remain focused on evaluating existing positions and seeking new opportunities. To that end, the Fund opened a new position in Japanese-listed **Sansan** and also made the decision to exit our remaining holding in Japanese healthcare company M3. More on those decisions later.

The Fund returned 0.5% net of fees and expenses for the month compared to -0.1% for its benchmark. Over the last 12 months, the Fund has returned 46.4% compared to 5.9% for its benchmark. Since inception at the start of December 2017, the Fund has returned a total of 106.8% compared to 33.3% for its benchmark. In annualised terms, the Fund has returned 26.5% since inception compared to 9.7% for its benchmark.

	1 Month	3 Month	1 Year	3 Year (p.a.)	Inception (p.a.)
Lakehouse Global Growth Fund	0.5%	9.4%	46.4%	28.6%	26.5%
Benchmark	-0.1%	6.5%	5.9%	10.6%	9.7%
Excess Return	0.6%	2.9%	40.5%	18.0%	16.8%

The Fund's largest sector allocations at month end were to information technology (36.9%), communication services (21.0%) and consumer discretionary (14.7%). 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 December, the ten largest of which are listed below:

Company	**Headquarters**	**Lakehouse Investing Fascination**
Adyen	Netherlands	Loyalty, IP
Facebook	USA	Networks, IP
PayPal	USA	Networks, Loyalty, IP
MercadoLibre	Argentina	Networks, Loyalty
Charles Schwab	USA	Loyalty, IP, Networks
Monster Beverage	USA	IP
Adevinta	Norway	Networks, Loyalty
Amazon	USA	Loyalty, Networks, IP
Sansan	Japan	Networks, Loyalty
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 53% of portfolio company revenue flows from outside the US.

At the portfolio level, the biggest contributor to performance during the month was Adyen (+16.2%), which had no company-specific news but likely went up due to sustained growth in e-commerce. Meanwhile, the largest detractor to performance was Facebook (-5.8%), whose shares sold off on the news that the U.S. Federal Trade Commission (FTC) is seeking to force the company to unwind its acquisitions of Instagram and WhatsApp.

The Facebook FTC case provided for great headline fodder but the actual market response was far more subdued, and with good reason. For starters, the FTC loses some cases and this one is not a slam dunk. It's notable that two of the five FTC commissioners voted against pursuing the case and that the FTC itself approved Facebook's acquisitions of Instagram (2012) and WhatsApp (2014). The FTC will find it very tricky arguing against itself on the matter, particularly since the approvals were several years ago and Facebook has since invested billions of dollars scaling, securing, promoting, and enhancing Instagram and WhatsApp.

Fund Metrics	
Fund Net Asset Value	$271.2 million
Net Asset Value per Unit (mid)	$1.9641
Cash Allocation	8.8%
Top 10 Portfolio Holdings	61.5%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

The case has two other key weaknesses. The first is that it isn't obvious that consumers are harmed by Facebook owning each of the platforms, which is the key litmus test that forms the backbone of US antitrust law. The second is that, while the FTC will point to old Facebook emails as evidence that Facebook wanted to avoid competition, the reality is that Facebook still has competition (e.g. TikTok, Apple, etc.) and is hardly the only company that has bought a would-be challenger (which is partly why the FTC approved these deals in the first place). Also, the facts are that Instagram and WhatsApp have grown massively under Facebook's stewardship -- roughly 33-fold and 4-fold, respectively, as measured by the most recent available data on monthly active users -- thanks no doubt to the billions the company has invested into them after the acquisitions.

Let's assume for a minute that all that is ignored and the FTC wins the case. What then? The reality is the case will take a long time to conclude -- it took more than three years for the FTC's initial case against Microsoft in 1998 to reach a final settlement -- so there is no immediate issue on the horizon. Also, while we think Facebook brings considerable value to its stewardship of Instagram and WhatsApp, it isn't certain that the company's spinning off Instagram and WhatsApp would be a bad thing for shareholders. The risk of a potential break-up is well known to the market and we wouldn't be surprised if the market valued the individual platforms Facebook owns today at higher prices individually than it does by summing the parts. All that is to say that, while we are following this case and risk closely, we remain confident in our long-term thesis.

Turning to our newest position, Sansan. Sansan is a cloud-based software-as-a-service contact management solution provider headquartered in Tokyo, Japan. The company enables the digitisation of business cards through scanners and smartphones for Toyota, Panasonic, and roughly 7,000 other corporate customers. Sansan has an 83% market share in Japan, a country which values the exchange of *meishi* (business cards in Japanese) as a part of business etiquette and culture. The company also offers other services which integrate with the card management system, such as customer relationship management, event management software, and central data hub. Led by its founder, Chikahiro Terada, Sansan looks to "turn encounters into innovation." Terada is deeply aligned with his 34.9% ownership stake in the company.

Sansan has grown at very healthy rates -- a 40% annualised rate in the three years through May -- and has very impressive unit economics to match. The company's customer retention rate is high at 93%, up from 90% two years ago, and we estimate the company creates roughly $5 in customer lifetime value for every

$1 it spends acquiring customers. The company still has a long reinvestment runway ahead with a penetration of roughly 14% of Japan's largest companies, especially given digital transformation has been one of their government's key initiatives. On that note, Sansan also owns Eight, Japan's leading professional network, which is a logical extension of their core business and offers valuable long-term optionality.

More recently, Sansan has pushed into leveraging its digitisation technology into other areas such as billing and contract digitisation. The business aims to digitally transition analog documents and, over the long run, be the central hub for data. We believe that there's a significant opportunity ahead, considering Japan is relatively early in terms of its cloud migration and the optionality in the business.

Much of the Fund's investment in Sansan was paid from the proceeds of the sale of the Fund's remaining stake in M3. M3 remains a high-quality, well run business that has proven a beneficiary of increased online engagement, especially among healthcare professionals. The investment also proved very fruitful for the Fund with a 203% cash-on-cash return in Aussie dollar terms.

A lot was going right with the investment, however, as time went by the valuation stretched to levels that even we as growth-first investors struggled to justify. For a sense of scope, the forward enterprise value to revenue multiple we paid on the first day of our buying the shares in March 2019 was 9 compared to about 34 times when we exited in December 2020. It was hard for us to justify staying invested given that run-up and that Sansan offers similar geographic exposure but with faster growth and, at only 10 times forward enterprise value to revenue, a considerably cheaper valuation. We'll keep an eye on M3, though, and would gladly reopen a position if afforded a more attractive entry point.

A Bigger Lakehouse

The strong inbound interest we have had from potential investors has enabled us to continue to reinvest in our business in order to better serve clients at greater scale. To that end, we are pleased to share that two new investment analysts have joined the team at Lakehouse: Abi Malin and Kenny Mai. Abi Malin comes to us from our parent company in the US, The Motley Fool, where she spent the last five years researching global equities. Kenny, meanwhile, comes to us from a peer, Franklin Templeton, where he also covered global equities. The two of them are both excellent additions who bring valuable skills and perspective as well as providing our team more robustness and cross-coverage capabilities.

Thank You

Thanks again to all our investors for your time and trust. We appreciate it a great deal and hope you and yours are well during this challenging time.

Best Regards,
Lakehouse Capital

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