

LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 January 2021



Dear Lakehouse Investor,

January was remarkably quiet for equity markets in end-to-end terms given the furor around the U.S. Presidential handoff, mania around GameStop, and the ongoing struggle to contain Covid-19 in most major economies. It was a busy month for the Fund, though, where we initiated two new positions that we are still building and exited another, **Okta**, at a substantial gain.

The Fund returned -0.4% net of fees and expenses for the month compared to 0.1% for its benchmark. Over the last 12 months, the Fund has returned 35.1% compared to 2.1% for its benchmark. Since inception at the start of December 2017, the Fund has returned a total of 106.0% compared to 33.4% for its benchmark. In annualised terms, the Fund has returned 25.6% since inception compared to 9.5% for its benchmark.

	1 Month	3 Month	1 Year	3 Year (p.a.)	Inception (p.a.)
Lakehouse Global Growth Fund	-0.4%	5.9%	35.1%	29.0%	25.6%
Benchmark	0.1%	7.1%	2.1%	9.9%	9.5%
Excess Return	-0.5%	-1.2%	33.0%	19.1%	16.1%

Our broader views of the situation with Covid-19 remain unchanged. We're happy and relieved that vaccine rollouts have begun in earnest, however, we also acknowledge it will take at least several months before most developed countries have reached herd immunity. Practically speaking, it will be approaching close to two years since the beginning of the pandemic and many of the changes to how we live, work, play, spend, and consume will have become settled into our daily routines. That's to say, we think much of the pull-forward in demand that many of our portfolio companies experienced is here to stay.

The Fund's largest sector allocations at month end were to information technology (35.7%), communication services (21.3%) and consumer discretionary (16.8%). 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 January, the ten largest of which are listed below:

Company	Headquarters	<u>Lakehouse Investing Fascination</u>
MercadoLibre	Argentina	Networks, Loyalty
PayPal	USA	Networks, Loyalty, IP
Facebook	USA	Networks, IP
Sansan	Japan	Loyalty, Networks
Adyen	Netherlands	Loyalty, IP
Charles Schwab	USA	Loyalty, IP, Networks
Amazon	USA	Loyalty, Networks, IP
Monster Beverage	USA	IP
Adevinta	Norway	Networks, Loyalty
Tencent	China	Networks, IP, Loyalty

The Fund has a good-sized U.S. presence as the market continues to offer access to the largest source of quality growth companies. The Fund has become increasingly geographically diverse, though, and now holds stakes in companies headquartered in the UK, Netherlands, Canada, Argentina, France, China, Japan, and Norway. The downshifting of the Fund's U.S. weighting has been a deliberate choice as we have recently found better opportunities for initiating positions elsewhere. As ever, we will go the opportunities present themselves.

The biggest contributor to performance during the month was from a new position that we [profiled](#) last month, **Sansan** (+23.3%), which delivered a strong result on which we averaged up on the Fund's position. More on that later. Meanwhile, the largest detractor to performance was **Adyen** (-9.9%), whose shares pulled back after a strong recent runup.

Facebook continues to face significant regulatory scrutiny, however, that did not stop the company from delivering a tremendous fourth quarter. Revenue increased 33% year-on-year in constant currency terms, a marked acceleration from the 12% and 21% marks in the second and third quarters, and daily active people across the Facebook platforms increased 15% year-on-year to 2.6 billion. Engagement remains very strong with the proportion of daily-to-monthly active users on the core Facebook 'blue' platform continuing to hover at 66% as it has for years despite any number of challenges to the business or claims that the platform has lost steam.

Two other notable positives for Facebook jumped out to us, but did not receive much press. The first was that Oculus 2 sales were very strong and, with more than 60 developers generating revenue in the millions

for the platform, Oculus could be shaping up as the first mainstream VR platform. Second, the average ad price was up 5%, which is the first quarter with a positive improvement in ad pricing since the third quarter of 2018. The quarter may prove an inflection point on pricing as what contributed to the reversal was improvements in pricing for the Facebook mobile feed and Instagram stories, both of which have been a drag on average pricing as advertisers were still working towards earning attractive returns on their spend via those newer avenues.

Fund Metrics	
Fund Net Asset Value	\$284.2 million
Net Asset Value per Unit (mid)	\$1.9560
Cash Allocation	7.9%
Top 10 Portfolio Holdings	62.3%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

Facebook's shares did not react positively to the result as CFO Dave Wehner's dour guidance concerned investors. In practice, though, Wehner has a history of sandbagging guidance and some of the headwinds he mentioned, including increasing barriers around privacy and data sharing, should serve to bolster Facebook's competitive position over time given its immense trove of first-party data. Lastly, we note that the multiple of Facebook enterprise value to consensus estimates for what it will earn in 2021 is comparable to that of the S&P 500, which is remarkable given that Facebook is growing at such a high rate at a large scale. The business has its haters and will continue to attract scrutiny but we still view the opportunity as one offering a very positively skewed range of outcomes.

Sansan's quarterly result was very impressive with year-on-year growth accelerating to 24% from 18% three months ago. The acceleration was all the more impressive given a pullback in marketing spend and operating expenses increased only 3% year-on-year. Monthly churn rates remained low at 0.65% despite the challenging environment and the number of subscriptions grew 15% year-on-year to 7,230 companies. Ultimately, the results reaffirm the high value that Japanese enterprises place on the value of relationships, Covid-19 or not, and on the contact management system that Sansan provides to help organise and facilitate those relationships.

Also eye-catching in the Sansan result was the strong traction of Bill One, the company's most recent initiative in accounts receivable automation. Bill One subscriber numbers grew 10-fold since the launch in June, good enough for Sansan to highlight as the company's strongest launch of a new product. Sansan continued to hire salespeople due to strong demand for new initiatives and an anticipation of when the broader economy starts to recover. We were very pleased with the result, all in all, and grew the Fund's position in recognition of our increasing confidence and the strong diversification benefits the position brings to the portfolio.

Finally, we note the Fund exited its remaining stake in Okta. The investment has been a significant winner for the Fund, generating a 216% cash-on-cash return for the Fund in Australian dollar terms, and will remain on our watch list as it is a prime beneficiary of the increasing emphasis on enterprise security and remote

work. Okta's core products are robust and sticky -- we are happy customers ourselves -- and we continue to think this well-run business has a long runway for growth ahead. We'll continue to watch this one closely.

The strong run in the share price has stretched the valuation beyond the boundaries of our tolerance, though, and we lost our conviction that Okta is primed to deliver attractive returns over the next several years. For context, the enterprise value to forward revenue multiple has increased from 11 times when we first purchased in November 2018 to 34 times today. Proceeds from the sale of Okta are currently being deployed into a new position that we will disclose and discuss once it is fully established. Notably, the new position is based in a different market with a unique, highly differentiated business model that is decidedly uncorrelated to the rest of the portfolio.

Fresh News & Thank You

We're pleased to share that Dr. Antonella Petrella has joined Lakehouse temporarily as part of our 'Return to Work' program. Return to Work is a new initiative of ours aimed at helping experienced financial professionals who have taken time away from the workforce, usually for family reasons, to relaunch their careers.

Dr. Petrella's background is impressive, having spent 15 years across venture capital and private equity, including nine years as an Investment Director at Anacacia Capital. She's been involved in all facets of those businesses, from sourcing deals to due diligence to serving on boards, and we look forward to working with her to help sharpen our own processes on each of those fronts.

Thanks again to all our investors for your time and trust.

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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