LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

28 February 2021

LAKEHOUSE CAPITAL

Dear Lakehouse Investor,

Fund Metrics	
Fund Net Asset Value	$297.4 million
Net Asset Value per Unit (mid)	$1.9999
Cash Allocation	6.3%
Top 10 Portfolio Holdings	62.0%
Companies Held	21
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

February was an eventful month with most of our portfolio companies reporting results, the world making solid progress towards putting Covid largely behind us, and the Fund putting more capital to work behind a pair of recent portfolio additions that we are still growing. February also stood out for a small but steep increase in interest rates, a topic that we think is important and will discuss later in this letter.

The Fund returned 2.2% net of fees and expenses for the month compared to 1.4% for its benchmark. Over the last 12 months, the Fund has returned 42.5% compared to 8.5% for its benchmark. Since inception at the start of December 2017, the Fund has returned a total of 110.6% compared to 35.3% for its benchmark. In annualised terms, the Fund has returned 25.8% 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	2.2%	2.3%	42.5%	28.4%	25.8%
Benchmark	1.4%	1.4%	8.5%	10.5%	9.7%
Excess Return	0.8%	0.9%	34.0%	17.9%	16.1%

The Fund's largest sector allocations at month end were to information technology (36.6%), communication services (20.7%) and consumer discretionary (17.3%). 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 21 positions as of the end of February, the ten largest of which are listed below:

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

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 Big Macro

Let's talk about the broader economic outlook for a moment in order to shed some light on our strategy for a rapidly evolving economy. Volatility has picked up among the shares of faster-growing companies in light of increasing interest rates which are being fuelled by concerns around inflation and optimism around a strong economic recovery. We share optimism about a strong recovery given the quickening pace towards herd immunity -- note that the U.S. should have enough vaccines for all adults who want them by May -- and that a lot of pent-up cash is ready to spend as American households had their highest-ever savings rate in 2020. Unfortunately, most countries will not deploy vaccines at the same rate as the U.S., particularly developing countries, and Covid-19 is likely to remain endemic in many parts of the world, but directionally there is good reason for optimism for a healthy economic recovery.

Part of what fuels confidence in a recovery is the ongoing massive fiscal and monetary stimulus poured on from governments and central banks. The U.S. is about to unleash another massive stimulus package, ironically landing as the country climbs out of lockdown, and key central bankers the world over still have their foot on the gas with low rates and quantitative easing. For a sense of scope, the money supply in the U.S. grew by 26% in 2020, which is the fastest rate of growth since 1943.

The confluence of strong underlying fundamentals with loose monetary policy has many investors concerned that inflation might finally begin to accelerate, and rightly so. Fortunately, we view our portfolio as well positioned for such a scenario, as one of the core traits we seek in portfolio companies is pricing power. Further, we note that the Fund has stakes in numerous companies whose pricing and revenue are directly tied to transaction value -- think payments, marketplaces, online advertising -- which creates an even greater degree of a natural hedge.

All that said, the speedy increase in interest rates this year, albeit small in absolute terms, has been especially hard on the share prices of high-growth companies whose valuations are back-weighted to the future. It hasn't been lost on us that many such companies had valuations which were getting full-bodied and, to that end, we note that the Fund exited three businesses recently -- **Okta, M3,** and **Atlassian** -- largely on valuation concerns and reallocated to businesses that we think have far more reasonable valuations yet without sacrificing on quality and long-term potential. It's also worth noting that one of the Fund's largest positions, **Charles Schwab**, is a net beneficiary of higher interest rates as it clips the ticket on interest earned and paid by clients.

Higher rates of inflation and interest rates are bad for share prices, at least in isolation and in most cases, but it's worth remembering that the most impactful contributor to both -- a stronger economy -- is good news. Combine this balance with a portfolio built with pricing power as a core trait and one can see why our team is watching the situation closely but also not losing sleep.

And, with that, we now resume our regularly scheduled company news programming.

Company News & Results

We were very pleased overall with the results of the Fund's portfolio companies during the quarter as they consistently affirmed our long-term theses. The biggest contributor to performance during the month was Charles Schwab (+18.7%), which delivered strong results and also benefited from the rising interest rate environment. More on that later. Meanwhile, the largest detractor to performance was **MercadoLibre** (-8.8%), as long-duration growth names pulled back due to concerns of rising interest rates. Notably, MercadoLibre reported after month-end and growth was very impressive.

PayPal posted another strong quarter as revenue grew by 23%. The growth numbers are amazing to see, considering the business annually turns over more than US$20 billion in revenue and almost US$1 trillion in total payment volume (TPV). PayPal's operational metrics continue to be resilient. TPV for the quarter increased by 36%, in constant currency terms, and active accounts by 24% to 377 million users. Average transactions per account increased by only 1% due to the record number of users added during the year. The company also noted significant progress in various categories, such as buy-now-pay-later (BNPL), cryptocurrencies and in-store QR-based payments. It has helped increase engagement and lower the level of customer churn.

PayPal also hosted an investor day soon after the fourth quarter results were published. The company expects TPV of US$2.8 trillion and revenue US$50 billion by 2025, which implies a compounded annual growth rate of 25% and 20%, respectively. From a pure payments platform, the company plans to transition towards becoming the next global super app, targeting 750 million users in the next 5 years. Paypal will deliver consumers their core payments offering, financial services (debit/credit cards, cryptocurrencies, and BNPL), and shopping tools (deals and rewards), while providing merchants with checkout payment processing, merchant services (point of sale terminals, business loans, and payouts), and marketing tools (shopper insights, deals engine, and business profiles). Looking at the sheer size of the current business, it feels like there has been so much achieved over the last two decades. However, in many ways, it feels like this is just the beginning of a new chapter.

Adyen also reported strong second-half results as net revenue and processed volume grew by 28% and 29%, respectively. Adyen continues to take market share in payments globally despite travel-related volumes remaining relatively weak. North American revenue grew by 70% despite being an extremely competitive market. The North American market is only 20% of the total revenue, so we see significant runway ahead. Adyen has started gaining traction and the company called out key merchants wins in the U.S. such as H&M and Dick's Sporting Goods. On top of the traction in the U.S., it is even more impressive that in-store payment volumes went up by 17% despite widespread lockdowns in Europe.

Adyen continues to grow in profitability thanks to its scalable global platform despite heavy reinvestment and aggressively hiring staff. EBITDA margins increased to 62.4% in the half, up from 58.8% in the previous year, and the company pleased but did not surprise us by increasing its stated long-term guidance of EBITDA margins from 55% to 65%. It's rare to find a company that can grow so quickly with such high margins, and we remain excited about the company's future prospects.

Charles Schwab delivered another impressive result with revenue and earnings coming in ahead of analysts' expectations. The company's core metrics remained strong as they added 1.27 million new brokerage accounts -- their second-best quarter ever -- and client activity and engagement levels continued to set new all-time records. On that note, some investors had recently been concerned about the potential for losses at retail brokerage platforms as a result of the dramatic price movements in some heavily shorted stocks (namely GameStop) at the end of January. We were pleased to hear management confirm that they did not restrict trading in any of the recently volatile stocks (although understandably limited margin borrowing) and that margin losses related to the recent volatility was immaterial.

The quarter was also notable for Schwab in that they formally closed their acquisition of TD Ameritrade in October 2020. We are very positive on the deal as ultimately it dramatically enhances the company's scale in an industry where scale is paramount. In aggregate, the new firm now has total client assets of $6.7 trillion spread across 29.6 million brokerage accounts -- a true 800-pound gorilla. Overall we remain very excited about Schwab's future prospects and also value having a modest natural hedge to higher rates built into the portfolio.

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

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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