LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 March 2021

LAKEHOUSECAPITAL

Dear Lakehouse Investor,

Fund Metrics	
Fund Net Asset Value	$316.9 million
Net Asset Value per Unit (mid)	$2.0289
Cash Allocation	8.0%
Top 10 Portfolio Holdings	60.0%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

The last month marked the anniversary of the rapid global spread of COVID-19. It was a time of massive panic, underscored by unknown health risks, school and office closures, the shuttering of borders, and the steepest drawdown in the history of global equity markets. It was perhaps the most uncertain time, not in terms of Wall Street but Main Street, since the Cuban missile crisis that brought the USA and USSR to the brink of nuclear war in 1962.

And, yet, March 2020 proved the best buying opportunity in more than a decade. Not only had major global indices already gotten massively cheaper on the back of a 32% drawdown, but there were plenty of reasons for optimism: social distancing had taken off and was proving effective, private enterprise had thrown its considerable weight behind finding and creating treatments and vaccines, and governments and central banks had unleashed unprecedented fiscal and monetary stimulus.

The crash and recovery provided many reminders for old hands and hard-won lessons for investors experiencing their first rodeo. Key among them:

- Acting with a long-term mindset is incredibly important, especially during tough times.
- Having a clearly articulated philosophy and process gives something for investors to latch onto when fundamentals become unmoored from reality.
- Companies that are already gaining market share thanks to a superior value proposition tend to see those share gains accelerate during recessions.
- Always keep a running watch list of companies you'd love to own at a better price. You'll oftentimes get your wish and, during a steep downturn, you can put money to work quickly.
- Emphasising holding companies with strong balance sheets provides surprising resilience during recessions as such companies are able to play offense while most others play defense.
- Running a concentrated portfolio allows for a greater depth of understanding of portfolio companies, as does low turnover, and the combination of the two allows investors to conceptualise new risks and opportunities relatively quickly.
- Markets look forwards, not backwards.

Turning to performance, the Fund returned 1.5% net of fees and expenses for the month compared to 4.4% for its benchmark. Over the last 12 months, the Fund has returned 48.1% compared to 24.2% for its benchmark. Since inception at the start of December 2017, the Fund has returned a total of 113.6% compared to 41.2% for its benchmark. In annualised terms, the Fund has returned 25.6% since inception compared to 10.9% for its benchmark.

	1 Month	**3 Month**	**1 Year**	**3 Year (p.a.)**	**Inception (p.a.)**
Lakehouse Global Growth Fund	1.5%	3.3%	48.1%	28.8%	25.6%
Benchmark	4.4%	5.9%	24.2%	12.3%	10.9%
Excess Return	-2.9%	-2.6%	23.9%	16.5%	14.7%

The Fund's largest sector allocations at month end were to information technology (34.6%), communication services (21.1%) and consumer discretionary (18.0%). 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 being overweight companies with business models centred around intellectual property, network effects, and loyalty which we view as having superior economics and long-term prospects.

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

Company	**Headquarters**	**Lakehouse Investing Fascination**
Facebook	USA	Networks, IP
Sansan	Japan	Loyalty, Networks
PayPal	USA	Networks, Loyalty, IP
Adyen	Netherlands	Loyalty, IP
Monster Beverage	USA	IP
Visa	USA	Networks, IP, Loyalty
Amazon	USA	Loyalty, Networks, IP
Adevinta	Norway	Networks, Loyalty
MercadoLibre	Argentina	Networks, Loyalty
CoStar Group	USA	IP, Loyalty, Networks

The Fund has a good-sized U.S. presence as that 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.

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 **Facebook** (+16.2%), as investors took stock of firming ad prices and internalised that Apple's recent push to restrict data sharing with other companies only serves to improve the relative value proposition of advertising platforms which have significant first-party data, with Facebook and **Alphabet** chief among them. Meanwhile, the largest detractor to performance was **Avalara** (-13.6%), as long-duration growth names pulled back due to concerns of rising interest rates. We remain confident backers of Avalara and note the investment thesis continues to strengthen.

Selling Twilio

Also notable is that the Fund exited its investment in **Twilio** the day after the last tranche of the shares we purchased were eligible for long-term capital gains treatment. Twilio has been a significant winner for the Fund, increasing from US$78 when we built the position in the depths of the crash to US$378 on the day we exited.

Our investment in Twilio is a case study in the Fund's process in action. First, it was a business that we had long admired and kept on our watch list but had not found the right time to initiate a position. Second, thanks to read-through from following a similar business, we correctly identified that Covid might actually increase engagement of Twilio's flexible communications tools and services plus propel new customer acquisition. We realise this may seem obvious in hindsight but, with intense panic rattling markets and the shares 48% below their then-recent highs, we think it is fair to say this was a strongly non-consensus view.

Finally, while we're loath to sell great businesses on valuation as they are so few and far between, our sell decision reflects that our team does hold on regardless of price. We bought Twilio well at an enterprise value equal to about 6 times forward sales and, having exited at about 25 times, or more than double the 5-year average of 12, we'd like to think we've exited at a reasonable time as well with a price that largely captures many of the positive attributes we see in the business. To that end, we will continue to follow the business closely and would gladly re-open a stake should a more attractive entry point present itself.

New Position: CoStar Group

Finally, we'll wrap things up with a brief introduction to one of the Fund's newest positions, **CoStar Group**. Founded in 1987, CoStar has grown to become the leading provider of data, analytics, and online marketplaces to the commercial real estate industry in the US. The company's core business is its original real estate data service, the CoStar Suite, which is a massive database of commercial real estate information which the company has painstakingly built over the last three decades. The database is supported by the largest research department in the industry with 1,800-plus researchers that make about 50,000 calls per day. Over time, CoStar has become deeply embedded into the daily workflow of a fragmented landscape of industry professionals, including real estate brokers, owners, banks and governments.

The CoStar Suite is largely unmatched in terms of the breadth and depth of information it provides -- we've heard it referred to as the Bloomberg of real estate -- and has essentially become a 'cost of doing business' for those operating in the commercial real estate market. To that end, the CoStar Suite has consistently attained renewal rates of 90%-plus, with the figure typically exceeding 95% for clients who have been customers for 5 years or longer. Furthermore, CoStar only saw renewal rates drop to about 85% during the global financial crisis, which is impressive given the downturn was particularly severe and affected real estate much more acutely than previous recessions.

In more recent times, CoStar has moved beyond its core data service with a handful of acquisitions that facilitated its entry into the online marketplace domain. Most notably, the company acquired LoopNet in 2012 and Apartments.com in 2014, which have now grown to become the leading commercial and multi-family marketplaces in the US, respectively. For a sense of scale, LoopNet is roughly 20 times larger than its nearest competitor, Crexi, whilst Apartments.com is roughly 4 times larger than its nearest competitor, RentPath. We remain excited for the opportunity ahead as CoStar's scale and market leadership afford tremendous pricing power and platform optionality, particularly in the hands of such an adroit capital allocator as founder and CEO Andrew Florance.

Thank You

Thanks again to all our investors for your time and trust. We appreciate it a great deal.

Best Regards,

Lakehouse Capital

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