LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 May 2021

Dear Lakehouse Investor,

May was a relatively busy month for the Fund given a number of portfolio companies reported earnings. We'll speak about results from a few key holdings shortly but, big picture, we've been very pleased with the collective performance of our businesses and that global economic activity is gaining steam. To that end, we'll speak in greater detail about the portfolio, performance, and our outlook in the upcoming annual letter that will be published in late July.

Fund Metrics	
Fund Net Asset Value	$346.0 million
Net Asset Value per Unit (mid)	$2.11
Cash Allocation	8.1%
Top 10 Portfolio Holdings	61.4%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

The Fund returned -1.4% net of fees and expenses for the month compared to 1.3% for its benchmark. Over the last 12 months, the Fund has returned 26.6% compared to 21.6% for its benchmark. Since inception at the start of December 2017, the Fund has returned a total of 122.2% compared to 47.3% for its benchmark. In annualised terms, the Fund has returned 25.6% since inception compared to 11.7% for its benchmark.

	1 Month	**3 Month**	**1 Year**	**3 Year (p.a.)**	**Inception (p.a.)**
Lakehouse Global Growth Fund	-1.4%	5.5%	26.6%	28.4%	25.6%
Benchmark	1.3%	8.8%	21.6%	13.0%	11.7%
Excess Return	-2.7%	-3.3%	5.0%	15.4%	13.9%

The Fund's largest sector allocations at month end were to information technology (32.7%), communication services (24.2%) and consumer discretionary (18.3%). We expect to have material allocations to these sectors over time as the sectors, or at least subsets of them, are overweight business models that lend themselves to strong long-term performance, namely intellectual property, network effects, and loyalty.

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

Company	Headquarters	Lakehouse Investing Fascination
Facebook	USA	Networks, IP
PayPal	USA	Networks, Loyalty, IP
Adevinta	Norway	Networks, Loyalty
Visa	USA	Networks, IP, Loyalty
Sansan	Japan	Loyalty, Networks
Adyen	Netherlands	Loyalty, IP
Monster Beverage	USA	IP
Alphabet	USA	IP, Networks
Amazon	USA	Loyalty, Networks, IP
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 isn't as US-heavy as it might look at first blush, though, with 63% of the revenue from the Fund's portfolio companies coming from outside the US and holdings 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 **Games Workshop** (+12.8%), a relatively new holding that we will introduce to investors for the first time in this letter.

The Fund's largest detractor during the month was **MercadoLibre** (-13.7%), which sold off in a tough environment for high-growth companies despite an objectively strong first quarter result. How strong? Net revenue growth accelerated for the fourth consecutive quarter, this time up 111% year-on-year in US dollar terms. The shares might be off their highs but we remain very pleased with the company's strategy and execution across its marketplace, payments, and logistics businesses.

Turning to Games Workshop, which is arguably our quirkiest and most differentiated position yet. The company was founded in London in 1975 as a manufacturer of wooden boards for games by 3 schoolmates (the founders are no longer with the company). Not long after its inception, the company forayed into fantasy board games which remains its core business. In its present day avatar, Games Workshop manufactures plastic and resin miniatures, branded Citadel and Forge World respectively, based on fantasy universes created by its designers at company headquarters in Nottingham, UK. The figurines are coveted and assembled as collectibles by enthusiasts of Games Workshop's proprietary Warhammer and Warhammer 40K gaming universes, painted, and then used to play sprawling tabletop games using rules found in a library of 30-odd source books (called the Black Library). Games Workshop also holds a licence for The Lord of the Rings and the Hobbit games though this is no longer a material part of the business.

Games Workshop's competitive advantage lies in the fact that it is one of the few, if not only, fully vertically integrated makers of tabletop games, miniatures, and content universes with a relentless focus on product quality, which explains why the Warhammer brand has been around for 30-plus years in the fickle world of gaming. Games Workshop recognises that recruiting customers to the franchise is hard work and thus looks to its 500-plus company-operated retail stores to not only sell its wares but to act as community hubs where local gamers get together to play and talk shop.

CEO Kevin Rountree, who joined the company in 1998 and became CEO in 2015, has led the company to more actively engage with its community, establish a digital presence, make the company's games more accessible to new and younger players, and explore newer ways to monetise the company's unique IP. Indeed, the company's online community now has a user base of over 8 million while the Warhammer YouTube page has nearly 500k followers. We value that loyalty, a committed and creative CEO, the company's strong and net-cash positive balance sheet, and a prudent approach to capital allocation.

A key aspect of our thesis that has already begun to unfold in the short time we've held this position is the company creatively and aggressively exploring ways to distribute and monetise its unique trove of IP. Namely, we expected Games Workshop to take further steps into the media and entertainment space, which has unfolded in two ways. First, the company hired a veteran of toys and games giant Hasbro to extensively mine the Warhammer universe for stories and characters that could be leveraged into animated and live-action content. And, more recently, the company announced that it is launching its own bespoke streaming platform, Warhammer+.

Warhammer+ will feature 11 animated shows and will launch in July 2021. Though we don't have details around pricing or a subscription model, we have run our own scenarios and are of the view that streaming could be accretive at scale plus enhance interest in collecting and gaming among viewers, though it remains to be seen whether Games Workshop can successfully overcome the commercial and technical challenges involved. Regardless of the success of this new venture, we think the company's main business model is attractive in itself, and we remain patient investors as Games Workshop continues focusing on its mission: "The best fantasy miniatures in the world. Forever."

And now let's turn back to results from key holdings that reported in the month, starting with PayPal, whose first quarter was very impressive. Revenue grew 29% year-on-year in constant currency terms on the back of a 21% increase in active accounts and 46% increase in total payment volume. The number of annual payment transactions per user increased by 8% to 42 times, showcasing not only the health of the network but also the high frequency with which users pay with PayPal. We think there's still a long runway for growth, though, considering the average American makes around 860 payment transactions a year and that US online retail still only makes up about 20% of total retail sales despite the pull-forward in online demand from COVID-19. Ah, and speaking of COVID-19, we note that PayPal raised revenue guidance for the year despite the reopening of the core US economy and eBay de-platforming its payment processing over to Adyen at a faster than expected clip.

On top of the above, we note that PayPal's optionality has increased with its scale. The company has launched a buy now, pay later product on which it is seeing strong uptake, has enabled the purchase of cryptocurrencies in the US, now has more than 1 million merchants accepting PayPal in-store via QR codes, and that Millennial-centric payment option Venmo continues to thrive. The business is also launching a 'super app' later this year aimed at helping consumers make the most of their money. Combine a thriving core business with multiple legs for additional growth and it isn't hard to see why PayPal remains a large position for the fund despite its strong run.

Adevinta reported a good result considering the tough operating environment of continued lockdowns and a weak jobs market. Revenue and EBITDA grew 6% and 33% year-on-year, respectively, with a recovery playing out in terms of website visits and leads in most of its markets. We view these core operating measures as a harbinger for the eventual economic reopening, which is unfortunately taking longer in Adevinta's core markets of France, Spain, and Brazil but will eventually happen nonetheless.

The highlight of the quarter was Leboncoin, the company's French business. Revenue growth accelerated to 15% year-on-year due to strong real estate and used car markets along with continued progress in the company's shift towards being more involved in the transactions that take place on its platform. Transactional services revenues were up by more than 3 times, which bodes well for the company's longer term growth prospects and opportunities.

Adevinta has also addressed key concerns by the UK's competition regulator and has found a buyer for its UK assets to get the eBay Classifieds deal across the line. The company looks to be well positioned as countries start to reopen for the European summer. We look forward to the company's Capital Markets Day in the second half of the calendar year, soon after the eBay deal is finalised.

Thank You

The Fund successfully completed its change of Responsible Entity vote during the month. We'd like to thank all our investors for their support and making it such a smooth process. Our Operations team is in the process of making the required changes, which include an updated Product Disclosure Statement and some changes to the application forms in the weeks ahead.

Thanks again for your support, time, and trust. We look forward to diving into our performance, key holdings, outlook, and more in the upcoming annual letter.

Best Regards,

Lakehouse Capital

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