LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 July 2021

Dear Lakehouse Investor,

Fund Metrics	
Fund Net Asset Value	$396.0 million
Net Asset Value per Unit (mid)	$2.2761
Cash Allocation	6.7%
Top 10 Portfolio Holdings	62.0%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

July 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 how they are positioned for the ongoing global economic recovery. The recovery is happening in fits and starts, as we discussed in our recent annual letter, but we remain directionally optimistic.

The Fund returned 3.2% net of fees and expenses for the month compared to 2.8% for its benchmark. Over the last 12 months, the Fund has returned 31.2% compared to 29.9% for its benchmark. Since inception at the start of December 2017, the Fund has returned a total of 145.1% compared to 58.2% for its benchmark. In annualised terms, the Fund has returned 27.7% since inception compared to 13.3% for its benchmark.

	1 Month	3 Month	1 Year	3 Year (p.a.)	Inception (p.a.)
Lakehouse Global Growth Fund**	3.2%	8.8%	31.2%	30.8%	27.7%
Benchmark*	2.8%	8.9%	29.9%	14.1%	13.3%
Excess Return	0.4%	-0.1%	1.3%	16.7%	14.4%

***Performance calculations are based on exit price with distributions reinvested, after fees and expenses, since inception on 30 November 2017. *Benchmark: MSCI All Country World Index net total returns (AUD). Past performance is not indicative of future returns*

The Fund's largest sector allocations at month end were to information technology (34.5%), communication services (24.7%) and consumer discretionary (18.0%). 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
Visa	USA	Networks, IP, Loyalty
PayPal	USA	Networks, Loyalty, IP
Sansan	Japan	Loyalty, Networks
Adyen	Netherlands	Loyalty, IP
Adevinta	Norway	Networks, Loyalty
Alphabet	USA	IP, Networks
Amazon	USA	Loyalty, Networks, IP
Monster Beverage	USA	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 59% 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 **Adyen** (+13.5%), as eBay's transition away from PayPal went ahead of schedule. The Fund's largest detractor during the month was **Sansan** (-5.6%), which sold off as the company guided for lower short term profitability due to higher reinvestment into the business. More on that later.

Facebook reported outstanding second-quarter results with revenue up 56% year-on-year and operating margins swelling from 32% to 43%. The number of individuals who use at least one of Facebook, Instagram, WhatsApp, or Messenger grew 12% year-on-year to 2.76 billion but the real gasoline on the fire was a 47% leap in the average price per ad served. The jump in ad pricing is somewhat cyclical given the business is rolling over a historically weak result from the second quarter of 2020, however, we think there is a structural element in play as well. Ad prices are up 9% over the last two years as the number of merchants on Facebook's platforms has surged, secular growth in ecommerce has been pulled forward, and advertisers are learning to create more effective messaging for stories-formatted ads.

It's also helpful to unpack some of the data to underscore how broad-based growth is right now. Not only did the number of daily active users of the core Facebook platform increase by 7% to 1.91 billion -- a platform that many have existentially questioned in recent years -- but the number of individuals who use at least one of only Instagram, WhatsApp, and Messenger increased by around 24%. Also consider that the widening in margins happened despite a 37% increase in research and development and signalling from serial sandbagger CFO David Wehner. Turns out that not even Facebook's trying to build its own metaverse can stop a fast-growing business with 82% gross margins from demonstrating operating leverage.

We're pleased with what we're seeing in the core ads business but also that Facebook continues to focus on the future via its ongoing commitment and success in building out the Oculus ecosystem, an expansion of payments options including on WhatsApp in Brazil and India, and Facebook's progressively moving further down the commerce stack towards the point of sale. We continue to watch the regulatory environment closely but the confluence of the strong ads business, multiple call options, US$64 billion in cash, and a very reasonable valuation all reinforce why Facebook is among our largest positions.

Visa delivered another solid quarter driven by strong US growth, the ongoing displacement of cash with digital transactions, and a recovery in cross-border volume as the world crawls out of its COVID shell. Visa processed 42.6 billion transactions on its network, up 39% year-on-year and 20% above levels two years ago, driving US$2.7 trillion in total payments volume, both of which have more than recovered from the impacts of COVID. Individuals' spending carried most of the load here but it's worth highlighting that the total number of cards in Visa's network grew 6% year-on-year to 3.6 billion.

Visa isn't sitting still despite its strong positioning. The company continues to win and expand partnerships with leading global technology companies such as Rappi and Magazine Luiza in Latin America, Kakao Pay in South Korea, and Paytm in India. On new payment flows, Visa Direct shows continued strength with transaction growth of more than 50% year-on-year. Further, Visa recently announced the acquisition of CurrencyCloud, which we believe further enhances the company's capabilities to provide better foreign exchange services. On top of a business model that is inherently inflation-agnostic, Visa has multiple growth levers and looks to be in a good position to further benefit as the ongoing economic reopening unfolds.

PayPal reported impressive growth with revenue up 18.6% year-on-year despite a tough comparable period in the prior year and headwinds due to eBay's transition of its payment processing business to Adyen. PayPal's operational metrics remain strong with total payment volumes (TPV) up 40% to $311 billion, active accounts up 16% to 403 million, and annual payment transactions per active account up 11% to 43.

The core PayPal business is going strong but we're also pleased with progress in other initiatives. Namely, that Pay With Venmo revenues increased by 183% and that PayPal's buy now, pay later offering reached a total of US$3.5 billion in TPV, or roughly a fifth of Afterpay's annual volume, since it launched last year. Aside from these initiatives, we can see significant opportunities with in-store and omnichannel offerings for merchants and super app capabilities such as shopping tools, bill payment, investment products and cryptocurrencies.

The market didn't take PayPal's result well due to eBay's faster than expected transition, however, this transition, known about for years, was only a question of when, not if, and will likely prove inconsequential over the span of our investment horizon. Over the long run, we are happy to see PayPal continue to execute very well with its core business, invest in new tools, features, and products, and partner with other leaders in financial services to better integrate PayPal into the broad payments ecosystem.

Moving on to Sansan, which continued to post strong revenue growth (+20% year-on-year) despite challenging market conditions. Operational metrics continue to show positive signs as the contact management segment of the business increased subscriptions by 14.7% while also slightly improving the already strong retention rates. The number of users (seats) grew 35% year-on-year, outpacing subscriber (firm) growth, which means improving penetration with current customers and winning new deals with larger companies. Eight, the company's professional networking subsidiary, grew premium company subscriptions by 46.8% and is working on initiatives such as event discovery to help improve user engagement. Meanwhile, new initiatives such as Bill One are growing nicely with paid subscriptions up 73% compared quarter-on-quarter and Sansan aiming for total paid subscriptions to quadruple in the next 12 months.

Sansan forecasted a revenue growth acceleration to 25-28% in the following financial year, however, the company also communicated that the business will spend more on sales and marketing to capitalise on the opportunity. The market didn't like hearing about the hit to earnings that the investment in sales and marketing will make but we're happy to see the company hit the gas on reinvestment as we estimate that each dollar spent acquiring customers generates around $4 in present value of future profit. We also liked the look of a new organisational restructure that should take down silos between sales teams and allocate more resources to high demand products such as Bill One. We remain long-term enthusiasts and are happy to see the business continue to reinvest where it makes sense.

Thank You

Thanks to the hundreds of you who were able to join us for our recent webinar and question and answer session. Our team enjoys the opportunity to engage with you all and hope that those who weren't able to attend enjoy the recording.

And, of course, thanks to *all* our investors for your support, time, and trust.

Best Regards,
Lakehouse Capital

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