

# LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 OCTOBER 2021



Dear Lakehouse Investor,

October was an eventful month for global markets as central banks laid out plans to reel in some of their COVID-19 market intervention and expectations of an interest rate response to rising inflation continued to gather pace. For our part, we don't spend too much time forecasting the macro landscape, as history is littered with incorrect 'expert opinions'. Instead, we seek to observe what's happening, assess the potential range of outcomes, and position the portfolio to continue growing regardless of what macroeconomic cocktail is served to us. To that

end, the team's primary focus for the month was on a number of portfolio companies that reported earnings. We'll speak more about results from key holdings shortly but, big picture, we continue to be very pleased with the collective fundamental performance of our businesses.

Fund Metrics	
Fund Net Asset Value	\$412.2 million
Net Asset Value per Unit (mid)	\$2.2196
Cash Allocation	9.6%
Top 10 Portfolio Holdings	59.6%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

The Fund returned -2.5% net of fees and expenses for the month compared to 1.1% for its benchmark. Over the last 12 months, the Fund has returned 22.9% compared to 28.3% for its benchmark. Since inception at the start of December 2017, the Fund has returned a total of 139.0% compared to 59.9% for its benchmark. In annualised terms, the Fund has returned 24.9% since inception compared to 12.7% for its benchmark.

	1 Month	3 Month	1 Year	3 Year (p.a.)	Inception (p.a.)
Lakehouse Global Growth Fund	-2.5%	-2.5%	22.9%	30.5%	24.9%
Benchmark	1.1%	1.1%	28.3%	15.2%	12.7%
Excess Return	-3.6%	-3.6%	-5.4%	15.3%	12.2%

*\*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 (32.7%), communication services (22.5%), and consumer discretionary (19.4%). 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	<a href="#">Lakehouse Investing Fascination</a>
Sansan	Japan	Loyalty, Networks
Meta (formerly Facebook)	USA	Networks, IP
Amazon	USA	Loyalty, Networks, IP
Alphabet	USA	IP, Networks
Visa	USA	Networks, IP, Loyalty
CoStar Group	USA	IP, Loyalty, Networks
Paypal	USA	Networks, Loyalty, IP
MercadoLibre	Argentina	Networks, Loyalty
Adevinta	Norway	Networks, Loyalty
Monster Beverage	USA	IP

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.

## Portfolio News

At the portfolio level, the biggest contributor to performance during the month was **Sansan** (+14.6%), which delivered a strong result that we'll discuss shortly. Meanwhile, the largest detractor to performance was **MercadoLibre** (-15.2%), which was under pressure due to the broad based selloff in high growth

companies, however, did also deliver an impressive result subsequent to month end that was well received by the market.

Sansan delivered another solid quarter, accelerating revenue growth to 25.4%, a five percentage point improvement compared to the previous quarter. Operational metrics continue to show positive signs as the contact management segment of the business increased subscriptions by 14.7% while continuing to improve on already strong retention rates. Eight, the company's professional networking subsidiary, grew premium company subscriptions by 33.3% and ended the quarter with almost 3 million users. This was topped off with impressive early traction in Bill One, growing paid subscriptions and monthly recurring revenues by 43.5% and 70.0% quarter-on-quarter, respectively. Management has executed well in growing the core business and building newer revenue streams. We remain long-term supporters of the business and are excited to see its transition towards a multi-product company.

**Meta** (formerly known as Facebook) reported another robust set of results with revenue growing 33% year-on-year despite headwinds from Apple's iOS changes and the broader economic environment. The core metrics of network health, namely user growth and engagement, remained strong. The number of people using at least one of their platforms (Facebook, Instagram, WhatsApp, and Messenger) on a monthly basis increased 12% to 3.58 billion. The other piece of noteworthy news was the company's decision to rebrand and change its name to Meta. The new name is largely a signal of their ambition to develop what they believe will be the next computing platform, the metaverse. The metaverse can be thought of as the next generation of the internet: moving from 'living on it' to 'living in it', a 3D digital world where we do things like play a game, see a concert or attend a work conference.

It's important to note that Meta isn't starting from scratch and has been working towards their virtual and augmented reality initiative (known as Facebook Reality Labs) since acquiring Oculus for \$2 billion in 2014. Broadly speaking, it is still very early but we like the company's chances of success along with the optionality that comes from pursuing such a significant market opportunity. That said, we are also mindful of the increased potential for capital destruction. Meta intends to spend \$10 billion this year on Facebook Reality Labs and expects the initiative to lose money for the foreseeable future. While \$10 billion is a large amount of money in absolute terms, it must be viewed in the context of a company that generated \$24 billion in free cash flow last year alone and has \$60 billion in net cash on the balance sheet. Big picture, we continue to view Facebook Reality Labs as optionality that is nice to have and will continue to track the initiative closely.

**Amazon's** third quarter results were interesting. Net sales increased 15% year-on-year to \$111 billion, while operating profit declined 21% to \$4.9 billion as the company continued to invest heavily across the business. Just one example of this is the fact they have nearly doubled the size of their fulfillment network since the pandemic began. A truly impressive feat given the scale they are operating at. Management also flagged that the fourth quarter will be challenging as various macro issues in the form of labour shortages, supply chain issues and increased freight and shipping costs will necessitate several billion in additional costs. While this will be expensive for Amazon in the short term, we view the additional costs as worthy

investments that should go a long way in minimising the impact on customers and selling partners over the holiday season. As long-time Amazon followers, we are more than happy for the company to make such long-term investments and expect the company's competitive position to strengthen in the coming months and years ahead.

**Alphabet** reported outstanding third quarter results with revenue and earnings per share up 41% and 71% year-on-year, respectively. Growth was broad based, with Search, Youtube advertising, Google Network, and Google Cloud all growing revenues north of 40%. It's impressive that a business with more than US\$200 billion in annual revenue can grow at this rate. Google's business continues to benefit from the growth in media, finance, entertainment, and travel advertising spend. Meanwhile, Youtube recently surpassed 50 million Music and Premium subscribers. Alphabet has multiple growth levers in the business and it continues to reinvest heavily in future initiatives, such as Pixel, Fitbit and Waymo.

**Visa** was again business as usual. Net revenues grew by 29% year-on-year, driven by the recovery of economies around the world. Operational metrics continue to be resilient, with payments volume and processed transactions up 17% and 21% year-on-year, respectively. Visa ended the quarter with 3.7 billion cards issued (up 7%) and 80 million merchant locations (up 14%), further increasing the value of its network. Visa Direct transactions grew 35%, surpassing 5 billion transactions in the last 12 months, showing further diversification of revenues outside of consumer payments. We view Visa to be well positioned as economies recover and cross-border travel picks up.

## Thank You & We're Hiring

As always, thanks to all our investors for your time, trust, and support. We appreciate it a great deal and hope you are settling into a new post-lockdown lifestyle.

One more thing, Lakehouse is searching for another investment analyst to add to our team. If you, or someone you know, might be interested in joining the team please refer to the additional information [here](#).

Best Regards,

[Lakehouse Capital](#)

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