

# LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

30 NOVEMBER 2021



Dear Lakehouse Investor,

November was another volatile month for global equity markets as investors continued to fret about the emergence of a new coronavirus variant and the possibility of higher interest rates due to the acceleration of inflation. Whilst we typically avoid getting too caught up in the macro or political issues of the day, it's important to note that we remain comfortable with the portfolio's positioning and its ability to perform even if the current bout of inflation does prove to be more persistent. This is primarily due to our

Fund Metrics	
Fund Net Asset Value	\$404.3 million
Net Asset Value per Unit (mid)	\$2.1864
Cash Allocation	9.1%
Top 10 Portfolio Holdings	60.4%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

deliberate and consistent focus on investing in high-quality businesses in growing markets, with durable competitive advantages, pricing power and strong balance sheets. Furthermore, as patient long-term investors, we welcome bouts of volatility rather than fear them, as they create opportunities to open or increase our stakes in businesses we rate highly at more attractive prices.

To that end, since the reinstatement of Jerome Powell as the US Federal Reserve chairman, and his indication to move sooner to stem US inflation running at 30-year highs, global growth stocks have been sold off heavily across the board. Whilst this has dented short-term performance of the Fund, it has also presented some compelling opportunities for patient investors. For example, [Visa](#), which is the world's dominant payment network operating in over 200 countries, is now selling for its lowest multiple relative to the S&P 500 since 2011. Times like these are a good reminder of the virtue of a long-term time horizon. Over the span of a few months, it is broader market moves and short-term company news that tend to shape the Fund's returns. Over the measure of years, though, the performance of the Fund gravitates towards the fundamental performance of its portfolio companies, which has broadly continued to be pleasing despite the macro volatility.

Turning to performance, the Fund returned -1.5% net of fees and expenses for the month compared to 3.4% for its benchmark. Over the last 12 months, the Fund has returned 14.4% compared to 23.9% for its benchmark. Since inception at the start of December 2017, the Fund has returned a total of 135.4% compared to 65.3% for its benchmark. In annualised terms, the Fund has returned 23.8% since inception compared to 13.4% for its benchmark.

	1 Month	3 Month	1 Year	3 Year (p.a.)	Inception (p.a.)
Lakehouse Global Growth Fund	-1.5%	-9.2%	14.4%	30.0%	23.8%
Benchmark	3.4%	1.4%	23.9%	17.1%	13.4%
Excess Return	-4.9%	-10.6%	-9.5%	12.9%	10.4%

*\*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 (31.9%), communication services (22.6%), and consumer discretionary (20.4%). 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>
Amazon	USA	Loyalty, Networks, IP
Meta (formerly Facebook)	USA	Networks, IP
Sansan	Japan	Networks, Networks
Alphabet	USA	IP, Networks
Visa	USA	Networks, IP, Loyalty
CoStar Group	USA	IP, Loyalty, Networks
PayPal	USA	Networks, Loyalty, IP
MercadoLibre	Argentina	Networks, Loyalty
Monster Beverage	USA	IP
LVMH	France	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 57% 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

The biggest contributor to portfolio performance during the month was **Amazon** (+10.2%), which performed well as investors reacted favourably to a strong set of results delivered at the end of October. Meanwhile, the largest detractor to performance was **PayPal** (-15.8%), which came under pressure after management issued cautious guidance and the stock also suffered as a result of the broad-based selloff across the payments sector.

PayPal posted a relatively modest quarter with revenue growing 13%. Whilst this headline growth number was softer than prior quarters, it was largely in line with analysts' expectations and also impacted by a tough comparable period of 25% growth from last year and the ongoing eBay transition headwind. All indicators were healthy when it came to the company's operational metrics: total payment volume (TPV) for the quarter increased 24% (31% ex-eBay), in constant currency terms and active accounts grew 15% to 416 million users. Average transactions per account increased 10% to 44, which we view as a pleasing sign of increasing engagement. The company's buy-now-pay-later (BNPL) initiative has also shown strong traction, generating US\$2 billion in TPV from 9.5 million consumers. It's impressive to consider that PayPal has effectively built a BNPL offering which is roughly equivalent to Affirm's entire business within a year.

While the eBay transition is a drag on the business today, we take the long-term view that this will eventually play out as a net positive for the company. As the exclusivity agreement wears off, PayPal is allowed to partner with other fast-growing marketplaces, and to that end, the company recently announced that Venmo will become a payment checkout provider for Amazon starting in 2022. The company lost its exclusivity with eBay (4% of the US ecommerce market) but gained access to Amazon (~40% of the US ecommerce market). Aside from Amazon, the company also announced deals with Walmart and Booking.com. Looking ahead, we envision multiple opportunities for the company to create value as product initiatives such as cryptocurrencies, BNPL, bill payments and shopping tools help boost engagement and decrease customer churn. Overall, we remain patient investors and are excited about the size of the opportunity ahead.

Lastly, we'll take the opportunity to call out another top 10 portfolio holding that has taken it on the chin due to the recent broad-based sell-off of growth stocks: **MercadoLibre**. The stock is down 40% during the last few months despite continuing to grow revenue at mid 60% over the same timeframe.

MercadoLibre's marketplace business has seen growth across all its markets and generated \$7.3 billion in gross merchandise value, up 24% from last year. The company continues to invest in its logistics capabilities, now being able to deliver 80% of all items sold within 48 hours. As the company lowers the friction of buying

items online, we expect the business will continue to attract more buyers and sellers to transact on the platform. On the fintech side, business has been robust, reporting TPV of \$20.9 billion, up 44% from last year. The company ended the quarter with roughly 70 million fintech users or 10.5% of the Latin American population. It's impressive that the business has grown so much but, in many ways, is still in its early days. We see significant opportunities ahead given the relatively nascent penetration of e-commerce and the size of the underbanked population in Latin America. Overall, we remain supportive and impressed with the company's execution.

## What's Next

Another friendly reminder that we're hosting a client webinar on Thursday 16 December and look forward to answering questions from Lakehouse investors. You can register [here](#).

As always, thanks to all our investors for your time, trust, and support. We appreciate it a great deal and hope you and your loved ones have an enjoyable and relaxing break over the holiday period.

Best Regards,

[Lakehouse Capital](#)

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