LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 March 2022

Dear Lakehouse Investor,

The war in Ukraine continued to impact the global economic landscape throughout March, as did inflation and interest rate expectations, and to a lesser extent, COVID-19. There are certainly plenty of macro concerns in the world today, but history has shown equity markets' ability to 'climb the wall of worry' despite such significant, albeit temporary, events.

Fund Metrics	
Fund Net Asset Value	$300.2 million
Net Asset Value per Unit (mid)	$1.7347
Cash Allocation	6.1%
Top 10 Portfolio Holdings	58.4%
Companies Held	22
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

The full impact of the West's economic sanctions against Russia is still evolving, but the impact of higher prices for energy and commodities is spilling over to equity markets with these sectors among the best performing in recent months. The recent tick-up in commodity and energy prices does not impact our long-term view that those sectors – whilst economic building blocks – are typically capital-intensive price takers with limited long-term structural advantages. That is not a sea where we would go fishing for investing ideas.

Our investment process focuses on businesses which, we believe, possess superior economics, positioning our companies with a winning edge over the long-term. Specifically, our process seeks out businesses with one or more of: extremely loyal customers, network effects, and unique and enduring intellectual property. Most of those businesses tend to congregate in a few industries (such as technology, healthcare, consumer goods) while they are rarely found in others (eg. commodities), supporting our continued focus on the former in spite of recent events.

Turning to performance, the Fund returned -3.4% net of fees and expenses for the month compared to -1.3% for its benchmark. Over the last 12 months, the Fund has returned -12.6% compared to 8.8% for its benchmark. Since inception at the start of December 2017, the Fund has returned a total of 86.8% compared to 53.6% for its benchmark. In annualised terms, the Fund has returned 15.5% since inception compared to 10.4% for its benchmark.

	1 Month	3 Month	1 Year	3 Year (p.a.)	Inception (p.a.)
Lakehouse Global Growth Fund	-3.4%	-20.1%	-12.6%	14.9%	15.5%
Benchmark	-1.3%	-8.4%	8.8%	11.7%	10.4%
Excess Return	-2.1%	-11.7%	-21.4%	3.2%	5.1%

**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 as of the end of March were to information technology (33.6%), communication services (23.0%), and consumer discretionary (22.6%). We expect to have material allocations to these sectors over time as they play well to our proprietary Fascinations framework, encompassing intellectual property, network effects, and loyalty.

The Fund held 22 positions as of the end of the month, the ten largest of which are listed below:

Company	Headquarters	Lakehouse Investing Fascination
Amazon	USA	Loyalty, Networks, IP
Visa	USA	Networks, IP, Loyalty
MercadoLibre	Argentina	Networks, Loyalty
Alphabet	USA	IP, Networks
CoStar Group	USA	IP, Loyalty, Networks
MarketAxess	USA	Networks, Loyalty
Avalara	USA	Loyalty, IP
Sansan	Japan	Loyalty, Networks
Tencent	China	Networks, IP, Loyalty

Paypal	USA	Networks, Loyalty, IP

Looking through the top 10, the Fund looks to be predominantly US-focused, which is accurate only to the extent that we believe the US market is home to a large number of high-quality growth companies. However, with 58% of portfolio company revenue coming from outside the US, and with Fund holdings headquartered in the UK, Netherlands, Canada, Argentina, France, China, Japan, and Norway, that US-centric focus can be misleading.

Portfolio News

The biggest contributor to portfolio performance during the month was Sansan (+27.8%), driven by an across-the-board stock price recovery for Japanese growth companies. Meanwhile, the largest detractor was Tencent (-14.4%), which was volatile during the month due to the resurfacing of Chinese regulatory concerns and results which fell short of consensus expectations. We'll talk to each of those shortly, but first, we would like to introduce Spotify, one of our newer portfolio holdings, to our investors.

In saying that, we're fairly confident our investors need no formal introduction to the ubiquitous music streaming app, and the reason for our confidence lies in Spotify's 400-million-plus monthly active users (or MAUs), across 180+ countries, growing a healthy near-20% year-on-year. For a bit of Spotify history, the company was founded by Daniel Ek and Martin Lorentzon in 2006. Ek has impressive entrepreneurial and technology credentials, having founded an online advertising startup which he sold to a company founded by Lorentzon, and having held senior roles at a Nordic auction company which was eventually acquired by eBay. The two remain engaged with the business, which is what we like to see; the co-founders together own roughly 20% of the company, which explains why Ek has foregone a base salary since mid-2017.

Spotify's competitive advantage stems from its market-leading position in the global audio streaming industry -- the company has cornered nearly a third of music subscribers worldwide leveraging its freemium business model, beating back formidable competitors which include the likes of Apple and Amazon. Not surprising then that Spotify's loyal subscribers streamed 110 billion hours of content during 2021, listening to over 80 million soundtracks and more than 3.5 million podcasts.

The business model is flexible enough to accommodate the growth of both, paying (or Premium) subscribers, and the younger ones who download the app on their devices on a lark, hungry for entertainment. Those free (or Ad-Supported) users serve as a funnel to the company's ever-growing Premium fans; the latter are happy to cough up a monthly fee in exchange for a vast library of ad-free audio content. Spotify monetises its Ad-Supported Service by, you guessed it, selling advertising impressions to agencies, ad-tech platforms, and large firms, though we believe there is a latent opportunity to sell ads back to content creators, through what Spotify terms the Two-Sided Marketplace. This development allows the company to make better use of its stockpile of data on user behaviour, which could be of value to music labels, keen for insights and analytics on how content is discovered and consumed.

Speaking of music labels, one of the key areas we've explored relating to the thesis is Spotify's relationship status with music producers, and like all healthy relationships we've arrived at the conclusion that it's complicated. Currently, about 80% of all music content on Spotify is owned by four groups, namely Universal Music, Sony, Warner Music, and Merlin. These firms have considerable bargaining power in the equation given Spotify pays them heavy royalties for their music content, though the labels need Spotify just as much given its market leadership and cachet with users. Additionally, there is increasing evidence to suggest that Spotify's share of royalties is fairly meaningful to the labels themselves, and that share is growing faster versus its bigger rivals.

While consumers (and investors) today may think of Spotify as primarily a platform for streaming recorded music, our long-term thesis envisages the company's market leadership broadening to *all* forms of audio content. Management has already initiated these efforts through investments into podcasts, audiobooks, and live audio. These efforts benefit consumers, driving an increase in use cases and engagement time, ultimately adding more value to their subscriptions, while the business model should evolve to paying out all relevant parties based on usage. Notably, podcasts and audiobooks operate outside of the current royalty arrangement with music labels, and as their earshare increases, Spotify's margins could rise. All that is to say we are fond of the thesis' key traits: a large and growing addressable market, strong customer loyalty, and significant untapped monetisation and margin uplift potential.

Changing gears (or music genres, pick your analogy) to Sansan. Shares performed strongly during March more than recovering the losses from last month. We met with management towards the end of February and remain enthusiastic about Sansan's future prospects -- the company continues to win new contracts for Bill One, Contract One, and its core Sansan service. Further, it continues to reinvest heavily into Bill One on the back of its conviction around the overall opportunity, favourable unit economics, and success in terms of win rates against competitors. The company is also testing a sending functionality for Bill One aimed at creating a network, which could potentially open up new revenue streams. We are pleased with the company's progress and remain excited about its product development roadmap.

Moving on from Japan to China, where it was a volatile month for shares in Tencent owing to a combination of regulatory developments and a business update. On the regulatory front, the Chinese government vowed to take measures to support the economy and revised its audit secrecy laws relating to Sino-US listings, which helped boost sentiment towards Chinese stocks. With regards to Tencent's results released during the month, the primary drag was its advertising business which declined due to soft macroeconomic conditions and tighter regulations. The company's focus is now on reworking its ad systems to better manage the changes around data collection, data privacy, and targeted marketing. Our expectation is that navigating these changes is manageable and that the advertising business will return to growth later this year. In our view, we continue to believe the range of outcomes is attractive at current levels, noting that the shares are priced attractively and have only been cheaper during the GFC.

Thank You

April is likely to be chock-full of portfolio company earnings and business updates, and we look forward to updating our investors on those.

Thank you to our investors for your time and trust.

Best Regards,

Lakehouse Capital

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