# LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 October 2022

Dear Lakehouse Investor,

October was a relatively busy month for the Fund as a number of portfolio companies reported earnings. We'll speak more about results from key holdings shortly but, big picture, we continue to be pleased with the collective fundamental performance of our businesses.

The Fund returned 3.4% net of fees and expenses for the month compared to 6.6% for its benchmark. Over the past 12 months, the Fund has returned -27.9% compared to -6.0% for its benchmark. Since its inception at the start of December 2017, the Fund has returned 72.3% compared to 50.3% for its benchmark. In annualised terms, the Fund has returned 11.7% since inception compared to 8.6% for its benchmark.

| Fund Metrics | |
|---|---|
| Fund Net Asset Value | $237.9 million |
| Net Asset Value per Unit (mid) | $1.4011 |
| Cash Allocation | 5.6% |
| Top 10 Portfolio Holdings | 64.1% |
| Companies Held | 20 |
| Benchmark | MSCI All Country World Index Net Total Returns (AUD) |

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| | 1 Month | 3 Month | 1 Year | 3 Year (p.a.) | Inception (p.a.) |
|---|---|---|---|---|---|
| Lakehouse Global Growth Fund | 3.4% | -0.6% | -27.9% | 8.7% | 11.7% |
| Benchmark | 6.6% | 0.8% | -6.0% | 7.5% | 8.6% |
| Excess Return | -3.2% | -1.4% | -21.9% | 1.2% | 3.1% |

**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 October were to information technology (33.6%), consumer discretionary (20.5%), and communication services (19.1%). 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 |
|---|---|---|
| Amazon | USA | Loyalty, Networks, IP |
| CoStar Group | USA | IP, Loyalty, Networks |
| MercadoLibre | Argentina | Networks, Loyalty |
| Visa | USA | Networks, IP, Loyalty |
| ServiceNow | USA | Loyalty, Networks |
| Alphabet | USA | IP, Networks |
| Constellation Software | Canada | Loyalty, IP |
| Charles Schwab | USA | Loyalty, IP, Networks |
| Sansan | Japan | Loyalty, Networks |
| LVMH | France | IP |

## Portfolio News

Zooming back into the portfolio, the biggest contributor to performance during the month was **Costar Group** (+19.4%), which delivered a strong result that we'll discuss shortly. Meanwhile, the largest detractor was **Tencent** (-22.4%), which remained under pressure along with Chinese equities more broadly.

The Fund's largest position, **Amazon**, reported a solid quarterly result with net sales increasing 15% year over year (19% in constant currency terms) to $127 billion. However, the business isn't without its challenges and the company is seeing increasing macro pressures across both retail and Amazon Web Services (AWS), which resulted in guidance for the fourth quarter coming in below prior expectations. As has been the case for the last several quarters, profitability also remains under pressure due not only to external macro factors, such as elevated shipping and fuel costs, but also lower productivity and efficiency costs as a result of some overcapacity on the back of its recent investment cycle. While this does create some near term uncertainty, we continue to believe Amazon is well positioned to manage these issues and remains on track to deliver significant profit improvements over the next twelve months.

Aside from e-commerce, the two other most critical segments, AWS and advertising, grew 28% and 30% year-on-year, respectively. While AWS' growth remains healthy, especially considering its scale, it was a noticeable slowdown from the 33% growth delivered last quarter. Management attributed the deceleration to the fact that they are seeing an increasing number of customers who want to control their cloud computing costs as the economy slows, and the company is proactively helping them move to lower storage tiers or instance levels, while also leveraging its own AWS Graviton chips. In our view, the current pressures Amazon is facing are largely macro-driven and not fundamental. We believe they will prove manageable with time and that the long term risk/reward is very compelling at these levels. As such, we remain patient holders and also note that the valuation is currently the most attractive it has been since the GFC at 5x trailing gross profit.

CoStar Group delivered another impressive result with revenue and EBITDA growing 12% and 6% year-on-year, respectively. Annualised net new sales bookings, which are an indicator of future revenue growth, were up 62% year-on-year, which marked their second-best quarter on record. The company's core business, the CoStar Suite, continues to grow at above-trend rates with revenue up 16% compared to mid-single-digits 18-months ago. In similar fashion to previous quarters, strength was driven by multiple factors, including CoStar's upsell program, high renewal rates, new product and information capabilities and the return of annual price increase for renewals, which had been temporarily put on hold during the pandemic. It was also pleasing to see contract renewal rates tick up to 93% from 91% last quarter, implying a very healthy customer life of ten-plus years.

When it comes to CoStar's online marketplaces, namely Apartment.com and LoopNet, core metrics were resilient and both platforms continue to cement their leadership positions. For Apartments.com, net new bookings increased 192% year-on-year and management is now confident that they have turned the corner with respect to last year's high occupancy headwinds. Apartment vacancy rates increased for the fourth straight quarter and are now at 6.1% compared to their all-time low of 5.1% experienced a year ago. Management believes the market environment will only continue to improve over the next several quarters, which is in stark contrast to the broader economy. They expect Apartments.com will be able to return to the roughly 20% pre-pandemic annualised growth rate. Overall, business momentum is strong and we remain excited about CoStar's future and believe that the company's scale and market leadership will drive growth for many years to come.

Visa continued its long run of steady growth with both net revenue and earnings per share increasing by 19% year-over-year. The company processed 61.9 billion transactions during the quarter, which drove US$2.9 trillion in total payments volume. The return of travel-related spend post-pandemic continues to be a tailwind for the business and it was pleasing to see cross-border volume growth maintain its recent momentum, up 49% year-over-year, excluding intra-Europe. Management also provided some positive commentary on the macro environment, which was reassuring, especially given the heightened recessionary fears at present. They highlighted stable trends that were relatively broad-based and emphasised stability in e-commerce and a general shift in spending away from goods toward services and experiences. Big picture, we remain long-term holders and believe that the combination of an attractive industry structure and the ongoing secular shift towards digital payments provides a strong foundation that will enable Visa to continue growing at attractive rates for many years to come.

Despite a challenging environment, US-based software company ServiceNow performed well and reported revenues of $1.8 billion for the quarter, up 29% year-over-year in constant currency terms. The company's operational metrics continue to be resilient, with remaining performance obligations growing 25% year-on-year in constant currency terms, total customers with over $1 million in annual contract value (ACV) growing 22%, and renewal rates holding firm at 98%. Performance was evenly spread across segments, products, and geographies, with notable strength in the US federal, which had its best quarter ever including a $20 million-plus net new ACV win. The company now boasts 1,530 customers generating in excess of $1 million in ACV, which is pleasing to see as it implies multiple solutions are involved and that the company's platform model is increasingly resonating with customers. We continue to believe that ServiceNow is one the highest quality software businesses around as the combination of consistent growth at scale, robust free cash flow generation and a large addressable market make it a compelling opportunity.

## Thank You

As always, thank you to our investors for your continued support and trust.

Best Regards,

Lakehouse Capital

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