LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 January 2023

LAKEHOUSE CAPITAL

Dear Lakehouse Investor,

January was a positive month for the Fund due to the combination of some encouraging economic data and earnings results. On the macro front, the most recent US inflation print cooled for the sixth straight month and provided renewed optimism that the Federal Reserve may soon be close to ending its aggressive tightening cycle. As always, though, 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 below but, big picture, we continue to be pleased with the collective fundamental performance and long-term growth profiles of our businesses.

Fund Metrics	
Fund Net Asset Value	$243.8 million
Net Asset Value per Unit (mid)	$1.4742
Cash Allocation	7,2%
Top 10 Portfolio Holdings	61.9%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

The Fund returned 10.9% net of fees and expenses for the month compared to 3.1% for its benchmark. Over the past 12 months, the Fund has returned -15.6% compared to -8.0% for its benchmark. Since its inception at the start of December 2017, the Fund has returned 81.3% compared to 51.4% for its benchmark. In annualised terms, the Fund has returned 12.2% since inception compared to 8.3% for its benchmark.

	1 Month	3 Month	1 Year	3 Year (p.a.)	5 Year (p.a.)	Inception (p.a.)
Lakehouse Global Growth Fund	10.9%	5.2%	-15.6%	5.9%	13.6%	12.2%
Benchmark	3.1%	0.7%	-8.0%	5.0%	8.5%	8.3%
Excess Return	7.8%	4.5%	-7.6%	0.9%	5.1%	3.9%

**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. Returns greater than one year are annualised*

The Fund's largest sector allocations as of the end of January were to information technology (31.5%), communication services (21.4%), 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	Lakehouse Investing Fascination
MercadoLibre	Argentina	Networks, Loyalty
Amazon	USA	Loyalty, Networks, IP
Visa	USA	Networks, IP, Loyalty
CoStar Group	USA	IP, Loyalty, Networks
ServiceNow	USA	Loyalty
Constellation Software	Canada	Loyalty, IP
Alphabet	USA	IP, Networks
MarketAxess	USA	Networks, Loyalty
LVMH	France	IP
Sansan	Japan	Loyalty, Networks

Portfolio News

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 58% of the revenue from the Fund's portfolio companies coming from outside the US and holdings headquartered in the Netherlands, Canada, Argentina, China, Japan, Singapore and Sweden.

At the portfolio level, the biggest contributor to performance during the month was MercadoLibre (+34.4%), which performed well on news that one of its largest competitors in the Brazilian e-commerce space, Americanas, identified 20 billion reais (US$3.9 billion) in accounting irregularities. This ultimately led to the company filing for bankruptcy shortly after on 20 January. Meanwhile, the largest detractor was Charles Schwab (-10.5%), which pulled back as long-term interest rates declined modestly.

Amazon reported a solid quarterly result with net sales up 9% year-on-year (12% in constant currency terms) to $149 billion and operating profit (excluding one-off impairment charges) up 54% to $5.4 billion. As has been the case over the last several quarters, Amazon continues to face cost pressures 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. We were pleased to see progress being made on the operational side, which was masked by impairment charges, and also hear that management expects to see a big improvement in operating leverage from the North American operations over 2023. As such, we continue to believe the profitability issues are manageable and that Amazon remains on track to deliver significant profit improvements over the next twelve months.

The company's next largest segment, Amazon Web Services (AWS), grew 20% year-on-year to $21.4 billion. This was a material deceleration from last quarters growth of 28% and concerns were only heightened by management's comments that growth slowed even further to "mid-teens" in January. The headwinds continue to be driven by enterprise customers seeking to optimise cloud spending and management reiterated that the slowdown is macro-driven. These comments are consistent with what we have heard from other cloud providers, and in our view, the current headwinds are more a factor of tough comparison periods and cyclical weakness, as opposed to fundamental issues. AWS remains the leading cloud provider (in what is an increasingly two-horse race with Microsoft's Azure) and with 90% of global IT spend still on-premises there is still plenty of runway for future growth. At current levels, Amazon's valuation is the most attractive it's been since the GFC at 5x trailing gross profit and we remain confident that patient shareholders will be treated well as the company is set to deliver many years of solid revenue growth and margin expansion.

Visa's results came in ahead of expectations as growth was supported by cross-border strength and upside from value-added services which benefited from World Cup event work. Net revenue increased 12% year-on-year (15% constant currency) to $7.9 billion and non-GAAP earnings per share increased 21% to $2.18. Although there have been concerns about a potential macroeconomic downturn and the impact on consumer spending, Visa's payment volumes have been holding up well. The recovery in travel spending continues to be a tailwind for the business, albeit a fading one, with cross-border transactions up 22% (31% excluding intra-Europe). Overall, we're pleased with how the business is tracking and remain positive on Visa's outlook.

US-based software company ServiceNow delivered another strong quarterly result with subscription revenues up 22% year-on-year (28% constant currency) to $1.9 billion. Management guided revenue growth for 2023 at 23%, which was ahead of consensus expectations and particularly impressive given the tough macroeconomic conditions many software companies are currently facing. The company's operational metrics continue to be robust, 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 rock solid at 98% - highlighting the mission critical nature of their solutions. We continue to believe that ServiceNow is one the highest quality software businesses around that offers a unique combination of consistent organic growth at scale, robust free cash flow generation and a large and expanding addressable market.

Looking ahead

As always, thanks to all our investors for your time, trust, and support.

Best Regards,

Lakehouse Capital

For more information call us on +61 2 8294 9800, email investorsupport@lakehousecapital.com.au or visit www.lakehousecapital.com.au

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