

# LAKEHOUSE GLOBAL GROWTH FUND

## MONTHLY LETTER

31 August 2023



Dear Lakehouse Investor,

August was another busy month for the team as a number of our portfolio companies reported earnings. As per usual, we'll touch on results for the Funds largest holdings shortly but, broadly speaking, this past earnings season was pleasing as we continued to see strong fundamental performance and operating leverage across the portfolio.

Turning to performance, the Fund returned -0.7% net of fees and expenses for the month compared to 1.1% for its benchmark. Since its inception at the start of December 2017, the Fund has returned 111.9% compared to 76.4% for its benchmark. In annualised terms, the Fund has returned 13.9% since inception compared to 10.4% for its benchmark.

Fund Metrics	
Fund Net Asset Value	\$273.3 million
Net Asset Value per Unit (mid)	\$1.7210
Cash Allocation	4.6%
Top 10 Portfolio Holdings	64.6%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

	1 Month	1 Year	3 Year (p.a.)	5 Year (p.a.)	Inception (p.a.)
Lakehouse Global Growth Fund	-0.7%	24.6%	3.6%	12.4%	13.9%
Benchmark	1.1%	20.6%	12.1%	9.9%	10.4%
Excess Return	-1.8%	4.0%	-8.5%	2.5%	3.5%

*\*Performance calculations are based on exit price with distributions reinvested, after fees and expenses, since inception on 30 November 2017. Returns greater than one year are annualised. 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 August were to information technology (23.4%), communication services (23.4%), and consumer discretionary (21.4%). 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
ServiceNow	USA	Loyalty
MercadoLibre	Argentina	Networks, Loyalty
Visa	USA	Networks, IP, Loyalty
Alphabet	USA	IP, Networks
Constellation Software	Canada	Loyalty, IP
CoStar Group	USA	IP, Loyalty, Networks
Charles Schwab	USA	Loyalty, IP, Networks
Microsoft	USA	Loyalty, Networks, IP
Spotify	Sweden	Loyalty, Networks, 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 55% 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.

## Company News & Results

At the portfolio level, the biggest contributor to performance during the month was **MercadoLibre** (+15.3%), which performed well on the back of a strong quarterly result. Meanwhile, the largest detractor was **Adyen** (-53.2%), which declined after delivering a half yearly result that missed estimates - more on that below.

The Fund's largest position, **Amazon**, delivered an impressive quarterly result that came in well ahead of analysts expectations. Net sales increased 11% year-on-year to \$134.4 billion and operating profits increased 133% year-on-year to \$7.7 billion (vs the high end of guidance at \$5.5 billion). Despite fears of a slowdown, growth within their core e-commerce business proved resilient and it was particularly encouraging to see progress on the cost front drive meaningful operating leverage. Management has been laser focused on driving efficiencies across the retail operation for the last 18 months and it's now clear

that these efforts are paying off with the company reporting its highest operating margin in two years. One notable initiative has been the regionalisation of their US fulfilment network from one national network to a series of eight separate regions serving smaller geographic areas, which has already delivered a 20% reduction in the number of touches per package and a 19% reduction in miles travelled.

When it comes to the company's second largest segment, Amazon Web Services (AWS), revenue grew 12%, which is by no means earth shattering, but it was comforting as growth is now stabilising after six quarters of deceleration led by macro-driven customer optimizations. As we have mentioned before, we have always believed the recent AWS optimisation headwinds are more cyclical in nature, as opposed to anything fundamental, and a stabilisation in growth rates combined with a more upbeat outlook are strong evidence that this is likely the case. Bigger picture, we continue to believe that the market underestimates the length of the runway ahead in the core retail business (note that e-commerce sales in the US still only make up 15% of total retail sales) and that there is still significant margin expansion ahead as scale and efficiency benefits continue to come through.

Buenos Aires based e-commerce leader, MercadoLibre, also delivered an impressive quarterly result. Net revenue grew 32% year-on-year in U.S. dollar terms to \$3.4 billion while operating margins climbed 6 percentage points to 16.0%, which was particularly pleasing given the company still remains firmly in reinvestment mode. Growth was broad based across all regions, with Gross Merchandise Volume (GMV) up 12%, 24%, and 52% in Argentina, Brazil, and Mexico (in USD terms), respectively. Management noted that they gained incremental market share in each region, especially so in their largest market Brazil, and also that fulfilment penetration rates reached an all time high - with 94% of all items sold now shipped through their managed logistics network, Mercado Envios.

Over the last several years the company has invested heavily to build out their logistics network, driving faster delivery times and lower per-unit shipping costs. In our view, this logistics network provides MercadoLibre with a very wide and expanding moat, which will prove to be a critical asset in helping protect its market share and profits from competitors over the long term. The company's fintech business, MercadoPago, also continued to show strong momentum with total payment volume (TPV) increasing 39% year-on-year to \$42 billion. Unique active fintech users grew 19% to 45 million in the quarter, driven by higher engagement across all markets, and processed transactions grew 69% year-on-year to 2.1 billion. To us, Mercado Pago now seems well positioned to become a leading financial services provider in the region thanks to its scale and the critical mass of services it has developed over the years.

Amsterdam-based enterprise payments processor, Adyen, posted half-yearly results that were weaker than expected. The combination of a miss on top line growth and margins led to a meaningful decline in the share price. Revenue grew 21% year-on-year (vs expectations of 27%) to €739.1 million and EBITDA declined 10% to €320 million. Management attributed the miss on revenue to the decision by some US merchants to route e-commerce volumes towards more commoditised and lower cost payment providers as these merchants have become increasingly focused on cost outcomes due to the tough macro environment. Whilst this is clearly not a positive development, management believes (as do we) that it will only prove to be a temporary issue as it's largely a function of the shifting economic environment.

Ultimately, Adyen's unified global platform provides the greatest functionality and outcomes for merchants, with superior authorization rates and insights, and management remains confident that volumes will return.

In addition to this, some investors were also displeased with the company's intentional decision to reinvest back into the business and increase headcount. For our part, we aren't overly concerned about near-term margins as management has proven to be very measured and disciplined in the past. Ramping up staff to access talent while other competitors are cutting their workforces seems like the right long term decision for the business and should position them well to outperform once the current period of uncertainty passes. Coming into the results, Adyen was a relatively small position for the Fund as it had been reduced overtime primarily on valuation grounds. Moving forward, we remain focused on Adyen's long-term growth trajectory, not short term numbers, and remain bullish on the durability of its value proposition and note that the company continues to take market share. As such, we used the share price decline as an opportunity to modestly increase our position and believe the company will be able to navigate successfully through their short term challenges.

## Thank You

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

Best Regards,

[Lakehouse Capital](#)

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