LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 October 2023

LAKEHOUSECAPITAL

Dear Lakehouse Investor,

Fund Metrics	
Fund Net Asset Value	$255.2 million
Net Asset Value per Unit (mid)	$1.6468
Cash Allocation	3.3%
Top 10 Portfolio Holdings	64.8%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

October was a busy month for the Fund with the team's primary focus on a number of portfolio companies that reported earnings. As per usual, 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 as they continue to affirm our long-term theses. We note that the Fund's portfolio companies grew revenue 25% year-on-year on a weighted-average basis through the latest reporting period. This strong operating momentum combined with an improving macroeconomic backdrop – with inflation moderating and 10-year bond yields stabilising – has driven a strong period of performance for the Fund and looking forward, we remain confident that the portfolio is well positioned for the years ahead.

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 102.7% compared to 67.8% for its benchmark. In annualised terms, the Fund has returned 12.7% since inception compared to 9.1% for its benchmark.

	1 Month	1 Year	3 Year (p.a.)	5 Year (p.a.)	Inception (p.a.)
Lakehouse Global Growth Fund	0.7%	17.7%	1.4%	13.5%	12.7%
Benchmark	-1.1%	11.6%	10.4%	9.9%	9.1%
Excess Return	1.8%	6.1%	-9.0%	3.6%	3.6%

**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 October were to communication services (24.8%), information technology (24.3%), and consumer discretionary (21.1%). 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
ServiceNow	USA	Loyalty
MercadoLibre	Argentina	Networks, Loyalty
Constellation Software	Canada	Loyalty, IP
Visa	USA	Networks, IP, Loyalty
Alphabet	USA	IP, Networks
CoStar Group	USA	IP, Loyalty, Networks
Microsoft	USA	Loyalty, Networks, IP
Charles Schwab	USA	Loyalty, IP, Networks
Sansan	Japan	Loyalty, Networks

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 56% of the revenue from the Fund's portfolio companies coming from outside the U.S. 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 **Amazon** (+6.7%), which performed well on the back of a strong quarterly result. Meanwhile, the largest detractor was **Adyen** (-8.6%), which remained under pressure after delivering a half yearly result in August that missed estimates - our thoughts on that can be found in last month's letter here.

The Fund's largest position, Amazon, reported an impressive quarterly result with strong execution and cost discipline driving significant operating leverage across the business. Net sales grew 13% year-over-year (11% in constant currency terms) to $143 billion whilst operating income grew 348% to $11.2 billion, well ahead of guidance and analysts' expectations. Growth within their core e-commerce business proved resilient again and management noted that they are continuing to see material productivity and operational benefits from the recent reorganisation of their US fulfilment network. This involved transitioning from one national network to a series of eight separate regions serving smaller geographic areas.

The companies second largest segment, Amazon Web Services (AWS), grew revenue at 12%, a rate consistent with what was achieved last quarter. This was pleasing to see as it signalled that growth is stabilising after several quarters of deceleration driven by customer optimisations. Whilst these customer optimisations are moderating, management noted that they still remain at elevated levels, and hence, they will likely provide a slight (albeit diminishing) headwind for the next few quarters. In any event, we are not concerned as we believe the current headwinds are more a factor of cyclical weakness, as opposed to any fundamental issues. Zooming out, 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-premise there is still plenty of runway for future growth.

ServiceNow also delivered a strong quarterly result that surprised on the upside. Subscription revenues grew 27% year-on-year to $2.29 billion and non-GAAP operating income grew 41%, both exceeding analyst expectations and the company's own guidance. Key performance indicators were healthy, with current remaining performance obligations growing 27% year-on-year to $7.4 billion and renewal rates holding firm at 98%. Despite the challenging macro environment for many software companies, ServiceNow's multi-product platform continues to resonate with large enterprise customers with the number of clients spending over $1 million in annual contract value (ACV) up 17% year-on-year to 1,789, while the cohort spending over $20 million swelled by 58% year-on-year to 49. Helping drive some of that product adoption was their Creator Workflows module, first launched near the start of 2021, which crossed the $1 billion ACV threshold this quarter.

We remain impressed by the execution from management, who continue to expand the company's total addressable market with new product launches that generate significant return on investment for their customers. Right before the quarter ended, they launched the Vancouver Platform release, which embedded generative AI across all workflows on the Now Platform and managed to close four large deals in a single day. Their generative AI offering drove the highest number of customer requests ever for a pre-release product in the company's history, providing an attractive pipeline of new deals. Overall, we have high conviction in their growth trajectory and are happy to remain patient shareholders.

Visa reported a strong result with net revenue increasing 11% year-on-year to $8.6 billion and non-GAAP earnings per share increasing by 21% to $2.33. As has been the case for many years now, the scalable nature of the business allows for revenue growth to outpace its costs, which places the company in a good position to navigate through this inflationary period. The network continues to grow, with credentials and merchant locations up 7% and 17%, respectively. Cross-border travel-related spend also maintained its robust growth, increasing 26% year-on-year while Visa Direct reported 7.5 billion transactions, up 19% year-on-year, progressing on penetrating categories such as cross-border remittances. Altogether, we're pleased with how the business is tracking and remain positive on Visa's outlook.

Thank You

As always, thanks to all our investors for your time, trust, and support. While the economic environment feels uncertain to many investors, our focus remains on executing our investment process and positioning the portfolio for long-term growth.

Best Regards,

Lakehouse Capital

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