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Companies Held:	20
Cash Allocation:	4.9% (inclusive of reinvested distributions)
Top 10 Portfolio Holdings:	66.4% (inclusive of reinvested distributions)
Net Asset Value per Unit (mid):	$2.0713 (post $0.0858 distribution)
Fund Net Asset Value:	$310.9 million (post $3.4m net cash distribution)
Benchmark:	MSCI All Country World Index Net Total Returns (AUD)

Dear Investor,

The past year was a strong period for the Fund as our portfolio companies continued to press their advantages and capitalise on their growth opportunities. The Fund returned 25.5% net of fees and expenses compared to 19.0% for its benchmark. Since its inception at the start of December 2017, the Fund has returned 165.6% compared to 102.7% for its benchmark. In annualised terms, the Fund has returned 16.0% since inception compared to 11.3% for its benchmark.

	1 Year	3 Years (p.a.)	5 Years (p.a)	Inception (p.a.)
Lakehouse Global Growth Fund	25.5%	3.8%	14.7%	16.0%
Benchmark	19.0%	9.6%	11.9%	11.3%
Excess Return	6.5%	-5.8%	2.8%	4.7%

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.

Value of A$100,000 invested in the Lakehouse Global Growth Fund vs. Benchmark

—— Lakehouse Global Growth Fund   —— Benchmark
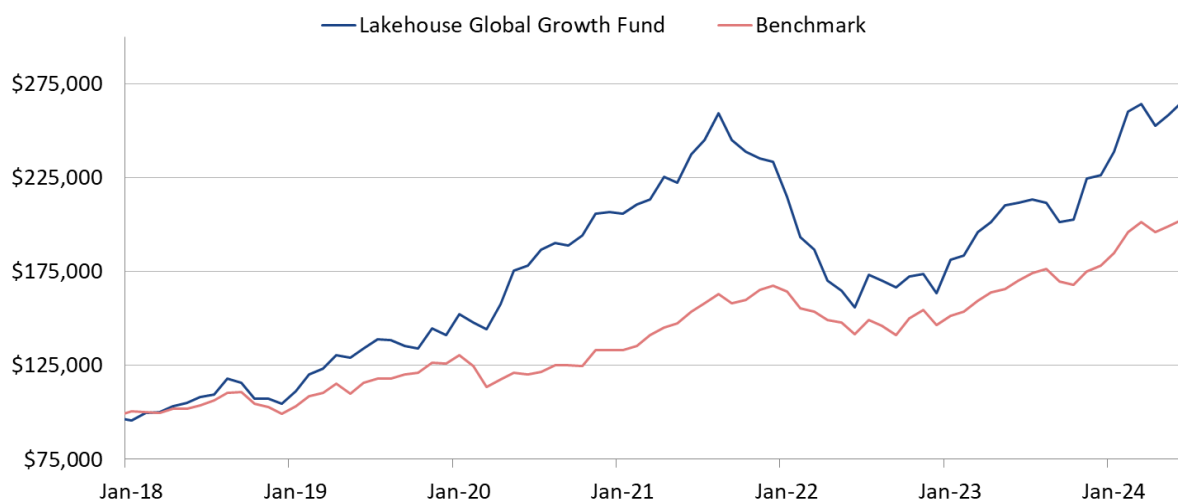
Over the last twelve months, the macroeconomic environment has continued to improve, with inflation moderating and 10-year bond yields stabilising. Broadly speaking, this has been a net positive for long-duration, high-quality growth companies, as investors have shifted their focus back to fundamentals.

Across the portfolio we are witnessing strong operating momentum, and in many cases, a sharp focus on driving cost efficiencies. As of the most recent quarter, our portfolio companies collectively grew revenue and earnings by 15% and 22% year-on-year, respectively. Over the long-term, it is ultimately this growth in earnings power that will drive the performance of the Fund, not short-term swings in sentiment or market news. As such, our primary focus remains on the long-term drivers of business performance (corporate strategy, competitive dynamics, capital allocation, leadership etc) and not the day-to-day gyrations of the market.

That said, there is always something to worry about in markets, whether it be a potential recession, inflationary pressures or geopolitical instability. Whilst we appreciate the risks of each, we take comfort knowing that our core philosophical tenets – a long-term mindset, high-conviction approach, and an emphasis on asymmetric opportunities – should continue to serve the Fund well regardless of whether inflation proves stickier than expected or the global economy enters a technical recession next year.

Investment Philosophy

Long-Term: In a world of instantaneous and almost limitless information, investors are increasingly seeking to compete on how fast they can react. We aim to compete on patience and believe the ability to adopt a long-term time horizon provides a structural advantage. Notably, the Fund still owns 18 of the 20 companies it owned twelve months ago and since inception portfolio turnover has averaged less than 20% per annum. This implies a company-level holding period of five-plus years, which firmly aligns with our long-term, business owner's mindset.

High-Conviction: We back our best ideas with conviction, with the Fund holding 20 businesses at the end of the year. Having a tight portfolio assembled via a consistent, rigorous process not only sets a high bar for inclusion but also allows our team to better understand our positions. Furthermore, numerous studies have shown that the incremental diversification benefits of additional positions fade quickly.

Asymmetric opportunities: We're constantly searching for situations where we have multiple ways to win and few ways to lose. Constructing a portfolio of such situations should theoretically lead to a portfolio with a high strike rate at the position level, which has pleasingly been the case since inception.

In practice, this involves being very deliberate and particular about the types of companies we will and won't invest in. Avoiding low-quality businesses is crucial for long-term investors, and thus we avoid businesses in industries that are notoriously cyclical, competitive, or capital-hungry (think airlines, auto manufacturers or real estate for example). Their destinies are often impacted by a number of external factors beyond their control, and as a whole, they tend to produce poor returns on capital over the cycle.

On the flip side, we're after businesses with advantaged economic models (grounded in loyalty, network effects and intellectual property) that also stand to benefit from long-term industry tailwinds that are secular in nature (i.e. the shift to digital advertising, cloud computing, e-commerce etc). In our view, these businesses are in a very strong position relative to the majority of other businesses, whether they be considered 'growth' or 'value' style and are best placed to outperform over the long-term.

Before moving on to discuss the portfolio and our most meaningful contributors and detractors for the year, we'll quickly touch on the most topical question we been receiving from investors of late.

What's the deal with Generative AI?

To start, it's worth noting that Artificial intelligence (AI) has been around for decades. In simple terms, you can think of it as smart software that mimics aspects of human intelligence. This commonly involves creating algorithms to classify, analyse, and draw predictions from data and automate decisions. In 2024, AI has become commonplace in our everyday lives. Whether it be web searches, electric cars, or assistant devices like Alexa and Siri.

In terms of what changed, in November 2022 we had the launch of OpenAI's ChatGPT. The chatbot's display of generative AI (Gen AI) software fascinated the public and the consumer app reached 100 million users within two months. A truly astounding feat when one considers the most popular social media apps on the planet, Instagram and TikTok, took 30 months and 9 months, respectively, to reach such a milestone.

Gen AI essentially provides the ability to prompt software via simple natural language, rather than programming language, to generate creative content in the form of text, music, video or images. Imagine asking your computer to write a song or create a video just by typing a request in plain English. That's the magic of Gen AI.

Underlying this technology is foundational models that are trained on massive amounts of data, that can be adapted and fine-tuned for a wide variety of applications. And it's the opportunity to build both consumer and enterprise applications on top of these foundational models that has got everyone so excited. Now, whilst that all sounds promising, from an investment perspective it's important to note it's still very early and several questions around how all of this will play out remain unknown at this stage.

That said, our view is that whilst we are in the initial "build" phase the best opportunities from a risk/reward perspective are to back the facilitators and platforms with proprietary, first-party data. For the facilitators, the logic is fairly straightforward. All these Gen AI models are incredibly computationally intensive, and hence, we are likely to see an exponential rise in demand for cloud-based solutions, which the three dominant cloud providers are well positioned to capitalise on. That being Amazon's AWS, Microsoft's Azure and Alphabet's GCP. All three of which we own in the Fund in varying sizes.

The second category is a little more nuanced, as most foundational models being built today will likely become commoditised overtime as the cost of training these models continues to come down at a rapid clip. Hence, it's the companies with ownership and control over the highest-quality proprietary data sets that will be able to build unique models that have a durable

advantage that can't be readily competed away. In this bucket, a few examples would be your dominant enterprise software companies that operate as a system of record, such as Salesforce, Workday, or portfolio company ServiceNow.

Portfolio

Turning to the portfolio now and the Fund held 20 positions as of the end of June, the ten largest of which are listed below:

Company	Headquarters	Lakehouse Investing Fascination
Amazon	USA	Loyalty, Networks, IP
MercadoLibre	Argentina	Networks, Loyalty
Alphabet	USA	IP, Networks
Sansan	Japan	Loyalty, Networks
ServiceNow	USA	Loyalty
Hemnet	Sweden	Networks, IP
Charles Schwab	USA	Loyalty, IP, Networks
Spotify	Sweden	Loyalty, Networks, IP
Constellation Software	Canada	Loyalty, IP
Visa	USA	Networks, IP, Loyalty

On a geographic basis, the Fund looks US-centric judging from the preceding table, which is true to some extent as it provides far and away the largest opportunity set. That said, the Fund holds stakes in companies headquartered in nine countries: the US, Canada, Argentina, France, Netherlands, Sweden, Japan, Singapore and China. Furthermore, all the Fund's US-based holdings have operations outside the US. Flow it all through and only 38.9% of the Fund's portfolio company revenue comes from the US.

LGGF Revenue Exposure by Region
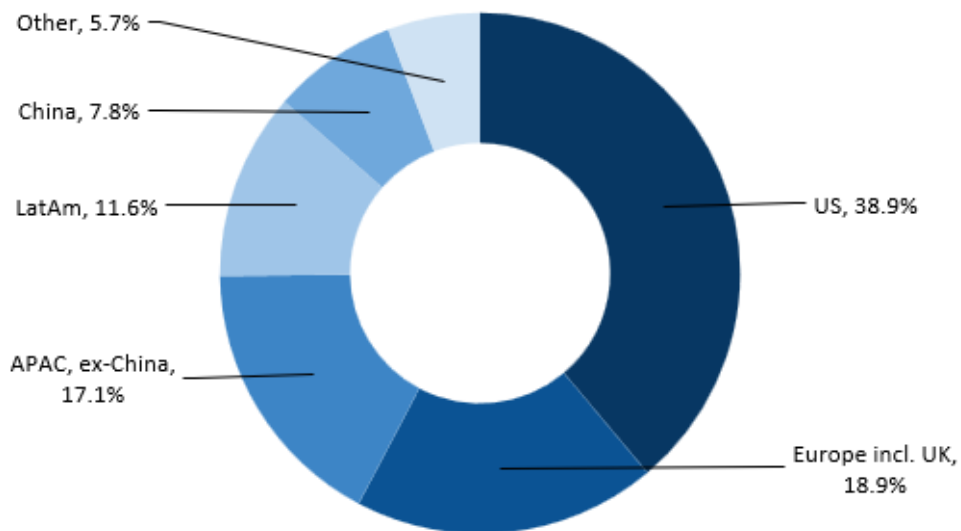
The Fund closed out the year with a cash allocation of 4.9% (inclusive of distributions that reinvested on 1 July), down from 10.1% (inclusive of reinvested distributions) at the start of the year. We value having some dry powder and flexibility, particularly given our high-conviction approach, but we've also come to better appreciate over time the importance of not carrying too much cash as it has been a cumulative drag on performance. We continue to target a cash allocation of 5% to 15%.

Performance

The Fund's gains during the year were broad-based, with 16 of the 24 positions held at some point during the year contributing positively to performance. Note that the numbers below show the total returns to the portfolio contributed by each position, which reflect total returns and average position sizing during the year.

Position Contribution for FY 2024
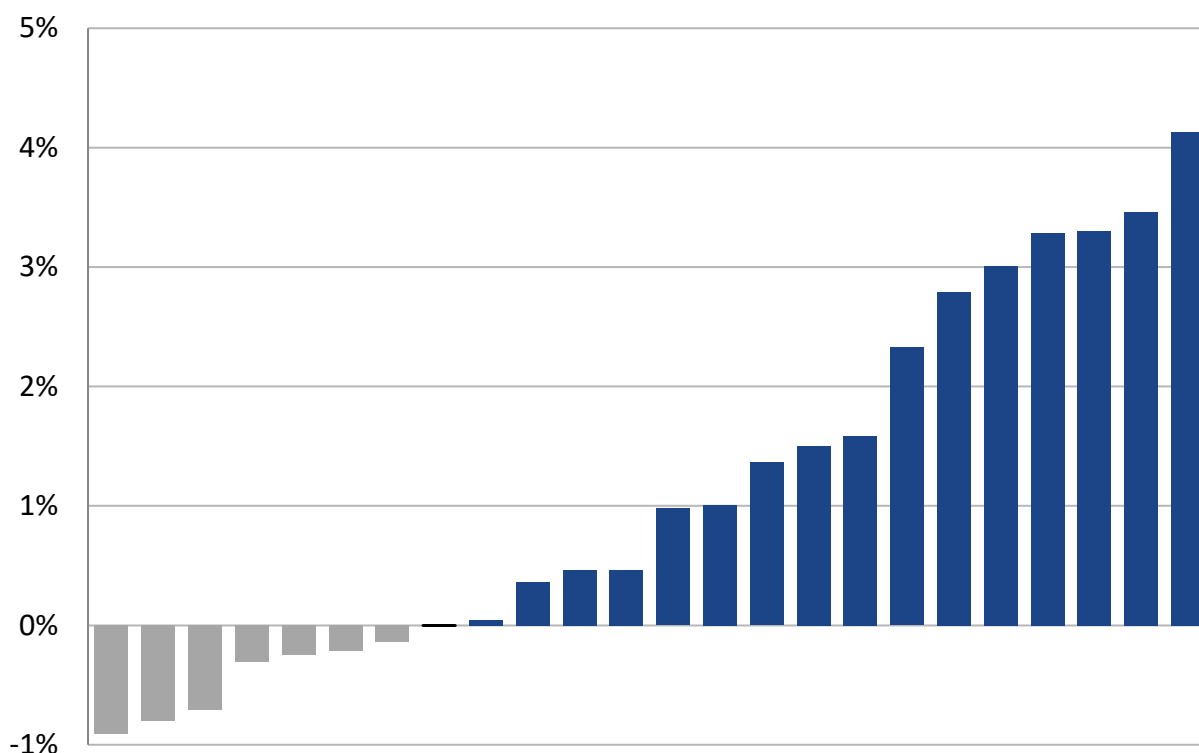
The three most significant contributors to performance during the year were, in order, **Amazon** (+4.1%), **Spotify** (+3.5%) and **MercadoLibre** (+3.3%).

The Funds top performer was our largest position, Amazon, which handily beat analysts' expectations throughout the year as it delivered robust double-digit revenue growth along with significant improvements in profitability. As we noted in past letters, we firmly believed the inflationary cost pressures and overcapacity issues that dented Amazon's margins post pandemic were manageable and would prove to be transient issues. As such, it has been pleasing to see the progress they have made optimising their cost structure over the last 12 months with operating margins expanding almost three-fold from 3.7% to 10.7%.

Despite the progress made to date, we still think many investors are underestimating the opportunity to improve margins further in the years ahead. This is because we see four powerful forces working in tandem to drive operating leverage, being (i) moderating inflation helping ease cost pressures on the logistics front (ii) normalisation as they continue to grow into their logistics footprint (iii) management (finally) getting disciplined on costs, and (iv) the ongoing mix shift as the highest margin segments of the business (3P e-commerce, subscriptions, advertising and AWS) grow faster and become a larger part of the overall pie.

It's also worth noting that whilst the stock has more than doubled over the last 18 months, it is still cheap. At current levels, it's valuation of 16x EBITDA is the most attractive it's been since the Global Financial Crisis, and hence, we continue to believe it's a compelling asymmetric setup. 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.

Our second largest contributor was Spotify, which had a transformative year as the company made a significant positive shift towards optimising its cost base. Revenue increased 17% year-on-year and new user acquisition remained robust with the audio streaming platform now boasting over 600 million monthly active users (MAUs) globally. This was encouraging, as healthy MAU growth continues to suggest that Spotify's market is far from saturated, even though the product has been well known for many years now.

For many investors who are also Spotify users, you have likely experienced first-hand how deeply ingrained the platform has become in the lifestyle of its users, making it ubiquitous for consuming audio content. The strength of Spotify's value proposition is something we believe has been underappreciated by the market and was in fact tested over the twelve months as Spotify put through multiple price increases. Notably, the company was able to do this with minimal impact on customer churn or new user growth. Away from the core music streaming business, the company is still innovating with new products like the recently launched audiobooks, further improving the customer value proposition and creating new upsell opportunities across its growing customer base.

As noted, Spotify also took meaningful steps to manage its cost base, which only increased by 11% year-over-year and is still trending downwards. Previously critiqued for overspending and struggling to achieve profitability, the company responded to changing economic conditions by implementing three rounds of redundancies over 12 months, with the most significant impacting nearly 20% of its workforce. With marketing expenses also reduced, this rigorous cost management has led to Spotify's first period of positive free cash flow – a significant milestone that demonstrates its capability to be profitable, silencing its doubters.

Buenos Aires based e-commerce leader MercadoLibre, was another strong performer this year as the company extended its long track record of impressive growth. The business has been consistently gaining share of the rapidly growing Latin American e-commerce market and also fast emerging as a leading financial services provider in the region via its Fintech platform Mercado Pago. Over the last year, net revenues grew 36% year-on-year in U.S. dollar terms to $15.6 billion while operating margins came in at a healthy 14.6%, up from 11.5% in the previous corresponding period.

The business was not without its challenges, though, as the ongoing macro-economic turmoil and election of libertarian president Javier Milei in Argentina raised investor concerns about their exposure to the country. Whilst this was a headwind, MercadoLibre's marketplace business proved resilient, with strength in Brazil and Mexico more than enough to offset weakness in Argentina. Overall gross merchandise value (GMV) still grew at 20% year-on-year in the most recent quarter, which will likely prove to be to worst impacted as it captured the full impact of the 50%-plus devaluation of the Argentine Peso in December 2023. Whilst the economic situation in Argentia remains severe, we are comfortable with the risk as not only has management proved very adept at handling the challenges to date, but post the devaluation, the risk is meaningfully reduced as Argentina now only contributes 13% of the company's total operating income.

Bigger picture, despite the scale of their success to date, we believe there is still a long runway for future growth due to the combination of a relatively nascent penetration of e-commerce and a large underbanked population in Latin America. For a network-driven model such as this one, where success breeds success and creates additional optionality, we remain optimistic and of the view that MercadoLibre's best days lay ahead.

The three most significant detractors to performance during the year were, in order, **CoStar Group** (-0.9%), **Doximity** (-0.8%) and **LVMH** (-0.7%).

CoStar Group showed strong momentum across all segments. Its core business, the CoStar Suite, continued to grow at double-digit rates, driven by multiple factors, including CoStar's upsell program, high renewal rates and new product capabilities. Contract renewal rates remained firm at 90%-plus, implying a very healthy and consistent customer life of ten-plus years. Even more impressive is that for customers who've been subscribers for five years or longer, this renewal rate ticks up further to 95%-plus.

Turning to CoStar's online marketplaces, namely Apartments.com and LoopNet, core metrics were resilient and both platforms continued to cement their leadership positions. Apartments.com was particularly strong with 20%-plus growth as rising vacancy rates in the US multifamily market continued to provide a tailwind for advertising. Despite these positive results, CoStar's share price languished as investors remain sceptical of the company's entry into the residential marketplace business. For this initiative, CoStar is on track to spend almost $1 billion on Homes.com in 2024.

Some initial signs suggest the investments are bearing fruit. Homes.com monthly unique visitors (MUVs) were up 386% year-on-year to 110 million and the platform has demonstrated good initial traction with agents, with nearly $40 million in net new bookings closed in the first two

months of selling. That said, they are still some ways from the entrenched incumbent, being Zillow in this instance, which still has roughly double the number of MUVs.

For our part, we take comfort in the fact that management has an exceptional track record of successfully acquiring, integrating and scaling numerous properties over the last 10 years, but also acknowledge that the residential bet does meaningfully widen the potential range of outcomes. As such, whilst we believe CoStar still has a bright future, we used strength to modestly reduce our position and will closely monitor the progress of Homes.com going forward.

Our second most meaningful detractor was Doximity, a position that we bought early in the year which turned out to be a losing investment for us. The company is a leading online platform for US healthcare professionals that embodied many of the investment criteria we seek – strong founder leadership, gaining share of a growing US pharma advertising market, a sticky customer base and attractive unit economics. However, our initial optimism waned shortly after its 2023 investor day. Management's downward revision of their expectations mere months after providing guidance raised concerns about the visibility and predictability of revenue streams. As such, we made the decision to quickly cut bait and exit our small starter position.

The third most significant detractor over the year was longtime portfolio holding, LVMH. The world's leading luxury goods company was not immune to the global slowdown in the luxury segment, however, it did fare better than its peers due to the strength of its leather goods brand portfolio. As the market regained confidence in LVMH and other luxury players continued to show signs of slowing down, we utilised strength in the stock price to meaningfully reduce our position. LVMH is now one of the Fund's smallest holdings. Looking forward, we still believe LVMH is a phenomenal business, however we expect the ongoing cyclical weakness will be ongoing for some time as the luxury sector continues to normalise post the pandemic boom.

Looking Ahead

Thank you to all our investors for your time, trust, and support.

Whilst we can't promise that this year's performance will be as good as last year's, we will stick to our game plan and keep doing our best for you.

Best Regards,

Lakehouse Capital

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