LAKEHOUSE GLOBAL GROWTH FUND

ANNUAL LETTER

30 June 2023

Dear Lakehouse Investor,

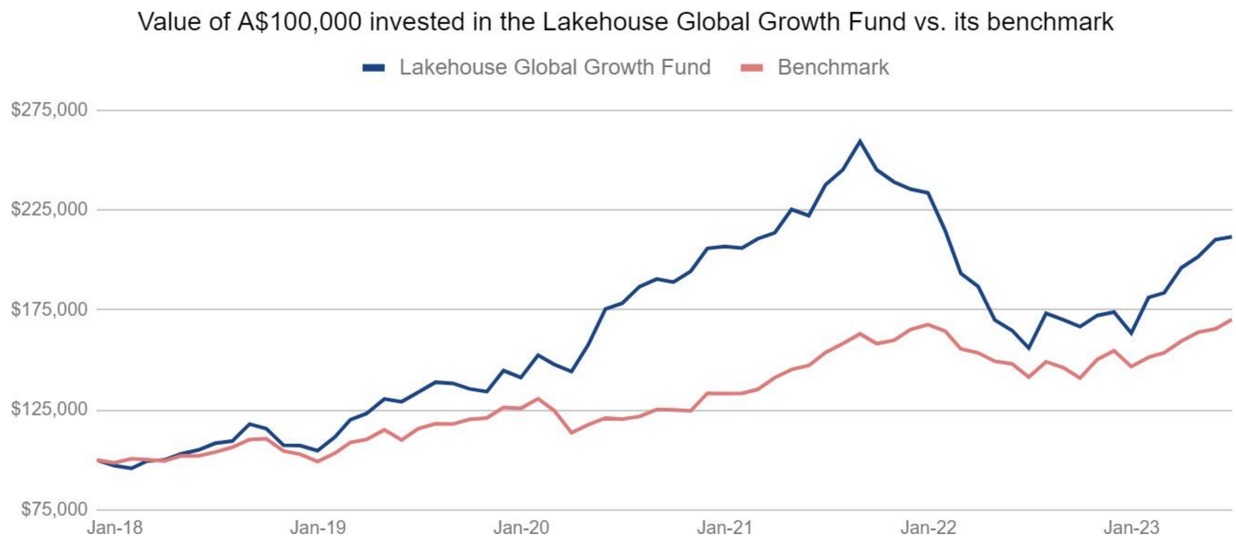
The past year was a strong period for the Lakehouse Global Growth Fund despite ongoing macroeconomic and geopolitical uncertainty. The Fund returned 35.6% net of fees and expenses compared to 20.4% for its benchmark. Since its inception at the start of December 2017, the Fund has delivered a net total return of 111.6% compared to 70.3% for its benchmark. In annualised terms, the Fund has returned a net 14.4% since inception compared to 10.0% for its benchmark.

Fund Metrics	
Companies Held:	20
Cash Allocation:	10.1% (inclusive of reinvested distributions)
Top 10 Portfolio Holdings:	61.8% (inclusive of reinvested distributions)
Net Asset Value per Unit (mid):	$1.7190 (post $0.0019 distribution)
Fund Net Asset Value:	$277.2 million (post $0.089m net cash distribution)
Benchmark:	MSCI All Country World Index Net Total Returns (AUD)

We continue to be pleased with the Fund's performance since inception, with the last two years serving as a critical reminder of the importance of having a long-term time horizon. We have always been acutely aware that our growth-focused, high-conviction, high-active share approach will inevitably experience periodic bouts of underperformance. That said, it's our ability to remain focused on fundamentals and committed to our investment philosophy and process during these tough times that will ultimately lay the foundation for outperformance in the future.

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a)	Inception (p.a.)
Lakehouse Global Growth Fund	7.8%	35.6%	5.9%	14.3%	14.4%
Benchmark	6.8%	20.4%	12.2%	10.4%	10.0%
Excess Return	1.0%	15.2%	-6.3%	3.9%	4.4%

**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.*



Over the last twelve months, investor concerns were again dominated by inflation, interest rates and the potential for a global recession. Whilst we consider and appreciate the risks of each, particularly the possibility of a significant economic slowdown given the recent rapid rise in interest rates around the world, our passion and strength lies in analysing businesses, not predicting (largely unknowable) macroeconomic outcomes. Hence, for the most part we stay in our lane and stick to seeking businesses that we believe can thrive over the long term regardless of whether inflation proves stickier than first thought or the global economy enters a technical recession.

Having said that, it would be naive of us not to let our market observations influence our thinking, particularly as it relates to portfolio construction. We'll speak more to sources of return and our portfolio companies later, but first, we will address the number one question we have been receiving from investors.

Are we going to have a global recession this year? And if so, how will the portfolio perform?

The short (and honest) answer is we don't know. Whenever we are asked such questions, the famous quote from legendary baseball player (and philosopher) Yogi Berra comes to mind *"It is difficult to make predictions, especially about the future."* As it stands today, uncertainty is high and we have conflicting signals on each side. On one hand, leading indicators, such as the inverted yield curve, suggest a high likelihood of a recession in the year ahead. On the other hand, however, lagging indicators such as retail sales and labour-market data continue to surprise and suggest potential resilience in earnings and economic growth.

That said, what we do know for sure is that we have just experienced one of the most significant and fastest rate hiking cycles in recent history. The US Federal Reserve (in similar fashion to other global central banks) has increased its Fed Funds rate from effectively 0% to 5.25% over the last 17 months. Given the speed and magnitude of the move in rates, and the lag effects associated with them, we believe there is a meaningful probability that we could experience a global recession in the near future. If a recession were to occur then earnings growth would slow - or go into reverse - across the board, and this would obviously not be a favourable situation for investors. However, this does not mean that the world is ending. We are confident that if such a scenario comes to pass, our portfolio companies are well placed to perform in a relative sense.

The reason being, we own secular growth companies that tend to create their own success and have lower cyclicality. If we were to enter a tough economic environment, the secular trends that drive our companies (the shift towards cloud computing; e-commerce; digital advertising etc) will endure and we believe that our companies will be able to sustain above average rates of growth. Our companies also tend to be well-capitalised, market leaders with superior value propositions, which quite often benefit during recessionary environments in a relative sense as rapid market share shifts can occur as smaller, weaker companies (particularly those reliant on external funding) tend to struggle.

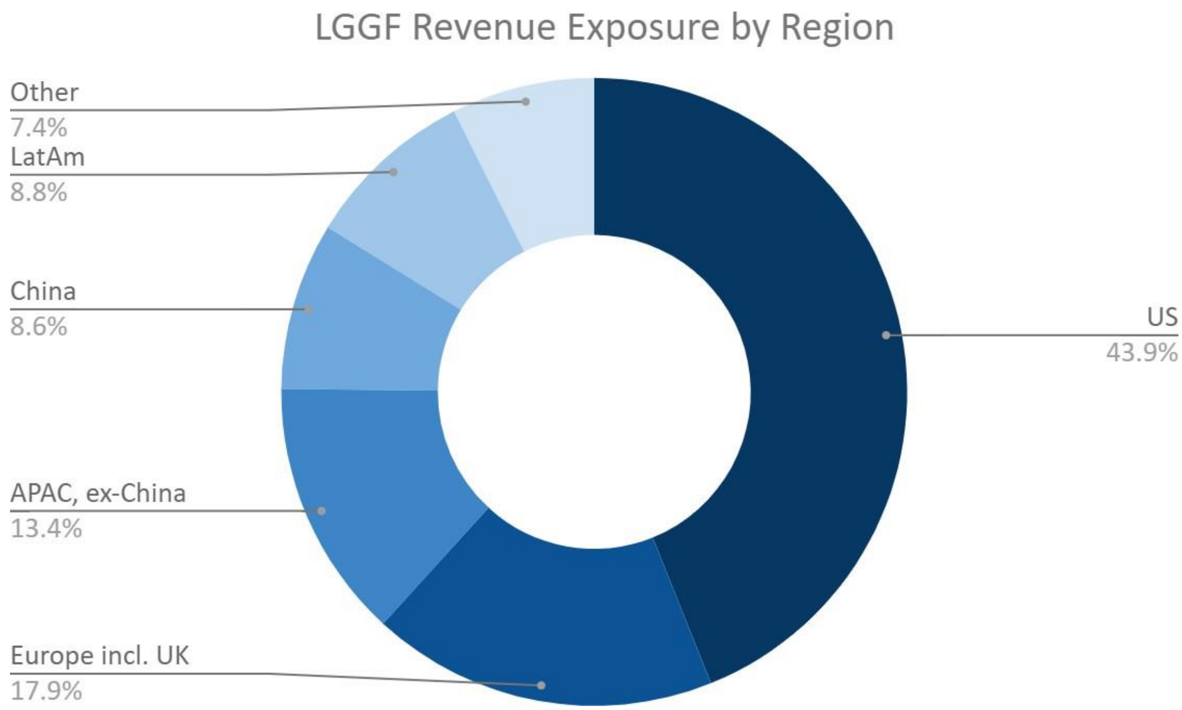
Portfolio

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
ServiceNow	USA	Loyalty
CoStar Group	USA	IP, Loyalty, Networks
Constellation Software	Canada	Loyalty, IP
MercadoLibre	Argentina	Networks, Loyalty
Visa	USA	Networks, IP, Loyalty
Alphabet	USA	IP, Networks
Microsoft	USA	Loyalty, Networks, IP
Spotify	Sweden	Loyalty, Networks, IP
LVMH	France	IP

The Fund still owns 17 of the 20 companies it owned twelve months ago, making for a position-level implied holding period of five-plus years. This aligns with our long-term holding orientation but is not to say we have been static in those names. We regularly reassess opportunities in absolute terms and relative to the portfolio with many of those holdings moving in and out of the top 10 as we actively manage our exposures based on valuations and business fundamentals. During the period we exited PayPal, Avalara and Twilio, and established new positions in Hemnet, Microsoft and Charles Schwab.

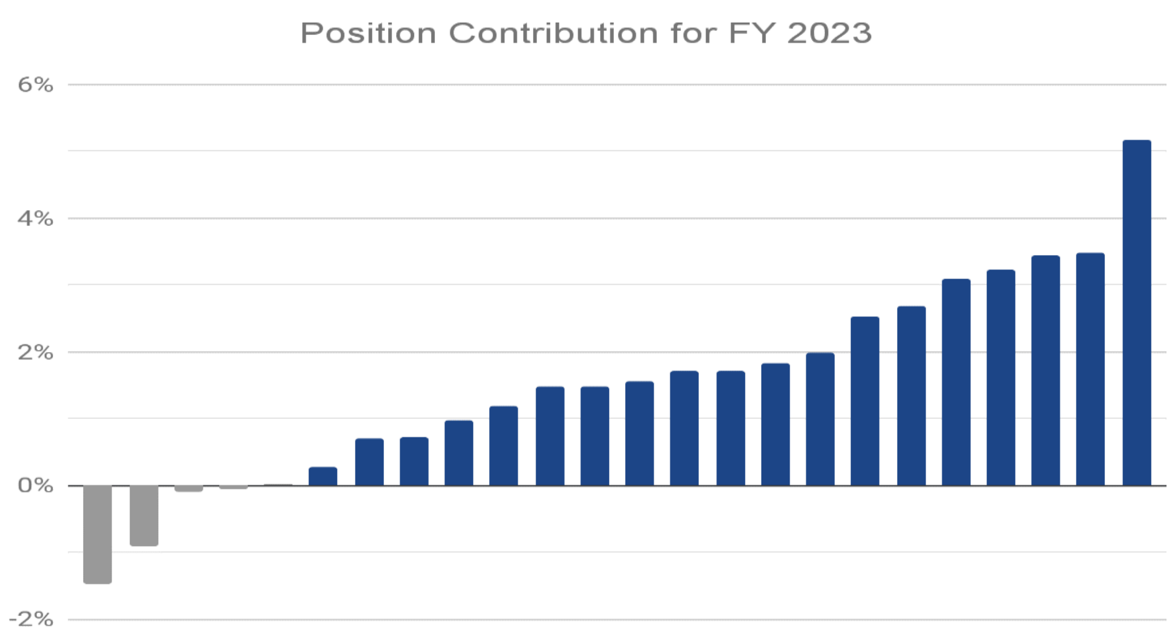
Turning to geography, the Fund looks US-centric judging from the preceding table, which is true to some extent as it provides far and away the largest opportunity set. That said, the Fund holds stakes in companies headquartered in nine countries: the US, Canada, Argentina, France, Netherlands, Sweden, Japan, Singapore and China. Furthermore, all of the Fund's US-based holdings have operations outside the US. Flow it all through and only 43.9% of the Fund's portfolio company revenue comes from the US.



The Fund closed out the year with a cash allocation of 10.1% (inclusive of distributions that reinvested on 1 July), up from 8.9% (inclusive of reinvested distributions) at the start of the year. We value having some dry powder and flexibility, particularly given our high-conviction approach, and we have made good use of it during the downturns in late 2018, early 2020 and more recently in the 2022 bear market. We continue to target a cash allocation of 5% to 15%.

Performance

Pleasingly, the Fund's gains during the year were broad-based, with 20 of the 24 positions held at some point during the year contributing positively to performance. Note that the table below shows the total returns to the portfolio contributed by position, which reflect total returns and average position sizing during the year.



The three most significant contributors to performance during the year were, in order, MercadoLibre (+92.2% during the year), Sansan (+77.3%) and CoStar Group (+52.2%).

Buenos Aires based e-commerce leader MercadoLibre was the Fund's strongest performer as it continued its impressive history of beating expectations. The company had a very eventful year with net revenues crossing the US$10 billion mark, an extraordinary feat for a company that was only generating US$1.2 billion per year as recently as five years ago. The company also shipped more than 1 billion items through Mercado Envios (its logistics business), processed more than US$100 billion in payments through Mercado Pago (its fintech business), and surpassed US$1 billion in operating income - providing a healthy balance of growth and profitability.

The company's primary marketplace business grew at a healthy clip across all its key markets and it was pleasing to see it continue to extend its market leadership, particularly in Brazil, where management noted accelerated share gains. For a network-driven model such as this one, where success breeds success and creates additional optionality, we remain of the view that MercadoLibre's best days lay ahead. Despite the scale of their success to date, we believe it’s still early days as the combination of a relatively nascent penetration of e-commerce and a large underbanked population in Latin America provide an excellent foundation that will enable MercadoLibre to leverage its market-leading position and grow for many years to come.

In similar fashion, Sansan delivered a solid year of performance with the stock recovering the majority of its losses from the previous financial year. Fundamentally, the business is in a good place. The core cloud-based contact management solution has improved on its overall product offering and is appealing to more enterprise customers. As a result, revenue growth has reaccelerated over the last two quarters and churn rates have continued to improve. Customer churn ended the financial year at 44 basis points per month, or a 95% annualised retention rate, reflecting the efforts in product development and the mix towards a more stable client base. Despite this strong performance from the core business, it is one of Sansan’s newer products, the digital billing solution Bill One, that is really starting to excite investors.

Bill One's annualised recurring revenues (ARR) increased by 172.8% year-on-year in the most recent quarter and now represents 15% of the company's total ARR. This was driven by accelerating growth in both paid subscriber numbers and average revenue per subscriber. Management recently upgraded the outlook for Bill One for the following year to ¥7 billion in ARR, which equates to roughly 25% of total ARR. In June, the company also ventured into the fintech field, offering Bill One corporate credit cards that digitise receipts and automatically reconcile transactions. As Bill One continues to improve its position in the market, we believe the company will likely introduce more product offerings. Overall, management seems upbeat about the company's prospects and we note that they have updated their 3-year revenue growth guide from 20% pa to mid-20% pa.

The Fund's third latest holding, CoStar Group, also showed strong momentum across all segments. Its core business, the CoStar Suite, continued to grow at above-trend rates in the mid-teens, driven by multiple factors, including CoStar's upsell program, high renewal rates, new product capabilities and the return of annual price increases for renewals - which had previously been put on hold due to the pandemic. 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.

When it comes 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 as last year's high occupancy headwinds have now turned into a tailwind as the multifamily market normalises post the pandemic. US multifamily vacancy rates have now risen from an all time low of 5.1% to 7.7%, leading to a very robust environment for advertising demand. In turn, Apartments.com has reverted to its roughly 20% pre-pandemic annualised growth rate as management had previously anticipated. Looking forward, we believe CoStar remains well positioned to benefit from the ongoing shift of commercial real estate advertising spend towards online channels and also see meaningful upside optionality as they invest aggressively to build out their residential property platform.

The three most significant detractors to performance during the year were, in order, Charles Schwab (-23.0%), Twilio (-38.0%) and Meituan (-30.5%).

Charles Schwab is the largest discount broker in the United States and the stock was performing well up until March this year when the US regional banking crisis came to a head. The stock declined by roughly a third after Silicon Valley Bank (SVB) collapsed on March 10 and investors became increasingly concerned about what other potential risks might be lurking in the US banking system. Some speculated (unfairly in our opinion) that Schwab too could experience a run on deposits, like SVB. At the time, we thought this potential scenario was unlikely for several reasons and that concerns were misplaced.

Firstly, Schwab has a much more heterogeneous client mix of individual retail investors and advisors compared to SVB, which was heavily concentrated in one geographic region and sector: Silicon Valley and venture capital. Making the latter much more vulnerable to industry specific shocks. Second, Schwab's deposit base was much less “at-risk” than SVB’s, as more than 80% of total bank deposits were within the FDIC insurance limits, compared with only 6% at SVB. This means the potential for a significant run on deposits was far more limited.

Lastly, it's worth noting that historically Schwab has been considered a haven during times of increased market risk. And to that end, Schwab released data that indicated it was a beneficiary of a flight to safety during the most recent banking crisis as well. The company indicated weekly flows for the week ended March 16 were US$16.5 billion, about 60% greater than what we should expect in the typical week, and that they gathered US$53 billion of net new client assets during March (i.e. the month of the banking panic).

Having said all this, we do acknowledge that the rapid rise in rates will likely have a short-term impact on earnings as the bank’s balance sheet assets are marked-to-market and the company raises some shorter-term higher cost funds. However, we have little concern about the long term viability of their 'asset-gathering flywheel’ and over time, the high margin net interest income should increase with the combination of higher rates and more client assets on the platform. Zooming out, we continue to believe Schwab is a high-quality franchise that has a deeply entrenched cost-leadership position and a long runway for growth. We viewed the most recent drawdown in the stock price as an overreaction, and as such, used it to modestly add to our position as the risk/reward became increasingly attractive.

California-based cloud communications platform, Twilio, had a challenging year and we exited our position in January. Investors, including ourselves, became concerned about slowing organic growth for Twilio’s core messaging business combined with a lack of cost discipline in a higher interest rate environment. While we still believe the core messaging business is attractive, we became more wary of the potential risks as the year progressed. Namely, the escalating cash burn partly due to heavy operating expenses from previous acquisitions and the deteriorating unit economics. At the time of our exit, the company’s operating loss had more than doubled from two years prior and we felt it was prudent to move on.

Meituan was not a meaningful (or natural) holding for the Fund. The Fund's stake in the Chinese delivery platform was the result of a spin-off from a larger holding, Tencent. The stake was well below our typical minimum threshold for individual positions and with no desire to grow it, we sold as soon as the shares became unrestricted.

Annual Distribution

Finally, we would like to touch on the recently announced annual distribution for the Fund. As we have highlighted in detail above, the Fund delivered a strong total return for the year with contributions coming from a broad swath of the Fund's holdings. As per our stated strategy, the main objective of the Fund is to generate capital gains from share price appreciation rather than income from dividends. The portfolio companies we typically own pay little or no dividends as their primary objective is to reinvest profits back into the business to grow as opposed to paying income to investors.

We are aware that, on occasion, some investors have conflated the annual distribution amount with the annual return of the Fund. As demonstrated these are two different outcomes, with the focus of the Fund being more orientated towards long-term capital appreciation rather than short-term income. As such, the Fund has met its investment objectives this year and investors should not be surprised to see relatively little income generated for distribution - this is as expected. The only exception to this would be where we have realised material capital gains in the Fund during the tax year, as was the case in 2021/22.

Looking Ahead

Thank you to all our investors for your time and trust. We remain confident in the long-term prospects of the portfolio and whilst we can't promise that next year's performance will look like this past one, we will stick to our game plan and keep doing our best for you.

Best Regards,

Lakehouse Capital

For more information call us on +61 2 8188 1510, email investorsupport@lakehousecapital.com.au or visit www.lakehousecapital.com.au

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