LAKEHOUSE GLOBAL GROWTH FUND

ANNUAL LETTER

30 June 2021

Dear Lakehouse Investor,

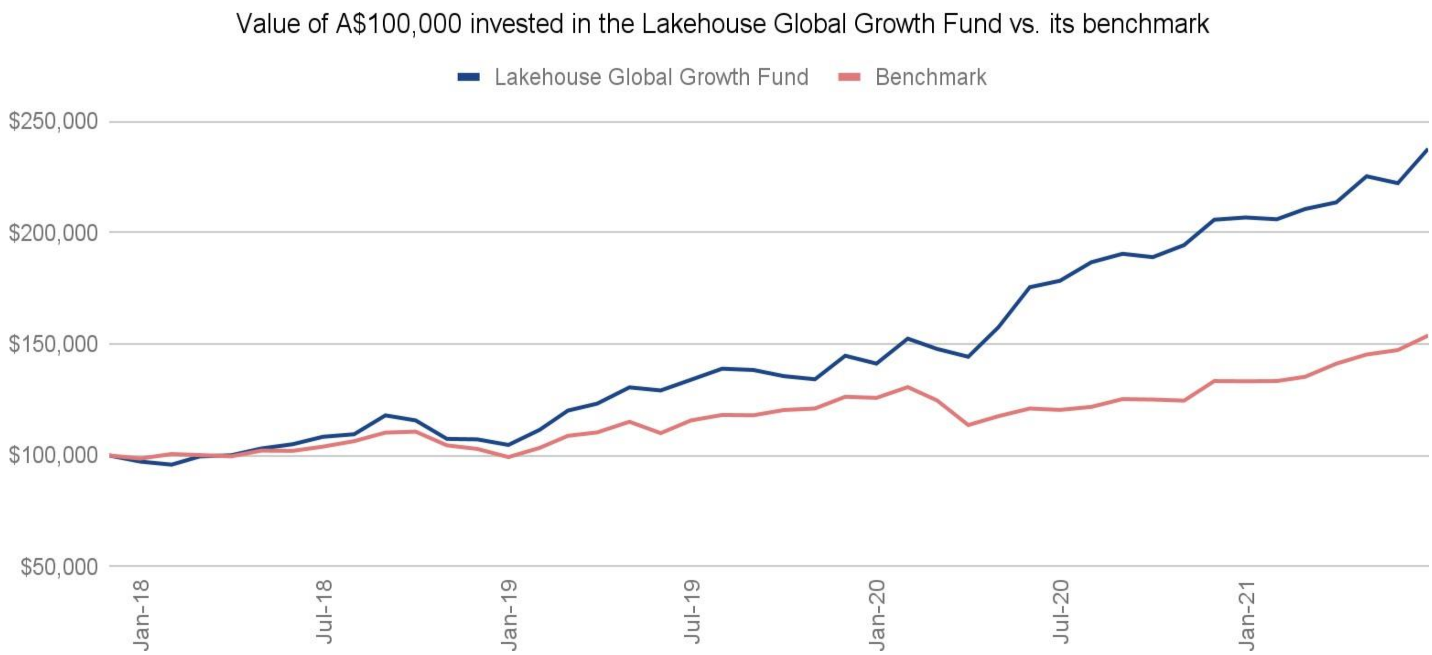
2021 was a very good year for the Lakehouse Global Growth Fund despite significant economic, political, and medical uncertainty. The Fund returned 33.2% net of fees and expenses compared to 27.7% for its benchmark. Since inception at the start of December 2017, the Fund has delivered a net total return of 137.6% compared to 53.8% for its benchmark. In annualised terms, the Fund has returned a net 27.3% since inception compared to 12.8% for its benchmark.

Fund Metrics	
Companies Held:	20
Cash Allocation:	5.5%
Top 10 Portfolio Holdings:	64.2%
Net Asset Value per Unit (mid):	\$2.2065 (ex 4.96 cent distribution)
Fund Net Asset Value:	\$367.9 million (ex \$8.3 million distribution)
Benchmark:	MSCI All Country World Index Net Total Returns (AUD)

	FY18*	**FY19**	**FY20**	**FY21**	**Inception (p.a.)**
Lakehouse Global Growth Fund	8.4%	23.6%	33.2%	33.2%	27.3%
Benchmark	4.0%	11.3%	4.1%	27.7%	12.8%
Excess Return	4.4%	12.3%	29.1%	5.5%	14.5%

**Inception on 30 November 2017. Past performance is not indicative of future returns.*

We are pleased with the Fund's performance during such a rocky period for high-growth companies, particularly as the Fund is rolling off having outperformed the benchmark by 29.1 percentage points in fiscal 2020. The year is perhaps best summed up in that the Fund had no material detractors and that 23 out of the 24 holdings the Fund held during fiscal 2021 contributed positively to performance. Granted, it was hard to not make money as a long-only global equity manager in a year like this one, but we think the broad-based contributions in the portfolio in this year and in prior ones speak well to the execution of our investment process.



Note: Fund performance is net of fees, based on monthly ending NAV, and includes distributions. The benchmark for the Fund is the MSCI All Country World Index Net Total Returns (AUD).

We will speak more to sources of return later but, first, let's talk about what our team views as the most impactful risks in markets today and our current positioning. The elephant in the room is Covid-19, which is the dominant force driving economic, social, and foreign policy. Our view on the present and future of Covid-19 is a balanced one.

It can be hard to appreciate when Australia is in and out of lockdowns but the longer arc of the global war against Covid-19 is going humanity's way. Multiple successful vaccines are now available with more than 3.5 billion doses having been administered -- an incredible human achievement considering this virus is less than two years old. Vaccine production is also accelerating, our knowledge of the virus and how it spreads has grown, and the capacity of our hospitals to handle surging case loads has collectively much improved.

Unfortunately, a stubborn reality is that some version of Covid-19 is very likely here to stay. The slow pace of vaccinations in many parts of the world has allowed the virus to fester and mutate. Compounding matters is vaccine hesitancy -- roughly one in four adults in the US and Australia say they may not get vaccinated -- which risks our collective ability to reach herd immunity.

The confluence of the above points makes for a counterintuitive situation: the worst is probably behind us and yet the global economic and social reopening will happen in fits and starts. The practical implications are that fiscal and monetary policy are both likely to remain loose, which is supportive for growth and asset prices but also risks increasing inflationary pressures. Inflation is a concern of ours, however, we have a natural hedge against this risk as pricing power is a trait we seek in all of our portfolio companies. Further, if inflation or interest rates were to increase because of strong economic growth, we would likewise have a natural hedge as a robust economy is welcome news for long-only investors such as ourselves.

Another implication of a fits-and-starts reopening is that many of the changes to how we live, work, play, and spend have hardened into permanent habits. For example, while MasterCard reports that ecommerce sales in the U.S. were only +8.3% in June 2021 compared to June 2020, the cumulative growth from June 2019 to June 2021 was +95.0%. We remain confident that the pull-forward in demand we've seen during Covid-19 in the growth of businesses that offer superior value and convenience for consumers and businesses (e.g. ecommerce, digital payments, etc.) is very much structural, not cyclical.

It would be silly of us to not let the above observations influence our thinking, particularly around portfolio construction. We take comfort, though, knowing that our core philosophical tenets -- a long-term mindset, high-conviction portfolio management, and an emphasis on asymmetric opportunities -- should continue to serve the Fund well whether the global economy races or lumbers forward. To that end, despite all that has happened during the ongoing Covid-19 saga, the Fund's portfolio companies still managed to grow their revenue at 22.7% year-on-year on a weighted-average basis through their latest reporting period.

The Fund held 20 positions as of the end of June and exited four during the year: **Atlassian**, **M3**, **Okta**, and **Twilio**. The companies we exited were sold almost entirely on the basis of their valuations getting stretched well past their norms and to levels where the return profile no longer offered the asymmetric upside that led us to invest in the first place. We dislike selling on valuation as great growth companies are hard to find and letting winners run is an important facet of a winning growth strategy, however, we're not gluttons for punishment either and in each of those cases we redeployed capital towards other high-quality growth companies with less demanding valuations. To that end, the Fund initiated stakes in three companies during the year: **Sansan**, **CoStar Group**, and **Games Workshop**.

You might get the impression from the above that the Fund does a fair bit of trading but the reality is that's not the case. 11 of the Fund's 20 positions have been held for at least three years and our average annual portfolio turnover rate of 14% is significantly below the 58% average of long-only global equity managers.

The Fund's top 10 holdings are listed in order below. We have discussed each of the positions in our **monthly letters** so, rather than revisit the investment cases here, we'll hyperlink each of the names of the top 10 to the most recent substantive commentary. We've also made note of the Lakehouse **investing fascinations** which align with each business.

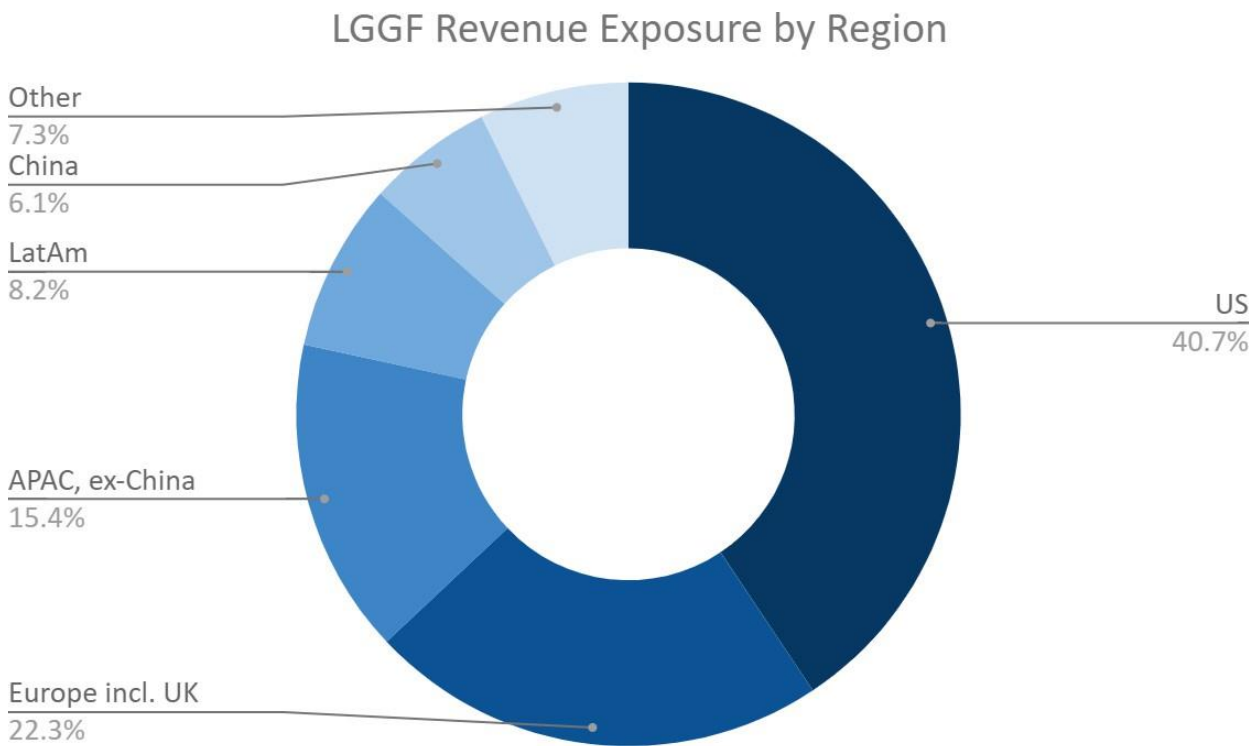
Company	Headquarters	Lakehouse Investing Fascinations
Facebook	USA	Networks, IP
PayPal	USA	Networks, Loyalty, IP
Sansan	Japan	Loyalty, Networks
Visa	USA	Networks, IP, Loyalty
Amazon	USA	Loyalty, Networks, IP
Adevinta	Norway	Networks, Loyalty
Adyen	Netherlands	Loyalty, IP
Alphabet	USA	IP, Networks
Monster Beverage	USA	IP
MercadoLibre	Argentina	Networks, Loyalty

It probably isn't lost on investors that the Fund holds stakes in several companies that have received more regulatory scrutiny recently than in the past. We appreciate such scrutiny introduces risk but also that concerns over regulatory risk have been widely held for years -- we discussed this very topic in our **2019** annual letter. A rising sense of global populism has upped the stakes since then but, as a court's recent dismissal of the US Federal Trade Commission's antitrust complaint against Facebook recently demonstrated, breaking up big tech is **easier said than done**.

Situations vary but, big picture, it isn't obvious that breaking up big tech companies that invest billions every year to create and deliver free, convenient, integrated tools and services to consumers is necessarily good for those consumers. Facebook has made well documented mistakes in the past but 2.7 billion people wouldn't use at least one of its social platforms each day if the company wasn't doing something right. For that matter, millions of small businesses and creators that have come to rely on these large platforms to improve their own distribution and competitiveness wouldn't necessarily be better off either if those platforms were smaller or diminished.

Then there's the action itself. Regulatory action of some form is already widely expected by markets, suggesting to us that slow or incremental changes might instead be very well received. We also wouldn't be surprised if the forced spin-offs of some assets (e.g. Instagram and WhatsApp from Facebook, YouTube from Alphabet, or Amazon Web Services from Amazon) actually served to enhance value for shareholders given we suspect these companies tend to suffer from somewhat of a conglomerate discount. All that's to say, we continue to watch the relevant regulatory environments for each of our companies closely and want to see said companies engage in a constructive and sustainable way with their stakeholders, but we also think the potential long-term rewards for owning such high-quality leaders are attractive today relative to the risks.

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, UK, Netherlands, Japan, Canada, China, France, Norway, and Argentina. Furthermore, 11 out of 12 of the Fund's US-based holdings have operations outside the States. Flow it all through and only 40.7% of the Fund's portfolio company revenue comes from the US.

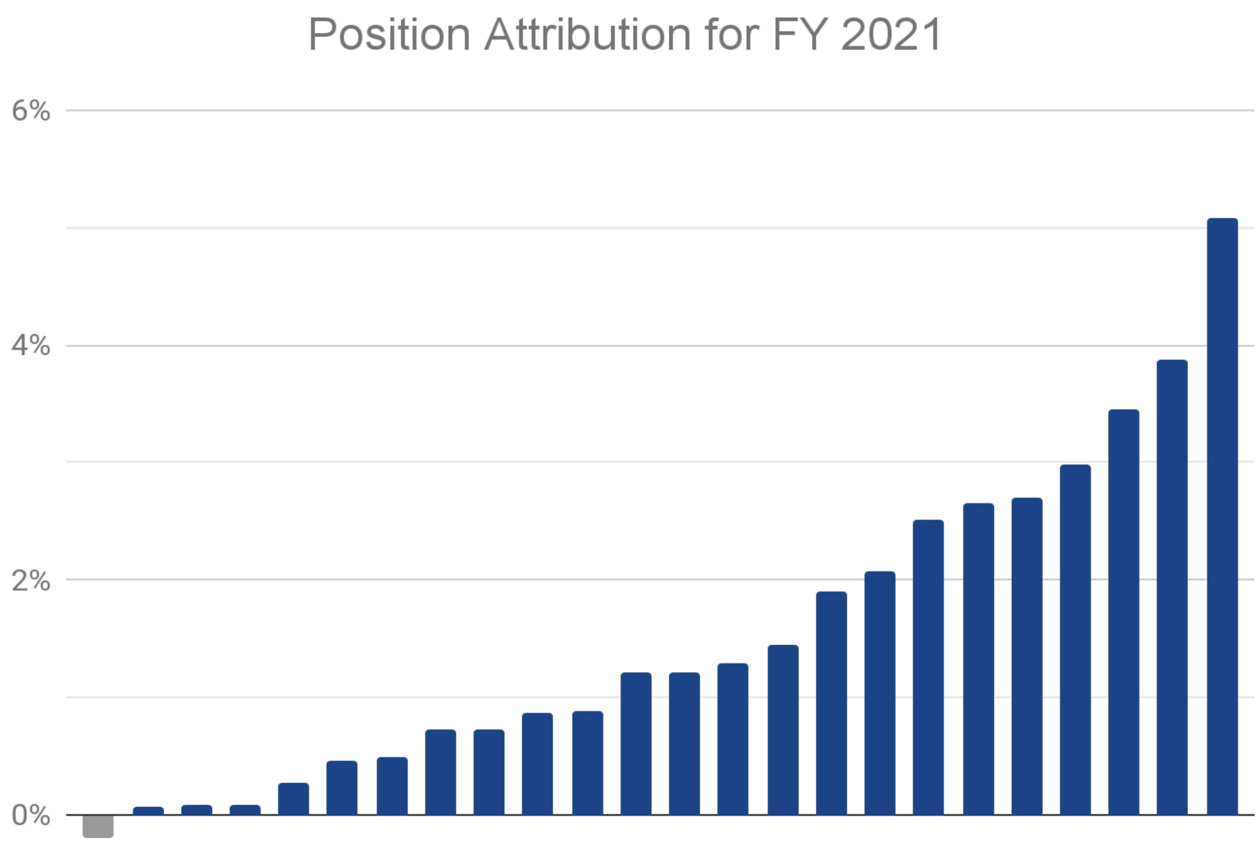


The Fund closed out the year with a cash allocation of 5.5% (or 6.7% if inclusive of reinvested distributions), down from 9.0% (or 11.6% if inclusive of reinvested distributions) at the start of the year. We value having some dry powder and flexibility, particularly given our high-conviction approach, 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, despite our successfully making good use of it during the downturns in late 2018 and early 2020. We continue to target a cash allocation of 5% to 15%.

Performance

Fiscal 2021 was a year where a lot went right for the Fund. 73% of the stocks in the Fund's benchmark increased in value during the year, which says a lot about the strength of the environment, but we note that 96% of the Fund's holdings increased in price during that same period. Our emphasis on backing companies with multiple ways to win and few ways to lose looks to have contributed to a high strike rate not only in the past year but since inception as the Fund has held stakes in 24 positions that have contributed more to performance than the largest detractor shaved off (-1.9 percentage points from **FeverTree Drinks**).

Also, given our bottom-up, business-focused approach, we would expect and like to see that stock selection drives most of the Fund's performance as opposed to sector exposures. In other words, it's not just that we know the right spots to find fish but that, when we get there, we haul in a better catch. Again, that's been the case as 87% of the Fund's outperformance since inception is attributable to stock selection.



The most significant contributors to performance during the year were, in order, **Charles Schwab** (+100.9% during the year), **Adyen** (+54.0%), and **PayPal** (+53.4%). Note that the table above shows the total returns to the portfolio contributed by position, which reflect total returns and average position sizing during the year, while the percentage shown after each name listed above reflects the total return for the year of the individual share. We'll discuss each in turn.

Charles Schwab is not a household name in Australia but it is in the US where it is the largest discount broker with more than 32 million brokerage accounts, 2 million corporate retirement plans, and total client assets of US$7.4 trillion. Schwab's shares performed extremely well during the year thanks to a confluence of factors including a strong stock market with the S&P 500 up 39% year-on-year, the company's recent merger with industry heavyweight TD Ameritrade, and expectations that interest rate income would grow as the US economy gained steam.

Two other important contributors to Schwab's year, which were a mix of cyclical and structural, were an increase in net new accounts and increased trading activity. We view these as cyclical in the sense that markets are performing very well and that retail investors have been bored and emboldened during the American lockdowns, however, also structural because Schwab's shift to $0 commissions on equity trades has permanently reduced a barrier to trading for investors with smaller accounts. We also note that, while brokerage activity is cyclical, the average brokerage account itself is very sticky -- we estimate normalised annual retention rates for accounts of better than 93% -- and that the average client assets per account grow over time thanks to asset growth and clients collectively being net savers.

Schwab makes for an excellent natural hedge for the Fund as Schwab tends to perform well when interest rates increase, which is generally negative for the rest of the portfolio. And the position did its job for us by increasing during a rising interest rate environment, enabling us to harvest much of our gains from Schwab and redeploy them to shares of other growth companies that had gotten cheaper in response to higher rates. We're mindful of the run in the shares and the cyclical nature of the business but comfortable keeping a small position for now given Schwab's natural hedging dynamics, extremely loyal customers, and an industry-leading position in a growing market.

Adyen is likewise not a household name as an Amsterdam-based enterprise payments processor. Its reputation within the investment community is growing, though, thanks to a string of expectations beats, impressive clients such as eBay and McDonalds, 99% annual client retention rates, and Adyen recently boosting its long-term EBITDA margin guidance from 55% to 65%.

The company has thrived despite rolling lockdowns -- second-half net revenue grew by 28% year-on-year -- as growth with online retailers and digital goods clients overshadowed the slowdowns with its travel and offline clients. In the meantime, Adyen continues to win new clients thanks to its flexible solutions, competitive rates, cross-border capabilities, relatively high payment authorisation rates, and a long menu of integrations and customer payment options.

Investors are fond of toll road analogies, so we'll make one here before moving on. Imagine a toll road that keeps 99% of its drivers from one year to the next, the average revenue per driver goes up north of 20% each year, and that it takes years of costly, compliance-heavy development work for a driver to change to using another toll road. That's basically Adyen in a nutshell. Not surprisingly, even though the shares have done quite well for investors, we are happy to retain a material position in the company.

PayPal had a tremendous year as it was a significant beneficiary in the pull-forward in ecommerce. Total payment volume increased by 50% year-on-year through the first quarter of 2021 thanks to significant growth in users and merchants. The company now has 392 million active users, up 20.6% from March 2020, who use PayPal an average of 42 times a year. The significant growth in users and activity both look structural to us, not cyclical, and we doubt the six-million-plus merchants who began accepting PayPal in the past year will suddenly stop accepting one of the internet's most widely used forms of payment.

PayPal is a prime example of how a widely followed business can still be chronically misunderstood. FactSet tracks 48 analysts who publish price targets on the stock, suggesting PayPal's shares should be efficiently priced, and yet PayPal has beaten analysts' average sales and earnings estimates in 18 of the 21 quarters since it was spun off from eBay. We suspect the market tends to underestimate the business' inherent operating leverage and that the lifetime values of incremental new users continue to rise over time thanks to improving functionality and a growing merchant base that allows new users to spend PayPal more widely than did their predecessors.

We continue to think that PayPal has a considerable growth runway not only from gaining share of a large, growing market via its core platform but also from new tools and functionality including an enhanced in-store experience, crypto offerings, Pay with Venmo, and buy now, pay later. The business isn't sitting still despite its strong position and we look forward to what the future holds.

The three worst contributors to performance during the year were, in order, **MarketAxess** (-14.7%), **Atlassian** (+4.2%), and **Topicus** (+48.8%). Only one, MarketAxess, actually negatively impacted performance during the year.

MarketAxess is the leading US electronic trading platform for institutional fixed income investors and broker-dealers. The company's shares went backwards during the year as the business rolled over some very difficult comparisons from the prior year and a much smaller rival, TradeWeb, made some headway into the company's original stomping ground of US high-grade credit. We are watching the competitive environment closely but have increased the Fund's position recently in light of strong overall results and market share gains across most categories.

Just to take a step back, the Fund first **invested** in MarketAxess back in May 2018. The thesis then looked pretty much how it does now: a founder-led, highly profitable challenger that is methodically gaining market share by offering superior liquidity and price discovery to an opaque market long dominated by trading with brokers over phone or email. The business has done well since with the company's three-month rolling market share of high-grade US credit increasing from 17.3% to 21.2% and the shares returning 124.7% in Australian dollar terms since the date of the Fund's initial investment.

We're watching the US high-grade credit market closely but one of the most attractive aspects of the MarketAxess thesis is the way that it has leveraged its strong presence in US high-grade credit into adjacent markets. For example, since the Fund first invested, the company's three-month rolling market share of the US high-yield credit market has nearly doubled from 7.7% to 14.3%, Eurobond traded value has more than doubled, and the company's total value traded in US high-yield, Eurobonds, and emerging markets climbed 94% to reach 51% of the company's total value traded. We're pleased and impressed that the company is gaining market share so quickly in these categories and note that, in a network-driven model such as this one, success breeds success and creates additional optionality.

MarketAxess is also still making inroads with its all-to-all trading platforms that allows investors and broker-dealers to all trade with one another rather than investors only being able to trade through direct broker-dealer relationships. The net effect dramatically boosts liquidity and price discovery, which not only reinforces the value MarketAxess brings but also diminishes the competitive position of the traditional fixed income brokers in the marketplace. This all-to-all trading, or Open Trading, as it is called on MarketAxess, now makes up 33% of the company's total credit volume, up from around 21% when we first invested.

Again, we are watching the competitive environment closely, but given the firm's steady leadership, clear and steady share gains across most of its markets, and with a share price that is about 23% below its highs, we think it makes sense for long-term holders to stay patient.

Atlassian is one where we don't have much to add. The co-founder-led business remains robust and was a very positive contributor to Fund performance over the course of its life -- the Fund realised a +209% total return on the position -- but the position had a de minimis impact on fiscal 2021 performance as we **exited** the small position we had left in October.

Topicus' shares likewise gained during the year, and substantially at that, with the holding only ranking among our bottom three on account of the tiny position size and strong performance elsewhere in the Fund. The Fund's stake in the European vertical software business comes via a spin-off from a larger holding, **Constellation Software**. The stake is currently below our typical minimum threshold for individual positions, however, we are positive on the business given its sticky customer base, portfolio of market leaders, and its capacity and eagerness to reinvest into a large, fragmented market. We will continue to follow Topicus and would be open to growing the position as our conviction increases.

Looking Ahead

Thanks to all our investors for your time and trust. We are extremely grateful and continue to reinvest in our own business to honour that trust. The Lakehouse team has grown from seven to thirteen over the past two years as we bolstered our capabilities in investing, operations, client services, and distribution.

Again, on behalf of everyone at **Team Lakehouse**, thank you. We can't promise that next year's performance will look like this past one but, regardless, we'll stick to our playbook and keep on with our process.

Best Regards,

Joe Magyer
Chief Investment Officer

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