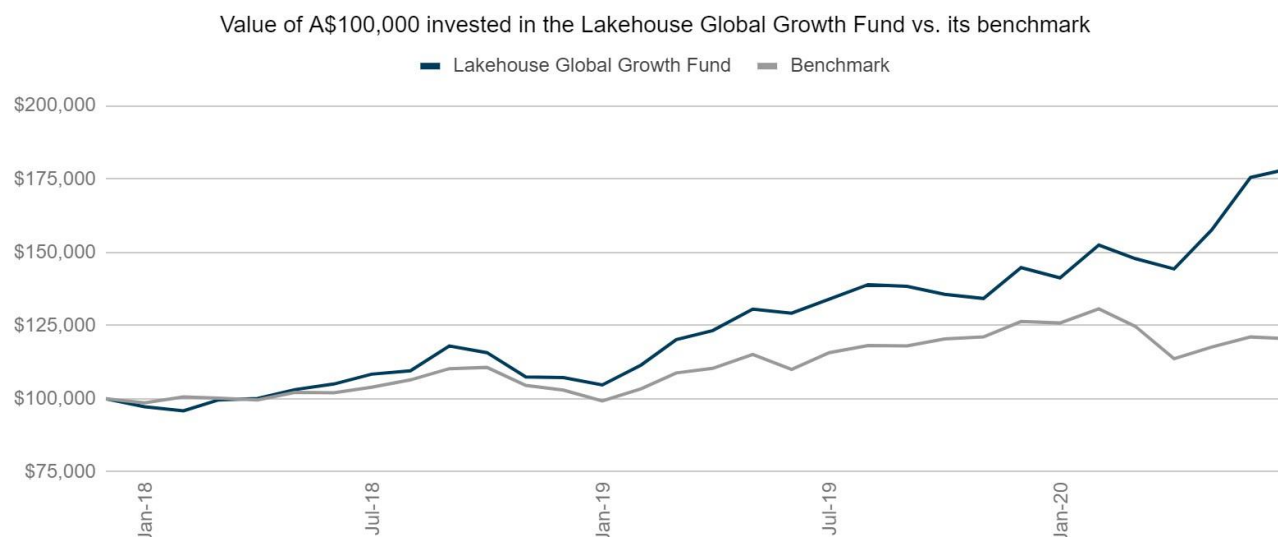


Dear Lakehouse Investor,

2020 was a strong year for the Lakehouse Global Growth Fund despite a very challenging environment. The Fund returned 33.2% net of fees and expenses compared to 4.1% for its benchmark. Since inception at the start of December 2017, the Fund has delivered a net total return of 78.4% compared to 20.5% for its benchmark. In annualised terms, the Fund has returned 25.1% net since inception compared to 7.5% for its benchmark.

We are pleased with the Fund's performance during such a volatile time and how the Fund is pacing towards our objective of long-term outperformance. We are also glad that the contributors to that outperformance have been broad-based and that results have been very strong on a risk-adjusted basis, which we think speaks well to execution of our process. More on our key contributors (and detractors) later.



*Note: Fund performance is based on monthly ending NAV and includes distributions. The benchmark for the Fund is the MSCI All Country World Index Net Total Returns (AUD). Source: Lakehouse Capital*

We continue to take a balanced view of the economic backdrop and market opportunity set. There is certainly plenty to be worried about. Economies are reopening and then closing again in fits and starts, which is exhausting the patience and resources of people and business. We also can't ignore that markets have rallied hard from their lows while unemployment remains elevated in most markets.

But there are plenty of solid reasons for optimism. In terms of markets, we note that the market's rebound is on the heels of the steepest drawdown ever, markets are forward-looking, and that policy makers have demonstrated an unprecedented commitment to supporting consumers, businesses, and markets. In terms of the virus, we have a better understanding of treatments and spread prevention measures, testing has dramatically increased as has the availability of masks and ventilators, mortality rates may be falling, and the scope of money and talent fixated on finding vaccines and treatments for COVID-19 is unrivalled in the history of medical research. And, of course, there's the simple reality that history usually sides with the optimists.

Fund Metrics	
Companies Held	20
Cash Allocation	9.0%
Top 10 Portfolio Holdings	64.5%
Net Asset Value per Unit (mid)	\$1.6943 (ex 6.86 cent distribution)
Fund Net Asset Value	\$181.1 million (ex \$7.3 million distribution)
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

We're rooting for a V-shaped recovery but take comfort 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 recession and elements of social distancing drag on for an extended period or otherwise.

**Long-Term:** In an era where monthly jobs reports are slobbered over, our strategy is centered around putting time on our side. A long time horizon is never more valuable than during a market crash and it was our focus on the long-term drivers of company performance -- competitive dynamics, leadership, capital allocation, corporate culture, etc. -- that kept us oriented on multi-year opportunities while many around us panicked and went to cash. Notably, despite having navigated record volatility that eclipsed even the GFC, the Fund still owns 15 of the 21 companies it owned a year ago.

**High-Conviction:** The Fund held 20 investments at the end of the year compared to 64 for the median actively managed global equity fund offered in Australia (Morningstar). Having a tight portfolio assembled via a consistent, rigorous process is always a positive but it was especially valuable during the COVID-19 crash as we were able to quickly contextualise the impacts of the virus and social distancing on our portfolio companies and make adjustments where appropriate.

**Asymmetric:** We're very particular about the specific traits we seek in our portfolio companies. Namely, we're after strong positions in growing markets, with pricing power, durable competitive advantages, aligned and experienced management teams, conservative balance sheets, and attractive valuations. Doing so puts us in situations that we think skews the range of outcomes in our favour by offering multiple ways to win and fewer ways to lose. Executing on such an approach should theoretically lead to a portfolio with a high strike rate at the position level, which has happily been the case since inception and we'll speak to shortly.

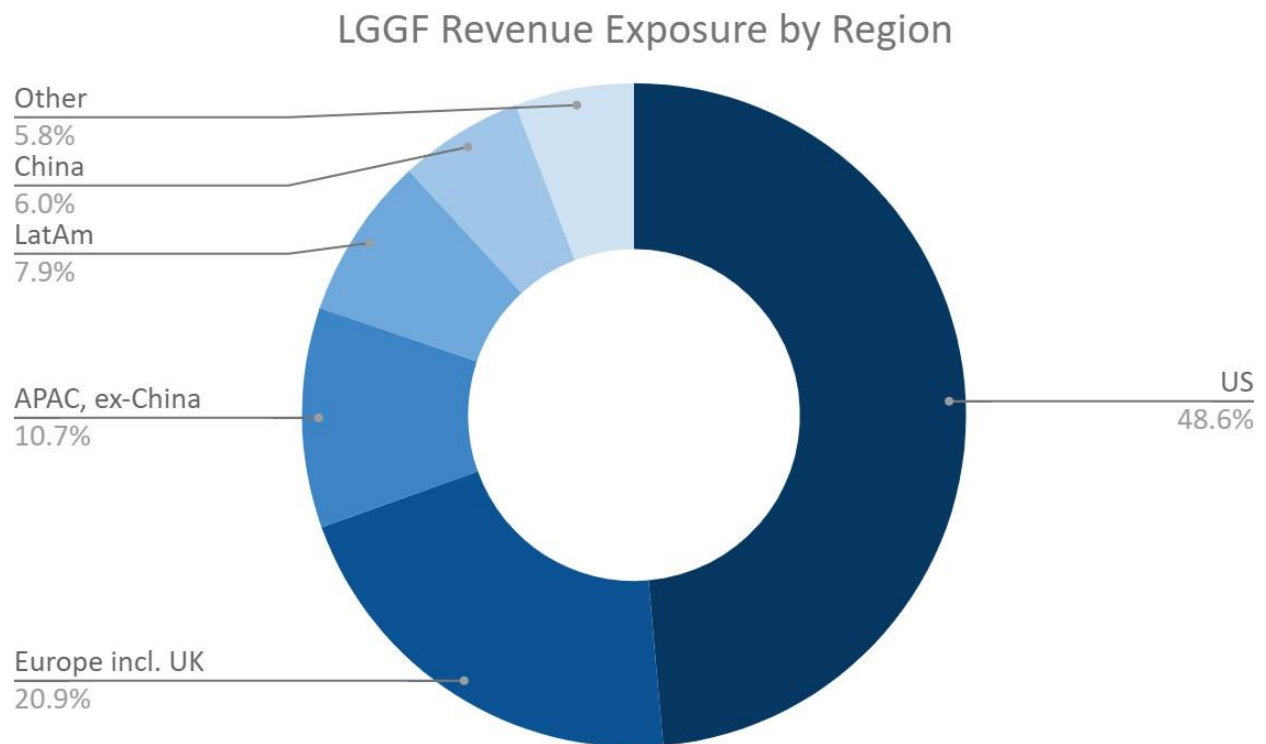
Two last quick points before moving on to discuss performance in greater detail. First, comparisons of our Fund to the benchmark or market at-large can be muddled because we purposely look different -- the Fund's active share is at 94%. So, when someone says 'the market' is doing something, know that it doesn't mean that our Fund is as well. Second, just because the broader economy is struggling doesn't mean that some specific areas aren't thriving. For example, as we first flagged in late [February](#), social distancing would and has changed how we live, work, play, and spend. Cyclically, in some cases -- e.g. toilet paper sales have boomed but end demand hasn't changed -- but structurally for the likes of ecommerce, digital payments, and social networking, among others.

The Fund held 20 positions as of the end of June, the top 10 of which 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
<a href="#">Paypal</a>	USA	Networks, Loyalty, IP
<a href="#">Facebook</a>	USA	Networks, IP
<a href="#">Adyen</a>	Netherlands	Loyalty, IP
<a href="#">Amazon</a>	USA	Loyalty, Networks, IP
<a href="#">Alphabet</a>	USA	IP, Networks
<a href="#">Avalara</a>	USA	Loyalty, IP
<a href="#">MercadoLibre</a>	Argentina	Networks, Loyalty
<a href="#">Visa</a>	USA	Networks, IP, Loyalty
<a href="#">Constellation Software</a>	Canada	Loyalty, IP
<a href="#">MarketAxess</a>	USA	Networks, Loyalty

It's obvious from the table above that we have an affinity for companies based in the US. We appreciate the US is having a tough time right now, however, the country is also home to the largest pool of elite growth companies in the developed world. It's also worth noting that the above table does not tell the full tale of our global diversification. The Fund also has holdings outside the top 10 based in China, France, Japan, Norway, and Australia ([Atlassian](#), if you're wondering, which is headquartered down the street from our offices in Sydney but is listed in the US). Furthermore, 12 of the Fund's 13 US-based holdings have operations outside the States. Flow

it all through and roughly 51% of the Fund's portfolio company revenue comes from outside the US.



The Fund closed out the year with a cash allocation of 9.0% (or 11.6% if inclusive of reinvested distributions), down from 11.9% (or 12.7% if inclusive of reinvested distributions) at the start of the year. The bulk of the Fund's cash is parked in Australian dollars (the Fund's base currency) and U.S. dollars (the currency in which most of the Fund's investments are priced). The Fund's cash allocation peaked at the end of February (14.1%) and bottomed at the end of March (6.8%), reflecting the significant degree of conviction we had that the crash was an attractive window of opportunity.

We feel obliged to echo a question from last year's letter, though, whether the Fund should run with a smaller cash position given its strong performance. The validity of that question only got weightier during the year given our continued success, and as a nod to that we've reduced the Fund's maximum cash weighting from 25% to 20%. We continue to tell investors to expect a typical cash weighting of 5% to 15% and -- we sleep well having some dry powder -- and the periodic moves in and out of high-conviction holdings can make for lumpy changes to our cash position. That said, we expect to steer towards a lower cash allocation on average going forward than the roughly 12% average over the past two years.

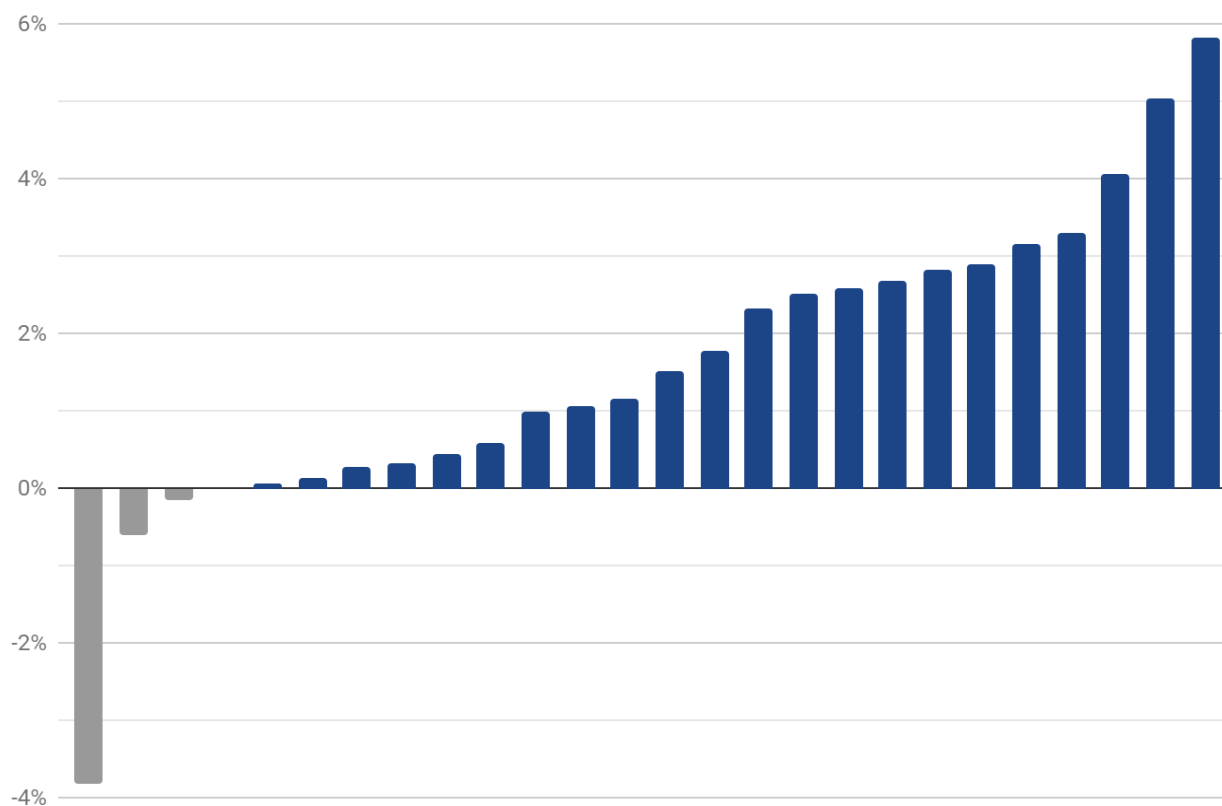
## **Performance**

2020 was a year where a lot went right. Our overarching style and strategy suited the environment well but the data suggests we also executed well against our strategy. For example, given our emphasis on backing companies with multiple ways to win and few ways to lose, you would like to see a high strike rate and a fair bit of power. Happily, that's been the case as 85% of the investments the Fund held at some point during the year were positive contributors and the Fund's five most significant contributors to performance outweighed the five most significant detractors by a ratio of about 5:1.

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 than our peers. Again, that's been the case as 74% of the Fund's outperformance since inception is attributable to stock selection.

One other small point: all this was buoyed by a roughly 2% depreciation in the Australian dollar during the year, which boosts the value of overseas investments in Aussie dollar terms. Practically speaking, though, this modest tailwind was small compared to the fundamental contributions from our portfolio companies.

## Position Attribution for FY 2020



The most significant contributors to performance during the year were, in order, **Adyen** (+91.8%), **PayPal** (+54.8%), and **M3** (+137.4%). The Fund was a buyer of each during the year before trimming some off the top on either sizing or valuation issues later in the year. We'll discuss each in turn.

Adyen had a strong year due to impressive client wins and the accelerating shift to e-commerce despite weakness in travel-related volumes. The European payment processor delivered year-on-year net revenue growth of 34% during the first calendar quarter despite a 3.8% drop in Eurozone GDP. The company sees no change in the long-term outlook and has continued aggressively increasing headcount in sales and technical areas while still being incredibly profitable with an incremental EBITDA margin of 75%.

The business has shown the ability to grow outside of core markets and offerings by successfully expanding into physical point of sale terminals, winning deals with massive restaurant groups including Subway and McDonalds, introducing an issuing product that allows marketplace sellers and gig workers instant access to funds, and opening offices in new markets like India, Japan and Malaysia. We can see a significant growth runway and, with net dollar retention of around 130%, there's still plenty of profitable, high-quality growth to come even just from the existing customer base. We did take the opportunity to slightly trim our position due to sizing reasons but we remain very confident in the long-term prospects of the business.

PayPal's long run of impressive growth -- the business has been consistently gaining share of ecommerce, which itself has been gaining share of total commerce -- was accelerated by the effects of COVID-19. PayPal's daily new user additions were up 135% in April 2020 relative to the prior year and new users transacted at a significantly higher rate than usual, suggesting these new users are here to stay. To that end, fellow fund holding Visa told the market that card not present volume (basically, ecommerce) excluding travel finished up in May on year-on-year terms to comparable degrees as during the peak of the lockdowns.

Meanwhile, the online channel became even more important to omnichannel merchants and the many brick-and-mortar merchants who had dragged their feet on selling online before being forced to dive headlong into the channel. Joe, for one, is elated that three different local butchers will now deliver to his home. That's all to say, both users and merchants, including Joe and his butchers, are finding more counterparts on the other side of the platform, spinning the flywheel of the company's network effect even faster. The Fund was an aggressive buyer of PayPal in late February through mid-March, increasing our position at very favourable prices, before shaving some off the top late in the year as the position had swelled. It remains a large holding.

M3 performed well throughout COVID-19. The company's engagement increased across the board with March site visits in China, UK and the US increasing by 42%, 69% and 129%, respectively. The company acted as a key infrastructure in the Japanese healthcare landscape, providing up-to-date information to consumers and healthcare professionals through articles and webinars, offering additional marketing support services for pharmaceutical companies, providing digital channels for medical representatives to reach doctors, and enabling telehealth consultations for those

potentially at risk. LINE Healthcare, a partnership between LINE and M3, has been a huge success, with 5.5 million users acquired by the end of March.

Though overall a positive year, M3 did have some negatives, such as a slowdown in clinical trials and healthcare professional career mobility. These category impacts appear cyclical, though, while the positive changes to the business look enduring. We look forward to the coming year, as the weaker parts of the business begin to rebound, more partnerships are signed, and M3 participates in the continued digital migration in healthcare. We note, though, that we have taken much of the Fund's position off the table following strong share price appreciation.

The most impactful detractors during the year were, in order, **FeverTree** (-55.2%), **Interactive Brokers** (-14.6%), and **Booking Holdings** (-13.1%). Again, we'll discuss them in turn.

FeverTree is far and away the most significant detractor to performance since the Fund's inception. Unfortunately, not only did we give the investment thesis too much rope as growth decelerated at a sharper rate than we expected -- the UK-based premium tonic water maker was also the Fund's biggest detractor in 2019 -- but we compounded the mistake by selling past the point when intense pessimism around COVID-19's impacts had already been priced into the share price.

Not everything went badly here. The original thesis had good bones as the business was gaining share of a growing market, solid founder alignment, optionality around geographic expansion, and was widely viewed as a potential acquisition target. We also didn't go overboard on sizing -- the capital we put behind the position didn't rank within the top half of our holdings since inception - - and the Fund's unit price returned roughly 28% from the point when we fully exited through the end of the year, so we were pleased that the proceeds from the sale were redeployed well.

Nonetheless, there's no question that we timed the exit poorly -- the Fund realised a 54.8% capital loss in Australian dollar terms on the investment -- which led to a significant degree of introspection and discussion. In the spirit of continuous improvement, we undertook a study of the performance of all positions we exited across both our funds from the date of our last sale through the end of the year. The results were better than expected: 52% of the companies we've exited have gone on to beat their benchmarks -- a toss-up, basically -- but only 30% had gone on to outperform the funds themselves, suggesting we've been effective in redeploying capital from positions we exited.

And, yet, there is room for improvement. For example, given FeverTree's flagging fundamental performance, we should have exited when the risks around social distancing and COVID-19 led us to make such decisions elsewhere in the portfolio. We are mindful of not getting too aggressive when it comes to selling, which would be antithetical to our patient, long-term mindset, but it's fair to say we will demonstrate a tighter leash going forward for portfolio companies whose thesis



is getting off track, particularly in situations such as FeverTree's where the business is on the riskier side of the spectrum.

Interactive Brokers was a different story. The decision to sell was an apt one given what struck us as a terrible move by the company in inciting a price war among discount brokers in the US given the business is sub-scale when it comes to winning retail clients. Ironically, this decision played into the hands of another portfolio holding, **Charles Schwab**, which has far greater scale and whose allocation we have subsequently increased.

Another nudge for us to exit Interactive Brokers was its decision to offer a zero-cost brokerage product that would be subsidised by selling clients' order flow, which flew in the face of the company's long-standing public criticisms of competitors selling their order flow. Ultimately, the decision by Interactive Brokers was so off-brand and strategically self-defeating that we don't think we could have reasonably seen it coming, and the decision to exit appears valid given our loss of faith in the judgment and focus of the company's leadership team. In the end, the Fund realised a capital loss of 13.0% in Australian dollar terms.

Booking Holdings is another interesting case study. We've always held the business in high regard but the significant reliance on external lead generation, particularly through Google's platforms, put the business on less solid ground than most of our other holdings. In light of that, and realising early that COVID-19 was a significant risk to the business, we first reduced our position in late January and then entirely in early March when it became clear that the situation was deteriorating faster than the consensus had appreciated. Indeed, Booking withdrew its then 12-day-old guidance only hours after we exited. The Fund realised a 3.4% capital gain on the position in Australian dollar terms.

An interesting coda with Booking is that, while the business has been hammered by COVID-19, it may well come out competitively stronger on the other side as most of its rivals and the hotels who rely on Booking are all making out even worse. We have not reopened the position but are still keeping an eye on the business.

## Looking Ahead

Thanks to all our investors for your time and trust. It isn't lost on us that the overwhelming majority of our investors hung in there with us throughout the steepest market drawdown in history, and for that we are incredibly grateful.

We do not take that trust for granted and have continued to reinvest in our own business. The Lakehouse team grew from seven to eleven this year as we bolstered our capabilities in operations, client services, and distribution. Doing so has not only made the business more robust but given our investing team even more time to focus on what we do best.

Again, thank you. We can't promise the new year's performance will look like this past one but, regardless, we'll stick to our playbook and keep doing our best for you.

Best Regards,  
[Team Lakehouse](#)

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