

LAKEHOUSE GLOBAL GROWTH FUND

MONTHLY LETTER

31 May 2023



Dear Lakehouse Investor,

This month concerns about the looming deadline to raise the US debt ceiling grabbed headlines. Our pragmatic view led us to make no changes to the portfolio in response. For some perspective, we can turn to the US Department of Treasury's own website:

Congress has always acted when called upon to raise the debt limit. Since 1960, Congress has acted 78 separate times to permanently raise, temporarily extend, or revise the definition of the debt limit – 49 times under Republican presidents and 29 times under Democratic presidents. Congressional leaders in both parties have recognized that this is necessary.

Fund Metrics	
Fund Net Asset Value	\$276.0 million
Net Asset Value per Unit (mid)	\$1.7097
Cash Allocation	9.5%
Top 10 Portfolio Holdings	61.1%
Companies Held	20
Benchmark	MSCI All Country World Index Net Total Returns (AUD)

More recently, the debt ceiling was raised a total of 7 times under George W Bush's presidency, and 11 times under Obama's, who both served 8 year terms. Markets rallied in early June in response to the issue being resolved, and serves as a reminder of the constant noise for investors to filter in financial markets.

Turning to performance. The Fund returned 4.3% net of fees and expenses for the month compared to 1.0% for its benchmark. Over the past 12 months, the Fund has returned 27.6% compared to 11.8% for its benchmark. Since its inception at the start of December 2017, the Fund has returned 110.2% compared to 65.6% for its benchmark. In annualised terms, the Fund has returned 14.5% since inception compared to 9.6% for its benchmark.

	1 Month	3 Month	1 Year	3 Year (p.a.)	5 Year (p.a.)	Inception (p.a.)
Lakehouse Global Growth Fund	4.3%	14.5%	27.6%	6.2%	14.9%	14.5%
Benchmark	1.0%	7.8%	11.8%	11.0%	10.2%	9.6%

Excess Return	3.3%	6.7%	15.8%	-4.8%	4.7%	4.9%
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**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 May were to information technology (23.4%), communication services (22.8%), and consumer discretionary (19.7%). 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.

As a side note – and for the eagle-eyed readers who may spot a sizable change in sector allocations – during the month, two of the payments holdings (Adyen and Visa) were reclassified under the Global Industry Classification Standards (GICS) from information technology to financials. This is not the first time such a change has been made and serves as a good reminder of our ambivalence toward segmenting the market on a sector basis, and preference toward economic models – also referred to as our [investing fascinations](#).

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

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 56.7% of the revenue from the Fund's portfolio companies coming from outside the US 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 **ServiceNow (+21.1%)**, which benefited from investor enthusiasm generated at its annual investor day. Meanwhile, the largest detractor was **MarketAxess (-12.4%)**, which saw a continuation of the previous month's weakness in trading volume driven by short term dislocation in the banking sector.

US-based software company ServiceNow held its annual Analyst Day in May, providing insights into its long-term strategy and business operations. With the challenging economic environment, the market has been anticipating a relatively weaker operating period for the company. Investors were pleased to learn that the company's revised financial targets were still quite healthy, although slightly lower than last year's estimates. The event also highlighted other positive developments, such as achieving 125% net revenue retention (NRR), Customer and industry workflow products reaching \$800m in annual contract value (ACV) and Creator workflows reaching \$850m in ACV, demonstrating the power of ServiceNow's platform and its ability to expand beyond their core IT related products. Management also touched on its opportunity presented by Generative AI and the potential for seat expansion and monetisation through higher-priced or add-on product offerings. Overall, we remain happy shareholders of the company and have confidence in the company's management team as they navigate the fast changing technology landscape.

The Fund's fourth largest position, Buenos Aires based e-commerce leader **MercadoLibre**, delivered a robust quarterly result that once again came in ahead of analyst expectations. Net revenue grew 35% year-on-year in U.S. dollar terms to US\$3.0 billion while operating margins came in at 11.0%, providing a healthy balance of growth and profitability. Its marketplace business experienced strong growth across all key markets and increased 43% year-on-year to generate \$9.4 billion in gross merchandise value (GMV). It was especially pleasing to see MercadoLibre continue to extend its market leadership, particularly in Brazil, where management noted accelerated share gains. In fact, the company grew local currency GMV at 28% in Brazil, which was 42 percentage points better than the rest of the industry, which declined 14%. This was, though, not a usual quarter given the plunge in sales at one of the company's largest competitors, Americanas, which recently filed for bankruptcy after identifying 20 billion reais (US\$3.9 billion) in accounting irregularities earlier this year.

The company's fintech business also continued to show strong momentum with total payment volume (TPV) increasing 46% year-on-year to US\$37 billion. Unique active fintech users reached almost 45 million in the quarter, driven by higher engagement across all markets, and processed transactions grew 88% year-on-year to 1.8 billion. In our view, Mercado Pago is now well positioned to become a leading financial services provider in the region thanks to its scale and the critical mass of services it has developed over the years.

Big picture, despite the considerable success the business has experienced to date we believe it's still early days and are happy to remain patient long term holders.

Canadian-based **Constellation Software** reported impressive growth with revenue up 34% year-on-year to US\$1.9 billion and free cash flow up 40% to US\$453 million. The company continues to deploy capital at impressive rates despite their scale, spending US\$452 million on acquisitions during the most recent quarter, which equated to roughly 70% of operating cash flow. We have believed for some time now that the current environment - one of rising rates and diminishing liquidity - should favour Constellations' self-funding, acquisition driven model. As lower valuations and less competition more broadly enables them to deploy greater amounts of capital on more favourable terms. And the company's strong operating momentum over the last few quarters seems to suggest this is the case. They deployed US\$1.9 billion in 2022, which for context, was more than three times what they put to work in 2020. Over the longer term, we remain confident in Constellation's ability to maintain growth at scale and find the business's defensive and somewhat counter-cyclical nature appealing, particularly in these tough economic times.

Thank You

We are preparing investors' annual tax and distribution statements which, along with the annual letter, we anticipate being available later in July.

As always, thanks to all our investors for your time, trust, and support.

Best Regards,

[Lakehouse Capital](#)

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Lakehouse Global Growth Fund's Target Market Determination is available here – www.lakehousecapital.com.au/lggf/. It describes who this financial product is likely to be appropriate for (i.e., the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

Lakehouse, its directors, employees and affiliates, may, and likely do, hold units in the Fund and securities in entities that are the subject of this report.