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Lakehouse Small Companies Fund (ARSN 615 265 864) (Fund). The responsible entity for the Fund is One Managed Investment Funds Limited (ACN 117 400 987) (AFSL 297042).

LAKEHOUSE SMALL COMPANIES FUND LETTER FEBRUARY 2017

Companies held	21
Cash allocation	29.8%
Top 5 portfolio holdings	32.5%
Net asset value	$85.5 million
Net asset value per unit	$0.9461
Benchmark	S&P/ASX Small Ordinaries Accumulation Index

Dear Lakehouse Investor,

February was a busy month for our team. We met with 24 companies, reporting season was in full swing, and we announced that we have moved from quarterly to monthly letters so that we can stay better engaged with our investors. This letter is offbeat because we made the decision to switch to monthly midway through the quarter but you'll hear from us monthly going forward.

The Fund held stakes in 21 companies as of the end of February, up from 18 at the end of the year, as we've made the most of a lively earnings season and the pullback in shares of high-quality companies that have been on our watch list. We're very enthused about the long-term prospects of our portfolio companies, which collectively grew revenue by 19.4% over the past year, far beyond the 4.4% growth by the benchmark. Also, unlike the benchmark, our portfolio companies have more collective cash than debt. We sleep well knowing our portfolio companies are collectively cashed up and growing strongly.

Reporting season was not kind to our performance figures, however, as some of our larger holdings disappointed the market in one fashion or another. All up, the fund declined 3.4% over the cumulative span of January and February compared to a 1.2% fall for the benchmark. Since inception the fund is down 5.4% compared to a gain of 2.9% for the benchmark.

Beyond company-specific performance, which we'll touch on shortly, our style of companies are also a tad out of favour at the moment. Indeed, the two sectors where we've deployed the most capital because of their strong long-term prospects, consumer discretionary (7.8% of the Fund's capital) and information technology (50.6%), happened to be the two worst-performing sectors within the benchmark.

We would have preferred to be off to a flying start, of course, but the companies we own today were bought for their prospects over 3, 5, and 10 years, not for 3 months. And, while our style might not be in vogue at

the moment, we won't chase short-term performance or deviate from the long-term strategy we laid out for you on day 1.

To that end, we have been patiently putting your capital to work. The Fund's cash allocation decreased from 48.3% at the end of December to 29.8%. We're working our way toward a typical cash allocation of 5% to 15%, and we're out buying almost every day, but you can also expect us to stay patient and not lower our standards.

Key Holdings

We don't plan to disclose all of our holdings in our letters -- doing so would hurt performance because other investors could front-run the Fund as we build and reduce positions -- but we'll walk you through our largest positions and other positions of note in our monthly letters. Below were our five largest positions as of 28 February 2017:

Company	Allocation
Bapcor (ASX:BAP)	7.9%
Altium (ASX:ALU)	7.3%
Citadel Group (ASX:CGL)	6.1%
BWX (ASX:BWX)	5.8%
WiseTech Global (ASX:WTC)	5.3%
Total Top 5 Holdings	**32.5%**

BWX and **WiseTech Global** joined our list of top 5 holdings while **Aconex** and **GBST** fell out. Both BWX and WiseTech reported stellar first-half results that leave them well placed to leapfrog their guidance for fiscal 2017, and we look forward to profiling them in future letters. Indeed, BWX was one of our better performers during the period, rising by 15.3%.

Aconex and GBST, however, downgraded and disappointed. Aconex's sin was growth that came in below expectations. A strong Aussie dollar was a headwind and the acquired Conject business stuttered due to Brexit and the company's transition to selling the Aconex product. The former is not structural while the latter issues are frustrating but understandable in the short-term. Revenue growth across Australia and New Zealand of 6% was also underwhelming at first blush but the unit was rolling over a tough comparable period and despite capital expenditures in Australia falling by 12.5%.

Aconex shares fell 32.0% during the first two months of the year and are off 59.4% from their peak in July. Not fun. Aconex is also a favourite among short sellers: It would take about 14 entire days of recent trading volume to cover all the shorts' positions. We remain enthused about the business' long-term prospects, however, and the valuation does not bake in great optimism. Aconex's enterprise value is about 4.1 times consensus estimates of this fiscal year's revenue compared to a multiple of 6.0 at MYOB, even though the latter is saddled with debt and losing market share. We'll revisit this thesis in greater depth in a future letter. In the meantime, we remain confident owning an industry leader that has long contract lives and an out-of-favour share price.

Unlike Aconex, whose issue was not growing as much as the market desired, GBST is having a full-blown annus horribilis. First-half revenue fell 20% over the prior comparable period due to UK customers delaying

projects over Brexit, the weaker British pound, and the rare loss of a good-sized Australian customer. All that came on top of increased spending on R&D aimed at pleasing existing customers and winning new ones.

We view each of those issues as either temporary or one-off in nature. Meanwhile, GBST's shares are now priced with very low expectations after having fallen 25.3% during the first two months of the year. We figure the current price reflects expectations of annualised revenue growth of only about 2% perpetual sales growth off the fiscal 2016 base. We also like that the business is debt-free and has 6% of market capitalisation in cash. Again, like Aconex, this is one we'll profile in further depth in future letters.

Turning to the rest of our larger holdings, **Bapcor** reported a strong result with pro-forma earnings per share increasing by 33.4%. The Burson trade business posted excellent results with same store sales increasing 5%, gross margins expanding, costs of doing business as a percentage of revenue falling, and EBITDA ultimately increasing 32%. The ongoing optimisation projects linked to its expansions into retail and specialist wholesale are progressing well and the company increased its dividend by 10%.

The market did not react warmly to Bapcor's beat-and-raise -- the shares fell by 6.8% during the two-month period -- as the market was spooked by comments about price competition from fellow biggie Repco. Bapcor has flagged aggressive competition for more than 2 years now, though, and despite this the company has still managed to grow trade sales, margins, and market share. We expect this management team, which has an impressive history of execution and capital allocation, will continue to quietly beat expectations in the years to come.

Altium is another large position that is well placed but a tad misunderstood at the moment, falling 11.1% during the two-month period. The company's latest result was rolling over a strong previous corresponding period and the company traditionally has a back-half-weighted fiscal year. For context, second-half revenue has been an average of 18% higher than the first-half over the past 3 years. Investors who do not realise this make an annual habit of believing the first half was a disappointment only to be surprised when the business seems to bounce back in the second half.

The company's fundamentals are among the strongest of companies we follow. Revenue increased 14.0% during the half over the previous corresponding period, the company reported a 25.8% EBITDA margin despite restructuring costs, and subscription renewal rates increased from 78.5% to 79.5% despite a 5.7% price increase. If any readers are aware of other listed companies whose renewal rates have increased in the face of price increases that are double the rate of inflation, please contact us. Immediately.

Altium continues to give us multiple ways to win -- new products, improved distribution, price increases, rising renewal rates, and a potential takeout -- and we're well protected with its 3.0% yield and $48 million in net cash. Indeed, our optimism in Altium's prospects has increased since our last letter given the shares' pullback, guidance for a strong second half, and the rising prospects that its partnership with Dassault could be a game-changer. We remain content long-term investors.

Citadel Group reported a solid but unspectacular first half. Revenue growth of 6% struck us as light (despite the education business starting to roll off) but margins widened thanks to a rising mix of revenue coming from software sales. We're expecting a markedly improved second half, though, thanks to a chunky contract that was inked in December. We also feel good that the company, which has proven adept at retaining and upselling customers, has no contracts due for renewal until fiscal 2018 at the earliest. Again, we'll discuss this position in greater depth in a future letter.

Finally, while it was no longer in our top 5, it's notable that the Fund exited its position in **Bellamy's Australia** after the company emerged from a 4-week suspension in January, realising a 44.7% loss. While disappointing, realising an average price of $4.74 was a better outcome than we'd braced for when we marked the position down to $2.29 during the company's suspension.

We exited Bellamy's as it no longer met our investment criteria. What the company first passed off as a temporary volume dislocation, which we considered tolerable, manageable, and believable given the company's prior success at navigating rapid growth, turned out to be a more systemic mismanagement of its supply chain that strained the company's finances and relationships with key suppliers and manufacturers. Worse still is that the company was not on the front foot with investors regarding its market share losses or deteriorating balance sheet.

The company's future in China, which had seemed so bright, has also dimmed somewhat given the tarnishing the brand took because of discounting. The tail risk of the company not achieving registration with the China Food and Drug Administration beyond 1 January 2018 also seems to have grown, and while we expect the company will succeed in maintaining the status quo, discontinuity could prove devastating.

We will continue to follow Bellamy's and may even reopen a position if the company regains its footing, solidifies its future in China, and the new leadership team demonstrates integrity and operational excellence. A lot of water has to pass under a long bridge first, though, and there are many other fish in our sea.

The Long View

A long time horizon is the most valuable edge in the market, a view reinforced to us every day with our interactions with fellow professional investors. Sell side analysts are judged based on how accurate their estimates are for the current period, not whether their picks do well into the next year, and we routinely meet other fund managers who utter variations of "We know this will do well over the long-term but we just can't be seen owning this today."

We remain resolutely focused on our long-term-focused process here at Lakehouse Capital, which we are confident will lead to pleasing long-term results. Your trust in us and our process means a great deal to us, and we look forward to continuing to serve you in the years ahead.

Best Regards,

Joe Magyer, CFA
Chief Investment Officer

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