LAKEHOUSE SMALL COMPANIES FUND LETTER
31 AUGUST 2017

Companies Held:	22
Cash Allocation:	8.5%
Top 5 Portfolio Holdings:	35.9%
Net Asset Value per Unit:	$1.1047
Fund Net Asset Value:	$107.9 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

Dear Lakehouse Investor,

August was an exciting month at Lakehouse Capital: Almost all of the Fund's holdings reported, we held 20 company meetings, and a new analyst joined the team. We look forward to walking you through how our notable holdings fared during reporting season as well as introducing you to our new teammate later in this letter.

The Fund returned 2.2% net of fees and expenses during the month compared to a 2.7% return for the benchmark. Since inception in November 2016 the Fund has returned a net 10.5% compared to 8.5% for the benchmark. As ever, we remind investors that our team does not judge itself based on short-term results and neither should investors who embrace our long-term, high-conviction strategy.

The biggest contributor to the Fund's performance during the month was **Afterpay Touch Group** (+21.6%) while the biggest detractor was **Catapult Group** (-15.8%). On a higher level, the Fund's largest allocations as of the end of August were to information technology (70.4% of total capital), consumer staples (7.7%), and consumer discretionary (6.8%) while the largest components of our benchmark were consumer discretionary (20.4%), materials (16.8%), and real estate (14.3%).

We were very pleased with the results our companies handed in for the end of fiscal 2017. The majority of our reporting companies, particularly and importantly our larger holdings, met or bested our expectations. We were also pleased that 2 good-sized holdings of ours, Afterpay and **Xero**, have been marked for inclusion in the S&P/ASX 300 index.

All in all, we have not felt better about the health of our portfolio than we do today. That's not to say some of our holdings won't work out, or that our differentiated, high-conviction strategy won't sometimes zig downward while the market zags upward, but on the whole we're very enthused and feel well placed to deliver on our objective of long-term outperformance. To that end, the Fund's 5 largest holdings at the end of August were:

Company	Allocation
Altium (ASX:ALU)	8.4%
BWX (ASX:BWX)	7.7%
Afterpay Touch (ASX:APT)	7.2%
Bapcor (ASX:BAP)	6.5%
Gentrack (ASX:GTK)	6.2%
Total Top 5 Holdings	**35.9%**

Below is a quick recap on how these and other notable holdings fared during reporting season.

Altium turned in an impressive full-year result with double-digit growth across all business units. Revenue increased 18%, earnings per share lifted 21%, and the company recorded a 30% EBITDA margin despite expensing all of the 19.1% of its revenue that it poured into R&D.

Subscription renewal rates climbed to 80% -- average subscriber life has increased by a cumulative 35% over the past 3 years despite increased prices -- which we think speaks volumes about the growing appeal of Altium's Designer product and the company's industry-leading approach to annual product update release cycles.

On top of that, we believe this business still has ‘multiple ways to win’, including the upcoming launch of its higher-end SaaS offering, Atina, and a reseller agreement with its large, acquisitive partner, Dassault Systèmes. We remain content long-term holders.

BWX also delivered a strong result with revenues increasing 34.0% and net profit increasing 41.9%. But these impressive numbers disguise the even stronger underlying performance of Sukin product sales, which grew 53.9%. Sukin is now Australia’s leading cosmetic skin care brand in the pharmacy channel, according to Nielsen, topping well known and long established rivals including L’Oreal, Nivea, Olay, and Neutrogena, among (all) others.

BWX strikes us having multiple in-the-money call options: The recent launch of Sukin in Coles opens a new growth corridor in Australia, and the UK rollout looks to be progressing well on all fronts. Holland & Barrett are ranging more Sukin SKUs across their 700+ UK stores, plus pushing Sukin into continental Europe through their 200+ store network throughout the Netherlands and Belgium.

We mindful of the company’s $57 million net debt position following the Mineral Fusion acquisition, however, management expects to finish fiscal 2018 with a net debt to EBITDA position of around 1, which is comfortable for us. We look forward to watching this thesis continue to unfold.

Afterpay Touch had already updated the market on headline metrics for the fiscal year in July, which were folded into last month’s profile of our thesis, so there weren’t many shocking twists to the result. The biggest surprise was a pleasant one, though, in that net transaction loss rates for the year fell to 0.6% from 0.9% despite the company’s accepting a higher level of requested transaction.

We were also pleased to see continued growth. During August, the company reached the milestone of exceeding 1,000,000 customers alongside 7,200 retail partners, an increase of around 160,000 customers and 1200 merchants in just the 7 weeks since 30 June.

The Touchcorp side of the business, excluding Afterpay, grew modestly during the year. The Afterpay business remains central to our investment thesis and makes up the bulk of the company’s value, but we’re pleased some (smaller) growth opportunities remain within the Touchcorp business.

Afterpay Touch Group is the highest returning position in our portfolio, both in percentage and dollar terms, and given the network effects at play we remain comfortable with this position having grown into one of our largest. We are inclined to continue to let this winner run while the business continues to grow strongly.

Autoparts business **Bapcor** continued its habit of under-promising and over-delivering. The core trade business, which contributes 54% of operating profit, posted its third straight year of same-store sales growth of exactly 4.6% despite challenging conditions in Western Australia.

We're mindful of the company's debt load -- now 2.5 times EBITDA on a net, pro-forma, annualised basis -- but the combination of a resilient business model and imminent sale of the non-core Hellaby units should provide more than enough breathing room. For that matter, we think the shares are very reasonably priced at about 18.5 times management's guidance of earnings for fiscal 2018.

Gentrack is our fifth largest holding, but as a New Zealand based company it has a 30 September year end, consequently there is nothing to update on.

Catapult is another large holding that had already provided headline numbers to the market at the start of August, leaving little room for new information at full year reporting. We covered our Catapult thesis in some detail in the April letter and not much has changed, though the thesis is playing out at a slightly slower pace than we would like. Much of fiscal 2017 revolved around bedding-down two acquisitions made in late 2016, which included a more-than-doubling of the workforce to over 300.

The elite wearables and elite video businesses dominate Catapult's revenue and both continue to grow at a pleasing clip, up 52% and 10% respectively over the year. Alongside this, Catapult delivered its first (underlying) EBITDA positive result at $2.9 million.

Pleasingly Catapult has made in-roads commercialising their prosumer wearables with the fourth quarter delivering 1.8 times the revenue of the previous three quarters combined. It's still very early days and the elite-focused units are still the ones that will butter the company's bread, but the prosumer product looks to be gaining momentum and could provide Catapult with another leg up of growth.

But it's not all smooth sailing for Catapult. The company's 'cash burn' is running higher than we'd like, but fortunately a large amount of cash is due to drop in the first quarter of fiscal 2018. The shares' recent performance has been disappointing -- down 27.8% since the start of the fiscal year -- but we remain confident in the core planks of our long-term thesis.

WiseTech Global delivered yet another in a series of strong results: Revenue was up 49%, while EBITDA rose 71%. The company's primary product, CargoWise One, is delivering 99% retention rates while revenue within each customer cohort continues to grow, year on year.

We continue to be impressed with WiseTech's execution, commitment to product development, and the extreme loyalty of its customers. What's less proven is the company's ability to integrate acquisitions, of which there have been 5 announced during the current fiscal year, but our conversations with management leave us confident the company is not biting off more than it can chew. For that matter, the company's management team has earned more than a bit of rope.

WiseTech shares aren't conventionally cheap today at 52 times consensus earnings estimates for fiscal 2018. High growth and high quality rarely come cheaply, however, and we continue to believe the business has a long reinvestment runway ahead.

New Frontiers

We've saved the best news for last. We're excited to have added a new research analyst to the investment team, Pooja Shirangi. Pooja joins us after having spent several years in global equities, particularly in the consumer sector, working across India, the UK and more recently, Australia. She bolsters our capabilities, particularly when it comes to taking a global view, and brings strong, complementary skills and experience to the table. Welcome, Pooja!

As ever, thanks to all our investors for your time and trust. We're honoured to have you with us and look forward to what the future holds.

Best Regards,

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