LAKEHOUSECAPITAL
A Motley Fool Company

LAKEHOUSE SMALL COMPANIES FUND LETTER
30 APRIL 2017

Companies Held:	24
Cash Allocation:	8.9%
Top 5 Holdings of Portfolio:	35.0%
Net Asset Value per Unit:	$1.0047
Fund Net Asset Value:	$90.3 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

Dear Lakehouse Investor,

April was an active stretch for The Lakehouse Small Companies Fund. Our team caught up with 20 companies and put a considerable amount of additional capital behind the Fund's existing positions, dialling back our cash allocation from 16.2% to 8.9%. Notably, the Fund did not sell any shares during the month.

The Lakehouse Small Companies Fund net asset value per unit increased by 2.2% in April compared to a 0.3% decrease for the Fund's benchmark. The most significant contributor to performance during the month was **Gentrack** (+14.3%), while **Bapcor** (-10.3%) made for the largest detractor. The Fund is up 0.5% since inception compared to a gain of 5.4% for the benchmark.

The Fund's first couple of months were not fun as some of our holdings surprised to the downside and cyclicals, which we tend to avoid, soared on the 'Trump trade.' The tide turned some in March and April, though, as the market seemed to better appreciate what we see in many of the Fund's holdings.

Our team does not judge itself based on short-term results, though, and neither should investors who embrace our strategy. Instead, our short-term focus is on the disciplined execution of a process that we think leaves us well placed to deliver on our objective of long-term outperformance.

Play to Win, Not to Draw

Our Fund is unlike most others in that we focus on smaller companies, not the widely-held large-caps that dominate the news, and we embrace a long-term, high-conviction approach. We also stand apart in that we have a very specific set of attributes that we seek in our portfolio companies:

- Strong positions in growing markets.
- Pricing power with customers and suppliers.
- Durable competitive advantages grounded in scale, strong brands, network effects, or high customer switching costs.
- Aligned and experienced management teams with strong track records of capital allocation.
- Conservative balance sheets.
- Attractive valuations that afford upside to our estimate of fair value.

Our differentiated approach shines through in our allocations, which are tilted toward sectors with historically high returns on capital and away from those that are cyclical and capital-intensive. The Fund's largest sector allocations are to information technology (68.1% of total capital) and consumer discretionary (7.9%) while the largest components of our benchmark are consumer discretionary (19.8%), and materials (16.8%).

We meet few managers who are willing to stray so far from the herd, and fewer still who stay the course when their approach is out of favour. Indeed, just this week we read in *The Australian Financial Review* about one manager of a mid-cap strategy who, after underperforming since launch in March of last year, has decided to shift more capital to large-caps, which have been on a roll. The manager said "We are having to play the benchmark game to some extent" and reportedly told investors the strategy was now "hugging the index more closely."

We can appreciate that this has been a tough few months for portfolios not focused on household names: since our own Fund's inception the large-cap-heavy S&P/ASX 50 has outperformed our small-cap benchmark and the micro-tilted S&P/ASX Emerging Companies indices by 8.9 and 24.0 percentage points, respectively.

Our team, however, will not abandon the strategy we laid out to the Fund's investors simply because of a bout of short-term underperformance, which comes with the territory of all active management. We are not striving to match the benchmark by acting as a closet index fund. We are playing to win, not to draw.

Key Holdings

We do not disclose all of the Fund's holdings in our letters -- doing so would hurt performance as 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 the Fund’s 5 largest positions as of 30 April 2017:

Company	**Allocation**
Altium (ASX:ALU)	8.2%
Bapcor (ASX:BAP)	7.2%
Gentrack (ASX:GTK)	7.1%
BWX (ASX:BWX)	7.0%
Catapult (ASX:CAT)	5.5%
Total Top 5 Holdings	**35.0%**

The mix of our top 5 positions changed this month with **Catapult**, which is making its debut among our largest holdings.

Catapult ticks many of the boxes that we seek at Lakehouse. The Melbourne-based sports analytics company has a loyal and evangelical customer base, a high and rising share of growing markets, and engaged founders who still own around 59% of the company. Boosting our enthusiasm is that we’ve been able to build a position at what we consider to be attractive prices: The Fund’s average cost basis as of the end of April was about 46% below the shares’ 52-week high.

Catapult has two core businesses: wearables and video. The company’s founders invented GPS-based wearable trackers for athletes and team sports, enabling a step change in evidence-based scientific improvements for sport. The result is insight to reduce risk of athlete injury, alongside scientifically-validated metrics for the advancement of performance.

The wearables business benefits from an immense first-mover advantage -- a trait that we think investors tend to underestimate -- and its products are worn by 22,000 elite athletes in 35 sports across 57 countries. Star clients include the Dallas Cowboys, Golden State Warriors, Real Madrid, Australian Cricket, the University of Notre Dame, and all the teams in the AFL, ARU, and NBL, among many others.

The company’s video business, XOS, which made up around 57% of revenue in the latest half, is the world leader by revenue in sports video analytics. The business was acquired in 2016 and offers clear cross-selling opportunities to and from its diverse roster of more than 400 sports organisations. XOS’ customers are very loyal -- the average relationships extend past 7 years -- and the company’s renewal rate on a revenue basis is an outstanding 101%.

We think Catapult offers the Fund multiple ways to win beyond its steady and rising subscription base. Namely, we think the market is underestimating the scope of the wearables opportunity, latent pricing power in wearables, and the rising mix of sales coming from high-margin subscriptions. We also think the Fund may have a nice call option in the form of a potential takeout, monetising Catapult’s data into media rights, and the company’s push into the ‘prosumer’ market.

Catapult looks to us to have already secured permanent leadership in wearables, however, there is still room to run. Wearables revenue increased 51% during the first half, which is strong by any standard, but is all the more impressive when you consider that subscriptions increased by 93%. Subscriptions provide less of a revenue impact than a capital sale up-front but have a greater lifetime value to Catapult, so it's a very pleasing trend.

The wearables opportunity also goes far beyond the professional ranks. A prime example is American football. On the surface, there looks to be a market of 'only' 32 NFL teams, however, there are also 128 college teams at the elite Division 1 level, another 646 college teams battling at less prestigious levels, and around 14,000 high school football teams. More than 1 million Americans play competitive football on some sort of level.

Having taken leadership of the NFL in wearables, it's not a leap to assume that Catapult can go down market into the college and high school ranks, and I don't just say that because the highest paid employees at both my high school and university were the head football coaches. Fifty-six US universities and a dozen US high schools are already Catapult wearables clients.

While the full-fledged, professional-grade Catapult wearables products might be overkill for most programs, the company's PLAYERTEK prosumer product, which has less bells and whistles but is more affordable at just US$299, could prove a big hit with amateur athletes in a variety of sports. Catapult recently unveiled an enhanced offering and is making a big push into the space now.

Speaking of call options, we wouldn't be surprised if one of Nike, Adidas, or Under Armour -- each of which is far larger than Catapult and has undershot with their own wearables initiatives -- made a bid for Catapult to give them a head-of-the-table seat at the budding industry's table. It's not a scenario we'd bank on but it's a realistic possibility.

Turning to the numbers, we expect Catapult to deliver annualised organic revenue growth of better than 20% over the next few years and expand gross margins from 80% today to mid-80%'s levels as the company's fastest-growing slice of sales, wearables subscription revenue, is also its highest margin.

Those numbers don't account for the fact that Catapult also has significant headroom to increase wearable subscription prices in the years ahead. The US$2,000 annual cost is a rounding error for professional clients -- the average NBA player made US$6.5 million last year -- despite significantly enhancing athletes' productivity and reducing the time players spend injured. This case study on Catapult's role in reducing injury and enhancing the explosiveness of NBA star Steph Curry, who is rumoured to sign a US$40 million contract next year, double underscores the product's significant value.

Valuing such a fast-growing business is difficult, however, we believe that we have built a position at prices that leave the range of outcomes skewed to the upside. We also think comparing Catapult to the likes of a mature, widely followed Australian technology company such as MYOB provides valuable context about the Catapult opportunity:

	MYOB	Catapult
Geographic Opportunity	ANZ	Global
Market Share	Decreasing	Increasing
Pricing Power	Tapped	Untapped
Largest Shareholders	Private Equity	Founders
Debt	$435,200,000	$0
Enterprise Value / Revenue Estimates	6.4	5.0

** Data as of COB 2 May 2017. MYOB sales estimate based on Bloomberg consensus for year ended in June 2017. Catapult estimate based on lower bound of recently reaffirmed revenue guidance for the same calendar period.*

Catapult is only now tipping into profitability and it will be many years before Catapult can post the kind of rich margins that MYOB posts today. Investing is about the future, though, not the past, and we much prefer the Fund own faster-growing businesses with brighter prospects, let alone at lower multiples of sales despite comparable full-scale economics.

All in all, Catapult's shares rate among our higher risk positions given the business is at an earlier stage of growth relative to most of our holdings. We are enthused about its long-term prospects and the growth it brings to our portfolio's table, though, and look forward to watching the thesis unfold in the coming years.

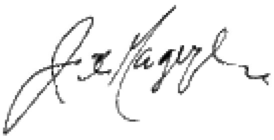
Looking Ahead

Our team has put more than 90% of the Fund's capital to work and is enthused about opportunities we're seeing in the market. That's why we announced to current investors via email on 2 May that we plan to reopen the Fund to new investors on 18 May 2017. Existing Fund investors are always able to top-up their holdings by any amount at any time, however, we wanted to give existing investors advance notice of the planned reopen.

Investors who are curious to learn more about the Fund's planned reopen and what we're seeing in the market should watch the following video. You can also click here to brush up on the Fund's Product Disclosure Statement or to add to your investment.

As ever, thank you for your time and trust.

Best Regards,



Joe Magyer, CFA
Chief Investment Officer

Note: In our March letter, we mislabelled the Fund's net asset value as its net asset value per unit. As of 31 March 2017, the net asset value of the Fund was $88.7 million and the net asset value per unit was $0.9829.