

LAKEHOUSE SMALL COMPANIES FUND LETTER 31 OCTOBER 2017

Companies Held:	21
Cash Allocation:	10.6%
Top 5 Portfolio Holdings:	36.8%
Net Asset Value per Unit:	\$1.2791
Fund Net Asset Value:	\$124.2 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

Dear Lakehouse Investor,

The Lakehouse Small Companies Fund will celebrate its first birthday in a couple of weeks. And, while it's still early days, we might cut ourselves some slack and enjoy a slice of cake.

The Fund returned 10.5% net of fees and expenses in October compared to a 6.0% return for the benchmark. The Fund has now returned a net 18.3% in fiscal 2018 compared to 10.7% for the benchmark. Since inception in mid-November 2016, the Fund has returned a net 27.9% compared to 16.6% for the benchmark.

We're pleased with how October shook out, and we'll talk more about the drivers of that performance shortly, but 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 portfolio had an unusually positive skew during the month with the most significant detractor to performance, **Class** (-16.3%), overshadowed by 6 holdings whose share prices increased by greater than 20%. The most significant contributor to performance was **BWX** (+26.2%).

On a higher level, the Fund continues to look very different to its benchmark and the broader Australian market. We consider that a positive as it is driven by our emphasis on quality and growth plus a willingness to take high-conviction positions. The Fund's largest sector

allocations as of the end of the month were information technology (68.2% of total capital), consumer staples (8.1%), and consumer discretionary (5.5%).

Below were the Fund's 5 largest holdings as of the end of October. Each should look familiar to investors as we've profiled them at different points in prior [investor letters](#).

Company	Allocation
Afterpay Touch (ASX:APT)	8.7%
Altium (ASX: ALU)	8.3%
BWX (ASX:BWV)	8.1%
Gentrack (ASX:GTK)	6.2%
Catapult (ASX:CAT)	5.5%
Total Top 5 Holdings	36.8%

It was a lively month for a few of the Fund's larger holdings.

Afterpay Touch announced another in a long string of impressive business updates. The number of active Afterpay customers increased by 501% in the 12 months ended 30 September with underlying merchant sales increasing even faster at 776%. Driving the increased usage is that the range and number of retailers live and accepting of Afterpay increased from 845 to more than 8,600 over the same period. Afterpay Touch's strong performance is gaining attention, however, we note that Afterpay Touch is still only rated by 3 analysts compared to a weighted average of around 8 for the companies in the Fund's benchmark.

BWX had yet another eventful month with the announcement of the acquisition of Andalou Naturals, which is the leading facial skin care brand in the U.S. natural channel. We're pleased to see another leading natural brand in the BWX stable, particularly one that has established distribution through the likes of major US retailers such as CVS and Whole Foods. Andalou will also marry nicely with the recently acquired Mineral Fusion business, which is headquartered a short drive away.

It's a good sign that Andalou's sellers, who are taking 20% of the initial purchase price in shares of BWX, are committed to staying with Andalou for the next 4 years. We were also pleased with the purchase price as the deal was approximately 10% accretive to BWX's earnings per share. It didn't hurt either that the capital raise that funded the deal was also used to strengthen BWX's balance sheet. All in all, we think the acquisition is a good one that opens new doors for BWX.

Also of note was that **Catapult's** shares increased 45.8% during the month on the back of a strong quarterly cashflow report that seemed to put many investors' concerns about its capital position to rest. The shares' bounce was enough to put Catapult back among the Fund's top 5 holdings, breaking an ignominious streak of being the biggest detractor to the

Fund's performance for 3 consecutive months. While it has been a bumpy ride we remain confident in the company's long-term outlook.

The Road Ahead

It's still early days at the Lakehouse Small Companies Fund. We don't focus on short-term performance and each of the Fund's holdings was selected for how it would fare over years, not days, months, or quarters. Nonetheless, we'll admit to being pleased with our progress towards our goal of long-term outperformance.

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,



Joe Magyer, CFA
Chief Investment Officer

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