Dear Lakehouse Investor,

Companies Held:	21
Cash Allocation:	16.4%
Top 5 Portfolio Holdings:	32.9%
Net Asset Value per Unit:	$1.4411
Fund Net Asset Value:	$155.1 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

May was another busy month for the Fund as our team held 23 company meetings and took some profits on successful investments. Eight of the meetings were with potential new opportunities while fifteen were with existing portfolio companies, including seven which were with the UK or European operations as we had an analyst on the road.

The Fund trimmed some holdings during May, particularly among positions that have worked out nicely thus far. We remain opportunistic and our bias is to let winners run, however, we also think it's prudent to size positions relative to the asymmetry of returns offered by prevailing prices. In total we sold a net $4.1 million of portfolio holdings, taking the Fund's cash holding to 16.4%. This is at the higher end of what the Fund would usually hold and we expect it will reduce in the coming months. In the meantime, we remain well positioned to capitalise on any share price volatility during confession and full year reporting season.

Turning to performance, the Fund gained 3.9% net of fees and expenses in May compared to a 3.7% rise for the benchmark. The Fund has now returned a net 34.3% net of fees and expenses thus far in fiscal 2018 compared to 22.9% for the benchmark. Since inception in mid-November 2016 the Fund has returned a net 45.3% compared to 29.5% for the benchmark.

We look forward to providing more colour on the Fund's performance for what is shaping up as a banner year in the upcoming annual letter. As ever, though, 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 Fund's most significant contributor to performance during the month was **Afterpay Touch** (+30.5%), which reached a milestone launching in the U.S. in mid-May (more on that shortly). **BWX** was also a big mover during the month as the CEO and CFO teamed up with private equity to launch a management buyout (more on that shortly, too). The most significant detractor was **Pro Medicus** (-7.5%), which moved on no fundamental news.

The Fund's 5 largest holdings as of the end of May accounted for 32.9% of the portfolio, and are named in order of the Fund's allocation: **Afterpay Touch, Altium, Gentrack, Bapcor** and **Xero**. Investors who have followed along with us for a while should recognise each of these names as they've been Fund holdings for some time.

The Fund's largest sector allocations as of the end of the month were information technology (63.5% of total capital), health care (6.2%), and consumer discretionary (6.0%), which is a stark contrast to the benchmark's largest allocations: materials (19.8%), consumer discretionary (18.4%), and real estate (10.6%).

Portfolio Company News

Afterpay Touch telegraphed to the market in April that it would provide an update on its U.S. plans in May. Nonetheless, many investors were caught flat-footed by the announcement in mid-May that Afterpay had gone live in the U.S.

Perhaps the larger surprise wasn't the launch itself, though, so much as it was the quality of the partners involved. Namely, Millennial-centric fashion retailer **Urban Outfitters**, which fits Afterpay's target market snugly and posted US$3.7 billion in sales over the past year. About ⅓ of Urban's sales are online, which is the current relevant opportunity for Afterpay, and could prove a material contributor to Afterpay's results should it gain traction.

Afterpay also announced it has over 50 retailers with signed contracts or term sheets, in varying stages of integration, meaning there's a long runway of additional partners that will launch on the payment platform in coming months. The list of partners includes a mix of U.S. retail brands, as well as Australian retailers with an overseas presence and greater familiarity with Afterpay which should help consumer education.

The company said the rollout will be staged, so we have modest expectations for revenue contribution over the next six months. Taking a longer-term view, it is hard to overstate the size of the U.S. market opportunity. The U.S. online fashion market is US$60 billion in size or 20 times as large as Australia at US$3 billion. It also helps that Afterpay has made some great hires in the U.S., including a Global Chief Risk and Analytics Officer whose prior roles include Head of Risk Management at Uber and a 14-year stint at eBay and PayPal focusing on trust, safety, and overall risk management.

Cracking the U.S. market will prove difficult and success is by no means assured. Still, we applaud management's execution, the way in which they've positioned the business to capture much upside from success in the U.S. while limiting the downside, and believe they've positioned the business for its best chance of success.

The news out of BWX was much less expected. The company's senior managers surprised the market with an indicative proposal to take the company private with Bain Capital Private Equity for $6.60 per share. The offer price represented a 50% premium to the last traded price and compares favourably to the Fund's average purchase price of $4.62.

It wasn't that a bid materialised that surprised us -- the shares were selling far from their recent highs and the business strikes us as a good fit for a larger company looking to acquire a leading natural skincare brand -- but rather that it came from a management-led group. For his part, BWX's CEO, John Humble, said the primary reason for the bid was that he felt the company's current shareholders were not supportive of his M&A expansion strategy.

Humble is right that the management had lost some support, but not unreasonably. The company had made 3 acquisitions in the span of 4 months and, when it came to first half results, handed in a report card that was underwhelming. It's also worth noting that management also swung the balance sheet from a net cash to a net debt position to fund the purchases.

We thought the shares were good value below $5 and the indicative offer supports that view. For that matter, we would not be surprised if another bidder entered the process or if one of BWX's substantial holders was able to muscle management into paying a higher price.

Still, we are unsure if a deal will be struck and, given the significant downside risk should the offer fall apart, decided to take some chips off the table following the share price jump. We are following closely and will update as the story unfolds.

Also of note was that Gentrack reported its half-year results near the end of May. The headline number of 80% revenue growth is impressive but must be taken in the context of being powered by acquisitions. The result was a bit of a mixed bag and a touch below expectations, however, this is a business where half-yearly results can be lumpy because of occasional large contract wins.

More importantly, management notes that the business has a strong pipeline of opportunities in all markets and that current trends line up with its long-term objective of 15% annualised growth in EBITDA. We're comfortable with the business and that outlook.

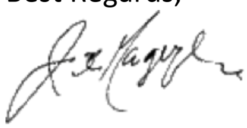
Looking Ahead

June marks the financial year end for most of our portfolio companies meaning they soon head into a 'blackout' period. Consequently we don't anticipate talking to many companies again until full year results are released in August.

For our parts, we plan to stay busy by digging for new opportunities and searching for another research analyst to join our team at Lakehouse Capital. If you or someone you know might be interested in joining the team, click here for details.

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

P.S: We will be sending out our annual letter in late July in lieu of a monthly letter. In the interim, investors who can't wait to see the latest net asset value per unit can (as always) check the latest figure on the footer of our website, www.lakehousecapital.com.au.

P.P.S: There will likely be a short delay in the June end-of-month unit pricing as the final distribution for the 2018 financial year is confirmed and accounted for in the net asset value per unit. We do not anticipate it being more than a few days and thank investors for their understanding while this is completed.