

Dear Lakehouse Investor,

July was a quiet month as most of the Fund's portfolio companies were preparing their full year reports. We only had one management meeting during the month, though a number of the Fund's holdings released their quarterly reports. By and large they were in line with market expectations with the exception of **Afterpay Touch** which surprised the market to the upside.

The Fund gained 4.1% net of fees and expenses in July, the first month of the fiscal year, compared to a 1.0% decline for the benchmark. Since inception in mid-November 2016 the Fund has returned a net 54.2% compared to 29.5% for the benchmark. It was a big month and the Fund is pacing well towards its objective of long-term outperformance 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.

Companies Held:	21
Cash Allocation:	15.7%
Top 5 Portfolio Holdings:	34.2%
Net Asset Value per Unit:	\$1.4717
Fund Net Asset Value:	\$164.9 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

The Fund's most significant contributor to performance during the month was Afterpay Touch (+51.7%), which provided its first update since launching in the U.S. in mid-May. More on that in a moment. The most significant detractor was **Objective Corporation** (-17.1%), following release of its weaker-than-expected fiscal 2018 trading update. We remain patient holders of Objective, though, which stands out for its sticky customer base, strong balance sheet, impressive history of capital allocation, high insider ownership, and lack of meaningful institutional attention.

The Fund's 5 largest holdings as of the end of July accounted for 34.2% of the portfolio, and are named in order of the Fund's allocation: Afterpay Touch, **Altium**, **Bapcor**, **Gentrack** and **Xero**. Investors 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 (63.8% of total capital), health care (8.9%), and consumer discretionary (5.9%), which is a stark contrast to the benchmark's largest allocations: consumer discretionary (19.1%), materials (18.4%), and real estate (10.9%).

The Fund's cash balance increased during the month from 14.2% to 15.7% as the Fund took some chips off the table with a large winner, experienced net inflows, and had cash flow back in the door via reinvested distributions. This is above the Fund's typical range of 5% to 15%, however, we expect to put some of that excess cash to work soon. In the meantime, we remain well positioned to capitalise on any share price volatility during reporting season.

About Afterpay

Back to Afterpay, whose contribution to performance during the month was more than four times the detraction from the pullback in Objective's shares. Investors will recall Afterpay went live in mid-May in the U.S. with millennial-centric fashion retailer **Urban Outfitters**. At that time, many investors were caught [flat-footed](#) by the announcement. It's fair to say the same happened when the company updated the market in its latest quarterly.

The update highlighted that the Australian Afterpay business continues to grow rapidly, boasting over 2 million active users, up from 840,000 a year ago, and over 16,500 retailers compared to 6,000 this time last year. In previous years, Afterpay has relied entirely on its online offering. Nowadays, the company has around 10,000 shop fronts offering its offline platform, which accounted for approximately 12% of underlying sales in the fourth quarter.

Alongside the continuing strong growth of the Australian business, Afterpay revealed that things are off to a flying start in the US. In the first full calendar month of operations (June) alone, over A\$11 million of underlying sales were processed, a threshold which took approximately 16 months for the Australian business to achieve on a cumulative basis. And Afterpay U.S. is showing no signs of slowing with over 200 retailers currently transacting on the site, and contracts signed with twice that number. For that matter, according to SimilarWeb, Urban Outfitters' website is now the largest referral of traffic to Afterpay's website. It all points to a long growth runway.

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's. 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. It's still very early days, but we remain enthused given the initial numbers.

We have taken some of the Fund's substantial gains in Afterpay Touch off the table in light of the increased expectations embedded in its valuation and the ongoing uncertainty over the ASIC review into the 'buy now, pay later' space. We're content to hold a large stake at this time, though, in light of the company's impressive execution and multiple growth drivers. We continue to watch the company and space closely.

Looking Ahead

August will be a busy month with most of our portfolio companies and prospects reporting full year results. We'll be digesting the new information, measuring the businesses' performance against our investment theses, meeting with management teams, and digging for new opportunities to deploy our larger-than-usual cash balance.

We'll also be busy helping our newest research analyst, Erwin Tan, get his feet under the desk. Erwin joins Lakehouse Capital from PAC Partners where he worked as an analyst covering Australian small-caps. We're thrilled to have Erwin on board with us and he'll be working across both our Funds.

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

Sole use and confidentiality: This report has been prepared by Lakehouse Capital Pty Limited (ABN 30 614 957 603, authorised representative of AFSL 400691) and by its officers, employees and agents (collectively "Lakehouse") for the sole use of its clients as a record of the performance of their investment. The contents of this report are confidential, and the client may only disclose such contents to its officers, employees or advisers on a need to know basis, or with the prior written consent of Lakehouse.

Disclaimer: The responsible entity for the Lakehouse Small Companies Fund (ARSN 615 265 864) is One Managed Investment Funds Limited (ACN 117 400 987) (AFSL 297042) ("OMIFL"). The information contained in this document was not prepared by OMIFL but prepared by other parties. All of the commentary, statements of opinion and recommendations contain only general advice and have not taken into account your personal circumstances. This report contains general financial product advice only. Any investment in Lakehouse or OMIFL products need to be made in accordance with and after reading the Product Disclosure Statement and Additional Product Disclosure Statement dated 15 November 2016. The opinions, advice, recommendations and other information contained in this report, whether express or implied, are published or made by Lakehouse in good faith in relation to the facts known at the time of preparation. Information is current as at the date of the letter, unless otherwise noted. Past performance is not indicative of future performance.

Limitation of liability: Whilst all care has been taken in preparation of this report, to the maximum extent permitted by law, neither Lakehouse or OMIFL will be liable in any way for any loss or damage suffered by you through use or reliance on this information. Lakehouse and OMIFL's liability for negligence, breach of contract or contravention of any law, which cannot be lawfully excluded, is limited, at Lakehouse's option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you.

Disclosure: Lakehouse, its directors, employees and affiliates, may, and likely do, hold units in the Lakehouse Small Companies Fund and securities in entities that are the subject of this report. Copyright: Lakehouse owns the copyright to this publication. Its contents may be used for your own personal use, but you must not (without Lakehouse's consent) alter, reproduce or distribute any part of this publication, transmit it to any other person or incorporate the information into any other document.