Dear Lakehouse Investor,

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

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.

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