Dear Lakehouse Investor,

Companies Held:	21
Cash Allocation:	13.6%
Top 5 Portfolio Holdings:	37.0%
Net Asset Value per Unit:	$1.5750
Fund Net Asset Value:	$177.5 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

August was an active month for the Fund as most of its holdings released their full-year results. We digested a deluge of new information, held 18 meetings with current and potential portfolio companies, and the Fund was a net buyer of shares.

The Fund gained 7.0% net of fees and expenses in August compared to a 2.5% gain for the benchmark. Thus far in a two-month-old fiscal year, the Fund has returned a net 11.4% compared to 1.5% for the benchmark. Since inception in mid-November 2016 the Fund has returned a net 65.0% compared to 32.8% for the benchmark.

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** (+27.9%), which we'll discuss in a moment. The most significant detractor was **BWX** (-23.9%), which released underwhelming results and whose odds of being acquired look to be shrinking. Again, more on that in a moment.

The Fund's five largest holdings as of the end of August accounted for 37.0% of the portfolio and are named in order of the Fund's allocation: Afterpay Touch, **Altium**, **Xero**, **Pro Medicus**, and **Bapcor**. Investors should recognise each of these names as they've been Fund holdings for some time. Collectively, these investments had a very good month, which along with our buying activity explains much of why the Fund's cash position decreased during the month from 15.7% to 13.6%.

The Fund's largest sector allocations as of the end of the month were information technology (64.5% of total capital), health care (9.0%), and consumer discretionary (6.0%), which is quite different to the benchmark's largest allocations: consumer discretionary (19.7%), materials (16.6%), and information technology (10.5%). As ever, we embrace a high active share, differentiated approach, and sectors and businesses with what we think have attractive long-term economics.

Key Holdings Results

Afterpay Touch released its full-year results on the heels of its excellent business update from July. The cat was already out of the bag regarding Afterpay's strong start in the US, however, the magnitude of the launch continues to impress. Underlying merchants sales in the US on the Afterpay platform clocked in at $20 million in July -- up from $12 million in June -- which is staggering considering the launch occurred only in mid-May. Indeed, the CEO of Urban Outfitters, which has been the lynchpin merchant partner for the US launch, told analysts in late August that "Afterpay has been a huge success." It's still very early going in the US, however, Afterpay is off to a good start.

Meanwhile, Afterpay also raised $117 million via an institutional placement to help fund Afterpay's international expansion strategy, including an announced push into the UK. And, separately, ASIC has come out with commentary on the 'buy now, pay later' space that suggests the current legislative framework falls short of giving ASIC the authority to regulate the space at-large. Now, that may change given that millions of Australians now use such services, but eventual regulation is not inherently a bad thing for Afterpay Touch and other stakeholders in the space. For that matter, it's fair to say that while Australia is the most important market to Afterpay today that may not be the case in the future in light of the company's international forays. We'll see. In the meantime, we'll continue to watch the space and ASIC closely, appreciating that shares in Afterpay Touch have a wide range of outcomes.

Altium (+37.4%) was no slouch either. The business continues to gobble up share of a growing market and revenue growth accelerated for the third consecutive year. The strength is broad-based, as well, with each of the company's business units and geographic regions posting double-digit revenue growth. The company also looks well placed to reach some of its ambitious medium-term goals in light of the company's solid financial footing, consistently strong execution, the positive reception to both Altium Designer 18 and NEXUS. The shares have been on quite the run but we remain comfortable holding a large position.

Pro Medicus (+21.3%) also turned in a good report card for fiscal 2018. Underlying net profit after tax, which strips out currency swings, increased 27.4% thanks to a 22.9% increase in exam and license revenue. The medium-term outlook also looks promising as material implementations with Mayo Rochester and Yale New Haven were only recently completed, the company announced a widened and extended agreement with I-MED Radiology in May, and the anticipated implementation of the new open archive solution for Mercy, which is slated for later this fiscal year, should open new doors for that new product. All in all, while Pro Medicus' shares are not conventionally cheap, the business gives us plenty of reasons to stay patient including its sticky and highly regarded customer base, high and rising margins, growing pipeline, debt-free balance sheet, and high insider ownership.

Bapcor (+7.8%) did not blow analysts away, however, this steady-as-she-goes business continues to quietly execute. The company's largest segment, which is powered by Burson Auto Parts stores, grew revenue and EBITDA by 7.8% and 13.9%, respectively, on a year-on-year basis. Zooming out, we were also pleased that group-level EBITDA margins expanded from 11.6% to 12.1% and that leverage has been brought back down with net debt relative to EBITDA shrinking from 2.5 to 2.0 over the course of the year. The shares are also reasonably priced at around 21 times the midpoint of the company's guidance in light of the steadiness of the business and management's history of underpromsing and overdelivering. We remain patient holders.

Last -- and least -- was BWX. BWX continued on its tumultuous path from previous months starting with a downgrade of its fiscal 2018 EBITDA guidance by 8.0%. To be fair to BWX, the guidance was given out by previous management, who then proceeded to make a bid for the company and have been on an extended leave of absence since that time. Nevertheless, we were underwhelmed with the guidance and thought that was another unwieldy piece to deal with in a transitional period.

In regards to the actual results themselves, Sukin sales slowed during the second half due heavily to some long-view-oriented decisions. Namely, reduced sell-in to channels to better manage inventory levels, a delayed entry into new markets, and reduced promotional spending. Encouragingly, Sukin's launch into Coles is pacing ahead of expectations and consumer demand is still pacing well in the overseas markets in which Sukin is already present.

Meanwhile, BWX's Independent Board Committee (IBC) expects to publish the results of its strategic review by mid-September, around the same time Bain expects to have finished work on its indicative proposal. We remain in 'wait-and-see' mode until then, though we're somewhat pleased that we've lightened roughly a third of our stake shortly after the indicative offer was first announced in May.

Wrapping Up

September is oftentimes a busy month in the world of Australian small-caps as many companies are still on the road talking to investors following the release of company results. We held 13 company meetings last September, for example, and expect the upcoming month to look similar.

Also, we realised in preparing this month's letter that the Fund's since-inception performance has been very modestly understated in each of the past two monthly letters because the returns methodology we'd been using was treating distributions on a cash basis rather than reinvested. The difference is rather small, and for that matter has no impact on the actual value or distributions of the Fund, but we wanted to let investors know nonetheless in the interest of transparency.

For context, the Fund reported in its July 2018 letter that the since-inception return net of fees and expenses was 54.2%, but on a basis that treats distributions as reinvested the performance number would have been 54.6%. We think treating distributions as being reinvested for performance reporting purposes is sensible because most of the Fund's investors reinvest plus industry observers such as Morningstar track on the assumption of reinvestment, and we'll do going forward.

Thanks to all our investors for your time and trust. It's been a fun ride thus far and, while it's still early days, we're looking forward to celebrating the Fund's second birthday in mid-November. 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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