Dear Lakehouse Investor,

Companies Held:	22
Cash Allocation:	12.1%
Top 5 Portfolio Holdings:	37.3%
Net Asset Value per Unit:	$1.5843
Fund Net Asset Value:	$180.6 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

September was another busy month as we held 11 meetings with current and potential portfolio companies, attended one small-cap conference, opened a new position, and provided growth capital to one of the Fund's existing portfolio companies.

The Fund gained 0.6% net of fees and expenses in September compared to a -0.4% fall for the benchmark. Thus far in the first three months of fiscal 2019, the Fund has returned a net 12.0% compared to 1.1% for the benchmark. Since inception in mid-November 2016 the Fund has returned a net 66.0% compared to 32.3% 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 **Pro Medicus** (+22.7%), which we'll discuss in a moment. The most significant detractor, for the second month running, was **BWX** (-15.4%) after the indicative takeover offer was withdrawn. Again, more on that in a moment.

The Fund's five largest holdings as of the end of September accounted for 37.3% of the portfolio and are named in order of the Fund's allocation: **Afterpay Touch**, **Altium**, **Pro Medicus**, **Bapcor** and **Gentrack**. Investors should recognise each of these names as they've been Fund holdings for some time. Collectively, these investments had a good month, which along with the Fund being a net buyer during the month explains why the Fund's cash position decreased from 13.6% to 12.1%.

The Fund's largest sector allocations as of the end of the month were to information technology (69.0% of total capital), health care (10.9%), and consumer discretionary (5.9%), which is quite different to the benchmark's largest allocations: materials (16.9%), consumer discretionary (13.4%), and information technology (10.7%). As ever, we embrace a high active share and do not shy away from leaning into sectors that we think have attractive long-term prospects.

Impactful Movers

Pro Medicus has been on a run since the release of its full year results in mid-August, up over 43% between results and the end of the month. It's apparent that the Pro Medicus thesis is now better and more widely understood by the market, and while the shares are not conventionally cheap, the business has to date provided 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, high insider ownership, and diverse geographic footprint. Our focus on asymmetric outcomes means we may look to trim if the run continues and the price becomes overly demanding.

BWX was again the Fund's biggest laggard following the proposed buyout by previous management and Bain Capital falling over. This led to the former CEO and CFO formally resigning after an extended leave of absence since the bid was announced in May. It also ended a period of distraction and uncertainty for the company but, on a more positive note, provides some much needed clear air for new management.

While disappointed with how this thesis has played out, BWX is now a much smaller position for the Fund since selling-down around a third on announcement of the indicative takeover offer in May. The price has also reset to a level with reduced expectations -- BWX last sold around these levels in February 2016 and only sells on 15 times consensus earnings estimates for fiscal 2019 -- that gives us comfort to back the long-view-oriented strategy under new management.

Wrapping Up

The post-reporting-season period usually welcomes the marketing of new IPO and pre-IPO opportunities. We have already met with a collection of aspiring companies and look forward to meeting with others in the pipeline, alongside seeking out opportunities that are already listed.

As always, 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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