Dear Lakehouse Investor,

Companies Held:	22
Cash Allocation:	14.7%
Top 5 Portfolio Holdings:	33.3%
Net Asset Value per Unit:	$1.3065 (ex 0.8654 cent distribution)
Fund Net Asset Value:	$153.8 million (ex $1.0 million distribution)
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

December was a tough month as global equity market volatility spilled over into Australia once again, sending the Fund's benchmark to its lowest level since July 2016. Unlike many investors who are panicking, though, our opportunistic team held tight onto the Fund's existing positions, topped up some that we think are particularly compelling to patient investors, and opened a position in a new company between the end of December and the time of writing. We are playing offense right now and are very much looking forward to reporting season, which might shake loose additional opportunities.

Turning to performance, the Fund returned -6.2% net of fees and expenses in December compared to a -4.2% return for the benchmark. For the fiscal year, the Fund has returned a net -7.0% compared to -12.7% for the benchmark. Since inception in mid-November 2016, the Fund has returned a net 37.8% compared to 14.2% for the benchmark.

Performance over the past few months has not been fun, however, rain or shine, we do not judge ourselves on short-term performance and neither should investors who embrace our long-term, high-conviction strategy. To that end, while it is still early days in the grand scheme of our pursuing long-term outperformance, we're pleased with our progress towards that goal, particularly given that our style is out of favour at the moment and that we've run with a conservative cash position ranging around 11% to 16% over the past year.

The Fund's most significant contributor to performance during December was **Pro Medicus** (+7.8%), which followed up the late-November announcement of its meaty Partners Healthcare win with the announcement of an expanded agreement with a German government hospital network. The most significant detractor was **Afterpay Touch** (-14.0%), which drifted downwards on no material news.

The Fund's five largest holdings as of the end of December accounted for 33.3% of the portfolio and are named in order of the Fund's allocation: Afterpay Touch, Pro Medicus, **Altium**, **Bapcor** and **Xero**. Longtime investors should recognise each of these names as they've been Fund holdings for some time.

Zooming out, the Fund's largest sector allocations as of the end of the month were to information technology (67.9% of total capital), health care (10.9%), and consumer discretionary (5.3%), which is quite different to the benchmark's largest allocations: materials (19.5%), consumer discretionary (14.8%), and real estate (12.0%).

We continue to embrace a differentiated approach with an emphasis on companies and industries known for capital-light, recurring-revenue-centric business models. To that end, and considering the soft state of the Australian and Chinese economies, we are even more comfortable than usual being significantly underweight the likes of materials, consumer discretionary, and real estate.

Company News

We feel obliged to comment on BWX, which was not the fund's most significant detractor during the month but still made a mess of itself. The company downgraded its profit estimates for fiscal 2019 by 27% only two months after its last trading update, which in itself was a downgrade, and the stock price nearly halved in response. It looks more and more as if previous management was dressing the business up for sale in part by aggressively pushing stock into domestic and international channels as well as acquiring three businesses in as many months to beef up sales and earnings. Notably, unlike most institutional holders, we declined to participate in the capital raises to fund those acquisitions.

Previous management's rush for growth has now backfired to some degree: there has been major destocking by Australian pharmacies, whilst new management (sensibly) decided to slow the pacing of the international rollout. BWX's company-wide ERP program implemented in July experienced growing pains, which temporarily made things worse, and its US business has been adrift amidst softening retail sales, further deepening the downgrade.

The faint silver lining to all this is that Sukin sales to consumers in Australia, the US and Canada remain healthy, and many of the factors in transition such as ERP, US hires, and new market strategies have been settled now. Even though we are quite disappointed by how things have unfolded and regret not trimming this position by more sooner, we think some of the company's current pain points, particularly the destocking and ERP headaches, are temporary and the Fund still retains a small position.

Interim Distribution & Looking Ahead

We're pleased to note the Fund has announced its half-year distribution for fiscal 2019 of $0.0087 per unit, bringing the total distributions paid per unit since inception to $0.0789. That said, we remind investors that our strategy is not income-centric and that our long-term, high-conviction approach will continue to make for lumpy distributions.

It is also worth remembering that the net asset value per unit of the Fund falls dollar for dollar with the size of the per-unit distributions to investors -- we're moving money from the Fund's pocket to investors' pockets -- and so the net asset value per unit will increasingly understate the Fund's since-inception performance over time. The performance numbers included in these letters and the data on our website do account for distributions and their reinvestment, however, and so we encourage investors to use these as the source of truth on performance rather than eyeballing the net asset value per unit.

The next couple of months should be eventful as we move toward half-year reporting season in February. We look forward to receiving updates from our portfolio companies, sitting down with executive teams, exploring new opportunities and deploying more of the Fund's cash balance.

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