Dear Lakehouse Investor,

Companies Held:	20
Cash Allocation:	15.4%
Top 5 Portfolio Holdings:	36.7%
Net Asset Value per Unit:	$1.7137
Fund Net Asset Value:	$211.0 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

April was a very busy and productive month for the Lakehouse Small Companies Fund. We attended a conference, met with five companies, and were active in both buying and selling. The confluence of inflows and trading activity again left the Fund a touch above the upper end of our typical cash range of 5% to 15%, however, we are actively scouring for new opportunities and remain patient in putting money to work.

We will also submit that patience has been well rewarded. Despite carrying a large cash position, the Fund returned 8.3% net of fees and expenses in April compared to a 4.1% return for the benchmark. For the fiscal year, the Fund has returned a net 22.0% compared to 2.3% for the benchmark. Since inception in mid-November 2016, the Fund has returned a net 80.7% compared to 33.8% for the benchmark.

We're pleased with the Fund's progress towards its ultimate objective of long-term outperformance, however, our team does not judge itself on short-term performance and neither should investors who embrace our long-term, high-conviction strategy. Indeed, for those with short memories, it is worth noting this was the opening paragraph of our investor letter from just four months ago:

> *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.*

The rollercoaster ride of the past several months underscores both the importance of taking a long-term view and having a willingness and an ability to be opportunistic during tough times. In good times, bad times, and bland times, we remain focused not on short-term performance but on the consistent execution of our process.

The Fund's most significant contributor to performance during April was **Pro Medicus** (+38.0%), which announced a seven-year, $14 million contract with Duke Health, which is a leading teaching hospital system and one of the most respected health providers in North America. The biggest detractor was **Citadel** (-7.0%), which drifted lower on no new information. We've discussed both companies in these letters previously.

The Fund's five largest holdings as of the end of April accounted for 36.7% of the portfolio and are named in order of the Fund's allocation: **Afterpay Touch,** Pro Medicus**, Altium**, **Nanosonics** and **Audinate**. All five positions should be well known to Lakehouse investors.

Zooming out, the Fund's largest sector allocations as of the end of the month were to information technology (62.3% of total capital), health care (15.1%), and consumer discretionary (3.2%), which is quite different to the benchmark's largest allocations: materials (17.7%), consumer discretionary (15.9%), and information technology (12.4%).

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 have been and remain even more comfortable than usual being significantly underweight the likes of materials, consumer discretionary, and real estate.

Company News

Last month was the first time we disclosed the Fund's holding in LiveTiles. It is one of the Fund's smaller holdings by cost -- the shares having roughly doubled since we cornerstoned a capital raising in 2017 -- and is most akin to what amounts to a listed venture-style investment.

The business is scaling very quickly, has a sticky customer base, a global market opportunity and a broad cross section of distribution partners. Like most venture-style businesses, though, it is also presently sub-scale, expensive on conventional valuation metrics, and burning cash as it invests for growth. All that is to say: the shares have a very wide range of potential outcomes. Add to that two acquisitions made in the past ten months, which helped accelerate growth, but also stepped up costs and served to widen the range of outcomes.

The business sells cloud-based intranet design software that primarily sits over the top of Microsoft Office 365, Sharepoint and Azure. LiveTiles' products allow an intranet to be easily customised using a drag-and-drop interface and, increasingly, operated via bots and AI. The notion of an intranet that is easy to implement and adapt, plus integrate into third-party applications, should be music to the ears of anyone working in large organisations as such internal projects are notoriously costly and rigid.

LiveTiles has close ties with, and somewhat of an Achilles' dependence on, Microsoft as the core ecosystem in which LiveTiles inhabits. This is both a strength, as it's helping facilitate a rapid global expansion, but also a vulnerability to be so reliant on a single, large, global corporation.

On balance, LiveTiles is playing a valuable role to more deeply entrench Microsoft's products and the signs to date are that the relationship is mutually beneficial.

The company has a diverse range of nearly 900 customers ranging from PepsiCo to the U.S. State Department and is on a remarkable trajectory with organic annualised recurring revenue (ARR) growing 133% in the latest quarter to 31 March 2019. The company's clients are a very loyal bunch -- net revenue retention clocks in at an impressive 112% -- and the average ARR per client more than quadrupled over the past two years to almost $40,000. Funding this explosive growth has been a challenge as the company has raised over $70 million in additional capital since listing, increased its share count by over 70% in the past two years, and the $21 million cash balance at the end of March may not see them through to breakeven.

Management has demonstrated cost discipline in recent quarters, though we're still not expecting the business to reach breakeven before the end of fiscal 2020. Management's holding some 36% of the shares makes for good alignment, though, and provides a strong incentive for them to avoid unnecessary dilution.

LiveTiles' rapid growth and high levels of recurring revenue appear to have caught the attention of the market recently, pushing the market cap and liquidity high enough to be added to the All Ordinaries Index in March. While LiveTiles remains one of the more risky holdings in the Fund, we remain enthused by high levels of recurring revenue, customer loyalty, and rapid growth in a large and growing market.

More broadly, April saw a number of the Fund's earlier-stage holdings provide quarterly cash flow reports and business updates to the ASX. By and large we were satisfied with how the businesses are tracking and have follow-up meetings planned with a number of the companies in the coming week.

Looking Ahead

The month of May marks the start of 'confession season' with companies fessing up where numbers are tracking short of market expectations on approach to the June financial year end. To date -- and touch wood -- none of the Fund's holdings have made such concessions.

Later during the month, Donny and Erwin are attending an interstate corporate speed dating event, followed by a series of company meetings in search of new investment opportunities to put our investors' capital behind.

Oh, and one more thing: we're hiring for an operations manager to join our growing business. By all means, if someone in your network might be interested, please pass along the job posting.

As always, thanks to all our investors for your time and trust.

Best Regards,

Joe Magyer, CFA
Portfolio Manager, Lakehouse Small Companies Fund
Chief Investment Officer, Lakehouse Capital