

Dear Lakehouse Investor,

July was a quieter period as most companies were bunkered down preparing their annual report cards. The team only met with two companies during the month, though, a number of the Fund's smaller holdings released quarterly cash flow reports providing valuable updates and insight to their full year results.

Despite fewer-than-usual meetings, there was activity within the portfolio during July as; a distribution was declared, we trimmed our holding in five companies, topped up in three others, and initiated buying in one entirely new position. As has long been our custom, we will not disclose a new position while it is still being built, but we can reveal we've been patiently following this company since inception of the Fund in late 2016.

Companies Held:	21
Cash Allocation:	15.5%
Top 5 Portfolio Holdings:	38.4%
Net Asset Value per Unit:	\$1.7895
Fund Net Asset Value:	\$239.2 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

Despite ending the 2019 financial year with 10.9% cash in June, the portfolio cash holding moved back above the upper end of our typical range in July as the Fund took some profits and most investors held with the default option of reinvesting their distribution. The higher-than-typical cash holding positions the Fund well as August is a busy period, filled with lots of new information from both existing and prospective portfolio companies, and a broad opportunity to put capital to work.

The Fund returned +2.9% net of fees and expenses in July, the first month of a new financial year, compared to a +4.5% return for the benchmark. Since inception in mid-November 2016, the Fund has returned a net +95.9% compared to +39.4% 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. To that end, we note that market volatility picked up in a big way in early August as concerns over trade wars flared up again. For our parts, rather than panicking our team has been putting the Fund's sizeable cash position to work.

The Fund's most significant contributor to performance during the month was **Pro Medicus** (+21.6%), which ran up on animal spirits and was named to join the S&P/ASX200 from early

August. The biggest detractor during the month was **Gentrack** (-14.5%), which fell following an earnings downgrade -- more on that shortly.

The Fund's five largest holdings as of the end of July accounted for 38.4% of the portfolio and are named in order of the Fund's allocation: **Afterpay Touch, Nanosonics, EML Payments, Pro Medicus, and Altium**. All five positions should be well known to Lakehouse investors as they have been discussed in prior letters.

Zooming out, the Fund's largest sector allocations as of the end of the month were to information technology (60.2% of total capital), health care (14.8%), and consumer discretionary (5.6%), which is quite different to the benchmark's largest allocations: materials (21.0%), consumer discretionary (14.3%), and real estate (11.7%).

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 remain comfortable being significantly underweight the likes of materials, consumer discretionary, and real estate.

## Company News

Turning back to Gentrack. We first [introduced](#) Lakehouse investors to the company in our March 2017 investor letter, where we said:

*Gentrack develops billing and CRM software for energy utilities and water companies as well as comprehensive operations systems for airports. Its software is mission critical, value-adding, and very difficult to strip out or replace.*

At the time, the company was expanding into the United Kingdom, particularly utilities. The United Kingdom continues to be a big revenue contributor (53% at the half year), however, the current political environment surrounding Brexit is creating additional uncertainty.

According to the company, they downgraded previous guidance due to a combination of project delays and increasing bad debt risk in the United Kingdom. Being a Kiwi-company, Gentrack will report full year results in November and we will receive even more context then. The downgrade amounted to roughly 12% lower earnings relative to prior guidance, which is steep in terms of short-term expectations. We continue to like the long-term thesis but are exercising more caution around the position.

Afterpay also provided some noteworthy updates during the period. Firstly that the company is moving to a majority independent board, with an independent chair, and that former Group Head, David Hancock, will transition out of the business. We think the transition to a majority independent board is the right move for the company given its maturation. We were

similarly pleased to see the appointment of a very experienced Global Chief Operating Officer, which also speaks to Afterpay's standing and evolution.

Afterpay also updated the market on the AUSTRAC process, confirming that an independent auditor has been appointed to investigate their anti-money laundering and counter- terrorism financing review processes, and that the final audit report will be produced by the end of November 2019. All that's to say: although there's progress, this issue will linger for at least the remainder of calendar 2019. As we said in the [annual letter](#), we would not be surprised if the current AUSTRAC-inspired audit processes led to a fine, though the business is well capitalised following its latest capital raise and we remain enthused about the long-term prospects of this increasingly global business.

## Looking Ahead

Over August and September, we look forward to engaging with management teams to review the year that was, but more importantly, hearing about the plans for the future of the businesses. We will update Lakehouse investors on any significant outcomes.

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

**Sole use and confidentiality:** This report has been prepared by Lakehouse Capital Pty Limited (ABN 30 614 957 603, authorised representative of AFSL 400691) and by its officers, employees and agents (collectively "Lakehouse") for the sole use of its clients as a record of the performance of their investment. The contents of this report are confidential, and the client may only disclose such contents to its officers, employees or advisers on a need to know basis, or with the prior written consent of Lakehouse.

**Disclaimer:** The responsible entity for the Lakehouse Small Companies Fund (ARSN 615 265 864) is One Managed Investment Funds Limited (ACN 117 400 987) (AFSL 297042) ("OMIFL"). The information contained in this document was not prepared by OMIFL but prepared by other parties. All of the commentary, statements of opinion and recommendations contain only general advice and have not taken into account your personal circumstances. This report contains general financial product advice only. Any investment in Lakehouse or OMIFL products need to be made in accordance with and after reading the Product Disclosure Statement (PDS) and Additional Product Disclosure Statement (APDS) dated 15 March 2019, and investors should consider the PDS before deciding whether to invest in the Fund or continue to hold units in the Fund. The opinions, advice, recommendations and other information contained in this report, whether express or implied, are published or made by Lakehouse in good faith in relation to the facts known at the time of preparation. Information is current as at the date of the letter, unless otherwise noted. Past performance is not indicative of future performance. The PDS and APDS can be obtained by visiting [www.oneinvestment.com.au/lakehouse](http://www.oneinvestment.com.au/lakehouse).

**Limitation of liability:** Whilst all care has been taken in preparation of this report, to the maximum extent permitted by law, neither Lakehouse or OMIFL will be liable in any way for any loss or damage suffered by you through use or reliance on this information. Lakehouse and OMIFL's liability for negligence, breach of contract or contravention of any law, which cannot be lawfully excluded, is limited, at Lakehouse's option and

to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you.

**Disclosure:** Lakehouse, its directors, employees and affiliates, may, and likely do, hold units in the Lakehouse Small Companies Fund and securities in entities that are the subject of this report. Copyright: Lakehouse owns the copyright to this publication. Its contents may be used for your own personal use, but you must not (without Lakehouse's consent) alter, reproduce or distribute any part of this publication, transmit it to any other person or incorporate the information into any other document.