Dear Lakehouse Investor,

September marked a milestone in the life of the Lakehouse Small Companies Fund as net total returns since inception climbed above 100% (104.9%) for the first time. We still like to think of it as early days at Lakehouse, however, we'll admit to being pleased with having doubled the capital of the Fund's earliest investors in less than three years.

Companies Held:	19
Cash Allocation:	15.0%
Top 5 Portfolio Holdings:	38.7%
Net Asset Value per Unit (mid):	$1.8712
Fund Net Asset Value:	$254.7 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

Thanks so much to those of you who backed us out of the gate. Your trust then and now means a great deal to us and we're incredibly fortunate to have such an aligned base of investors. We don't know what the future holds save that we'll keep hustling to execute upon our process and, in doing so, hopefully continue to deserve our investors' trust.

Even though we were pleased to have reached a milestone during the month our team did not slow down. We held eight meetings with current and potential portfolio companies, attended a conference in Sydney, and were a net seller of shares during the month as we exited two long-held positions where our thesis had drifted (more on those shortly). The net result was that the Fund's cash allocation grew from 10.7% to 15.0% during the month.

The Fund returned 2.7% net of fees and expenses during September compared a 2.6% return for the benchmark. In this three-month-old fiscal year, the Fund has returned a net 7.6% compared to 3.1% for the benchmark. Since inception in mid-November 2016, the Fund has produced a net total return of 104.9% compared to 37.5% 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.

The Fund's most significant contributor to performance during the month was **Afterpay Touch** (+14.8%), whose shares ran up following a positive update on the ongoing AUSTRAC audit. The biggest detractor during the month was **Pro Medicus** (-24.3%), which fell following the sale of two million shares by its founders after a very strong run up in the share price.

The Fund's five largest holdings as of the end of August accounted for 38.7% of the portfolio and are named in order of the Fund's allocation: Afterpay, **EML Payments, Nanosonics, Nearmap,** 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 (62.5% of total capital), health care (10.2%), and consumer discretionary (6.6%), which is quite different to the benchmark's largest allocations: materials (21.0%), consumer discretionary (15.0%), and real estate (12.9%). We continue to embrace a differentiated approach with an emphasis on companies and industries known for capital-light, recurring-revenue-centric business models.

Company News and Portfolio Update

Afterpay's ongoing AUSTRAC audit -- first flagged in our June letter -- progressed during the month with the release of the independent auditor's confidential interim report to AUSTRAC, and a corresponding statement by Afterpay that no money laundering or terrorism financing activity had been identified in Afterpay's systems to date. We're not surprised -- it's hard to imagine, say, a drug cartel laundering money through a card-linked digital payments platform which has small tickets, pays in instalments, and reviews each transaction on a case by case basis -- but were nonetheless pleased with the update.

The market reacted positively to the news. Uncertainty around the regulation of Afterpay Touch remains a headwind for the business given both Afterpay and the industry are in its infancy in all markets. We'll continue to watch the space closely, appreciating that shares in Afterpay have a wide range of outcomes, but remain enthusiastic about the skew of those outcomes and the long-term potential of the business.

Another noteworthy portfolio company event during the month was the announcement of a $55 million raise by LiveTiles. When we first disclosed this holding in April we described it as a 'venture style investment' with a 'very wide range of potential outcomes'. While we chose not to participate in this raise, we are supportive as it serves to secure the company's growth runway and narrow the range of outcomes. That said, we will be keeping a close eye on the allocation of the company's fresh capital, and cost management, as it continues to scale rapidly in a march to cash flow breakeven.

We also note that the Fund exited its long-held positions in both **Hansen Technologies** and **ELMO Software** during the month. Hansen had been in the portfolio since inception, however our thesis drifted in recent reporting periods and we ended up settling with a 12.3% loss. Organic growth rates declined from a historical range of around 5-7% in past years to below zero in fiscal 2019, with little sign of improvement on the horizon. Over the same period Hansen's balance sheet has gone from a net cash position of $30 million in mid-2016 to a net debt position of $148 million more recently. The confluence of deteriorating fundamentals and a weakened balance sheet, plus execution risks related to the Sigma acquisition, left us thinking we should re-allocate elsewhere. Hansen remains a quality company that we'll continue to follow in the event fundamentals change, albeit from the sidelines.

Lastly, turning to ELMO Software. The Fund initiated its position at the company's IPO at $2.00 per share and has done quite well with a total portfolio return of 145.6%. The position has been progressively reduced throughout calendar 2019, though, due to the combination of a full valuation and concerns about worsening reinvestment economics amplified by increasing marketing spend. We were tolerant of these issues, albeit on a reduced position size, but decided to part ways following the recent growth-centric $55 million capital raise and $35 million selldown from founders and early investors. We could see revisiting this thesis in the future as ELMO has good bones in the form of a loyal and diverse customer base, however, we would want to see greater rigour and proven success on the accelerated growth plans before revisiting.

Looking Ahead

October and November move us into AGM season and we already have a number of meetings planned with some of our portfolio companies ahead of voting. We will also see a flow of new information from young companies reporting their quarterly cash flows throughout October.

In the meantime, the team will continue turning over stones and deepening research on promising new opportunities. 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