Dear Lakehouse Investor,

Companies Held:	18
Cash Allocation:	15.0%
Top 5 Portfolio Holdings:	42.1%
Net Asset Value per Unit (mid):	$1.9293
Fund Net Asset Value:	$270.6 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

January was a lively month for the Lakehouse Small Companies Fund as a number of portfolio companies updated the market with fresh guidance or financials. The updates were satisfactory-to-pleasing for the most part, with the exception of **Nearmap**, which materially lowered full year guidance, and **Gentrack**, which also downgraded guidance and led us to part with the entirety of our remaining stake. More on both shortly. Despite topping up some positions during the month, the sale of our Gentrack stake along with trimming another large position kept the Fund cash levels flat at 15.0% at month end.

Turning to performance, the Fund returned 4.8% net of fees and expenses during January compared to a 3.4% return for the benchmark. Over the past 12 months the Fund has returned 42.9% compared to 18.8% for its benchmark. And, since inception in mid-November 2016, the Fund has produced a net total return of 111.2% compared to 43.2% for the benchmark. In annualised terms, the Fund has returned 26.2% per year since inception compared to 11.9% per year for the benchmark.

The Fund's most significant contributor to performance during the month was **Afterpay** (+31.7%), which moved higher on news that it had received a finance lenders license in California. We have little to add to this news, other than pointing to the optionality latent in Afterpay's large and rapidly scaling platform. We look forward to hearing more on the company's plans when we meet later in February. The biggest detractor during the month was Nearmap (-33.3%) which we'll discuss in more detail below.

The Fund's five largest holdings as of the end of January accounted for 42.1% of the portfolio and are named in order of the Fund's allocation: Afterpay, **EML Payments**, **Nanosonics, Bravura Solutions** and **Altium**.

Zooming out, the Fund's largest sector allocations are to information technology (65.0% of total capital), health care (9.9%), and consumer discretionary (5.3%), which is quite different to the benchmark's largest allocations: materials (21.2%), consumer discretionary (13.4%), and real estate (13.2%). 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

Nearmap disappointed investors during the month with a 10% downgrade to full year guidance following the loss of 3 enterprise customers in its nascent U.S. business and a step up on churn. Although group annualised contract value grew 23% during the period, it fell well short of expectations and the 36% growth delivered in FY19. The market has shown little tolerance for high-priced, high-growth companies that miss expectations and Nearmap was no exception with shares selling off by a third.

While we are disappointed with the customer losses our view is this half is more of an aberration than the norm as it is rare for enterprise software companies with historically low churn to see sustained sudden increases. We also remain attracted to the business' unit economics, large addressable market, and the data-driven approach of management. The company is in the early stages of its growth cycle, remains well capitalised and continues to expand its service offering and use cases. While we didn't enjoy the body blow to one of our larger portfolio positions, we remain comfortable with our current holding.

Turning to Gentrack, which we have long owned in the Fund but exited entirely during the month as the investment thesis further unravelled with the company's fourth downgrade in seven months. Independent energy retailers in the UK had been a growth driver for the business in recent years, however that market deteriorated significantly during the last six months as four of Gentrack's customers fell into insolvency and Gentrack's board and management repeatedly stumbled in getting a handle on the situation. The team was already carrying a damaged capital allocation record following the full write-off of the CA+ acquisition only two years after it was made. The CFO resigned in December and we would not be surprised to see further changes among the leadership team.

We have a degree of sympathy for the company as it hit these rocky times while also working through a transition to more subscription-based software. The combination put significant pressure on the company's balance sheet, leading to a 42% cut to the full year dividend and also has the business scrambling for $8m in cost cuts. We were admittedly too patient with this position but we could no longer justify holding what has firmly become a turn-around rather than a growth story.

Looking Ahead

The next couple of months will be particularly busy as most of our companies submit their half-year report cards. We look forward to hearing updates from both existing and potential portfolio companies, plus updating our investors on meaningful results and any significant portfolio developments.

Oh, and one last thing. It has been standard practice for me (Joe Magyer here) to personally sign off on all our investor letters since we started back in November 2016. Since then, though, our team has expanded from just myself and Donny Buchanan to a total of 9 Lakers spread across investing, operations, and distribution. While my role hasn't changed and I'm just as much accountable for the performance of the Fund and the content of these letters as ever, we've grown to a point that I think it is more appropriate for our monthly letters to be signed off by the team, not just one person.

Thanks again to all our investors for your time and trust. It means a great deal to us, especially those of you who backed us early, and we'll continue to do our best for you.

Best Regards,
Lakehouse Capital