Dear Lakehouse Investor,

Companies Held:	19
Cash Allocation:	12.6%
Top 5 Portfolio Holdings:	40.2%
Net Asset Value per Unit (mid):	$1.3589
Fund Net Asset Value:	$193.6 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

March was a tumultuous month as COVID-19 continued its rapid spread, resulting in the steepest drawdown in the history of global equity markets. The Fund was not immune, however our 14.4% cash position going into March provided some cushion and allowed us to play offense as markets cratered. We were also in the fortunate position of having received net inflows from our similarly long-viewed investor base.

The Fund returned -19.7% net of fees and expenses during the month compared to a -22.4% return for the benchmark. Over the past 12 months the Fund has returned -10.9% compared to -21.0% for its benchmark. And, since inception in mid-November 2016, the Fund has produced a net total return of 48.8% compared to 1.5% for the benchmark. In annualised terms, the Fund has returned 12.5% per year since inception compared to 0.5% per year for the benchmark.

The month was a tough one for the Fund, however, we remain confident about our positioning and think our performance since inception speaks well to our strategy. As ever, we remain resolutely focused on long-term performance.

Investment Strategy in a COVID-19 World

We told investors last month that our view on the situation surrounding COVID-19 is a balanced one. That largely remains the case today and the Fund still has plenty of dry powder but, with the benchmark down as much as 42% from its high at one point during the month, we grew decidedly more opportunistic and the Fund was a net buyer.

On the one hand, the virus blew past early containment efforts and created an economic shock and public health crisis that has not been rivalled in our lifetimes. Sadly, most governments were half-hearted in their initial approach to containing the virus while some are still not taking it seriously enough.

On the other hand, there are plenty of reasons for long-term optimism, the most fundamental of which is that patient investors have historically outperformed speculators who dart in and out of the market. Beyond that, we've observed the following:

- Social distancing and containment efforts have been embraced in most developed countries and we've already seen inflection points on new confirmed cases in China, South Korea, Italy, Spain, and the state of California, which is the world's fifth largest economy.

- Effective, low-cost means of reducing the spread including temperature checks, wearing masks, and washing hands with soap are becoming more widely adopted.

- Existing medical supply companies as well as non-traditional contributors such as automakers are rapidly scaling the production of badly needed medical supplies including masks and ventilators. The supply of tests is also quickly rising and new ones on the way will provide results in minutes, not days.

- The medical community is learning more about the virus as we go and the World Health Organization is now trialing four different drug treatments for COVID-19.

- Money is close to free with interest rates at or near their all-time lows in most markets.

- The gross leverage of the world's 50 largest banks by total assets is 32% lower today than it was when the world was heading into a crisis in 2007, per data we've crunched from S&P Capital IQ. This suggests the financial system is far better placed to handle a shock than previously.

- Governments and central banks the world over are unleashing wave after wave of fiscal and monetary stimulus that is unprecedented in its speed, scale, and scope, best embodied by the nickname of the Federal Reserve's newest program: QEinfinity.

We want to be clear: we take this virus seriously and expect every facet of this situation to get worse before it gets better. That's why we went into March with a meaningful cash position and started working from home across the business weeks before others were nudged to do so. But here's the rub: the view that things will get worse before they get better has swung from non-consensus six weeks ago to consensus today, as evidenced by the benchmark at 32% below its February high despite all of the existing and potential responses we named before.

We will not pretend to know when or where markets will bottom, however, the consensus is already so negative that any hints of an inflection point with COVID-19 or the economy would send share prices higher. What's more, investors who are waiting for the economy to bottom out before buying again will likely have missed the turn in the market. For example, even if you had known for certain that October 2009 would mark the peak of US unemployment and had waited until that turn in the economy to invest, you would have missed a 64% rally from the March lows. Markets look forwards, not backwards.

Two other points before diving into our holdings. First, as long-term investors, whether we pay $0.60 or $0.70 for a stock intrinsically worth $1 today is not of huge consequence to us if that stock is worth $2 five years from now. Second, we would not underestimate the resolve of governments or central banks to stabilise the economy and pacify financial markets. No, showering financial markets with liquidity does not solve the underlying problem, but it goes a long way towards de-risking markets and supporting the prices of financial assets (e.g. shares).

The Fund was a net buyer of shares during the month but in a very focused manner. We reduced or exited companies that have outsized exposure to demand, supply, operational, or financial risks caused by the outbreak and containment initiatives. Conversely, we actively increased the Fund's holdings in companies with strong balance sheets, highly loyal customers, digital-first business models, and those with network dynamics where adoption curves might be pulled forward based on changes in how we all live, work, learn, and play. In other words, we are leaning even harder than usual into our preferred style of companies.

This strategy has led the Fund to be a touch more concentrated than usual in its best ideas, as very few businesses are built to weather such an environment. Supporting that view is research by UBS which shows 85% of all Australian companies that have updated the market since this outbreak began have either withdrawn or reduced guidance, with only 13% reaffirming and a lonely 2% upgrading. We're yet to receive formal updates from most holdings on how business is faring but feel good about our positioning given the backdrop.

Zooming out to the sector level should help provide further context on how different our strategy is to the broader market for smaller companies. The Fund's largest sector allocations are to information technology (59.6% of total capital), health care (16.5%), and financials (11.4%) while the benchmark's largest allocations are to materials (22.1%), real estate (13.2%), and consumer discretionary (11.4%). We remain even more happy than usual to have a 0% allocation to materials, which is not only cyclical and capital hungry but also significantly at risk given the global slowdown.

Company News and Thesis Reviews

Turning to specific companies, the Fund's most significant contributor to performance during the month was **Pro Medicus** (-3.3%). The biggest detractor during the month was **Afterpay** (-43.3%). We'll discuss each shortly.

The Fund's five largest holdings as of the end of the month accounted for 40.2% of the portfolio and are named in order of the Fund's allocation: **Nanosonics**, **Bravura Solutions**, **Pro Medicus**, **Netwealth**, and **EML Payments**. We don't normally do thesis reviews in a monthly letter, however, we thought investors would benefit from our briefly reviewing the Fund's largest holdings and how we think this environment affects the business:

Nanosonics has a razor-and-blade-esque model which generates high levels of high-margin recurring revenue. The COVID-19 health crisis is absorbing the full attention of hospitals currently, however over the medium-term we could see adoption rates for Nanosonics' suite of high-level-disinfection products being brought forward as hospitals place more weight on disinfection. The business' heavy R&D focus has it on a path to launch a new product in FY21, with additional products to follow in the years ahead. Nanosonics is very well positioned to drive its global expansion, with solid cash flow, a fortress balance sheet, and promising product pipeline. It helps that the shares sell for around 28% below their highs despite these strengths and the imminent launch of a new product.

Bravura Solutions is a provider of mission critical software to the wealth management and fund administration industries in Australia, New Zealand, South Africa and the United Kingdom. With around 78% of the company's revenue being recurring in nature, it is better placed than average to weather an economic storm. The balance of its revenue comes from project and licence fees which will likely be delayed if economic conditions continue to slow. Bravura's sales and implementation cycles are long, and customers slow to change -- in fact contracts typically run for 10 to 15 years. Bravura's gradual shift to its modern Sonata software platform provides a tailwind for margins, while recent acquisitions add fuel to the company's revenue growth. With high levels of recurring revenue, over $100m in net cash, an expanded global opportunity, and the shares marked down 38% from their high to around 2.5x enterprise value to forward revenue, we like the asymmetric outcomes on offer.

Pro Medicus is unusually well positioned to weather this storm given its highly visible and diverse revenue base, contributions from foreign currencies in a weak environment for the Aussie dollar, thick margins, and a cash rich balance sheet. We also would not be surprised if the volume of scans using Pro Medicus' flagship Visage product temporarily increased. The shares have come back a long way from their recent highs -- currently down 49% -- which enticed us to increase the position after having previously taken a lot of chips off the table at far higher prices. The shares are still not conventionally cheap, however, we think the business makes for one of the best houses in the small-cap neighbourhood.

Netwealth is a beneficiary of higher interest rates, and so the recent hammering down of interest rate expectations has been tough on the share price, but the business provided a business update late in the month that demonstrated resilience that surprised the market. We see no reason why founding-family-led Netwealth will not continue to gain market share, particularly since the incumbent platforms are part of larger financial institutions that are experiencing significant turbulence right now. For context, Netwealth is the eighth largest platform by funds under administration but the fastest growing in terms of net funds flows, so there is plenty of headroom for growth. Netwealth remains debt free, highly profitable, and out of favour with the shares selling for about a 23% discount to their average forward multiple since listing of consensus earnings.

EML is predominantly impacted by COVID-19 via temporary mall closures and sporting events being suspended, which hurts the gift card and gaming lines of their business. Other parts are more resilient, though, such as virtual card payments and salary packaging, and the recently approved PFS acquisition will further diversify revenue. More optimistically, the PFS deal was renegotiated on far more favourable terms to EML and the crisis brings new opportunities to showcase EML's mobile payment technologies to be able to help governments instantly handout disbursements to people most affected by this crisis. The business has a wider range of outcomes than before but we think the business is well placed to weather the storm and come out stronger now that it is more diverse and has $100 million in net cash.

Afterpay is no longer among the Fund's top five holdings on account of relative underperformance and our reducing the position during the month to put more capital behind other opportunities. The share price has struggled as investors sweat rising bad debts and slowing growth. We don't doubt both will happen, hence we've taken some of the Fund's still-significant gains off the table.

Unlike a big bank, though, whose loan book turns as slowly as a battleship, Afterpay has a much more nimble model because it turns over its receivables book 13 times a year. The company has already told the market that it has tightened lending standards and has multiple levers with which it can preserve cash including cutting market spend and tightening transactional approval rates. We're also encouraged that three different directors bought stock late in the month. The Afterpay thesis continues to have a wide range of outcomes but we're maintaining a holding as the business still has significant growth potential on the other side of this crisis.

We also note that the Fund exited its stake in **Bapcor** in early March. It was not a decision we took lightly, having considerable respect for the company's leadership team and having been holders since the Fund's first day of trading. The Fund's allocation to Bapcor has faded over time, though, as acquisitions have taken the business further away from its white-hot core of the resilient Burson trade business.

What tipped us into selling was a confluence of factors including supply chain risk, the likelihood that containment measures would materially reduce the number of cars on the road and thus ins need of repair, a weakened Aussie dollar hurting gross margins, the ability for the company to fulfill given it is a high-touch, labour-intensive distribution model, and a balance sheet that was not built for such an exogenous shock.

Unfortunately, Bapcor strikes us exactly as the kind of business that is viewed as defensive, and rightly so probably 99% of the time, but not at all in this unique period. We wish the business all the best but felt strongly the range of outcomes had swung to skewing negatively quickly and do not regret having preserved capital in closing the position to re-allocate to other businesses that are better positioned to ride out this crisis.

Introducing New Team Members

We've mentioned in the past that Lakehouse has been reinvesting in itself over the past year including making our business more robust with the hires of two experienced operations professionals and upgrading our order management, portfolio accounting, investment data, and portfolio analytics systems. We've also moved to a larger office to support our growth.

Lakehouse has also made a significant commitment to its clients and the market by growing its distribution and client service team from one to four members in the past year. To that end, we are excited to announce that Stuart James has joined Lakehouse as its Head of Distribution. Stuart was most recently with Aberdeen Standard, one of the world's largest investment managers, for 23 years where he served as Head of Distribution among other roles during that time. We're thrilled to have someone of Stuart's caliber join the team in such a key role.

We are also happy to announce that Edwina Best has joined the team as a Senior Business Development Manager. Edwina is well known and highly regarded in the community, having run her own firm, Gateway Financial Marketing, for the past 17 years following working at Macquarie.

Stuart and Edwina have dived right into the business and are working closely with our existing team members, Mark Fenech and Connor McGrath, who were already doing excellent work. We're pleased to not only be in a position to better serve existing clients but also to get out and engage with the broader investment community.

On a related note, Lakehouse Capital has also made a long-planned change to its board of directors. Bruce Jackson will be stepping back from his role on the board after more than three years to focus more of his time on his primary role as the General Manager of The Motley Fool Australia. Bruce has been an unwavering advocate for Lakehouse since it was nothing more than an idea and our team will be forever grateful for his support.

Bruce also wishes us to pass on that he and his wife remain as investors in both Lakehouse funds. To date, they have never redeemed any of their Lakehouse holdings, and currently have no plans to do so for the foreseeable future. On the contrary, they have regularly added to their Lakehouse holdings, including significantly so during March 2020.

Lakehouse co-founder and Chief Investment Officer Joe Magyer will be stepping onto the board as Bruce's natural successor. Suffice to say that he knows the business well and we do not expect to miss a beat.

Ah, and one last point of business: in an effort to adapt to the current environment, the Fund is now accepting scanned and faxed applications and redemptions where they meet certain requirements during this COVID-19 period. Investors should read the notice posted on 20 March 2020 for details. Meanwhile, existing investors and advisers are still free to top-up their holdings simply by making a BPAY transfer with no further action required. More details are available here.

Thank You

Thanks again to all our investors for your time and trust. We can't promise performance or tell you exactly when markets will turn, however, we can promise that we will continue to hustle and stay true to our long-term, high-conviction approach.

Best Regards,
Lakehouse Capital