Dear Lakehouse Investor,

Companies Held:	18
Cash Allocation:	12.7%
Top 5 Portfolio Holdings:	38.8%
Net Asset Value per Unit (mid):	$1.7091
Fund Net Asset Value:	$248.1 million
Benchmark:	S&P/ASX Small Ordinaries Accumulation Index

April saw a rapid rebound in global equity markets on the heels of the market's steepest ever drawdown. The Lakehouse team quickly adapted to the shutdown changes and still managed 27 meetings with current and prospective holdings during April. We also hosted a 90-minute webinar and live Q&A session with investors which was recorded and is available for viewing on our website.

The Fund returned +25.8% net of fees and expenses during the month compared to a +14.3% return for the benchmark. Over the past 12 months the Fund has returned +3.5% compared to -13.3% for its benchmark. And, since inception in mid-November 2016, the Fund has produced a net total return of 87.1% compared to 16.0% for the benchmark. In annualised terms, the Fund has returned 19.9% per year since inception compared to 4.4% per year for the benchmark.

We remain confident about our balanced positioning which acknowledges significant risks and unknowns while also appreciating that patience and a long-term perspective are usually rewarded by markets. For that matter, as we underscored in the March letter, markets are forward looking and care far more about where the economy is headed rather than where it is right now. This crucial point, which is not intuitive to most, explains much of why the market has rallied so hard while economic data has gotten worse.

The market's forward-looking nature isn't the only contributor to the rebound. While we did not predict such a sharp recovery, we are also not surprised that the market's steepest ever drawdown preceded the market's steepest ever bull market. Keep in mind that, as of the end of March, the Fund's top 5 holdings were roughly 40% below their 52-week highs, which speaks to just how bombed out small-cap growth shares were during the drawdown.

Also, as we have banged the drum about, the aggressive fiscal and monetary response from governments and central banks has gone a long way towards improving liquidity and asset prices. To that end, we do not view it as a coincidence that global markets bottomed the same day that the U.S. Federal Reserve signalled it would do practically anything within its considerable power to support markets and the world's largest economy.

We see other reasons for optimism as well. Namely, that the curve has flattened in most countries, mortality rates appear far lower than initially feared, testing capacity and accuracy has improved, production of key medical equipment and supplies has accelerated, and numerous trials for treatments and vaccines are underway.

All that said, markets, economies, and people are not out of the woods and the Fund's positioning reflects as much. We expect new case counts to increase in a rolling-wave fashion as countries begin to reopen, which could lead to intermittent rounds of openings and closures, and we are still learning about the odds and risks of reinfection. We also cannot trivialise the economic costs of the crisis and acknowledge we are in uncharted territory.

The confluence of the above, along with validation of our expectation of the pulling forward of adoption curves for digital-first business models, supports our current strategy of leaning even more into our usual style of companies. The Fund's largest sector allocations are to information technology (60.4% of total capital), health care (16.6%), and financials (10.4%) while the benchmark's largest allocations are to materials (22.8%), real estate (12.4%), and consumer discretionary (12.0%).

Our general preference to shy away from cyclical, capital-heavy sectors and companies has rewarded us particularly well over the last couple of months. Around 86% of the Fund's invested capital is behind companies built around explicit recurring revenue streams, which affords us significant visibility. Our portfolio companies have also collectively been quick to tighten their belts, providing more of a profit buffer in some cases and pulling forward free cash flow breakeven in others.

Ultimately, we will not pretend to know where the market heads over the next month, quarter, or even year. We do know markets have a history of rewarding patience, though, and we feel very good about the collective long-term prospects of our fast-growing portfolio companies.

Company News

Turning to specific companies, the Fund's most significant contributor to performance during the month was **Afterpay** (+66.0%), which provided a business update that demonstrated surprising resilience to the crisis thus far, no doubt partly thanks to a tightening of spending and standards that we flagged in last month's letter. The biggest detractor during the month was **Xref** (-21.4%), which has direct exposure to the hiring end of the Australian jobs market. The business has dramatically cut costs, though, and the risk from this point forward is limited as the position is the smallest in the portfolio.

The Fund’s five largest holdings as of the end of the month accounted for 38.8% of the portfolio and are named in order of the Fund’s allocation: **Pro Medicus, Nanosonics**, **Bravura Solutions**, **EML Payments** and **Netwealth**. We initiated a new position during March and continued to build it out throughout April.

Not much company-specific news was released by the Fund’s largest holdings considering the strong performance. An exception was Nanosonics, which provided a mixed update for the third quarter. The company saw significantly higher sales and consumables sales in-line with company expectations but also that sales teams struggled with limited access to hospitals and timelines for adoption of capital equipment being extended. While there may be some uncertainty around the final quarter of this fiscal year, we remain enthused by the company’s long-term prospects. Nanosonics’ balance sheet remains strong with $82 million in cash reserves, the R&D programs are continuing, and we see tailwinds for wider and deeper adoption of their high-level disinfection products over the long-term.

Netwealth also provided an update for their third quarter. Despite a volatile stretch for equities, the company grew its market share and expanded funds under management by 11.3% compared to the second quarter and 259.5% compared to the prior comparable period. A combination of fee caps, increased trading and switching to other asset classes helped cushion the fall in equity markets and the RBA’s lowering of interest rates. The business was again named #1 by *Investment Trends* for overall functionality for a fifth consecutive year, as well as #1 for reporting, transaction tools and decision support tools. Netwealth continues to gobble up market share, leads the industry in terms of net fund flows, and is pacing to become Australia’s sixth largest platform over the next 12 months.

Thank You and a Reminder

Thanks again to all our investors for your time and trust. And, as a reminder, 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.

Best Regards,
Lakehouse Capital

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