

LAKEHOUSE SMALL COMPANIES FUND

MONTHLY LETTER

30 SEPTEMBER 2020



Dear Lakehouse Investor,

September was another eventful month for the Fund as our team held 15 virtual meetings with current and potential portfolio companies. We re-opened a position in **Bapcor**, alongside trimming some positions and topping up others, with the net effect being more capital put to work and the cash allocation shrinking to 7.8% vs 10.9% at the end of August.

The Fund returned -3.7% net of fees and expenses during the month compared to -2.8% return for the benchmark. Over the past 12 months the Fund has returned 11.3% compared to -3.3% for its benchmark. And, since inception in mid-November 2016, the Fund has produced a net total return of 127.9% compared to 32.9% for the benchmark. In annualised terms, the Fund has returned 23.7% per year since inception compared to 7.6% per year for the benchmark.

	1 Month	3 Month	1 Year	3 Year (p.a.)	Inception (p.a.)
Lakehouse Small Companies Fund	-3.7%	12.3%	11.3%	25.4%	23.7%
Benchmark	-2.8%	5.7%	-3.3%	6.5%	7.6%
Excess Return	-0.9%	6.6%	14.6%	18.9%	16.1%

COVID-19 continues to have an enormous impact on society and the global economy, with most governments around the world continuing to work toward alleviating both the human and economic consequences. For our part, we continue to focus on our long investment horizon, remain concentrated in our best ideas, and the Fund remains heavily tilted toward capital-light, recurring revenue businesses and away from those that are notoriously cyclical, competitive, or capital-hungry.

The Fund's largest sector allocations are to information technology (59.3% of total capital), financials (18.3%), and health care (12.7%) while the benchmark's largest allocations are to materials (20.8%), consumer discretionary (17.1%), and real estate (12.9%).

Company News

Turning to specific companies, the Fund's most significant contributor to performance during the month was **Netwealth** (+8.4%), and the biggest detractor was **Nearmap** (-23.1%). More on both shortly. 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: Netwealth, Nearmap, **Pro Medicus**, **EML Payments** and **Xero**.

Fund Metrics	
Companies Held	21
Cash Allocation	7.8%
Top 5 Portfolio Holdings	38.8%
Net Asset Value per Unit (mid)	\$1.8950
Fund Net Asset Value	\$301.9 million
Benchmark	S&P/ASX Small Ordinaries Accumulation Index

Netwealth's share price rose on little material new information. The company made a financially immaterial 25% strategic investment in financial data provider, Xeppo, with an option to increase its stake to 50%. The Xeppo partnership expands integrations for two-way data feeds allowing the Netwealth platform to push and receive data from a wider range of financial software providers. In practical terms, this improves the ability of the Netwealth platform to integrate with accounting programs (e.g. MYOB and Xero), financial planning software (e.g. MidWinter and XPLAN), compliance software (e.g. Class Super and BGL), plus various other sources, broadening Netwealth's connections throughout the digital financial ecosystem. Albeit small, the transaction should help Netwealth continue its strong growth trajectory as the market-leading investment administration platform.

Turning to Nearmap. After being the largest contributor in August, Nearmap reversed its fortunes in September surprising the market with a \$72.1 million share placement, \$20 million share placement plan, and \$11.6 million director sell-down. The share price fell materially as the capital raise represented a change in narrative hot on the heels of the management team touting the company's financial stability throughout reporting season: having reached run-rate cash flow breakeven with \$34 million still in the bank. In fact, the company's fiscal 2020 closing cash balance represented around half of the previous \$70 million capital raise in November 2018 and, given they'd guided to fiscal 2021 cash flow breakeven, the need for additional capital seemed remote.

We were both surprised and disappointed by the move given what was publicized only 3 weeks prior, and think the board and management team inadvertently created a credibility challenge for themselves in the eyes of the market. The Fund did not participate in the capital raise, however, we remain enthused about the opportunity ahead. The business and its competitive position is no worse off for having over \$100 million in net cash sitting on the balance sheet. Indeed, Nearmap's odds of success are actually better. The company has more runway to invest in the product -- 3D, AI, roof geometry and new camera technology -- to penetrate deeper into customer workflows and expand the use cases and addressable market. The spotlight is now firmly back on the management team to execute, and accelerate growth, to justify holding additional shareholder capital.

Looking Ahead

We will see a flow of new information from young companies reporting their quarterly cash flows throughout October.

October and November also move us into AGM season. We take our voting obligations seriously and we will follow our usual practice of discussing voting resolutions among the Lakehouse governance committee and engage directly with companies as required.

Thanks again to all our investors for your time and trust. We appreciate it a great deal during these challenging times.

Best Regards,
Lakehouse Capital

P.S. We're very pleased to announce our inaugural 'Return to Work' internship designed for those seeking to transition back into the workforce. We understand people sometimes have to put their careers on hold to focus time elsewhere. The Lakehouse 'Return to Work' internship is a competitively remunerated, 4-month program to refresh investing skills, add to existing valuable experience, and build confidence to re-enter the workforce. More information is available [here](#).

For more information call us on +61 2 8188 1510, email investorsupport@lakehousecapital.com.au or visit www.lakehousecapital.com.au

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