LAKEHOUSE SMALL COMPANIES FUND

MONTHLY LETTER

31 December 2020

Dear Lakehouse Investor,

December was a quieter month for the Fund as activity wound down leading into the holiday season. We hope you managed to spend some quality time with your family and friends after what was a challenging year.

Unfortunately, global COVID-19 case numbers continued to climb during December with record new daily numbers surpassing 800,000 at times. It is perhaps a sign of fatigue or complacency that new records are being realised at the same time as global distribution of vaccines are accelerating in earnest. In any case, these events reinforce that the pandemic is far from over, it continues to have real human and economic consequences, and we continue to think through the implications with a focus on the long-lasting changes to how we live, work, and play. And there's also the global government and central bank response: the largest fiscal and monetary stimulus the world has ever seen.

The confluence of evolving factors continues to give us plenty to work through as a team. Broadly speaking, though, we remain comfortable with our positioning and high-conviction portfolio of businesses that are collectively gaining share of large, growing markets. We also remain focused on evaluating existing positions and seeking new opportunities. While a quiet stretch given the holidays, activity will pick up substantially in January as people return to work and companies release their quarterly and half year trading updates.

The Fund returned 5.2% net of fees and expenses during the month compared to a 2.8% return for the benchmark. Over the past 12 months the Fund has returned 32.6% compared to 9.2% for its benchmark. And, since inception in mid-November 2016, the Fund has produced a net total return of 167.1% compared to 51.3% for the benchmark. In annualised terms, the Fund has returned 26.9% per year since inception compared to 10.6% per year for the benchmark.

	1 Month	**3 Month**	**1 Year**	**3 Year (p.a.)**	**Inception (p.a.)**
Lakehouse Small Companies Fund	5.2%	17.2%	32.6%	23.9%	26.9%
Benchmark	2.8%	13.8%	9.2%	6.6%	10.6%
Excess Return	2.4%	3.4%	23.4%	17.3%	16.3%

The Fund's largest sector allocations are to information technology (56.9% of total capital), healthcare (14.9%), and financials (13.3%) while the benchmark's largest allocations are to materials (22.3%), consumer discretionary (16.5%), and financials (13.0%). Our differentiated style should look familiar and our general preference to shy away from cyclical, capital-heavy sectors and companies has rewarded the Fund very well since inception.

Fund Metrics	
Companies Held	21
Cash Allocation	12.9%
Top 5 Portfolio Holdings	38.2%
Net Asset Value per Unit (mid)	$2.2208
Fund Net Asset Value	$369.1 million
Benchmark	S&P/ASX Small Ordinaries Accumulation Index

Company News

Turning to specific companies, the Fund's most significant contributor to performance during the month was **Nanosonics** (+20.6%) while the biggest detractor was **Netwealth (-5.3%).** The share prices in both companies moved on no material news.

The Fund's five largest holdings as of the end of the month accounted for 38.2% of the portfolio and are named in order of the Fund's allocation: Netwealth, **EML Payments**, **Pro Medicus**, Nanosonics and **Xero**.

Pro Medicus continued its run of new contract announcements in December, as it added US-based MedStar to its customer list with a five-year, $18 million dollar deal. The contract is particularly noteworthy due to it being a full public-cloud deployment and includes the full suite of Visage 7 modules to replace legacy systems across 10 hospitals. These are important milestones as healthcare providers have typically been slow adopters of cloud technology on account of data privacy and security concerns, and are slow to change out legacy systems that are oftentimes tethered to diagnostic hardware. Selection for a cloud deployment of this size and scope is testament to the 'thinness' of the Visage software suite and provides validation that Pro Medicus are the industry leader for both on-premise and cloud deployments in their field. We see cloud-enabled, remote diagnosis as a growing trend following the pandemic given the impacts it had on hospitals' operational continuity and we believe Pro Medicus is sitting in the box seat.

A Bigger Lakehouse

The strong inbound interest we have had from potential investors has enabled us to continue to reinvest in our business in order to better serve clients at greater scale. To that end, we are pleased to share that two new investment analysts have joined the team at Lakehouse: Abi Malin and Kenny Mai. Abi Malin comes to us from our parent company in the US, The Motley Fool, where she spent the last five years researching equities. Kenny, meanwhile, comes to us from an analyst role at peer of ours, Franklin Templeton. The two of them are both excellent additions who bring valuable skills and perspective as well as providing our team more robustness and cross-coverage capabilities.

Looking Ahead

We look forward to trawling through quarterly and half yearly trading updates in January, and preparing for more extensive half year reporting in February.

Thanks again to all our investors for your time and trust.

Best Regards,
Lakehouse Capital

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

---