

LAKEHOUSE SMALL COMPANIES FUND

MONTHLY LETTER

31 January 2021



Dear Lakehouse Investor,

January was remarkably quiet for equity markets in end-to-end terms given the furore around the U.S. Presidential handoff, mania around GameStop, and the ongoing struggle to contain Covid-19 in most major economies. For our part, we remain focused on finding and backing businesses that we think are well placed to thrive regardless of the price of GameStop or who sits in the Oval Office.

Our team met with four portfolio companies during the month and digested quarterly cash flow reports from numerous current and prospective portfolio companies, which provided a preview to half year results. We were broadly pleased with our companies' progress against our investment theses and note that our team has now held around 700 meetings since inception with current, former and potential portfolio companies. We also initiated two new positions during January, both of which are in the bottom third of the portfolio in terms of position size, so we'll hold off discussing at this time. Oh, and we also closed the Fund to new investors in order to prioritise investment performance for our valued existing investors. More on that later.

The Fund returned -1.3% net of fees and expenses during the month compared to a -0.3% return for the benchmark. Over the past 12 months the Fund has returned 24.8% compared to 5.4% for its benchmark. And, since inception in mid-November 2016, the Fund has produced a net total return of 163.6% compared to 50.9% for the benchmark. In annualised terms, the Fund has returned 25.9% per year since inception compared to 10.3% per year for the benchmark.

	1 Month	3 Month	1 Year	3 Year (p.a.)	Inception (p.a.)
Lakehouse Small Companies Fund	-1.3%	9.9%	24.8%	21.7%	25.9%
Benchmark	-0.3%	13.0%	5.4%	6.7%	10.3%
Excess Return	-1.0%	-3.1%	19.4%	15.0%	15.6%

The Fund's largest sector allocations are to information technology (51.2% of total capital), healthcare (18.2%), and financials (13.7%) while the benchmark's largest allocations are to materials (22.2%), consumer discretionary (16.9%), and financials (13.2%). 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.

Company News

Turning to specific companies, the Fund's most significant contributor to performance during the month was **Pro Medicus** (+25.4%) which signed the largest contract in its history (more on that shortly). Meanwhile, the biggest detractor was **Nanosonics** (-14.8%) which moved on no material news. We expect the drop was related to concerns around a fresh wave of lockdowns hurting new Trophon sales but, given light at the end of the Covid-19 tunnel and that the pandemic has increased focus on the value of disinfection, we remain confident long-term holders.

Fund Metrics	
Companies Held	23
Cash Allocation	11.6%
Top 5 Portfolio Holdings	37.0%
Net Asset Value per Unit (mid)	\$2.1913
Fund Net Asset Value	\$382.6 million
Benchmark	S&P/ASX Small Ordinaries Accumulation Index

The Fund's five largest holdings as of the end of the month accounted for 37.0% of the portfolio and are named in order of the Fund's allocation: Pro Medicus, **Netwealth**, **EML Payments**, Nanosonics and **Nearmap**.

This month's news flow has us updating on the two largest positions in the portfolio. Starting with Pro Medicus which (again) added to its run of [good news](#), landing its largest-ever contract with US-based Intermountain Healthcare. The deal is for seven years, sized at \$40 million dollars, and similar to the MedStar announcement [last month](#), is another full public cloud deployment which further validates the US healthcare market's growing confidence in moving away from traditional on-premise infrastructure to the cloud. While the deal is only for 2 modules (viewer and archive), it has significant scope: replacing the legacy PACS (picture archiving and communications system) across 24 hospitals and 200 clinics. We're also happy to see yet another win for the archiving product, which makes for a larger deal size and increases Pro Medicus' stickiness within customers' technology stacks.

While Pro Medicus has been on a strong run, with broker upgrades after winning five out of its last five opportunities over a six-month period, it's worth remembering the long sales-cycle for these projects: this deal was in the company's pipeline for over four years. We remain enthused by Pro Medicus' recent strong fundamental performance, particularly in the cloud, though investors should temper their near-term expectations on the cadence of contract wins and remain patient with an eye to the long-term.

Netwealth also provided an update for their second quarter, and therefore half year, during January. Despite a volatile stretch for equities, the company grew funds under management by 14.0% compared to the first three-month period, expanding its market share by around 0.4% in a single quarter. On a full year run-rate, funds under management grew 36.1%, which has us pegging their current market share at 4.5%.

With \$4.5 billion in net flows already achieved in fiscal 2021, and an acceleration in account growth to its highest level in almost three years during the December quarter, the company upgraded its previous full year guidance of \$8 billion in net flows to between \$8.5 billion and \$9 billion. The Netwealth thesis continues to play out as the founder-led company organically leads net flows across the industry, gobbling up market share, with a long runway ahead.

Closed to New Investors

Managing capacity of the Fund to safeguard future performance has been a priority in the back of our mind since we launched Lakehouse a little over four years ago. We flagged our intention to investors to soft close the Fund at \$400 million in funds under management on [11 January 2021](#), and followed up with a firm date of 3 February 2021 in an announcement on [22 January 2021](#). We are pleased to confirm the Lakehouse Small Companies Fund is now closed to new investors.

Existing investors should note our intention to cease accepting additional investments once the Fund reaches \$500 million in funds under management, allowing headroom for investment growth. We believe it is in the best interests of investors to limit total assets under management at this point to safeguard the future performance of the Fund. We will keep you well informed as the Fund approaches this threshold.

Return to Work Program

We're pleased to share that Dr. Antonella Petrella has joined Lakehouse temporarily as part of our 'Return to Work' program. Return to Work is a new initiative of ours aimed at helping experienced financial professionals who have taken time away from the workforce, usually for family reasons, to relaunch their careers.

Dr. Petrella's background is impressive, having spent 15 years across venture capital and private equity, including nine years as an Investment Director at Anacacia Capital. She's been involved in all facets of those businesses, from sourcing deals to due diligence to serving on boards, and we look forward to working with her to help sharpen our own processes on each of those fronts.

Looking Ahead

With half year reporting upon us, we look forward to trawling through company financials and sitting down with management teams to understand more about how their businesses are tracking and the execution of their longer-term strategies.

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

One Managed Investment Funds Limited (ACN 117 400 987) (AFSL 297042) (OMIFL) is the Responsible Entity of the Lakehouse Small Companies Fund (ARSN 615 265 864). The information contained in this document was not prepared by OMIFL but was prepared by other parties. While OMIFL has no reason to believe that the information is inaccurate, the truth or accuracy of the information contained in this document is not warranted or guaranteed by OMIFL. Anyone receiving this document must obtain and rely upon their own independent advice and enquiries. Investors should consider the Product Disclosure Statement (PDS) and Additional Product Disclosure Statement (APDS) dated 1 July 2020 issued by OMIFL before making any decision regarding the Fund. The PDS contains important information about investing in the Fund and it is important investors obtain and read a copy of the PDS before making a decision about whether to acquire, continue to hold or dispose of units in the Fund. You should also consult a licensed financial adviser before making an investment decision in relation to the Fund. Past performance is not indicative of future performance. **Limitation of liability:** Whilst all care has been taken in preparation of this report, to the maximum extent permitted by law, neither Lakehouse or OMIFL will be liable in any way for any loss or damage suffered by you through use or reliance on this information. Lakehouse and OMIFL's liability for negligence, breach of contract or contravention of any law, which cannot be lawfully excluded, is limited, at Lakehouse's option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you. **Disclosure:** Lakehouse, its directors, employees and affiliates, may, and likely do, hold units in the Lakehouse Small Companies Fund and securities in entities that are the subject of this report.