

# LAKEHOUSE SMALL COMPANIES FUND

## MONTHLY LETTER

30 April 2021



Dear Lakehouse Investor,

April saw a solid rebound in markets and in the portfolio. We remain cognisant of macroeconomic factors impacting the investment landscape, particularly inflationary risks and the pace and degree of the global economic recovery, but our primary focus remains on constructing a high-conviction basket of quality growth companies capable of weathering ever-changing economic conditions.

We were also typically busy during the month having held 9 meetings with current prospective holdings, bringing the total since inception to around 800. We also enjoyed hosting 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 9.3% net of fees and expenses during the month compared to a 5.0% return for the benchmark. Over the last 12 months, the Fund has returned 49.4% compared to 39.8% for its benchmark. And, since inception in mid-November 2016, the Fund has produced a net total return of 179.5% compared to 62.2% for the benchmark. In annualised terms, the Fund has returned 25.9% per year since inception compared to 11.5% per year for the benchmark.

	<b>1 Month</b>	<b>3 Month</b>	<b>1 Year</b>	<b>3 Year (p.a.)</b>	<b>Inception (p.a.)</b>
Lakehouse Small Companies Fund	9.3%	6.0%	49.4%	26.0%	25.9%
Benchmark	5.0%	7.4%	39.8%	9.1%	11.5%
Excess Return	4.3%	-1.4%	9.6%	16.9%	14.4%

The Fund's largest sector allocations are to information technology (56.1% of total capital), financials (13.9%) and healthcare (12.8%) while the benchmark's largest allocations are to materials (20.7%), consumer discretionary (17.2%), and financials (13.8%). Our differentiated style should look familiar and our general preference to shy away from cyclical, capital-heavy sectors and companies has rewarded the Fund well since inception.

## Company News

Turning to specific companies, the Fund's most significant contributor to performance during the month was **EML Payments** (+16.5%) and the biggest detractor was **Whispir** (-4.7%). Both companies should be familiar to investors from previous letters. We'll discuss both companies in more detail shortly.

The Fund's five largest holdings as of the end of the month accounted for 36.9% of the portfolio and are named in order of the Fund's allocation: EML Payments, **Netwealth**, **Pro Medicus**, **Pinnacle Investment Management** and **Tyro**.

Fund Metrics	
Companies Held	23
Cash Allocation	10.8%
Top 5 Portfolio Holdings	36.9%
Net Asset Value per Unit (mid)	\$2.3235
Fund Net Asset Value	\$429.1 million
Benchmark	S&P/ASX Small Ordinaries Accumulation Index

EML made what struck us as a savvy move with the purchase of Sentenial, an account-to-account (A2A) payments and open banking platform based in Ireland. Sentenial is connected to 1,750 banks and financial institutions in Europe with annual volumes of more than €45 billion. The combined companies will be able to offer merchants a one-stop-shop solution to pay, manage and receive open banking, direct debit, and card payments. The acquisition further diversifies EML's revenue sources and allows the business to offer services which are not built on top of traditional card networks. One key vertical that management is excited about is in the earned wage access space, which we believe will be an attractive offering, as it gives consumers more choice and it delivers savings for merchants.

EML paid A\$108.5 million upfront, with an additional earnout of A\$62.1 million depending on performance payable at EML's preference in cash or shares. We believe that the renegotiation of the PFS deal last year, which is similarly savvy, ultimately put the company in a great position to be able to acquire Sentenial. We appreciate that open banking is in its early stages and thus the potential payoff from this acquisition is unclear. We still like the acquisition, though, as it opens up new possibilities, leverages existing strengths, retains and aligns Sentenial's executives, and EML's leadership team has a strong track record with prior acquisitions. We remain long-term positive on the business.

Netwealth provided another pleasing quarterly update during the month. According to the *Plan for Life* December 2020 quarter platform market update, the business continues to lead the industry for Funds Under Administration net inflows for an 11th consecutive quarter. At the three-quarter mark for the financial year; funds under administration, funds under management and managed accounts are up 50.1%, 66.4% and 73.1%, respectively, versus the prior year. However, it's worth noting that the full implementation of new, lower pricing from 31 January 2021 means administration revenue growth will be more muted in comparison.

Netwealth's funds under administration have surged to \$41.8 billion, leading the company to narrow full year guidance for net inflows to the top-end of their previously increased range of \$8.5 billion to \$9.0 billion. The company is the 7th largest but fastest organically-growing platform in Australia. With 4.3% market share as of December 2020, growing optionality, an award winning service offering, strong balance sheet and deeply aligned management team, we think the business has a lot of runway ahead.

Turning to Whispir. The company published a quarterly update, with annualised recurring revenue (ARR) and customer numbers growing at 20.3% and 34.4%, respectively. Shares pulled back during the month due to a slowdown in the sequential ARR growth rate in the business and also the announcement of the CFO's resignation. The company did reaffirm FY21 targets, so we wouldn't overreact due to one quarterly result, especially since the business generates revenue on a usage-based pricing model. On the more positive side, Whispir has shown early signs of traction in the North American market, onboarding 11 customers during the quarter and has \$51.7m of cash in the bank to invest in capitalising on this opportunity.

## **Good News + Looking Ahead**

We're pleased to share that the Fund is a Finalist for the Money Management Fund Manager of the Year award for Australian Small/Mid Cap Equities. We're happy to have been nominated for the award, which is based on performance as well as a manager's philosophy and process, but more so that we've been able to deliver for you, our clients, during such a turbulent period. As ever, thanks again to all our investors for your time, trust, and support.

May sees us move into 'confession season' with companies fessing up where numbers are tracking short of market expectations on approach to the June financial year end. We also have a corporate speed dating event lined up, which is always a good opportunity to check in on existing companies, and meet with new companies and their management teams.

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

Best Regards,

Lakehouse Capital

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For more information call us on +61 2 8188 1510, email [investorsupport@lakehousecapital.com.au](mailto:investorsupport@lakehousecapital.com.au) or visit [www.lakehousecapital.com.au](http://www.lakehousecapital.com.au)

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