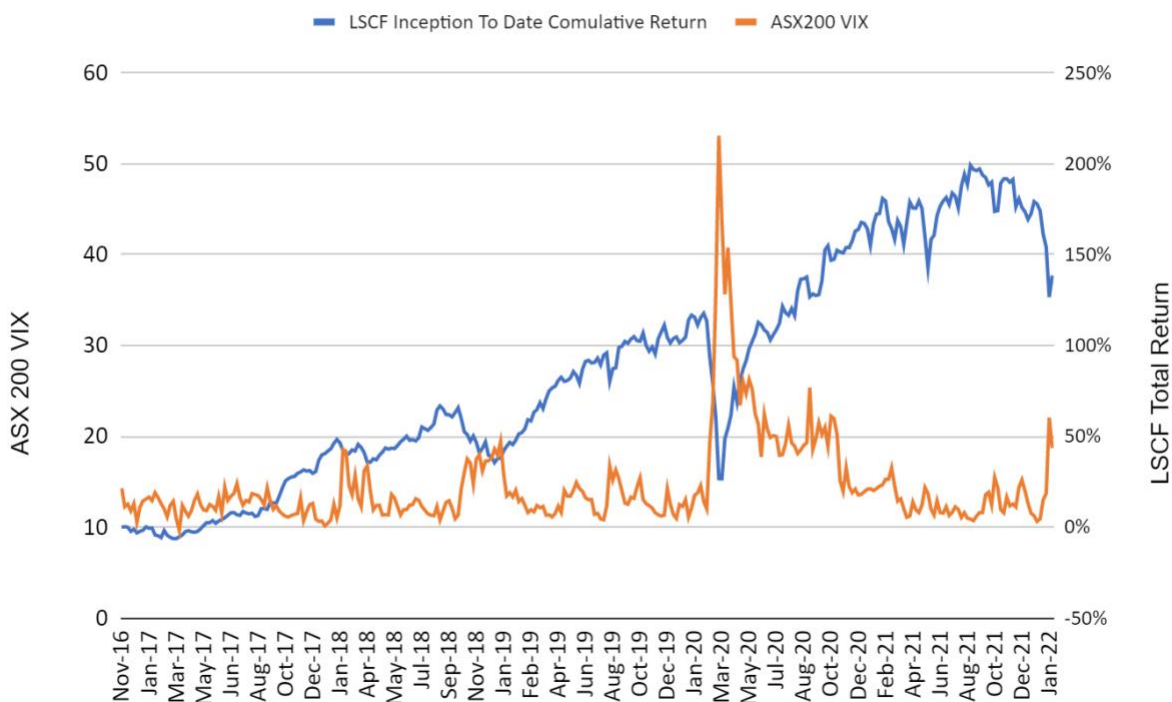


Dear Lakehouse Investor,

Equity market volatility continued in January as the focus on central bank actions to combat inflation intensified. It was a tough month for the Fund and its benchmark as a result, as we'll discuss at length. To put current market volatility into context, though, we can look to the S&P/ASX 200 Volatility Index (A-VIX), which estimates short-term volatility expectations. Put another way, the A-VIX is a barometer of ASX market sentiment.

As the chart below shows, current volatility is elevated but not completely out of step with what we've seen over the Fund's life. It's important to note the A-VIX is calculated using short-term instruments to produce a 30-day estimate of volatility. So, whilst it may be indicative of short-term market sentiment it does not align well with Lakehouse's long-term investment philosophy. Investors should expect periods of short-term volatility like this – that's why equities are among the best-performing long-term asset classes – but should never lose sight of the longer-term perspective.

LSCF Inception To Date Cumulative Return and ASX200 VIX



Moving on to the portfolio. We exited **Nitro Software** during the month, more on that later. The proceeds went toward topping up some existing positions that we viewed as more compelling and to continue building a new position initiated in December. The net impact took the portfolio's cash allocation from 7.1% down to 6.5%.

In terms of performance, it has been a tough month. The Fund returned -14.2% net of fees and expenses during the month compared to a -9.0% return for the benchmark. Over the last 12 months, the Fund has returned -9.5% compared to 6.7% for its benchmark. Since inception in mid-November 2016, the Fund has produced a net total return of 138.5% compared to 61.0% for the benchmark. In annualised terms, the Fund has returned 18.1% per year since inception compared to 9.6% per year for the benchmark.

	1 Month	3 Month	1 Year	3 Year (p.a.)	5 Year (p.a.)	Inception (p.a.)
Lakehouse Small Companies Fund	-14.2%	-18.0%	-9.5%	17.3%	20.0%	18.1%
Benchmark	-9.0%	-8.0%	6.7%	10.1%	9.6%	9.6%
Excess Return	-5.2%	-10.0%	-16.2%	7.2%	10.4%	8.5%

*** Performance calculations are based on exit price with distributions reinvested, after fees and expenses, since inception in mid-November 2016. * Benchmark: S&P/ASX Small Ordinaries Accumulation Index. Past performance is not indicative of future returns.*

The Fund's largest sector allocations are to information technology (47.4% of total capital), financials (14.6%) and healthcare (10.2%) while the benchmark's largest allocations are to materials (20.6%), real estate (15.0%) and consumer discretionary (14.9%).

Our growth-focused investing style has certainly been out of favour recently, as it has been for periods in the past. It is worth calling out that the technology sector is viewed as a bellwether growth industry and Lakehouse remains attracted to the compelling long-term growth and value-creating economics available in our preferred technology companies.

In that same vein, it is interesting to note that a recent survey by Bank of America to global fund managers showed the lowest allocation to technology companies relative to the benchmark since December 2008. Conversely, global fund managers are the most overweight late cyclical companies (defined as banks, energy, and material companies) relative to the benchmark ever. All that is to illustrate the consensus trade in the market away from technology and into cyclicals is at odds with our long-term view. We don't take short-term views but don't think we're speaking out of turn by saying: the combination of our preferred style of companies being extremely unpopular, and our least-favourite style of companies being at extreme levels of adulation (and also dominating our benchmark) is a setup that's unlikely to persist forever.

A fundamental belief we hold at Lakehouse is that not all businesses are created equal. We embrace a fundamental, bottom-up investment process that focuses on businesses which we believe possess superior

economics that are likely to win out over the long-term. Specifically, our investing process seeks out and emphasises businesses with extremely loyal customers, network effects, and unique and enduring intellectual property. Most of those businesses tend to end up in some specific sectors (e.g., technology) while are rarely found in others (e.g., commodities), hence our continued differentiation.

We remain committed to executing our concentrated, high-conviction investment strategy in pursuit of long-term outperformance.

Company News

Turning to specific companies, the Fund’s most significant contributor to performance during the month was **Whisper** (+7.1%), which provided a strong quarterly update that we’ll discuss shortly. The biggest detractor was **Pinnacle Investment Management** (-27.7%), which sold off as equity markets fell. We’ll discuss both in more detail below.

The Fund’s five largest holdings as of the end of the month accounted for 35.7% of the portfolio and are named in order of the Fund’s allocation: **Netwealth, EML Payments, Nanosonics, Bapcor and Xero**.

Fund Metrics	
Companies Held	21
Cash Allocation	6.5%
Top 5 Portfolio Holdings	35.7%
Net Asset Value per Unit (mid)	\$1.8484
Fund Net Asset Value	\$343.6 million
Benchmark	S&P/ASX Small Ordinaries Accumulation Index

Whisper shares rallied on the back of a contract announcement with Singtel, along with an upbeat report on the company’s performance. The company announced that the Singtel deal is slated to generate a minimum of \$1.3m in annual revenue but has an opportunity for meaningful upside. We think this is a significant contract because Singtel will stop supporting their existing legacy programs and will migrate its customers to the Whispir platform, leveraging Whispir to differentiate its product offering much as Telstra does today. The partnership demonstrates the quality of Whispir’s product and its ability to go after other telco deals within the region.

In terms of the quarterly update, the management team reported an improvement in the overall business outlook and raised its FY22 revenue guidance 12% above what was initially forecast. In addition, the company has seen improvements in its sales efforts and noted an acceleration in new customer additions in all its key markets. The company’s North American business in particular has seen a 160% quarter on quarter increase in customer additions and is expecting this trend to continue in the second half of the financial year.

Turning to **Pinnacle**, which was the first of our portfolio companies to report in early February, and albeit outside the usual cycle of this ‘January letter’, it’s appropriate to cover here given how full the monthly letter will be. The business delivered a solid result with net profit up 32%, beating consensus profit estimates by over 10%. Despite this, shares have fallen as Pinnacle has leveraged exposure to falling equity markets due to its underlying investment management businesses.

Unpacking the results, Pinnacle's profit growth was driven by a 42% rise in base fees, but held back by a -58% fall in performance fees as it rolled over a high comparable period. Funds under management (FUM) grew by a modest 5% over the last six months to \$89.4 billion, and was impacted by a large institutional outflow. However, this masks the addition of \$3.5bn in retail inflows. In our view, the combination of a low proportion of performance fees and higher retail FUM improves both the upside potential and quality of revenue across Pinnacle affiliates.

Our [Pinnacle investment thesis](#) is anchored by the company's domestic and international growth strategy. We continue to see sound progress with existing affiliates both growing organically and standing up new strategies, as well as the creation of new affiliates. North America remains a key growth opportunity for Pinnacle given its unique model of taking minority positions in businesses alongside investors with strong track records, and is supported by solid fund infrastructure and strong distribution capability. The business remains well funded to execute on its growth plans with \$135 million in dry powder, as it continues to expand its portfolio of businesses with large asymmetric payoffs skewed to the upside.

Netwealth updated the market on quarterly flows during the month. Funds under administration (FUA) grew 46% to \$57 billion as the business continues to lead the industry on net inflows. For context, Netwealth is capturing over a third of net inflows across the industry against a current market share around 5.5%. Management's confidence in the full year outlook was also upgraded (again), with FUA guidance increasing by over 8% (on top of the [25% upgrade](#) after the first quarter).

Netwealth also updated the market on its interest rate agreement. The updated agreement will see Netwealth earn, on average, 0.50% above the RBA Cash Rate on its platform cash balance. While 0.50% margin is a considerable step down from the previous 0.95% margin, we still think having the ability to earn interest on \$3.5 billion of other people's money is an attractive bonus feature to this thesis, particularly if Australia is heading into a rising interest rate environment. With a conservative founding family at the helm, strong fundamental growth and potential to benefit from rising rates, we remain comfortable long-term holders. We look forward to receiving a full update on the business strategy when the company reports on 16 February.

Finally, turning to **Nitro**, a position we recently exited. The Fund generated a 152% return having been invested in the company for less than two years. As discussed in our [December letter](#), we have been reducing our position. What drove us to completely exit were concerns around the company's large Connective acquisition and the prospect of intensifying competition to erode unit economics. This is coupled with the market pulling back significantly, giving us an opportunity to top up on more compelling ideas.

In the past, we've also been guilty of sometimes overstaying our welcome in some of our investments, which drifted from our initial investment thesis. We took a proactive approach here, especially considering the relatively low liquidity in the stock. To be fair to Nitro, the company reported strong Q4 numbers and this is more a reflection of our risk management and relative investment opportunities. We will continue to keep an eye on the company and cheer for the team on the sidelines.

A New Investor Joins the Team

We are pleased to share that a new analyst has joined the team at Lakehouse: Jay Chiu. Jay is an excellent addition to the team as he brings valuable skills and perspective, as well as providing our team more robustness and cross-coverage capabilities. Prior to Lakehouse, Jay worked as an analyst in Sydney, London,

and Hong Kong for Goldman Sachs, HSBC, and CITIC CLSA. Jay has a Bachelor in Software Engineering and a Masters in Commerce (Finance) having graduated with high distinction.

Looking Ahead

February is very busy for the team as we dig through half year results of current and prospective portfolio companies. We are already elbows-deep trawling through company updates and are excited to hear from more companies as the month progresses. We look forward to sharing what we learn in the February investor letter.

A final point to reiterate: we have a very clear investment philosophy and well-defined investment process that focuses on businesses with superior economic models. We remain committed to being very particular and deliberate in executing our concentrated, high-conviction investment strategy in pursuit of long-term outperformance.

As always, thank you to all our investors for your time and trust.

Best Regards,

[Lakehouse Capital](#)

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