

# LAKEHOUSE SMALL COMPANIES FUND

## MONTHLY LETTER

31 December 2022



Dear Lakehouse Investor,

December was a quiet month in terms of fundamental newsflow. The continuation of volatility in the market, coupled with pretty light trading volumes made for relatively bigger price movements in already thinly-traded smaller companies.

We continued to take advantage of the volatility throughout December, topping up positions that we viewed as compelling to patient investors and initiated a new position in a company we have been following for a while. As usual, we won't disclose the company while we are still building out the Fund's stake. Our portfolio's cash position increased from 4.7% to 12.6% due to the sale of our Nearmap investment. This bodes well for the Fund as 2023 unfolds with pricing inefficiencies from market volatility presenting more opportunities.

Fund Metrics	
Companies Held	22
Cash Allocation	12.6%
Top 5 Portfolio Holdings	39.0%
Net Asset Value per Unit (mid)	\$1.1868
Fund Net Asset Value	\$210.6million
Benchmark	S&P/ASX Small Ordinaries Accumulation Index

On to performance, the Fund returned -7.5% net of fees and expenses during the month compared to -3.7% return for the benchmark. Over the last 12 months, the Fund has returned -38.7% compared to -18.4% for its benchmark. Since inception in mid-November 2016, the Fund has produced a net total return of 70.3% compared to 44.4% for the benchmark. In annualised terms, the Fund has returned 9.1% per year since inception compared to 6.2% 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	-7.5%	3.0%	-38.7%	-5.4%	3.9%	9.1%
Benchmark	-3.7%	7.5%	-18.4%	1.4%	2.9%	6.2%
Excess Return	-3.8%	-4.5%	-20.3%	-6.8%	1.0%	2.9%

*\*\* 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. Returns greater than one year are annualised.*

The Fund's largest sector allocations remain information technology (37.2% of total capital), financials (17.2%), and healthcare (16.0%) while the benchmark's largest allocations are to materials (24.6%), consumer discretionary (13.5%), and real estate (13.3%).

As we frequently remind investors, our investment process seeks out and emphasises [Investment Fascinations](#); businesses with extremely loyal customers, network effects, and/or unique and enduring intellectual property. Most of those businesses tend to be more concentrated in specific sectors (e.g. technology, financials, healthcare) and rarely found in others (e.g. commodities).

As reiterated in the webinar, we remain focused on investing in strong businesses in growing markets, with durable competitive advantages and pricing power, that are led by founders or well-aligned management teams, and with strong balance sheets.

## Company News

Turning to specific companies, the Fund's most significant contributor to performance during the month was **Dubber Corporation** (+45.5%) on no specific fundamental news. The biggest detractor was **Netwealth** (-12.0%) also on no specific news, giving back its gains from the previous month.

The Fund's five largest holdings as of the end of the month accounted for 39.0% of the portfolio and are named in order of the Fund's allocation: **Netwealth, Nanosonics, Altium, Pinnacle Investment Management and Xero**.

Starting with one of our top five positions, Pinnacle Investment Management, which provided a market update. To no surprise, performance fees were down significantly year-on-year. Several funds which performed well in the first half of FY23 generated no or low performance fees, being below high water marks that would otherwise have added meaningfully to revenue. The company expects an improvement in the second half as additional strategies start to contribute. We believe that the company's diversified portfolio of different strategies is prudent market positioning by Pinnacle that enables them to weather the current market environment and outperform over the long-term.

Turning to Tyro, which provided relatively soft November volume numbers. The company reported \$3.6 billion in transaction value for the month of November, which was flat month-over-month from October. Further, the company also concluded its change in control discussions by rejecting Potentia's latest proposal, along with Westpac pulling out of the M&A process. The short-term reaction to the news was negative, as investors that owned the shares for the potential acquisition headed for the exits. Over the long run, there's an opportunity for the company to demonstrate operating leverage by following through with its cost reduction program, while keeping and growing its sticky base of merchant relationships. Tyro will have an interesting year ahead and will require management to execute on these objectives.

## Looking Ahead

We will continue to deploy our cash position to take advantage of opportunities we currently see in the market. January will have more in terms of newsflow as companies update the market with their quarterly and half-yearly trading updates. We look forward to working through these in preparation for the more extensive half-year reporting in February.

2022 was a challenging year for financial markets due to macroeconomic conditions and a rapidly changing geopolitical landscape. This following year, we expect some challenges as the recent interest rate hikes start to affect mortgage repayments, which potentially affects consumer spending. While the economic environment feels uncertain to many investors at this point of the cycle, we continue to execute on our investment process and position the portfolio for long-term growth.

As always, thank you to our investors for your continued support and trust.

Best Regards,

[Lakehouse Capital](#)

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Lakehouse Small Companies Fund's Target Market Determination is available here – [www.lakehousecapital.com.au/lscf/](http://www.lakehousecapital.com.au/lscf/). It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

**Disclosure:** Lakehouse, its directors, employees and affiliates, may, and likely do, hold units in the Fund and securities in entities that are the subject of this report.