

LAKEHOUSE SMALL COMPANIES FUND

MONTHLY LETTER

30 September 2023



Dear Lakehouse Investor,

While it was a quiet month for the Fund in terms of fundamental news flow, there continued to be plenty of macroeconomic noise. The trajectory of inflation, interest rates and the broader economy continue to be debated across global markets. Some market participants believe interest rates are at, or near, their peak for this interest rate cycle and are likely to decline into 2024. Others see rates staying higher for longer, or even point to rising 10-year bond rates and the need for the Federal Reserve to further raise rates to slow the resilient U.S. economy. For our part, we continue to take a balanced view of the current economic backdrop and remain focused on finding and backing businesses that we believe have the potential to weather economic challenges and prosper over the long-term.

Fund Metrics	
Companies Held	22
Cash Allocation	5.8%
Top 5 Portfolio Holdings	37.3%
Net Asset Value per Unit (mid)	\$1.4327
Fund Net Asset Value	\$228.8 million
Benchmark	S&P/ASX Small Ordinaries Accumulation Index

The Fund returned -2.4% net of fees and expenses during the month compared to -4.0% return for the benchmark. Since inception in mid-November 2016, the Fund has produced a net total return of 105.6% compared to 43.4% for the benchmark. In annualised terms, the Fund has returned 11.1% per year, net of fees and expenses since inception compared to 5.4% per year for the benchmark.

	1 Month	1 Year	3 Year (p.a.)	5 Year (p.a.)	Inception (p.a.)
Lakehouse Small Companies Fund*	-2.4%	24.3%	-3.4%	4.4%	11.1%
Benchmark**	-4.0%	6.8%	2.6%	1.6%	5.4%
Excess Return	1.6%	17.5%	-6.0%	2.8%	5.7%

* Performance calculations are based on exit price with distributions reinvested, after fees and expenses, since inception in mid-November 2016. Returns greater than one year are annualised. Past performance is not indicative of future returns

** Benchmark: S&P/ASX Small Ordinaries Accumulation Index.

The Fund's largest sector allocations as of the end of September were to information technology (37.6%), healthcare (18.7%) and financials (18.2%) while the benchmark's largest allocations are to materials (22.8%), consumer discretionary (17.3%), and real estate (12.1%). We expect to have material allocations to these sectors over time as the sectors, or at least subsets of them, are overweight business models that lend themselves to strong long-term performance, namely intellectual property, network effects, and loyalty.

Company News

Turning to specific companies, the Fund's most significant contributor to performance during the month was **Pro Medicus** (+14.0%) and the biggest detractor was **Altium** (-10.2%). More on both shortly.

The Fund's five largest holdings as of the end of the month accounted for 37.3% of the portfolio and are named in order of the Fund's allocation: **Netwealth**, **Audinate**, Pro Medicus, **Nanosonics** and **Siteminder**.

The Fund's largest contributor, Pro Medicus, announced its largest ever contract win during the month. The deal is for a minimum A\$140 million over 10 years with Baylor Scott & White, the largest not-for-profit healthcare system in Texas, and one of the largest in the U.S. This marquee win, in the country's second most populous state, will reach some 500 radiologists, helping to promote Visage as the market-leading product and provide another strong reference base for Pro Medicus' continued expansion.

This win continues the 3-year run of fully cloud deployed contracts as more of the North American healthcare market has come to understand cloud is more secure, more scalable and more cost effective. This has been a real mindset change away from prior concerns (security of patient data), and well ahead of views in most other healthcare markets across the world. The notable step-up in contract length, to 10 years from the typical 5-7 years, highlights growing confidence in Pro Medicus' offering in the U.S. healthcare system. Growth in the trend toward fully cloud-engineered solutions becoming the standard, combined with the lengthening term in the Visage suite, gives us further confidence the Pro Medicus can maintain its premium pricing.

Turning to Altium, whose share price pulled back following a near 30% rally after its full year results in August. The company announced board renewal and expansion during the month: the replacement of two directors and an addition of a sixth director. These changes follow the June announcement that 16-year Altium board veteran and chair, Sam Weiss, intends to step down before the company's AGM mid next month. We are comfortable with the board renewal, and expansion, as Altium pursues the next leg of its growth strategy to transform the electronics design industry. As for Sam moving on, this has been well telegraphed by the company, and is appropriate after a stellar 16 years which has seen the company share price increase around 37-fold (excluding dividends) -- and return 54-fold including dividends.

Finally, Audinate also warrants a mention given it raised \$70 million (\$50m via an institutional placement and \$20 million share purchase plan) to add to its existing debt-free balance sheet and \$40m cash pile. The company has made several strategic acquisitions in recent years to further its competitive position, and this large addition of cash expands the opportunity set, particularly as it relates to adding technology and

capability to accelerate the video and cloud strategy. We are pleased with management's long-term thinking and capital allocation track record to date, and eager to see how they use this \$110 million arsenal to further their competitive position.

Looking Ahead & Thank You

The team are meeting with board representatives across several of the Fund's holdings throughout October, ahead of AGM voting season, to discuss upcoming meeting resolutions and learn more about their longer-term strategic plans.

As always, we thank all our investors for their continued support and trust.

Best Regards,

[Lakehouse Capital](#)

For more information call us on +61 2 8294 9800, email investorsupport@lakehousecapital.com.au or visit www.lakehousecapital.com.au

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Lakehouse Small Companies Fund's Target Market Determination is available here - <https://www.lakehousecapital.com.au/lscf/>. It describes how 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.

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