

LAKEHOUSE SMALL COMPANIES FUND

MONTHLY LETTER

30 November 2023



Dear Lakehouse Investor,

Sentiment toward equity markets shifted during November as inflation continued to moderate and the case for further interest rate rises weakened. As macroeconomic headwinds subside, the focus is shifting back to business fundamentals.

Equity markets rallied on the optimism that interest rates may actually move down in 2024, and in this environment the market put increased focus on small caps.

The Fund returned 12.2% net of fees and expenses during the month compared to 7.0% return for the benchmark. Since inception in mid-

November 2016, the Fund has produced a net total return of 105.0% compared to 45.2% for the benchmark. In annualised terms, the Fund has returned 10.7% per year, net of fees and expenses since inception compared to 5.4% per year for the benchmark.

| Fund Metrics | |
|----------------------------|---|
| Companies Held | 23 |
| Cash Allocation | 8.1% |
| Top 5 Portfolio Holdings | 36.4% |
| Fund Net Asset Value (NAV) | \$222.3 million |
| NAV per Unit (mid) | \$1.4283 |
| Benchmark | S&P/ASX Small Ordinaries Accumulation Index |

| | 1 Month | 1 Year | 3 Year (p.a.) | 5 Year (p.a.) | Inception (p.a.) |
|---------------------------------|---------|--------|------------------|------------------|---------------------|
| Lakehouse Small Companies Fund* | 12.2% | 11.3% | -6.9% | 6.9% | 10.7% |
| Benchmark** | 7.0% | -3.2% | -0.5% | 4.0% | 5.4% |
| Excess Return | 5.2% | 14.5% | -6.4% | 2.9% | 5.3% |

* 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 November were to information technology (38.5%), healthcare (19.2%) and financials (16.6%) while the benchmark's largest allocations are to materials (24.3%), consumer discretionary (16.9%), and real estate (12.4%). 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

At the portfolio level, the Fund's five largest holdings as of the end of the month accounted for 36.4% of the portfolio and are named in order of the Fund's allocation: **Netwealth**, **Siteminder**, **Nanosonics**, **Audinate** and **Altium**.

The Fund's most significant contributor to performance during the month was Audinate (+19.6%) which held its annual general meeting during the month and took the opportunity to present updated total addressable market estimates. Audinate is currently dominant in the audio segment and is steadily expanding into video. According to management's updated forecasts, the opportunity in video is estimated to be approximately twice the size of audio, but an even more significant opportunity than video exists in software services for professional AV users. The entire addressable market is said to be worth around US\$2 billion, with Audinate currently holding a 9% share.

Calculating such figures is a combination of art and science, but in any case, Audinate has a significant growth runway as it capitalises on its leadership in audio and extends its influence across the AV networking ecosystem. The business continues to gain broader investor attention, including securing inclusion in the MSCI small cap index during the November rebalance. We welcome the additional attention and liquidity that has come to the shares.

The Fund's biggest detractor was **Xero** (-3.4%), following release of their half year result. The company reported healthy revenue growth of 21% to NZ\$800 million and EBITDA growth of 90% to NZ\$206 million, however both came in below consensus expectations. Xero's latest results highlighted that the company is recalibrating its growth strategy under new CEO Sukhinder Singh Cassidy with a focus on driving profitable revenue growth, shifting away from simply boosting subscriber numbers. The pivot is evident in the planned reset of the subscriber base, aiming to remove 150-200k lower-value subscriptions to re-allocate Xero's resources towards higher-quality accounts. This move is expected to improve Average Revenue Per User (ARPU), a key metric for future growth.

The company also provided shareholders with an update on its strategic assessment of operations in the U.S. market. Despite facing challenges gaining substantial market share, particularly against its major competitor Intuit, management highlighted that the annual investment in the US has been relatively modest, averaging NZ\$30 million per year over the last ten years. It has identified a strong value proposition in a particular niche and will invest in a targeted and reasonable rate relative to the top line growth generated. We will continue to monitor the company's progress here and believe CEO Singh Cassidy is appropriately motivated to see it succeed. Overall, we were pleased to see Xero's renewed focus on profitable growth.

Thank You

November also marked a small milestone for the Lakehouse Small Companies Fund as it celebrated its seventh birthday. We are grateful for the trust that our earliest investors placed in us, and those that have joined along the journey. We look forward to continuing to serve all the Fund's investors in the years ahead

and are confident that the portfolio is well positioned as we move into 2024 with a favourable environment for long-duration, quality growth companies.

As always, thanks to all our investors for your time, trust, and support in investing alongside us.

Best Regards,

[Lakehouse Capital](#)

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Lakehouse Small Companies Fund's Target Market Determination is available here - <https://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.

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.