

LAKEHOUSE SMALL COMPANIES FUND

MONTHLY LETTER

31 December 2023



Dear Lakehouse Investor,

December was a positive month, despite being relatively quiet in terms of fundamental newsflow for our portfolio companies. Markets were upbeat with easing inflation figures pointing to future moderation in interest rates.

Predicting every major event or plot twist in this market environment is not an edge that we think we possess. For us, it is all about a long-term mindset and approach, staying the course, and backing companies with strong fundamentals and sustainable growth models. While 2023 was punctuated by macroeconomic and geopolitical concerns, the more optimistic mood of markets as

the year closed saw the S&P/ASX Small Ordinaries Accumulation Index finish in positive territory, returning 7.8% for the year, while the Fund returned 26.9% (after fees).

In December, Fund returned 5.4% net of fees and expenses compared to 7.2% return for the benchmark. Since inception in mid-November 2016, the Fund has produced a net total return of 116.1% compared to 55.7% for the benchmark. In annualised terms, the Fund has returned 11.4% per year, net of fees and expenses since inception compared to 6.4% per year for the benchmark.

Fund Metrics	
Companies Held	23
Cash Allocation	6.5%
Top 5 Portfolio Holdings	36.8%
Fund Net Asset Value (NAV)	\$232.8 million
NAV per Unit (mid)	\$1.5059
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*	5.4%	26.9%	-6.8%	9.4%	11.4%
Benchmark**	7.2%	7.8%	0.9%	6.4%	6.4%
Excess Return	-1.8%	19.1%	-7.7%	3.0%	5.0%

* 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 December were to information technology (39.4%), healthcare (19.9%) and financials (17.0%) while the benchmark's largest allocations are to materials

(23.9%), consumer discretionary (17.4%), and real estate (12.5%). 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 36.8% of the portfolio and are named in order of the Fund's allocation: **Siteminder**, **Netwealth**, **Pinnacle Investment Management**, **Nanosonics**, and **Audinate**.

The Fund's most significant contributor to performance during the month was Pinnacle Investment Management (+14.2%), reflecting the positive market sentiment. While Pinnacle shares have been roughly flat for over a year, management continue to improve the business, diversifying exposure into different asset classes and laying the pipes to strengthen distribution. The company is in a good position once the market regains its footing and industry flows pick up.

The Fund's biggest detractor was **PEXA** (-7.4%), following its recent trading update. The commercial efforts of the Digital Growth and International segments are behind schedule, as economic conditions extend sales cycles and UK refinance volumes track softer than expected. We continue to see the Exchange business entrench its position, gaining further incremental market share. Holding the most timely and accurate property data available bodes well for the future of its non-regulated offerings. The recent acquisition of Smoove allows the UK business to build additional scale and depth in the UK market. We are mindful that the odds of success in the UK are not yet clear and is something we monitor closely.

Looking Ahead

We are extremely grateful to all our investors' support and trust. The next few months should see a pick-up in newsflow as quarterly and half-yearly trading updates are released. We look forward to catching up with current and prospective portfolio companies.

Although macroeconomic factors continue to be emphasised by the market, we remain committed to our long-term, growth-focused investment philosophy, and consistently executing on our process to identify companies that can deliver across the economic cycle.

We hope 2024 is a healthy and prosperous year for all our investors.

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.