

LAKEHOUSE SMALL COMPANIES FUND

MONTHLY LETTER

30 April 2024



Dear Lakehouse Investor,

Markets were volatile in April as interest rate expectations adjusted to higher-than-expected inflation. Counter to prior consensus, near-term rates are now expected to remain at current levels for longer, or possibly edge higher. For our part, we're not getting carried away trying to forecast near-term macroeconomic moves.

We are comfortable that our portfolio of businesses is well placed to weather a variety of economic scenarios, particularly given 19 of our 22 holdings are sitting on net cash balances. Well-capitalised businesses will almost always fight to see another day, but one better, they can play offence while others play defence if the economic tide goes out. A period of weaker economic activity could see many of our portfolio businesses emerge competitively stronger. During the month, we took the opportunity to improve the portfolio by exiting one position and initiating on a new one.

The Fund returned -2.9% net of fees and expenses for the month compared to -3.1% return for the benchmark. Since inception in mid-November 2016, the Fund has produced a net total return of 136.0% compared to 62.3% for the benchmark.

In annualised terms, the Fund has returned 12.2% per year, net of fees and expenses, since inception in November 2016 compared to 6.7% per year for the benchmark.

** 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.*

Fund Metrics	
Companies Held	22
Cash Allocation	5.7%
Top 5 Portfolio Holdings	40.1%
Fund Net Asset Value (NAV)	\$243.7 million
NAV per Unit (mid)	\$1.6444
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*	-2.9%	23.5%	-5.5%	5.5%	12.2%
Benchmark**	-3.1%	7.4%	0.0%	3.9%	6.7%
Excess Return	0.2%	16.1%	-5.5%	1.6%	5.5%

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

The Fund's largest sector allocations as of the end of April were to information technology (40.0%), financials (18.9%) and healthcare (18.3%) while the benchmark's largest allocations are to materials (26.0%), consumer discretionary (15.7%), and real estate (12.6%). 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 40.1% of the portfolio and are named in order of the Fund's allocation: **Netwealth**, **SiteMinder**, **Pinnacle Investment Management**, **Audinate**, and **Pro Medicus**.

The Fund's most significant contributor to performance during the month was Pro Medicus (+7.4%), on no news. Audinate was the biggest detractor (-10.5%) -- for the second month running -- after shares continued to pull back following a +40.4% month in February when it joined the ASX200.

Netwealth provided a quarterly business update during April, with funds under administration (FUA) growing at an annualised 28.5% to \$85 billion -- a healthy acceleration on the annualised 14.3% achieved at the same time last financial year. The quarterly change highlights the significant turnaround in net inflows, which were up 62.2% compared to the prior corresponding quarter last year. We remain comfortable with the structural growth of the business and are pleased to see stronger inflows returning after a slower, but still healthy, run last financial year.

During the month, the founding Heine family reduced their collective Netwealth stake by 1.5 million shares, equivalent to 0.6% of the company, leaving them with a still sizeable 47.8% stake. As we've said before, we have no issue seeing the family progressively reducing their stake, particularly when you consider the company's market capitalisation of almost \$5 billion has it sitting within ASX100 territory but will require further selling from the Heine family to meet the liquidity threshold.

Hotel commerce platform, SiteMinder, reported a positive quarterly update with revenue and annualised recurring revenue (ARR) up 23.3% and 24.8%, respectively. The company is on the tipping point of profitability; reporting underlying free cash flow of almost breakeven and improving margins by more than 22 percentage points year-on-year. On the product side, management shared that the team is on-track, or ahead, of plans to deliver its key initiatives. For Channels Plus, the company has already signed 14 partners, including a large online travel agency, Trip.com. Further, momentum adding larger properties has kept its pace and will help fuel future growth when more transaction-based products are added to the platform. We remain strong supporters of the business and see a path for growth to accelerate from here.

Looking Ahead

Fundamental news flow will pick up in May as several company investor days and small cap conferences will take place, and many businesses take the opportunity to provide trading updates as we approach the end of another financial year.

Finally, thank-you to all our investors' for your trust in investing alongside us for the long term. We are grateful for such a loyal, aligned investor base and remain excited for the years ahead.

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.