LAKEHOUSE SMALL COMPANIES FUND

MONTHLY LETTER

30 November 2024

Dear Lakehouse Investor,

November was another strong month for the Fund, driven by thesis affirming updates from several businesses in the portfolio, namely Catapult, Pinnacle and Xero. More on each shortly.

The Fund returned 9.1% net of fees and expenses for the month compared to 1.3% increase for the benchmark. Since inception in mid-November 2016, the Fund has produced a net total return of 202.5% compared to 74.0% for the benchmark. In annualised terms, the Fund has returned 14.8% per year, net of fees and expenses, since inception compared to 7.1% per year for the benchmark.

Fund Metrics	
Companies Held	20
Cash Allocation	6.6%
Top 5 Portfolio Holdings	45.2%
Fund Net Asset Value (NAV)	$287.7 million
NAV per Unit (mid)	$2.0708
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*	9.1%	47.6%	2.5%	7.4%	14.8%
Benchmark**	1.3%	19.9%	-0.1%	4.6%	7.1%
Excess Return	7.8%	27.7%	2.6%	2.8%	7.7%

** 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.*

Company News

At the portfolio level, the Fund's five largest holdings at month end accounted for 45.2% of the portfolio and are named in order of allocation: **Pinnacle, Catapult**, **SiteMinder, Netwealth,** and **Xero**.

The Fund’s most significant contributor to performance during the month was Catapult (+40.5%) after reporting a pleasing first half result. PEXA was the biggest detractor (-4.2%) as the company flagged further delays in its UK business.

Catapult continued its path of profitable growth into the first half of fiscal 2025. Revenue grew 19% and annual contract value grew 20% (to US$97 million) driven by new signings, strong cross-selling from wearables to video solutions, and solid customer retention of 96%. Complementing its top-line growth, the business again delivered strong operating leverage with earning margins stepping up 10 percentage points on the prior period to 10.8%. This resulted in the company's strongest free cash flow to date at $4.8 million for the half, surpassing the total amount generated in the entire 2024 financial year.

Having passed the inflection point of being free cash flow positive, the business has removed doubt about its need for additional funding and shifted investors' attention toward its widening jaws of profitability. This result has been well received amongst investors and propelled Catapult to become the Fund's second-largest holding. The business remains the market leader in elite sport wearables -- at roughly 5 times its nearest competitor -- and is continuing to gain share in video. Despite the strong recent share price run, the business is trading at a reasonable 5 times sales whilst delivering 20% topline growth, 95%+ customer retention, and incremental margins above 50%. Furthermore, we still believe the business has ample runway for future growth as it captures a greater share of the US$40 billion global sports market.

PEXA provided its first quarter update for the financial year 2025, with the Australian exchange performing broadly in line with expectations. Driven by a “mild recovery” in the housing market, volumes increased by a modest 3% alongside a favourable mix shift from refinancing to higher-value transfers. Market penetration also rose by 1 percentage point to 90% after gaining share in WA, and launching refinancing in Tasmania with further increases expected when transfers are rolled out early next year.

Shifting focus to the UK, a delay in a separate Bank of England project has pushed back the testing window with UK banks to financial year 2026. While these additional delays are disappointing and push out longer-term goals, we were encouraged to see a new challenger bank express interest in working with PEXA to enhance their remortgage offering. Management expects to provide more clarity in the next reporting period and has reiterated its overall 2025 financial year guidance.

The Funds largest holding, Pinnacle, announced the purchase of stakes in two new affiliates during the month, alongside a $400 million capital raising to fund them and provide $200 million of additional capacity for its pipeline of potential deals. The new affiliates are squarely within our investment thesis for more offshore and increasing exposure to unlisted asset classes. VSS (22.5% equity stake) is a US-based private market investment firm and Pacific Asset Management (25% equity stake) is a UK-based asset management platform with distribution and support services. It is pleasing to see the business scaling its unique model in two of the largest asset management markets in the world, where it has huge opportunity to expand.

The Pinnacle team have a strong track record of capital allocation and demonstrated capability to add substantial value to businesses it owns. Given our already large portfolio sizing, the Fund did not participate in the capital raise but was pleased to see an acceleration of the investment thesis after a period of discipline and patience by the management team.

Turning to Xero which delivered another solid half year result. The company reported operating revenue growth of 25%, driven in similar parts by subscriber growth and pricing. Unit economics remain healthy, as monthly churn held steady at 1% while average revenue per user (ARPU) is up 11% year-on-year. Momentum in the international business is showing good progress, with more partnerships signed to improve the value of the overall Xero ecosystem. More importantly, we're encouraged by management's execution of its profitable growth strategy, even as the workforce shifts towards higher-cost markets like the US. We remain excited for Xero's future opportunities within accounting, payments and payroll.

Looking ahead & thank you

This will be our last investor letter published in 2024. The letter for the month ending 31 December will be out towards the middle of January. Beyond that, we're planning to hold another webinar in the first half of 2025, and the team is always around for a conversation if investors have any questions.

The Lakehouse Small Companies Fund quietly celebrated its eighth birthday in mid-November. While it doesn't impact anything in our day-to-day process, we are pleased with the progress we've made toward our goal of long-term outperformance. We're also grateful that most of the Fund's original investors are still invested, which shows a genuine long-term commitment and degree of trust that we'll continue to do our best to honour.

We wish you and your loved ones an enjoyable and relaxing break over the holiday period and look forward to a prosperous 2025. As always, thank you for your trust and support.

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.