LAKEHOUSE SMALL COMPANIES FUND

MONTHLY LETTER

28 February 2025

LAKEHOUSE CAPITAL

Dear Lakehouse Investor,

February was a volatile month for equity markets as investors navigated Trump's new policies and tactics.

Locally, the RBA delivered its first interest rate cut in over four years, but it did little to temper the dour mood of markets.

The S&P/ASX 200 fell 4.2% and the Fund's Small Ordinaries benchmark declined 2.8% over the month, though there were much bigger swings at an individual stock level.

Fund Metrics	
Companies Held	20
Cash Allocation	6.1%
Top 5 Portfolio Holdings	42.1%
Fund Net Asset Value (NAV)	$266.6 million
NAV per Unit (mid)	$1.9864
Benchmark	S&P/ASX Small Ordinaries Accumulation Index

Eight of the Fund's 20 holdings saw their share prices move (up or down) by over 20% in the 20 trading days of February as ASX half year reporting season unfolded. It certainly felt like one of the more volatile reporting periods of recent years, but the silver lining; it delivered a richer opportunity set to invest in.

At a portfolio level, we were particularly active as share prices whipped around and additional pockets of liquidity presented as companies shared their results. We meaningfully reduced the Fund's long-held position in Netwealth freeing up capital to own more of other businesses that presented a compelling range of outcomes from prevailing prices. Overall, the portfolio cash position reduced from 9.2% to 6.1%.

The Fund returned -4.7% net of fees and expenses for the month compared to -2.8% for the benchmark. Since inception in mid-November 2016, the Fund has produced a net total return of 190.1% compared to 71.5% for the benchmark, or in annualised term, the Fund has returned 13.7% per year (net of fees and expenses) compared to 6.7% per year for the benchmark.

	1 Month	1 Year	3 Year (p.a.)	5 Year (p.a.)	Inception (p.a.)
Lakehouse Small Companies Fund*	-4.7%	23.0%	11.7%	9.4%	13.7%
Benchmark**	-2.8%	7.3%	2.1%	5.6%	6.7%
Excess Return	-1.9%	15.7%	9.6%	3.8%	7.0%

** 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.*

Company News

At the portfolio level, the Fund's five largest holdings at month end accounted for 42.1% of the portfolio and are named in order of allocation: **Catapult, Pinnacle**, **SiteMinder, Nanosonics,** and **Xero**.

The Fund's most significant contributor to performance during the month was Nanosonics (+36.2%) as it upgraded its outlook for the fiscal year and provided an update on its soon-to-launch endoscope reprocessing platform, CORIS. SiteMinder was the biggest detractor (-17.3%) after reporting slower revenue growth than the market was expecting. We will cover each in turn below.

Turning to Nanosonics half year result. Revenue grew 18% to $94 million, driven by a 20% increase in the largest, highest-margin and most recurring part of the business: consumables & service. Installed base growth was a modest 3%, albeit there were signs of improvement in the second quarter. The core Trophon business remains highly profitable, with gross margins in the highy-70s and operating margins of 25%. Although the business is ticking along nicely, as we roll forward some incremental improvements should filter through, including a $4 million investment in a new ERP (enterprise resource planning) system which won't be repeated, and will potentially yield operational benefits, plus a new manufacturing facility in Indianapolis that has potential to reduce transport costs, sidestep possible tariffs, and improve margins over time.

The company has been working for many years on its CORIS platform and the key milestones for FDA approval and commercialisation are edging closer. Management have pointed to commercialisation later this calendar year. As we've discussed in prior letters, it is a promising new platform, and although the business has borne meaningful cost already preparing for its manufacture and distribution, further investment will be required to press the opportunity. With a profitable existing business and the company sitting on $145 million in cash, with no debt, it is well positioned to provide the required investment as CORIS reaches commercialisation.

SiteMinder reported mixed results. Operating metrics continued to show healthy progress, but revenue growth fell short of market expectations. The company reported a deceleration in revenue growth to

17.2%, while annualised recurring revenue (ARR) accelerated to 22.0% growth (in constant currency, organic growth terms). The slowdown in revenue growth was due to an increase in client incentives, enabling the business to entice larger hotels to switch from existing systems to SiteMinder's platform.

The strategy is working, as net room additions increased by more than 50% year-on-year. This sets the company up for future success as transactional products are added to properties with higher overall booking value on offer. We are comfortable with the trade-off; winning larger properties requires some discounting to incentivise them to move, temporarily impacting short-term revenue performance.

Digging deeper into the numbers, the fundamental metrics show healthy signs. Subscription properties increased by 13.5% to over 47,000, while monthly revenue churn remained stable. The company continues to attract higher quality customers, at a lower cost: customer lifetime value and customer acquisition costs improved by 6.8% and 7.3%, respectively. This improved the 'average customer lifetime value to customer acquisition cost', or LTV/CAC, to 6.1x.

Considering the healthy and improving unit economics, it's clear why management have decided to offer short-term incentives to larger properties. Ultimately, what will have a significant impact on long-term results is having properties on the platform, and the ability to monetise transactional products. On the profitability side, the company reported an underlying EBITDA margin of 5%, an improvement of more than 6 percentage points year-on-year. We believe management are well placed to execute on its growth opportunities and further improve profitability.

Upcoming: Lakehouse Capital webinar

On **Tuesday 18 March at 11am AEDT** (Sydney time) the Lakehouse team will host a webinar and live Q&A with portfolio managers, Donny Buchanan, Nick Thomson and Erwin Tan. During the session we'll provide an overview of performance, and commentary on some key holdings in each Lakehouse Fund, followed by live Q&A. You can register here, and follow the instructions to submit questions in advance.

Upcoming: Global Growth Fund ASX ETF launch

We are excited to announce that on **Monday 7 April**, Lakehouse is schedule to launch an Exchange Traded Fund (ETF) on the ASX. Please note, **this is not a new fund** but will simply provide a 'new door' to access the existing Lakehouse Global Growth Fund.

The addition of an ETF offers greater convenience, and a lower minimum investment amount, to investors. All investors require is a brokerage account, and they can then access the Lakehouse Global Growth Fund in the same manner as buying shares.

To the end of February 2025, the Lakehouse Global Growth Fund has delivered net cumulative returns of 250.6% since inception on 1 December 2017, or in annualised terms, 18.9% per year (after fees and expenses).

In early April, we will host a webinar dedicated specifically to the ETF, followed by live Q&A. Keep an eye out for more details and a registration link in the coming weeks.

If you have any questions in the interim, you can always reach us on email at investorsupport@lakehousecapital.com.au

Thank You

And finally, thank you to all our investors for your support and trust. We look forward to answering any questions you have in the upcoming webinars.

Best regards,

Donny, Erwin & Nick

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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