Dear Co-Investors,

The LHC Capital Australia High Conviction Fund (LHCHCF) returned +8.5% for the fourth quarter of 2019, bringing the total return for fiscal year 2019 to +24.8% net of fees.

<table>
<thead>
<tr>
<th></th>
<th>Quarterly Return</th>
<th>Calendar YTD</th>
<th>Financial YTD</th>
<th>Annualised Return Since Inception</th>
<th>Annualised Volatility Since Inception</th>
<th>Cumulative Return Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>LHC High Conviction Fund*</td>
<td>8.54%</td>
<td>15.75%</td>
<td>24.77%</td>
<td>16.61%</td>
<td>10.69%</td>
<td>250.81%</td>
</tr>
<tr>
<td>BBG AU Bank Bill Index</td>
<td>0.45%</td>
<td>0.97%</td>
<td>1.97%</td>
<td>2.68%</td>
<td>n/m</td>
<td>24.10%</td>
</tr>
<tr>
<td>S&amp;P ASX 200 AI</td>
<td>7.97%</td>
<td>19.73%</td>
<td>11.55%</td>
<td>8.71%</td>
<td>11.44%</td>
<td>97.84%</td>
</tr>
<tr>
<td>S&amp;P ASX Small Ords AI</td>
<td>3.75%</td>
<td>16.81%</td>
<td>1.92%</td>
<td>3.52%</td>
<td>14.31%</td>
<td>32.60%</td>
</tr>
</tbody>
</table>

* net of all costs and fees

We were very pleased both with the quarterly and fiscal year return. We have been managing our capital in a concentrated yet relatively conservative manner. Over the year we have averaged a total gross exposure of 130% and net exposure of 45%. Given the relatively low exposure levels, we were particularly pleased with the risk adjusted return that was achieved.

The trade off to running low market exposure is that should markets run, we would expect to underperform. We are ok with this. It also means that we would expect to perform much better in weaker markets. We put a premium on capital preservation and running conservative exposure levels speaks to this approach.

There is a reasonable probability that markets continue to run, driven by domestic monetary policy settings. Interest rates had been stable in Australia for close to three years. Last month, the Reserve Bank of Australia (RBA) elected to lower interest rates by 25 basis points, and this month, the RBA repeated the action. The Australian “cash rate” now sits at just 1.0%, the lowest it has ever been. With cash at such low yields, the temptation for savers to chase riskier higher yielding assets grows by the day.

However, there is also some probability that markets do not perform. Interest rates are not known to be lowered because an economy is going along strongly, and the valuation of companies whose earnings are under pressure from a weakening economy ought not simply rise! The bond market currently predicts concern for the Australian economy. The yields on longer duration Australian Government bonds have fallen heavily over the past twelve months (the 10 year is currently 1.31%), leaving Australia with a flat interest rate forward curve. Economic textbooks label this a potentially recessionary indicator.

The prevalence of low interest rates creates a valuation conundrum. As the key input to the discount rate, the lower the rates the higher the net present value of future cash flows. In short, equity valuations increase as rates decrease. The statement holds true for most if not all risk assets. However, there is a valuation limit where perfect future execution does become priced into equities.
Over the past quarter, and whilst mindful of the above macroeconomic considerations, the LHCHCF has been active in substantially exiting two long standing conviction sized positions that we now consider to be more than fully valued. Proceeds from the sale of these positions have and are being deployed into a select number of new and attractive investments.

The LHCHCF first bought shares in Pro Medicus (PME) in the second half of 2015 for under $3 a piece. Approximately this time last year, we bought an additional chunk of stock at around $8 a piece. PME is a wonderful business led by a talented management team that we like, trust and respect. The company has executed flawlessly over the period of our investment and has established itself as a dominant player in the provision of medical imaging software to the US private hospital market. Today, the shares trade at close to $30 and the company trades at more than 35x expected revenues in FY2021.

Over the quarter, PME rallied +70.9% after announcing a new contract win with Duke Health. The contract is a good size, delivering at least $14m of (cumulative) contracted revenue of the next seven years, with the potential for around 20% upside from exceeding volume-based targets. Moreover, the contract demonstrates PME’s ability to install over multiple campuses and to complete complex integrations such as with Duke’s electronic health record system. Additionally, PME enjoys fantastic unit economics and the incremental revenues from this contract will carry little in the way of additional costs, further driving PME’s already c.50% EBIT margin higher.

Putting the share price move into some perspective, PME had a market cap of around A$1,533m at the start of the quarter. Since announcing the $14m Duke contract and including the increase in the share price following the end of the quarter, PME now has a market cap of $3,061m. In short, a $14m contract has added about $1,500m to the company’s market capitalisation!

We believe that the current price of the equity is pricing in perfect business execution and successful market dominance into perpetuity. PME is a business that we would very much like to own however we cannot justify continuing to hold it based on current prices. Accordingly, we will continue to use the current high share price to sell more shares over the coming quarter.

Also during the quarter, the LHCHCF exited its position in IPH Limited (IPH), the listed intellectual property legal services firm. IPH is a high quality business run by highly regarded management, and enjoys a dominant market position in the stable but low growth Australian market and a good position in the large and fast growing Asian market. IPH enjoys healthy profit margins, relatively low capital intensity, strong accounting cash conversion and a robust balance sheet.

The LHCHCF first bought stock in IPH during their initial public offering in 2014 at $2.10 and has held the stock ever since. We have traded the stock from time to time with varying success. Most recently, we bought a chunk of stock after a downgrade at $3.50 and change around 18 months ago. Today, shares sell for more than $8 despite no material change to forward underlying (organic) earnings estimates since we made this stock purchase.

IPH has traditionally held around two thirds of its exposure to the Australian market and one third to the Asian markets. At the price we paid, we felt we were getting a good deal buying a sustainable income stream which grew at a blended mid to high single digit growth rate and with relatively low volatility.

During the quarter (and after some sector horseplay) IPH announced an agreed merger with Xenith IP (XIP). XIP had agreed to merge with Qantm Intellectual Property (QIP) however that deal was scuppered when IPH bought a blocking stake in XIP on market. We had long expected IPH to lead consolidation via a part debt funded acquisition of either QIP or XIP and our financial modelling...
indicated an approximate 20% one-time uplift to earnings per share through cost synergies combined with a releveraging of IPH’s undergeared balance sheet. We held on to our shares and progressively sold them after the deal was announced and as the sell-side analyst upgrades were published.

We believe that at current prices the market has priced in the successful integration of this acquisition and significantly re-rated the underlying earnings stream. We are also mindful that the post-merger IPH will have closer to three quarters of its earnings coming from the mature Australian market which will dilute exposure to the exciting growth option embedded in the Asian business. We will continue to follow IPH and would happily buy back into the company at the right price.

During the quarter, the LHCHCF acquired more shares in Servcorp (SRV). SRV is a premium provider of workspace and IT solutions and operates 155 floors in 54 cities across 24 countries. SRV has a long operating history, having been profitable and cash generative for more than three decades. SRV has a market cap of $350m and net cash (and equivalents) of $72m, resulting in an enterprise value of $278m.

Over the past two years, SRV has undertaken an extensive refurbishment program across its global footprint, costing c.$50m. These works caused an element of disruption to the business, which manifested itself in lower than anticipated occupancy rates, and resulted in the necessity for management to reissue profit guidance on several occasions.

With the refurbishment program now broadly complete, we anticipate a recovery in occupancy rates back to pre-disruption levels. This should be seen through a recovery in revenue growth which will translate to cash receipts. Additionally, now that the capital expenditure program is largely complete, we expect a material reduction in cash investing. We believe SRV is now poised to harvest cash, driven by the stronger occupancy rates and decreased capital spend at a time when market expectations for the business are relatively modest. Current guidance is for FY19 net operating cash flows to exceed A$50m and we believe this will be achieved.

Whilst SRV has recently bounced off its 52 week lows, British competitor IWG plc (IWG) trades at all time highs. We find it hard to reconcile why IWG trades at double the SRV valuation multiples despite having a more geared balance sheet, lower organic revenue growth, weaker cash generation and a poorer customer offering. We also find it curious that both SRV management and Board and IWG management have recently been buying shares on market in their respective companies.

We estimate that SRV is trading on an ungeared free cash flow yield of around 15%. This is inclusive of the losses currently being incurred by SRV in their United States business. At such prices, we feel there is a strong margin of safety for an enduring, highly cash generative and dividend paying business. Time will tell if we are right.

As always, thank you for your continued support and for investing your capital alongside ours. We look forward to keeping you updated with our progress at the end of the next quarter.

Yours sincerely,

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Marcus Hughes               Stephen Aboud
Co-Chief Investment Officer  Co-Chief Investment Officer