THE MONTGOMERY FUND

ARSN 159 364 155

GENERAL PURPOSE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

Directors' Report

The directors of Fundhost Limited, the Responsible Entity of The Montgomery Fund ("the Fund"), present their report together with the financial report of the Fund for the year ended 30 June 2016 and the auditor's report thereon.

Responsible Entity

The registered office and principal place of business of the Responsible Entity is:
Suite 1, Level 9
70 Castlereagh Street
Sydney NSW 2000

Directors

The names of the directors of the Responsible Entity in office at any time during or since the end of the year are:
Valerie Anne Monge
Paul Ernest Dortkamp
Mark Sherwood Bennett (resigned 26 August 2015)
Robert H Nagel (appointed 26 August 2015)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Review of operations

During the financial year, the Fund invested in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's constitution.

The results of the operations of the Fund are disclosed in the Statement of Comprehensive Income of these financial statements. The net operating profit for the year ended 30 June 2016 was $42,314,411 (2015: $30,244,776).

In respect of the financial year ended 30 June 2016, the directors of the Responsible Entity report the payment of a final distribution of $28,054,785 (2015: $26,068,186). There was no interim distribution at 31 December 2015 (31 December 2014: $2,666,008).

Significant changes in state of affairs

No significant changes in the Fund's state of affairs occurred during the financial year.

Principal activities

The principal activity of the Fund during the financial year was the investment and management of securities in accordance with its investment objectives and guidelines as set out in the Product Disclosure Statement (PDS) and in accordance with the provisions of the Constitution.

The Fund did not have any employees during the year (2015: nil).

No significant change in the nature of these activities occurred during the year.

Directors' Report (cont'd)

Events subsequent to the balance date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

Likely developments

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Likely developments in the operations of the Fund and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Fund.

Interests in the Fund

The movement in units on issue in the Fund during the year and the number of units in the Fund as at the end of the financial year are disclosed in note 3 of the financial statements.

The value of the Fund's assets and liabilities is disclosed in the statement of financial position and derived using the basis set out in note 1 of the financial statements.

Fees paid to and Interests held in the Fund by the Responsible Entity

Fees paid to the Responsible Entity out of Fund property during the year are disclosed in note 10(a) of the financial statements.

The number of interests in the Fund held by the Responsible Entity as at the end of the financial year are disclosed in note 10(c) of the financial statements.

No fees were paid out of Fund property to the directors of the Responsible Entity during the year. (2015: nil).

Environmental regulation

The Fund's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Options

No options over issued units or interests in the Fund were granted during or since the end of the financial year and there were no options granted to the Responsible Entity.

Directors' Report (cont'd)

Indemnities and insurance premiums for officers or auditors

No indemnities have been given or insurance premiums paid by the Fund, during or since the end of the financial year, for any person who is or has been an officer or auditor of the Fund.

To the extent permitted by law, the Responsible Entity has agreed to indemnify its auditors, Ernst & Young, as part of terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

Proceedings on behalf of the Fund

No person has applied for leave of Court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is a party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings.

The Fund was not a party to any such proceedings during the year.

Rounding

The Fund is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument class order 2016/191 applies. Accordingly, amounts in the financial statements have been rounded to the nearest thousand dollars.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

Signed in accordance with a resolution of the Board of Directors:

Valerie Anne Monge
Director
Dated at Sydney this 21st day of September 2016

Ernst & Young
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Sydney NSW 2000 Australia
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Auditor's Independence Declaration to the Directors of Fundhost Limited

As lead auditor for the audit of the The Montgomery Fund for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Ernst & Young

Rita Da Silva
Partner
Sydney
21 September 2016

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

The Montgomery Fund - ARSN 159 364 155

Statement of Comprehensive Income
For the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Investment income			
Dividend and distribution income		11,043	7,311
Interest income		905	1,300
Change in fair value of financial instruments		44,423	26,731
Other income		28	-
Total investment income		56,399	35,342
Expenses			
Management fees	2	5,516	3,811
Performance fees	2	8,416	1,254
Transaction fees		80	16
Other expenses		73	16
Total expenses		14,085	5,097
Net operating profit before finance costs		42,314	30,245
Finance costs attributable to unitholders			
Distributions to unitholders	4	(28,055)	(28,734)
Net operating profit for the year		14,259	1,511
Other comprehensive income		-	-
Change in net assets attributable to unitholders		14,259	1,511

The accompanying notes form part of these financial statements

Statement of Financial Position
As at 30 June 2016

	Note	2016 $'000	2015 $'000
Assets			
Cash and cash equivalents	9(a)	25,598	19,443
Receivables	7	5,382	2,530
Financial assets held at fair value through profit or loss	5	421,124	288,592
Financial assets held at amortised cost	6	93,288	16,000
Total assets		545,392	326,565
Liabilities			
Payables	8	6,785	2,693
Distribution payable	4	28,055	26,068
Total liabilities (excluding net assets attributable to unitholders)		34,840	28,761
Net assets attributable to unitholders		510,552	297,804

The accompanying notes form part of these financial statements

The Montgomery Fund - ARSN 159 364 155

Statement of Changes in Equity
For the year ended 30 June 2016

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there is no equity at the start or end of the year.

The accompanying notes form part of these financial statements

The Montgomery Fund - ARSN 159 364 155

Statement of Cash Flows
For the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Dividends and distributions received		10,460	6,861
Interest received		566	1,361
Other income received		28	-
Management and performance fees paid		(14,965)	(3,692)
Other expenses paid		(209)	(79)
Net cash (used in)/provided by operating activities	9(b)	(4,120)	4,451
Cash flows from investing activities			
Proceeds from sale of financial instruments held at fair value through profit and loss		374,851	261,852
Payment for financial instruments held at fair value through profit and loss		(458,893)	(372,562)
Proceeds / (payment) for financial assets held at amortised cost		(77,288)	25,910
Net cash flow used in investing activities		(161,330)	(84,800)
Cash flows from financing activities			
Proceeds from issue of units		218,693	115,635
Payments for redemption of units		(35,267)	(24,155)
Distribution paid		(11,821)	(3,116)
Net cash provided by financing activities		171,605	88,364
Net increase in cash held		6,155	8,015
Cash and cash equivalents at beginning of year		19,443	11,428
Cash and cash equivalents at end of year	9(a)	25,598	19,443

The accompanying notes form part of these financial statements.

Notes to the Financial Statements
For the year ended 30 June 2016

NOTE 1. Statement of significant accounting policies

This financial report covers The Montgomery Fund ("the Fund") as an individual entity.

The Fund is a registered investment scheme under the Corporations Act 2001. The financial report of the Fund is for the year ended 30 June 2016.

The Fund was constituted and registered as a managed investment scheme on 20 August 2012 with Australian Securities & Investments Commission ("ASIC").

The financial statements were approved by the Board of Directors of the Responsible Entity on 21 September 2016.

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), Australian Accounting Interpretations and the Corporations Act 2001.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following notes.

On the face of the Statement of Financial Position all assets and liabilities are presented in decreasing order of liquidity and not distinguished between current and non-current.

The Fund is a for-profit entity for the purpose of preparing financial statements.

(i) Compliance with International Financial Reporting Standards (IFRS)

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

(ii) Reporting basis and conventions

The financial report has been prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated. The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars except where otherwise stated.

(iii) Use of estimates and judgements

In the application of accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

NOTE 1. Statement of Significant Accounting Policies (cont'd)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

a. Financial instruments

(i) Classification

The Fund's investments are classified as at fair value through profit or loss. They comprise:

Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in equity instruments.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

(ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(iii) Measurement

(a) Financial assets and liabilities held at fair value through profit or loss.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Comprehensive Income.

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the Statement of Financial Position date without any deduction for estimated future selling costs. Financial assets are priced at last sale prices, while financial liabilities are priced at current asking prices. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

NOTE 1. Statement of Significant Accounting Policies (cont'd)

a. Financial instruments (cont'd)

- Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the balance date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

(b) Financial assets measured at amortised cost

Some of the Fund's financial assets are measured at amortised cost, including term deposits. Financial assets measured at amortised cost are initially recognised at fair value exclusive of any transaction costs, and are subsequently remeasured to amortised cost using the effective interest rate method. Transaction costs are expensed as incurred in the Statement of Comprehensive Income.

(c) Loans and receivables

Loans and receivables are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method, less impairment losses if any.

b. Impairment of assets

At each reporting date the Responsible Entity assesses whether there is objective evidence that a financial instrument has been impaired.

A significant or prolonged decline in the fair value below cost is evidence of impairment.

If any such indication of impairment exists, an impairment loss is recognised in the Statement of Comprehensive Income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent year the amount of an impairment loss recognised on a financial asset carried at amortised cost increases and the increase can be linked objectively to an event occurring after the write-down, the write-down is reversed through the Statement of Comprehensive Income.

NOTE 1. Statement of Significant Accounting Policies (cont'd)

c. Investment income and expenses

Unrealised gains and losses on revaluation of investments to fair value, are recognised in the Statement of Comprehensive Income.

Realised gains and losses on sale are recognised as investment income in the Statement of Comprehensive Income. Gross proceeds from sale of investments are disclosed in the Statement of Cash Flows.

Dividend income is recognised on a receivable basis on the date the shares are quoted ex-dividend.

Distributions from property trusts and unit trusts are recognised as income when declared.

Interest income and expenses are recognised in the Statement of Comprehensive Income for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through the profit or loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 1(a).

All expenses including management fees are recognised on an accrual basis in the Statement of Comprehensive Income.

d. Management fees

In accordance with the Constitution, the Fund's managers are entitled to a management fee of 1.34% per annum of the value of the Fund payable on a monthly basis. There is also an expense recovery of up to 0.01% per annum of net assets.

e. Performance fees

The Fund's managers are also entitled to a performance fee when the Fund outperforms the "benchmark" being the S&P/ASX 300 Accumulation Index. This is provided the "high watermark" has been exceeded. The method of calculating the fee is detailed in the Constitution and summarised in the current PDS.

f. Income tax

Under current legislation, the Fund is not subject to income tax provided unitholders are presently entitled and taxable income including assessable capital gains is fully distributed to unitholders.

g. Distributions

In accordance with the Fund Constitution and applicable taxation legislation, the Fund fully distributes its distributable income to the unitholders by way of cash or reinvestment into the Fund. The distributions are recognised in the Statement of Comprehensive Income as finance costs attributable to unitholders.

Distributions to unitholders comprise the net income of the Fund to which the unitholders are presently entitled. The distributions are payable at the end of December and June each year.

NOTE 1. Statement of Significant Accounting Policies (cont'd)

h. Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as audit fees, custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 75% (55% for Responsible Entity fees) hence investment management fees, administration fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

i. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and at call deposits with banks or financial institutions and investments in money market instruments with original maturities of less than three months and net of bank overdrafts.

j. Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

k. Payables

Trade payables and other accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the Statement of Financial Position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

l. Due from/to brokers

Amounts due from/to brokers represent payables for securities purchased and receivables for securities sold that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

m. Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the balance date if unitholders' exercised their right to redeem units in the Fund.

NOTE 1. Statement of Significant Accounting Policies (cont'd)

n. Exit price

The unit exit price is calculated in accordance with the Constitution of the Fund and is determined by the value of the assets of the Fund less its liabilities adjusted for estimated transaction costs, divided by the number of units on issue.

o. Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. No exit fees are charged. Unit redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue at or immediately prior to close of business each day.

p. New standards and interpretations adopted

Since 1 July 2015, the Fund has adopted all mandatory standards and amendments of Australian Accounting Standards. Adoption of these standards and amendments did not have a material impact on the Fund's financial results or reporting.

q. New standards and interpretations not yet adopted

New Accounting Standards and Interpretations

Australian Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting year ended 30 June 2016. When applied in future periods, these recently issued or amended standards are not expected to have a material impact on the Fund's financial results or reporting position, however, they may impact Financial Report disclosures.

AASB 9 – Financial Instruments - classification and measurement

AASB 9 applies to annual reporting periods beginning on or after 1 January 2018 and will therefore apply to the Fund from 1 July 2018. The Fund does not intend to early adopt AASB 9 as permitted by the standard. The application of the standard is not expected to change the measurement basis of any of the Fund's current financial instruments.

AASB 15 - Revenue from Contracts with Customers

AASB 15 applies to annual reporting periods beginning on or after 1 January 2018 and will therefore apply to the Fund from 1 July 2018. The Fund does not intend to early adopt AASB 15 as permitted by the standard. The application of the standard is not expected to have a material impact on the Fund.

NOTE 2. Expenses

The amounts paid or due and payable to the Fund's managers in accordance with the Constitution were:

	2016 $'000	2015 $'000
Management fees	5,516	3,811
Performance fees	8,416	1,254
	13,932	5,065

NOTE 3. Net assets attributable to unitholders

	2016 Units '000	2015 Units '000	2016 $'000	2015 $'000
Opening balance	223,468	155,548	297,804	200,253
Units issued during the period	154,362	81,885	219,275	116,080
Units redeemed during the period	(25,071)	(17,286)	(35,032)	(24,404)
Distribution reinvested	10,691	3,321	14,246	4,364
Change in net assets attributable to unitholders	-	-	14,259	1,511
Closing balance	363,450	223,468	510,552	297,804

As stipulated within the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

NOTE 4. Distribution to unitholders

	2016 $'000	2015 $'000
Distribution paid	-	2,666
Distribution payable	28,055	26,068
	CPU	**CPU**
Final distribution cents per unit	7.7190	11.6653
Interim distribution cents per unit	-	1.4073

NOTE 5. Financial Assets Held at Fair Value through profit or loss

Designated at fair value through profit or loss	2016 $'000	2015 $'000
Shares in companies listed on Australian Securities Exchange (ASX)	421,124	288,592
	421,124	288,592

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in note 12.

NOTE 6. Financial Assets Held at Amortised Cost

	2016 $'000	2015 $'000
Term deposits	93,288	16,000
	93,288	16,000

An overview of the risk exposures relating to financial assets held at amortised cost is included in Note 12.

NOTE 7. Receivables

	2016 $'000	2015 $'000
Reduced input tax credits	144	98
Dividends and distributions	1,393	810
Accrued interest – term deposits	465	127
Amounts receivable on investments sold	2,104	800
Applications not yet processed	1,276	695
	5,382	2,530

NOTE 8. Payables

	2016 $'000	2015 $'000
Management fees payable	582	361
Performance fees payable	-	1,254
Redemptions payable	18	252
Recoverable expenses payable	27	39
Amounts owing on investments purchased	6,158	787
	6,785	2,693

NOTE 9. Cash Flow Information

	2016 $'000	2015 $'000
a) Reconciliation of cash and cash equivalents		
Cash balance comprises:		
Cash at bank	25,598	19,443
Total cash and cash equivalents	25,598	19,443

b) Reconciliation of net operating income to cash flows from operating activities	2016 $'000	2015 $'000
Net operating profit before finance costs	42,314	30,245
Change in fair value of financial instruments	(44,423)	(26,731)
Changes in assets and liabilities:		
Increase in receivables	(967)	(427)
(Decrease)/increase in payables	(1,044)	1,364
Net cash (used)/provided by operating activities	(4,120)	4,451

Non-cash items relating to reinvestment of distributions paid are included in Note 3. There were no other non-cash items.

NOTE 10. Related party disclosures

a. Fundhost Limited - fees

Fundhost Limited (ACN 092 517 087) as Responsible Entity of The Montgomery Fund provides services to the Fund in accordance with the Fund's Constitution. Transactions with the Responsible Entity have taken place on normal commercial terms and conditions.

During the year the following amounts were paid to the Responsible Entity:

	2016 $	2015 $
Management fees	640,774	612,326

The amounts due and payable at 30 June to the Responsible Entity in accordance with the Constitution were:

	2016 $	2015 $
Management fees	67,656	41,945

NOTE 10. Related party disclosures (cont'd)

b. Montgomery Investment Management Pty Limited - fees

Montgomery Investment Management Pty Ltd as Investment Manager of The Montgomery Fund provides services to the Fund in accordance with the Fund's Constitution. Transactions with the Investment Manager have taken place on normal commercial terms and conditions.

	2016 $	2015 $
Management fees	4,874,551	3,198,454
Performance fees	8,416,341	1,254,569

The amounts due and payable at 30 June to the Investment Manager in accordance with the Trust Deed were:

	2016 $	2015 $
Management fees	514,679	319,087
Performance fees	-	1,254,569

c. Fundhost Limited - Key management personnel

Fundhost Limited as Responsible Entity and Montgomery Investment Management Pty Limited as Investment Manager are considered key management personnel. The Fund does not employ personnel in its own right.

The Directors of Fundhost Limited during the year were:
Valerie Anne Monge
Paul Ernest Dortkamp
Mark Sherwood Bennett (resigned 26 August 2015)
Robert H Nagel (appointed 26 August 2015)

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

No units were held in The Montgomery Fund by the Responsible Entity or by Directors and their respective related parties (2015: Nil).

Key management personnel are paid by Fundhost Limited. Payments made from the Fund to Fundhost Limited do not include any amounts attributable to the compensation of key management personnel.

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the year (2015: Nil).

There are no post-employment benefits paid to a director or key management personnel of the Responsible Entity (2015: Nil).

NOTE 10. Related party disclosures (cont'd)

c. Fundhost Limited - Key management personnel (cont'd)

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund and there were no material contracts involving director's interests existing at year end.

d. Montgomery Investment Management Pty Ltd - Key management personnel

The Director of Montgomery Investment Management Pty Ltd during the year was:
Roger Montgomery

Units held in The Montgomery Fund by the Investment Manager and by its Directors and their respective related parties in aggregate were:

Unitholder	Number of units held	Interest held	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund
	(Units)	(%)	(Units)	(Units)	($)
2016					
Montgomery Investment Management Pty Ltd	30,071	0.01	2,420	-	2,321

Unitholder	Number of units held	Interest held	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund
	(Units)	(%)	(Units)	(Units)	($)
2015					
Montgomery Investment Management Pty Ltd	27,651	0.01	924	-	3,611

NOTE 11. Auditors remuneration

Amounts received or due and receivable by EY for:	2016 $	2015 $
Audit and review of the financial reports of the Fund	15,500	13,000
Tax services	3,500	3,000
Compliance plan audit	3,800	3,800
	22,800	19,800

NOTE 12. Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's PDS and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the investment management team at Montgomery Investment Management Pty Ltd.

The Fund uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of price risks.

Compliance with the Fund's PDS is reported to the Fundhost Board on a monthly basis.

(i) Price risk

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. They are classified on the Statement of Financial Position as financial assets held at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Investment Manager mitigates this price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the PDS. The Australian shares are listed on the Australian Securities Exchange. The Fund has not invested in any derivatives during the financial year.

The Fund is exposed, particularly through its equity portfolio, to concentration and market risks influencing investment valuations. These market risks include changes in a company's internal operations or management, Australian economic factors and also relate to changes in taxation policy, monetary policy, interest rates and statutory requirements.

The table below summarises the impact of an increase/decrease in the market value of the share portfolio on the Fund's net assets attributable to unitholders at 30 June and profit from operating activities. The analysis is based on the assumptions that the security prices increased/decreased by 10% with all other variables held constant and that the fair value of the Fund's portfolio moved according to this.

	Impact on operating profit Higher/(Lower)		Net assets attributable to unitholders Higher/(Lower)	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Share portfolio value +10%	42,122	28,859	42,122	28,859
Share portfolio value -10%	(42,122)	(28,859)	(42,122)	(28,859)

NOTE 12. Financial risk management (cont'd)

(ii) Interest rate risk

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing level of market interest rates on its financial position and cash flows.

The Fund's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial liabilities, is as follows:

	Impact on operating profit Higher/(Lower)		Net assets attributable to unitholders Higher/(Lower)	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Interest rate increase 2%	2,497	709	2,497	709
Interest rate decease 2%	(1,866)	(709)	(1,866)	(709)

	Weighted Average Effective Interest		Floating Interest Rate		Non Interest Bearing		Total	
	2016 %	2015 %	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Financial Assets:								
Cash and cash equivalents	1.25	2.00	25,598	19,443	-	-	25,598	19,443
Receivables	-	-	-	-	5,382	2,530	5,382	2,530
Financial assets held at fair value through profit and loss			-	-	421,124	288,592	421,124	288,592
Financial assets held at amortised cost	2.48	2.9	93,288	16,000	-	-	93,288	16,000
Total Financial Assets			118,886	35,443	426,506	291,122	545,392	326,565
Financial Liabilities (excluding unitholder funds):								
Payables	-	-	-	-	6,785	2,693	6,785	2,693
Distribution payable			-	-	28,055	26,068	28,055	26,068
Total Financial Liabilities			-	-	34,840	28,761	34,840	28,761
Net exposure			118,886	35,443	391,666	262,361	510,552	297,804

NOTE 12. Financial risk management (cont'd)

(iii) Foreign exchange risk

The Fund does not have any direct exposure to foreign exchange risk.

(iv) Liquidity risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemption of its redeemable units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's Constitution.

All financial liabilities have maturity terms within a month, other than net assets attributable to unitholders described below.

The liquidity risks associated with the need to satisfy unitholders' requests for redemptions are mitigated by maintaining a constant pool of cash to satisfy usual levels of demand. The Fund's policy is to hold 0% to 30% of net assets in cash.

Normally once Fundhost Limited decides the unitholder can withdraw their money, it takes 5 business days to process the request (although the Constitution for the Fund allows a reasonable period, which could be longer), and funds are then paid to the unitholder in accordance with instructions.

The Fund manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

The Fund monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. During 2016, the Fund's strategy was to hold at least 80% of the net assets attributable to unitholders in liquid investments. Liquid assets include cash and cash equivalents and listed equities.

The Fund invests mostly in Australian listed companies, term deposits and some cash.

(v) Credit risk

Credit risk primarily arises from investments in debt securities and from trading derivative products. The Fund's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired or past due (2015: nil).

The Fund does not invest in debt securities or derivative products.

The carrying amount of financial assets approximates fair value as at the reporting date.

The Fund trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Fund's policy to securitise its trade and other receivables.

NOTE 13. Fair value of financial instruments

Financial instruments carried at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

Level 1: Valued using quoted prices in active markets for identical assets or liabilities. These quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Valued using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), including: quoted prices in active markets for similar assets or liabilities, quoted prices in markets in which there are few transactions for identical or similar assets or liabilities, and other inputs that are not quoted prices but are observable for the asset or liability.

Level 3: Valued in whole or in part using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Unobservable inputs are determined based on the best information available, which might include the Fund's own data, reflecting the Fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Valuation techniques are used to the extent that observable inputs are not available.

The following table shows an analysis of financial instruments held at the balance date, recorded at fair value by level of the fair value hierarchy:

2016

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Listed equity securities	421,124	-	-	421,124
Total	421,124	-	-	421,124

2015

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Listed equity securities	288,592	-	-	288,592
Total	288,592	-	-	288,592

There were no movements between level 1, 2 or 3 during 2016 (2015: nil).

NOTE 14. Commitments and contingencies

There were no commitments and contingent liabilities or assets at 30 June 2016 (2015: nil).

NOTE 15. Events subsequent to balance date

No matters or circumstances have arisen since the end of the reporting year which significantly affected or may significantly affect the operation of the Fund, the results of those operations, or the state of affairs of the entity in future financial years.

Directors' Declaration

The Directors of the Responsible Entity declare that:

(i) The financial statements and notes are prepared in accordance with the Corporations Act 2001, including:

a) complying with Australian Accounting Standards and the Corporations Regulations 2001;

b) giving a true and fair view of the Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1.

(iii) In the Director's opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Director
Valerie Anne Monge
Dated at Sydney this 21st day of September 2016

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Independent auditor's report to the unitholders of The Montgomery Fund

Report on the financial report

We have audited the accompanying financial report of The Montgomery Fund (the "Fund"), which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of Fundhost Limited as the Responsible Entity of the Fund (the "Responsible Entity") are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Responsible Entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Responsible Entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is attached to the directors' report.

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Opinion

In our opinion:

a. the financial report of The Montgomery Fund is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Ernst & Young

Rita Da Silva
Partner
Sydney
21 September 2016