THE MONTGOMERY FUND

INVESTMENT REPORT & FACT SHEET

FUND OVERVIEW

The Montgomery Fund employs a bottom-up, value style to invest and manage the equity portfolio. The Fund has the ability to retain a cash weighting, with a 'soft' 30 per cent limit, while seeking to identify companies that satisfy three main points of criteria. For inclusion in The Montgomery Fund, a business must be of premium quality, display bright prospects for earnings and growth in intrinsic value, and be available to purchase at a reasonable price.

Pursuant to this objective, The Fund aims to deliver superior positive returns where suitable investment opportunities are abundant, and to preserve capital through cash allocations where suitable investment opportunities are scarce.

FUND FACTS

INVESTMENT MANAGER
Montgomery Investment Management Pty Ltd

OBJECTIVE
The Montgomery Fund aims to outperform the index over a rolling 5-year period.

BENCHMARK
The S&P/ASX 300 Accumulation Index

FUND CONSTRUCTION
The Fund's All Cap portfolio will typically comprise 20-40 high-conviction stocks listed on the ASX and/or NZSX. Cash typically ranges from 0%-30%, but up to 50% in extreme situations.

APIR
FHT0030AU

RECOMMENDED INVESTMENT TIMEFRAME
5 years

MINIMUM INITIAL INVESTMENT
$25,000

INCEPTION DATE
17 AUGUST 2012

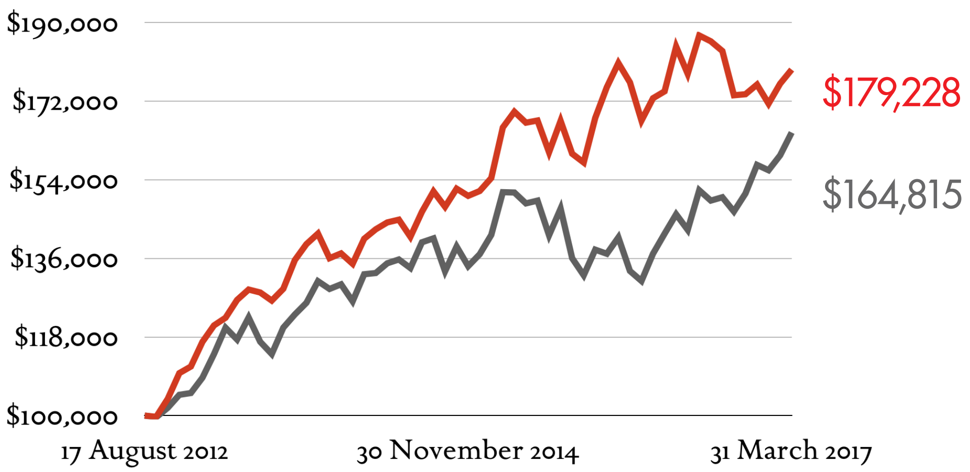
FUND SIZE
$701.1M

MANAGEMENT FEE
1.35% per annum, which includes a management fee of 1.18% per annum. Both figures are GST inclusive and net of RITC.

PERFORMANCE FEES
15.38% of the total return of The Fund that is in excess of the Index. No performance fee is payable until any previous periods of underperformance has been made up.

APPLICATION & REDEMPTION PRICES
montinvest.com/tmf

PERFORMANCE GRAPH



CONTACT DETAILS

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PORTFOLIO PERFORMANCE

(to 31 March 2017, after all fees)

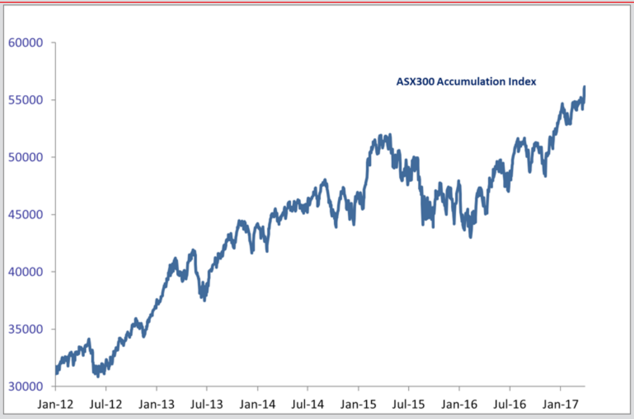
	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	1.84%	**1.84%**	3.28%	-1.44%
3 months	0.00%	1.96%	**1.96%**	4.71%	-2.76%
6 months	0.79%	-3.11%	**-2.32%**	9.88%	-12.20%
12 months	6.18%	-2.38%	**3.80%**	20.24%	-16.44%
2 years (p.a.)	6.49%	-3.68%	**2.81%**	4.45%	-1.64%
3 years (p.a.)	5.90%	2.01%	**7.91%**	7.51%	0.40%
4 years (p.a.)	6.01%	3.09%	**9.10%**	8.85%	0.26%
Since inception#	33.37%	45.86%	**79.23%**	64.81%	14.41%
Compound annual return (since inception)#	6.35%	6.97%	**13.32%**	11.30%	2.02%

17 August 2012

FUND COMMENTARY

The Australian equity market enjoyed a very strong March, with the S&P/ASX300 Accumulation Index returning 3.28 per cent. To put this in perspective, 12 months of compound growth at this rate would deliver a total return of close to 50 per cent over a full year - a rate of return far beyond what might be considered "normal".

Perhaps more importantly, these gains continued a strong run for the Australian equity market; a run that has been on foot for a number of years, albeit interrupted by a weak stretch in 2015. As the chart demonstrates, the last five have been good to Australian equity investors, and the returns especially strong in the most recent period.



Source: Bloomberg

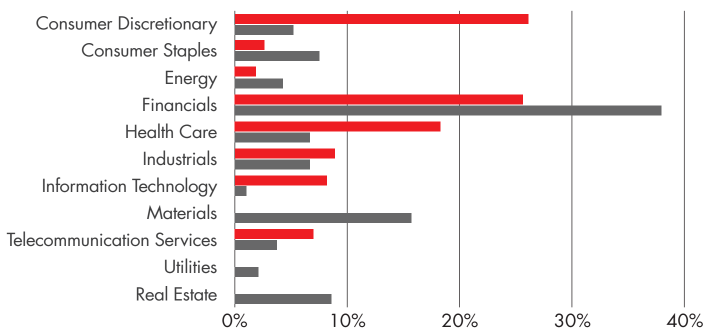
TOP COMPLETED HOLDINGS* (TCH)

(at 31 March 2017, out of 26 holdings)

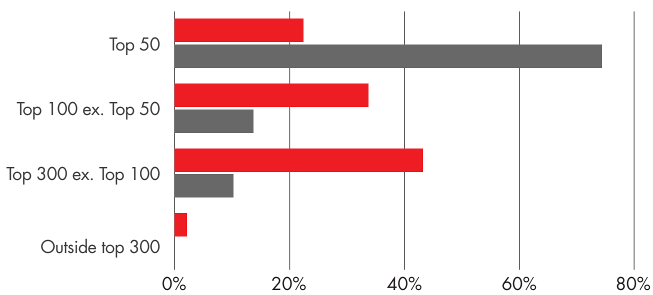
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
REA Group Ltd	29.2	51.6	28.7	5.52
Seek Ltd	13.0	12.5	26.9	5.20
Westpac Banking Corp	13.5	N/A	14.6	4.90
Challenger Ltd	10.8	N/A	17.0	4.84
Resmed	22.1	26.2	25.4	4.78
Commonwealth Bank of Australia	15.8	N/A	15.2	4.47
Carsales.com Ltd	45.2	76.1	20.9	3.96
Chorus Ltd	14.6	180.7	13.4	3.96
Medibank Private	26.6	-27.8	18.8	3.85
Navitas Ltd	44.8	26.8	18.8	3.68
TCH AVERAGE	23.6	49.4	20.0	
MARKET AVERAGE	14.6	75.1	18.7	
Total equity weighting				71.8
Total cash weighting				28.2

Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.

INDUSTRY EXPOSURE



MARKET CAPITALISATION EXPOSURE



TMF S&P/ASX300

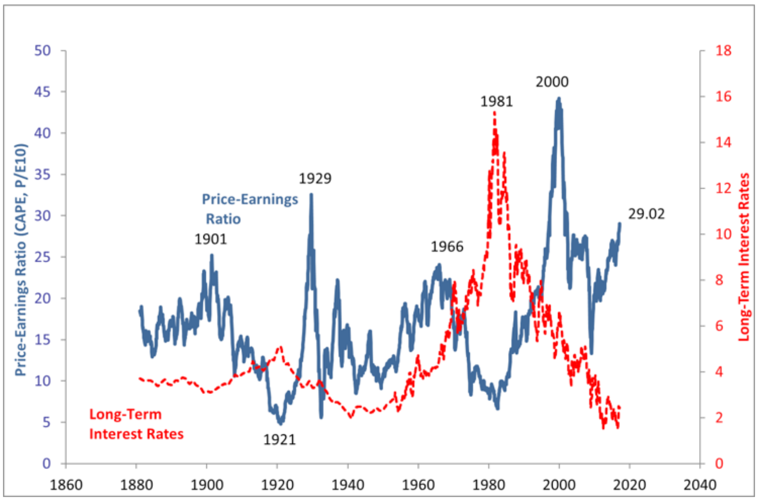
PLATFORMS WE ARE ON: Macquarie Asgard Netwealth Powerwrap North Australian Executor Trustees MLC Wrap BT Panorama Linear Avanteos OneVue Hub24 BT Navigator Wrap Colonial FirstWrap Federation Accounts

Portfolio Performance is calculated after fees and costs, including the Investment management fee and Performance fee, but excludes the buy/sell spread. All returns are on a pre-tax basis. This report was prepared by Montgomery Investment Management Pty Ltd, AFSL No: 354564 ('Montgomery') the investment manager of The Montgomery Fund ('TMF'), ARSN 159 364 155. The Responsible Entity of The Fund is Fundhost Limited (ABN 69 092 517 087) (AFSL No: 233 045) ('Fundhost'). This document has been prepared for the purpose of providing general information, without taking into account your particular objectives, financial circumstances or needs. You should obtain and consider a copy of the Product Disclosure Document ('PDS') relating to the Fund before making a decision to invest. Available here: http://fundhost.com.au/investor/tmf. While the information in this document has been prepared with all reasonable care, neither Fundhost nor Montgomery makes any representation or warranty as to the accuracy or completeness of any statement in this document including any forecasts. Neither Fundhost nor Montgomery guarantees the performance of the Fund or the repayment of any investor's capital. To the extent permitted by law, neither Fundhost nor Montgomery, including their employees, consultants, advisers, officers or authorised representatives, are liable for any loss or damage arising as a result of reliance placed on the contents of this report. Past performance is not indicative of future performance.

For many observers, a natural response to this is to extrapolate, and to consider how best to participate in the strong returns being delivered. Certainly, this type of instinctive response would generally have been successful in recent years.

However, for an investor with a long-term perspective and a focus on value, the natural response is different. A value-oriented investor is concerned about whether gains in underlying valuations have been sufficient to warrant these share price returns, and whether valuations today are sufficient to underpin good returns into the future.

In our view, the answer is "unlikely" on both fronts. Underlying valuations seldom increase at these rates, and the gains seen in the Australian equity market have occurred in the context of a broader theme of asset price inflation affecting a wide range of assets around the world. One way this can be illustrated is using Robert Shiller's Cyclically-Adjusted PE ratio for the US market, for which data is available back to 1871. As shown below, on this valuation metric, the US market is currently more expensive than it has been at any time since 1871, with the exception of the 2000 internet bubble, and in 1929 ahead of the Great Depression.



Source: Robert Shiller data library

While our own experience does not stretch back in time quite that far, our perception of value in the Australian market is broadly similar: Prices today appear high.

An observation that equities are expensive does not allow us to conclude that prices will fall any time soon. Equity markets have a well-earned reputation for being able to sustain high valuations for extended periods. However, one thing is clear: paying too high a price is detrimental to long-term returns, and long-term investors should be enthusiastic when prices are low, and reticent when they are expensive.

Today, we are reticent. Our assessment is that valuations for high-quality Australian equities are expensive, and The Montgomery Fund's cash weighting is towards the top end of its "normal" range.

While the Fund's current cash allocation is mainly a reflection of assessed value, near-term risk management also plays a small part. In particular, during March we reduced the weight of one of our larger holdings – Ramsay Health Care – in response to near-term concerns. Specifically, we became concerned that Ramsay might be impacted by the outcome of a senate inquiry into the Prostheses List Framework, which currently sets the price at which prosthetic devices are purchased in the private health care system.

As many readers will be aware, there are concerns that list prices for prostheses are too high, and what is unclear is whether Ramsay (and to a lesser degree Healthscope) may be indirect beneficiaries of these high list prices. Until the inquiry reports its findings (currently expected to be 10 May), there is some elevated risk around these holdings and we reduced position sizes accordingly. As that risk is resolved, we may be comfortable rebuilding these positions.

Regardless of the resolution of this issue, the Fund continues to hold a high level of cash, and this naturally holds us back when the equity market rallies strongly, as it did in March. While the Fund's benchmark returned 3.28 per cent, the Fund returned 1.84 per cent, with most of the gap between the two explained by the Fund's cash weighting.

The Fund's holding in Navitas Limited, also contributed to under-performance during the month, when the company announced a reduction in the size of a significant government contract. However, this was mitigated by more positive news later in the month in respect of enrolment numbers.

As we look to the remainder of 2017, our approach to managing the Fund's portfolio is guided by a number of key principles and observations:

- Firstly, as always, we give priority to capital preservation. Accordingly, we will not compromise our requirements in terms of business quality and valuation. This will cause us some pain (on a relative performance basis) when markets become exuberant generally and especially when lower-quality businesses are running hard, as they have been. However, it is our job to endure this pain in the interests of a secure long-term outcome for clients; and

- Within those constraints, we will not leave any stone unturned in the search for opportunities that meet our requirements. The current market environment may not offer us a lot to work with, but we continue to scour the market, and our portfolio, in search of hidden value and hidden risks. In the long run we are confident that consistent diligence and focus on our philosophy gives us the best chance of achieving the goals set for the Fund.

In time, we anticipate that more favourable valuations will provide us an opportunity to deploy some of the Fund's current cash holdings. While we can't predict when that will happen, we intend to be well-prepared when it does.