MONTAKA
GLOBAL ACCESS FUND

MONTAKA

QUARTERLY LETTER

JUNE 2018

UNIT PRICE [1] **$1.1670**

FUND COMMENTARY

In the month of June, the Montaka Global Access Fund (the Fund) declined by 0.66 per cent, net of fees. Over the June quarter, the Fund delivered 6.82 per cent, net of fees.

Since inception, the Montaka Global Fund has returned 36.77 per cent, net of fees. Importantly, this return has been delivered with an average net market exposure of 47 per cent. By comparison, if an investor had instead invested in the 100 per cent net market exposed MSCI World Net Total Return Index in Australian dollar terms, they would have generated only 31.56 per cent and in our view would have been taking more than twice as much market risk.

Three unbelievable global developments transpired in the June quarter which demonstrate how rapidly the global world order is evolving and set the stage for heightened volatility in the months ahead.

First, it was a surreal moment in history when President Trump refused to endorse the recent G7 Summit communique, attacked Canadian Prime Minister Trudeau for “false statements” and asserted that Russia should be reinstated to the G8. In one weekend, President Trump effectively self-selected into isolation away from America’s closest allies. Meanwhile, on the same weekend, Chinese President Xi awarded Russian President Putin the first ever friendship medal of the People’s Republic of China. It really is no overstatement to say that the major global alliances we have known for more than 70 years are rapidly changing before our eyes.

FUND PERFORMANCE

PERFORMANCE (%)	1M	3M	12M	2 Yr pa	INCEPTION
Fund (AUD)[2]	**(0.7)**	**6.8**	**16.1**	**14.0**	**19.3**
Underlying Fund (AUD)[4]	(0.7)	6.8	16.1	14.0	36.8
Average Net Market Exposure[3]	36	44	44	47	47
Global Market (AUD)[2,5]	2.4	5.7	15.3	15.0	24.8
Average Net Market Exposure[3]	100	100	100	100	100

2018 distribution will be advised by the end of July 2018. The numbers in this report are on cum distribution basis for 2018.

PERFORMANCE ATTRIBUTION[1]* (%)

	June 2018
Long portfolio contribution	(1.38)
Short portfolio contribution	(1.49)
Change in AUD/USD	2.21
Net return	(0.66)
Since inception[2]	19.30

EXPOSURES (as at 30 June 2018)

	% of NAV
Long exposure	90.7
Less: short exposure	(55.0)
Net market exposure	35.7

POSITION METRICS (as at 30 June 2018)

	Long Portfolio	Short Portfolio
Number of positions	19	39
Largest position size	6.8	2.6
Smallest position size	3.0	0.7
Average position size	4.8	1.4

Note: sizes shown as % of NAV

TOP 10 LONG POSITIONS (as at 30 June 2018)

		% of NAV
1	Insperity	6.8
2	51job	6.6
3	St James’s Place	6.3
4	Alibaba	6.1
5	Facebook	6.1
6	Wells Fargo	6.0
7	Travelers Companies	5.3
8	REA Group	5.0
9	Vivendi	4.9
10	Alphabet	4.8
	Total top 10 long positions	57.8

FUND SIZE (NAV) ($M) (as at 30 June 2018)

Montaka Global Fund	191.5
of which: Montaka Global Access Fund	74.7

1) The fund is forward priced; you will receive the price struck subsequent to the receipt of your application/ redemption request.
2) Inception: 1 November 2015
3) Based on average of month-end net market exposures
4) Montaka Global Fund; inception 1 July 2015
5) MSCI World Net Total Return Index in Australian dollar terms
* all exposures, metrics & positions are derived from the Underlying Fund (Montaka Global Fund)

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Next, the surrealism continued when President Trump personally met with North Korean leader Kim Jong-un in Singapore. While the meeting was more spectacle than genuine negotiation, it is surely true that the probability of a near-term armed conflict on the Korean Peninsula has thankfully decreased significantly over the last six months.

Finally, the Trump Administration rounded out the quarter by significantly elevating both the probability and the stakes of a full-blown trade war with China. On June 18, President Trump stated the following:

"On Friday, I announced plans for tariffs on $50 billion worth of imports from China… However and unfortunately, China has determined that it will raise tariffs on $50 billion worth of United States exports… Therefore, today, I directed the United States Trade Representative to identify $200 billion worth of Chinese goods for additional tariffs… If China increases its tariffs yet again, we will meet that action by pursuing additional tariffs on another $200 billion of goods."

It doesn't get much more tit-for-tat than that. In response, the Chinese Commerce Ministry stated that: "China will take actions to defend its interests" and that if the US releases a new tariffs list, then China is fully prepared to respond with "qualitative and quantitative" tools. According to Chinese analyst, Bill Bishop, those "qualitative" measures may include more inspections, production delays, administrative penalties, encouragement to use non-US products and a nasty nationalist backlash against the US and its goods.

In Montaka's December 2017 Quarterly Letter, we flagged a key risk for 2018 was a break-down in the relationship between the US and China. This has been a key source of market volatility this year and we now expect the situation to get worse before it gets better. Why?

In the days following President Trump's announcement of new potential tariffs on Chinese imports, the White House Office of Trade and Manufacturing Policy released a damning and inflammatory report, titled: "How China's Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World."

This report is well-researched with 163 references to external sources of research; many from Europe and many from publications made prior to Trump even taking Office. The report appears mostly (but not entirely) fair and highlights numerous ways in which China effects IP transfer from other countries.

One paragraph gives an accurate flavour for the tone and content of this explosive report:

"Chinese industrial policy seeks to 'introduce, digest, absorb, and re-innovate' technologies and intellectual property (IP) from around the world. This policy is carried out through: (A) State sponsored IP theft through physical theft, cyber-enabled espionage and theft, evasion of U.S. export control laws, and counterfeiting and piracy; (B) coercive and intrusive regulatory gambits to force technology transfer from foreign companies, typically in exchange for limited access to the Chinese market; (C) economic coercion through export restraints on critical raw materials and monopsony purchasing power; (D) methods of information harvesting that include open source collection; placement of non-traditional information collectors at U.S. universities, national laboratories, and other centers of innovation; and talent recruitment of business, finance, science, and technology experts; and (E) State-backed, technology-seeking Chinese investment."

Now, irrespective of whether or not one agrees with the contents of this report, what appears undeniable is the notion that the Trump Administration is readying for a serious fight with China. Furthermore, we believe the probability that China backs down is low. The reason stems from the difference in political time horizons between the leaders of the two nations: (i) President Xi has effected a complete removal of his term limits and will remain politically uncontested for decades to come; while (ii) President Trump has until the Midterm elections in November when the Democrats could potentially take control of House of Representatives. Should the Democrats succeed, they will surely restrict the President's otherwise aggressive approach to diplomacy.

It is for this reason that we commence the second half of calendar 2018 with a high degree of caution. We believe the probability of heightened volatility in global equity markets over the coming months has increased. We have positioned Montaka's portfolio accordingly. Montaka's net market exposure is less than 40 percent. This should greatly assist in protecting the downside should equity markets fall; and we remain ready to pounce on new bargains as and when they present themselves.

We believe in building an ongoing partnership with our investors and hope to deliver a more holistic value proposition than just high risk-adjusted net returns. As such, we continue to prioritise and value investor education. This quarter, we articulate our investment thesis on Chinese online recruitment platform, 51job (NASDAQ: JOBS), following some outstanding work by George Hadjia.

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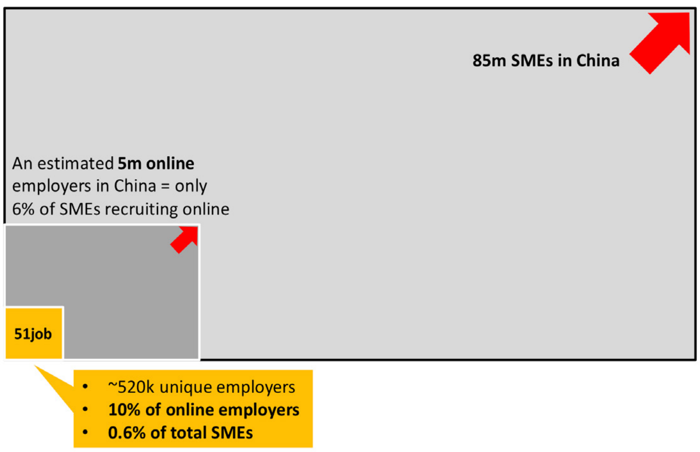
CASE STUDY: 51JOB

When you say "5" and "1" in Putonghua, the standard spoken form of modern Chinese, it sounds similar to the phrase "I want". As such, the portmanteau of "51job" – the name of the Chinese online job ad portal that has been a key holding of the global fund portfolios – is a play on words that means "I want a job", or "no worries about a job". It is then perhaps unsurprising that 51job is the preeminent online job platform in China, attracting job seekers in search of opportunities, in addition to employers looking to source white-collar talent. We continue to believe that not only is 51job one of the highest quality businesses in China, but it is also significantly undervalued today.

51job benefits from secular tailwinds

51job is in a privileged position by virtue of the online job ad market in China being at an early stage, with currently only six percent of SMEs in China recruiting online. In other words, strong future growth for 51job will be underwritten by an increasing number of Chinese businesses posting job ads online, with many transitioning their recruitment budgets from old-world channels such as newspapers and job fairs.

51job — Total Addressable Market



Source: Source: 51job; MGIM

51job offers a recruiting channel that allows firms to maximise the return on their recruitment spend, facilitating access to an unparalleled pool of white-collar workers in China, given the more than 115 million resumes in 51job's database. For access to these job seekers, 51job charges employers just RMB 40 (A$8) per job ad – an infinitesimal sum, and a fraction of the cost of advertising in newspapers or job fairs. We expect to see 51job continue to expand its share of recruitment spend over time.

51job's growth prospects are further buttressed by:

1. Rising internet penetration in China, which was at just 56 per cent in 2017, according to CNNIC;
2. Robust economic growth, with the transition of China's economy to a services-led growth model likely to result in increased hiring activity in the white-collar sectors that 51job serves;
3. A white-collar worker shortage, with the move to a services-based economy creating increased demand for engineering, finance, and accounting jobs; many employers have cited difficulty in sourcing employees for these roles. These positions all require degrees to spawn additional labour capacity. The fact that this skilled labour supply is growing at a slower pace than the demand for these workers is creating labour market tightness, a boon for 51job given that it acts as a matchmaker between job seekers and employers, helping alleviate frictions in the labour market; and
4. High job turnover, particularly among younger Chinese workers who frequently switch jobs to secure higher salaries. This increases the velocity of job ads, given that a worker leaving a job creates a vacancy that typically requires a job ad posting for it to be filled.

Favourable duopoly market structure

The Chinese online job ad market is a duopoly between 51job and Zhaopin. These two players are virtually neck-and-neck in terms of market share, but are head-and-shoulders above the distant number three competitor. However, these aggregate market shares mask the regional monopolies that both 51job and Zhaopin have carved out in different parts of China.

For example, 51job dominates Shanghai as well as Guangdong province, with double the market share of Zhaopin in these regions; conversely, Zhaopin has multiples of 51job's market share in Inner Mongolia, Hainan province, and Guizhou province. In short, the two firms have mapped out their respective territories, with the need to aggressively compete being tempered by the fact that many employers choose to advertise on both portals anyway, given the miniscule cost. We believe that the Chinese market is sufficiently large to accommodate these two players, but also subject to high enough barriers to stave off competition from smaller portals.

Part of the reason why firms will struggle to break this duopoly is because 51job is an online technology platform that exhibits network effects, a hallmark of this powerful business model. As the number of employers advertising on 51job's platform grows, the value of the platform to job seekers increases, and a growing number of job seekers will access the site and upload their resumes. This in turn attracts even more employers onto the platform, and the virtuous cycle continues. This dynamic creates platform stickiness, and given that 51job has already reached critical scale, it possesses an asset that is close to impossible to replicate by newcomers.

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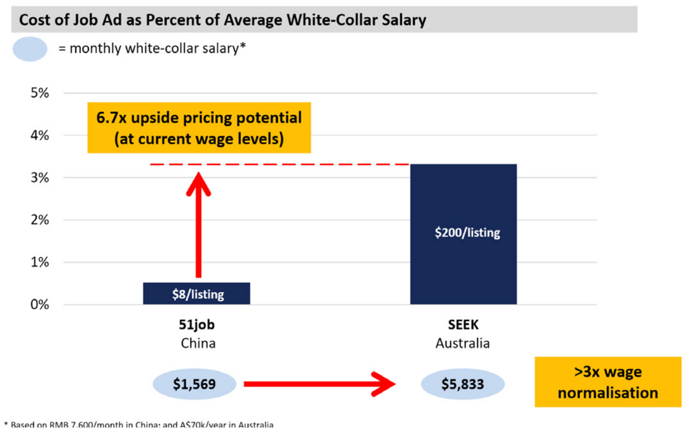
Furthermore, despite being viewed as an asset-light model, the manpower associated with managing employer relationships on the platform often goes unappreciated, and it represents a significant hurdle to competitors. 51job has a 4,300-strong sales force that covers 196 cities in China, ensuring optimal coverage of employer accounts as well as allowing product cross-selling and up-selling opportunities to deepen monetisation of existing accounts.

51job remains significantly undervalued

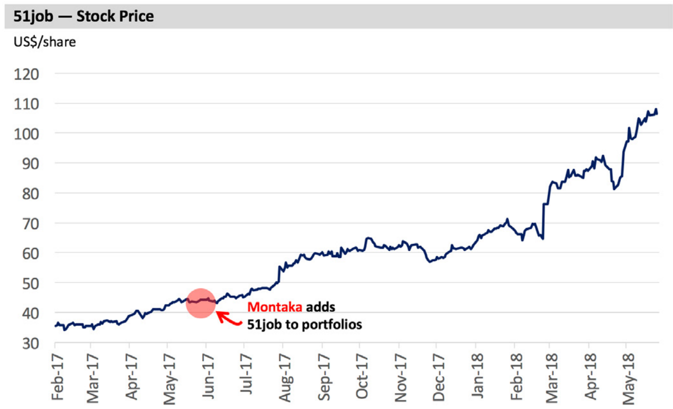
A cornerstone of Montaka's investment process is to reverse-engineer the key expectations implied by a company's stock price. When doing this for 51jobs's current $104 stock price, we can ascertain that the market is essentially baking in that the company's A$8 price of a job listing increases to A$12 and then grows only with inflation thereafter. This market-implied expectation appears absurdly conservative.

Consider that, as a percentage of an average Chinese white-collar monthly wage, this equates to around 0.5 per cent. By comparison, Australia's dominant online job platform, Seek (ASX: SEK), charges nearly 3.5 per cent of a typical white-collar monthly wage. And, of course, one would expect Chinese wages to increase structurally for decades to come as the wealth of the Chinese middle-class appreciates.



Source: 51job; MGIM

51job recently instituted price increases of up to 45 per cent on its products. We believe such price increases are only the beginning. If we are correct, then we would expect this pricing lever to supercharge revenue growth and generate margin expansion over time. For reference, if 51job can increase its average price of a job listing to just A$20 – still one tenth of the price charged by Seek in Australia – then the stock should double from its current level today.



Source: Bloomberg; MGIM

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This letter marks the three-year anniversary of the launch of the Montaka strategy: first under the Montaka Global Fund in July 2015; and subsequently in the Fund in November 2015. While each and every member of the Montaka team feels as though we are just getting started, it is worth reflecting on this small milestone.

The Montaka strategy, at its core, is seeking to participate as much as possible in strong rising markets, while significantly protecting the downside in falling markets. Putting aside the "how" we might achieve such a feat for the moment, it is important to understand just how powerful such a concept can be over the long term. We call this: compounding through downside protection. In a recent note to clients, Chris Demasi articulated this concept well.

Here is a thought-experiment. Assume an investor were to invest a sum of one million dollars in global equity markets at the beginning of 1997. He or she does this by investing in the MSCI World Index, reinvesting dividends along the way. The investment experience at the end of a two-decade horizon is a positive one indeed; the initial sum has turned into almost $4 million by the end of 2017. This is shown in the black bars on the left-hand-side chart below and the black line on the right-hand-side chart below. Now consider the same style of investment but with the ability to avoid down years.

In this hypothetical example, the same one million-dollar initial investment would actually grow to more than $11 million over the same 20-year period and outperform the previous scenario by more than $7 million. Similarly, this is shown in the red bars and red line in the following charts. And therein lies the power of downside protection for the equity market investor.

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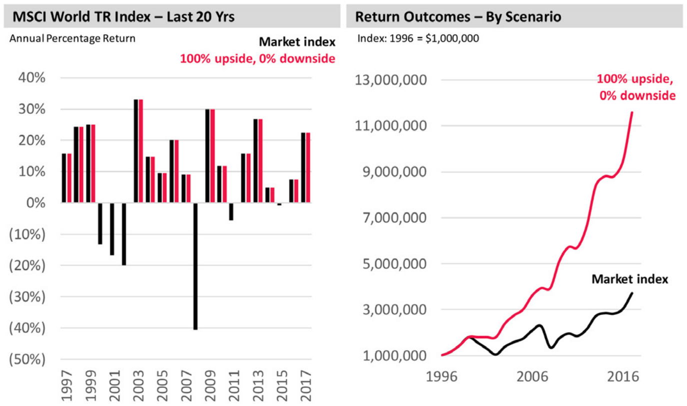


Source: MGIM; Bloomberg

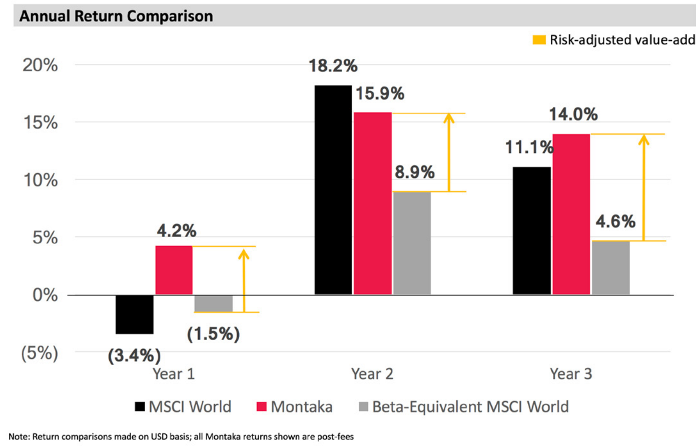
Yet there is a subtle addition that investors should appreciate. The fantastic results above were not achieved by downside protection alone. How so? Importantly wealth compounded spectacularly both by protecting the downside and capturing the upside. Repeat for emphasis: BOTH!

It would be quite simple to reduce downside risk by simply running a lower-beta portfolio. Practically this could be achieved by investing in a combination of the index and cash, or by investing in a diversified collection of low beta stocks. In either case the full downside of the market falls would be cushioned by the lower risk portfolio positioning. But in doing so we would have fallen back into our old way of thinking of risk: two-sided volatility; and we would necessarily give up some of the upside performance as well as the downside. By corollary, the return achieved by this portfolio over the two decades from 1997 to 2007 would certainly be lower than that achieved by the market. Sure the bad years would not feel as bad but the good years wouldn't be as good either. The result would be a less volatile pattern of returns rather than a better overall return outcome.

In order to achieve superior performance outcomes over the long term it is essential that we achieve an asymmetric return profile relative to the market: protecting (most of) the downside and capturing (most of) the upside. We believe that an actively managed global equities long/short strategy with variable net market exposure is well-structured to be able to achieve this. And this capability has been demonstrated by the Montaka strategy over the past three years since inception.

The following chart illustrates the point. The black bars represent the global equity market return in US dollars in each of the three one-year periods from 1 July 2015. A negative result followed by two strong results. The red bars represent Montaka's performance in the same periods. Two key points of note.

Firstly, Montaka protected capital in the year that the market declined, and actually added value, by running a low net exposure and profiting from falling stock prices through the short portfolio.



Source: MGIM

Secondly, in the bull market years that followed Montaka kept pace with the market, and even handily outperformed in the last year. While the strategy operated with a lower net exposure to the market through these periods, outperformance in both long and short books enabled Montaka to capture the market's upside.

For comparative purposes it is worth considering the performance of a hypothetical portfolio that is representative of a "beta-equivalent" index portfolio. That is, the portfolio generates returns of the index re-weighted to reduce the beta to a level similar to the ex-ante beta of the Montaka portfolio (around 0.4 for instance). The hypothetical returns of this portfolio are shown in the grey bars.

As one would expect, in year one the downside experienced is less than the market – but by no means could the hypothetical portfolio match the positive performance of Montaka. In years two and three the hypothetical portfolio fails to keep pace with the upward charge of the market. Unlike Montaka, this portfolio has no active management component to make up for its reduced market exposure. The fact that the beta-equivalent portfolio has achieved a pattern of returns that is less volatile than the market is little consolation when so much upside has been given away in the process.

The key to achieving superior investment performance over time is to understand that downside protection is the key to risk management if and only if this does not come at the expense of upside reduction. Montaka is an investment strategy that is structured to achieve this ambitious goal. So far Montaka is delivering on its objective for clients.

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We remain highly-optimistic for the future returns of the Fund. The high-quality global businesses owned in the Fund's long portfolio today remain significantly undervalued, in our view. Furthermore, should volatility return to global equity markets in a more significant way, Montaka's low net market exposure of less than 40 percent should help protect the downside and allow us to rapidly take advantage of new opportunities when they present themselves.

More important than the Fund's holdings, however, is the team that we have assembled at Montaka. The investment team of six – split between our Sydney and New York offices – could not be more disciplined, thoughtful and hard-working. Similarly, our operations and business development team works tirelessly behind the scenes, with complete integrity and professionalism, to ensure an institutional-grade infrastructure which enables our business to deliver our clients a valuable and enjoyable experience. To be leading such a dedicated and skilled team is a true privilege. And it is the composition and collective attitude of our team that is the greatest leading indicator for future success.

Finally, to each and every one of our investors: we continue to value dearly the trust you have placed in us to protect and grow your capital. It is a responsibility and privilege we never take for granted. Thank you for your ongoing support.

Sincerely,

Andrew Macken

Chief Investment Officer

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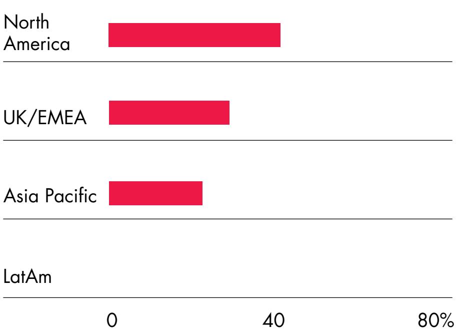
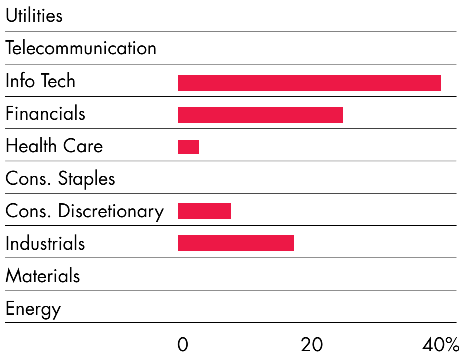
LONG PORTFOLIO (as at 30 June 2018)

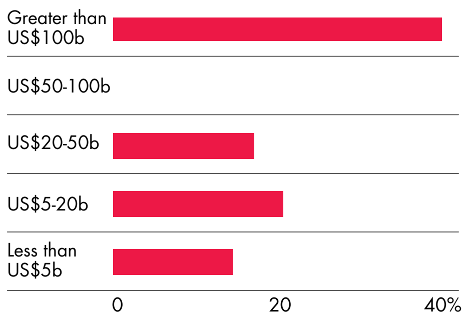
GEOGRAPHIC EXPOSURE (Country of domicile)



INDUSTRY EXPOSURE

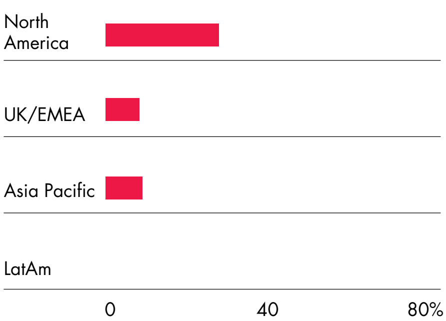


MARKET CAP EXPOSURE

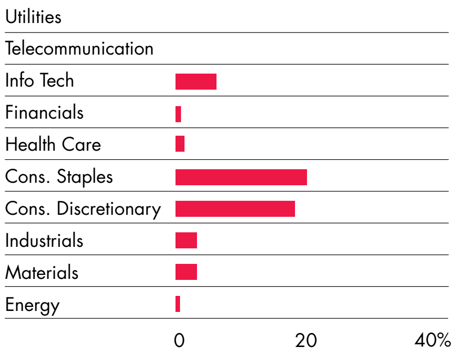


SHORT PORTFOLIO (as at 30 June 2018)

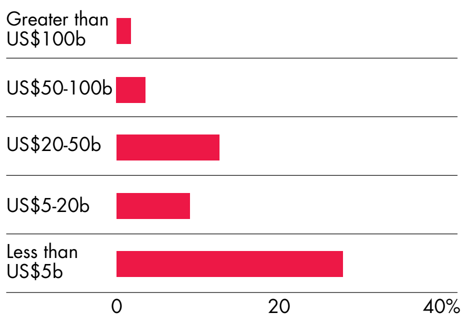
GEOGRAPHIC EXPOSURE (Country of domicile)



INDUSTRY EXPOSURE



MARKET CAP EXPOSURE



Note: exposures shown as % of NAV

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DISCLAIMER

#Fund performance is calculated after fees and costs, including the investment management fee and performance fee. All returns are on a pre-tax basis.

This report was prepared by Montgomery Global Investment Management Pty Ltd, (ACN 604 878 533) (CAR) #001 007 050 (Montgomery) the investment manager of the Montaka Global Access Fund (ARSN 607 245 643). 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 account your particular objectives, nancial circumstances or needs. You should obtain and consider a copy of the Product Disclosure Statement (PDS) relating to The Fund before making a decision to invest. 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, of cers or authorised representatives, are liable for any loss or damage arising as a result of reliance placed on the contents of this document. Past performance is not indicative of future performance.