



MONTGOMERY ALPHA PLUS FUND

INVESTMENT REPORT & FACT SHEET

FUND OVERVIEW

The Montgomery Alpha Plus Fund offers investors an Australian equity market neutral strategy that harnesses the benefits of a repeatable investment process while seeking to produce higher risk-adjusted returns over the medium term - irrespective of market conditions.

By simultaneously managing long and short portfolios of similar size, The Fund aims to reduce or eliminate the risks typically associated with extreme market gyrations.

The Fund aims to achieve returns that exceed the RBA cash rate by 6-8 per cent per annum after fees and targets a lower level of volatility than the overall Australian equity market.

Typically The Fund will hold 15-35 long positions and 15-35 short positions of equal value.

FUND FACTS

INVESTMENT MANAGER

Montgomery Investment Management Pty Ltd

OBJECTIVE

The Montgomery Alpha Plus Fund seeks to generate higher risk-adjusted returns than are available in the market place over the medium term

BENCHMARK

RBA Cash Rate

APIR

FHT0041 AU

RECOMMENDED

INVESTMENT TIMEFRAME

5 years

MINIMUM INITIAL

INVESTMENT

\$50,000

FUND SIZE

\$17.2M

INCEPTION DATE

1 AUGUST 2016

MANAGEMENT FEE

Up to 1.58% per annum, (inclusive of GST/RITC.)

PERFORMANCE FEES

17.5% of the amount by which The Fund outperforms its Benchmark. No performance fee is payable until any previous periods of underperformance have been made up.

APPLICATION & REDEMPTION PRICES*

montinvest.com/map

UNIT PRICE - BUY

0.8394

UNIT PRICE - MID

0.8373

UNIT PRICE - SELL

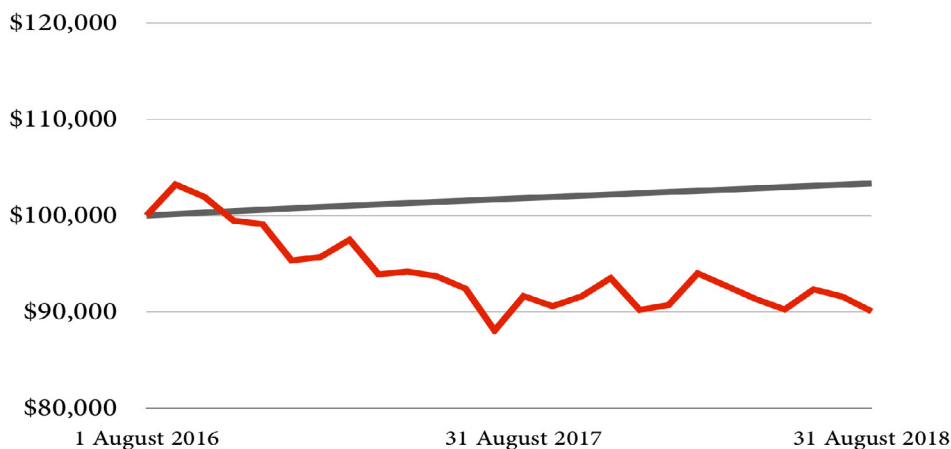
0.8352

The Fund is forward priced; you will receive the price struck subsequent to the receipt of your application / redemption request.

PERFORMANCE GRAPH

■ Montgomery Alpha Plus Fund

■ RBA Cash Rate



CONTACT DETAILS

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PORTFOLIO PERFORMANCE

(to 31 August 2018, after all fees)

	INCOME	CAPITAL GROWTH	MONTGOMERY ALPHA PLUS FUND	RBA CASH RATE	OUT/UNDER PERFORMANCE
1 month	0.00%	-1.67%	-1.67%	0.13%	-1.80%
3 months	4.74%	-4.96%	-0.22%	0.38%	-0.60%
6 months	4.56%	-8.76%	-4.20%	0.76%	-4.96%
1 year	4.67%	-6.40%	-1.73%	1.51%	-3.24%
2 years (p.a)	3.09%	-9.70%	-6.61%	1.58%	-8.19%
Since inception*	6.48%	-16.43%	-9.95%	3.36%	-13.31%
Compound annual return (since inception)*	3.06%	-7.97%	-4.91%	1.60%	-6.51%

*Inception: 1 August 2016. Ex the distribution of 2.3046 cents per unit on 30/06/2017.

PLATFORMS WE ARE ON:

None at present



FUND COMMENTARY

The August 2018 reporting season was an interesting one in the Australian equity market. While some significant share price movements - both up and down - are very much the norm during this period, there was one particular theme that we thought was noteworthy.

Firstly, in terms of performance, the long side of the Montgomery Alpha Plus Fund (The Fund) delivered a pleasing return, comfortably above the average for the ASX200 Index. However, this was more than offset by strong price rises for companies in The Fund's short portfolio, which detracted from performance, the net result being a decline of 1.67 per cent for the month.

The experience within The Fund's short portfolio was shared by other funds with short portfolios, with UBS highlighting that the top 20 most shorted stocks in the ASX200 performed significantly better than the ASX200 index during August.

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TOP COMPLETED HOLDINGS* (LONG)

(at 31 August 2018, out of 28 holdings)

COMPANY NAME	WEIGHT (%)
Macquarie Group Ltd	6.69
REA Group Ltd	6.65
CSL Ltd	6.60
Aristocrat Leisure Ltd	6.59
Wesfarmers Ltd	6.49

TOP COMPLETED HOLDINGS* (SHORT)

(at 31 August 2018, out of 31 holdings)

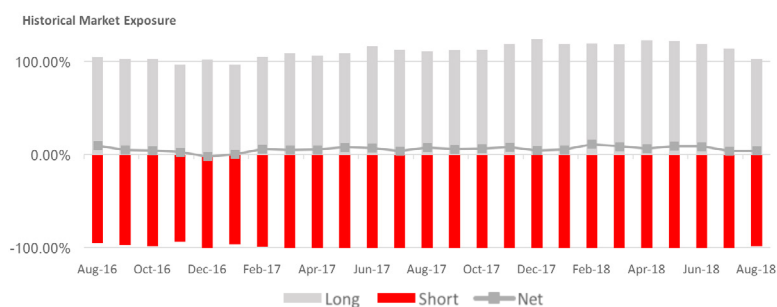
COMPANY NAME	WEIGHT (%)
Aveo Group	5.44
AMP Ltd	5.33
Nufarm Ltd	5.30
Boral Ltd	5.14
Orica Ltd	5.09

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

SECTOR INDUSTRY EXPOSURE

SECTOR NAME	LONG PORTFOLIO (%)	SHORT PORTFOLIO (%)	NET (%)
Consumer Discretionary	13.65	-16.35	-2.70
Industrials	12.05	-2.52	9.52
Consumer Staples	14.17	-8.12	6.06
Financials	16.68	-13.03	3.64
Real Estate	0.00	-8.92	-8.92
Information Technology	6.61	-9.13	-2.52
Health Care	15.12	-3.97	11.15
Materials	15.43	-31.32	-15.89
Energy	4.27	-2.49	1.78
Telecommunications	4.52	-2.66	1.86

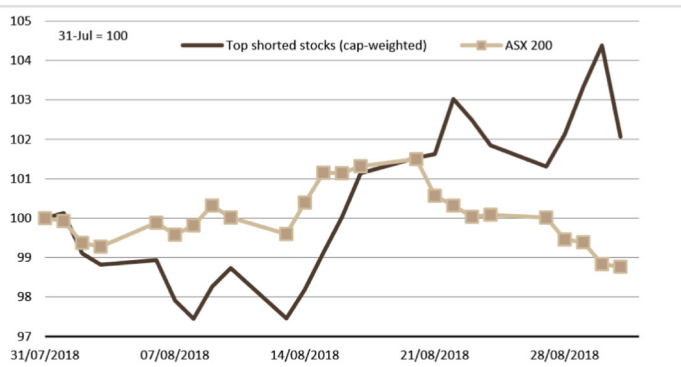
HISTORICAL MARKET EXPOSURE



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 Alpha Plus Fund ('MAPF'), ARSN 613 229 904. 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/map>. 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.



Figure 11: Performance of top shorted stocks vs. ASX 200



Source: FactSet, UBS

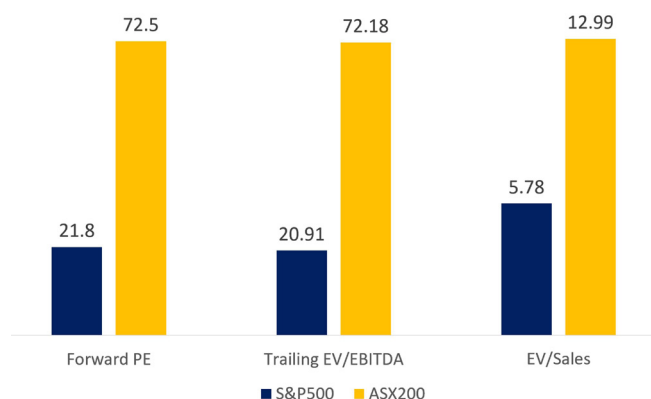
What caught our attention, however, was the market dynamic in relation to some particular names in The Fund’s short portfolio. This is perhaps best illustrated by the example of Wisetech Global, a short position The Fund entered in July, and the largest negative contributor to Fund performance (by some margin) during August.

Wisetech is a successful software business with a strong growth profile driven both by organic growth and a vigorous acquisition program. However, following an extraordinary share price run, its valuation had, by July, reached a level that appeared very stretched. Indeed, on 13 July, the Australian Financial Review reported one analyst describing Wisetech as the most expensive software stock in the world.

While it is always risky to take a short position in market darlings with strong momentum, the potential payoff in these circumstances can be very large. High multiple companies that fail to meet expectations can be dealt with harshly by the market, and when Wisetech reported its results on 22 August, our initial assessment was that the short position may produce a good result. The company’s outlook statement for the year ahead indicated growth at a rate that appeared insufficient to justify its trading multiple, and the first reports we received from brokers assigned the result to the “red” category (where green = good and red = not good).

What followed, however, was a 25 per cent rise in the Wisetech share price on the day of the results announcement, and a total share price rise of around 40 per cent for the month, significantly impacting the performance of The Fund for the month.

More broadly, the share price behaviour of Wisetech, we think, may be symptomatic of a growing level of investor exuberance for high-growth companies, particularly those in the information technology space. To further examine this, we compiled some aggregate valuation statistics for the information technology companies within the ASX200 Index and compared them with aggregate valuation statistics for the information technology companies within the US S&P500 Index. The results are as follows.



Source: Bloomberg

As shown in the chart, the Australian information technology sector appears to be trading at very high multiples, both in absolute terms and in comparison with Information Technology companies in the S&P500 Index. Wisetech is among the more extreme examples in the Australian market, trading at a forward PE multiple of close to 100 times.

While there is no doubt that Wisetech has strong growth and has some attractive features, we note that companies like Apple, Facebook and Alphabet trade on forward PE multiples in the region of 20 times. The comparison, we think, is striking.

While short-term returns are very difficult to predict, paying too high a price for an asset is generally harmful to long-term returns. Some of the companies in the ASX200 Information Technology will no doubt prove to be good long-term performers. However, our assessment is that the level of investor enthusiasm in respect of some of these names has run to extreme levels, with a corresponding risk of future disappointment. A degree of caution, we think, is needed.

In concluding, we note that, as detailed in The Fund’s Annual Letter and recent Disclosure Notice, The Fund’s strategy is being revised and extended to include global stocks, commencing in October. We are excited about the changes and look forward to working to deliver improved returns from The Fund in the years to come.

