



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

\$21.5M

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

0.8818

UNIT PRICE - MID

0.8796

UNIT PRICE - SELL

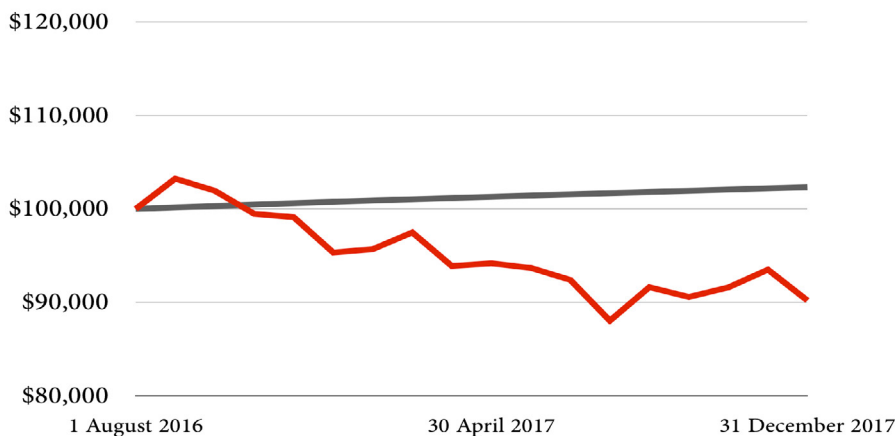
0.8774

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 December 2017, after all fees)

	INCOME	CAPITAL GROWTH	MONTGOMERY ALPHA PLUS FUND	RBA CASH RATE	OUT/UNDER PERFORMANCE
1 month	0.00%	-3.53%	-3.53%	0.13%	-3.66%
3 months	0.00%	-0.42%	-0.42%	0.38%	-0.80%
6 months	0.00%	-2.38%	-2.38%	0.76%	-3.14%
1 year	2.42%	-7.80%	-5.38%	1.56%	-6.94%
Since inception*	2.30%	-12.09%	-9.79%	2.33%	-12.12%
Compound annual return (since inception)*	1.62%	-8.64%	-7.01%	1.64%	-8.65%

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

PLATFORMS WE ARE ON:

None at present



With 2017 now in the rear-view mirror, and 2018 stretching out in front of us, it is perhaps a good time to reflect on the conditions we see in the Australian equity market, and to consider what the distribution of possibilities might look like for the year ahead.

In many ways, the current state of equity markets is “interesting”. However, it is the kind of interesting that makes us nervous - rather than excited - about how the market may behave in the year ahead. In terms of returns, 2017 marked the sixth straight year of positive returns for the S&P/ASX200 Accumulation Index, which has now risen by more than 90 per cent since the end of 2012. Most of these gains have been driven by an increase in the price investors have been willing to pay for a dollar of earnings, with growth in earnings providing only a small contribution to the result. Naturally, this dynamic has contributed to stretched valuations and elevated risk.

At the same time, observable risk measures like volatility seem to indicate the exact opposite. While common sense tells us that stretched valuations are something to be wary of, the ASX200 Accumulation Index finished 2017 with historic volatility at the lowest level seen in more than a decade. Of course, measures of volatility tell us more about the past than the future, but the combination of stretched valuations and an extreme lack of volatility strike us as interesting to say the least.

Looking at a cross section of the market, we see even more discombobulation. Extensive analysis (as well as common sense) tells us that companies with attractive economics and strong, consistent earnings and cashflows should deliver superior investment outcomes over time. In accordance with this, we have constructed the long and short portfolios for the Montgomery Alpha Plus Fund (The Fund) such that in aggregate, the long portfolio has a superior cashflow yield, a lower price to earnings ratio, higher returns on equity, and a higher dividend yield than the short portfolio.

As 2017 concludes, however, we see a market that is disinclined to reward these attributes, preferring instead to push up the prices of less profitable, more speculative businesses – so called lottery stocks. In December, for example, we see that the 5 largest negative contributors to the performance of The Fund’s short portfolio all trade on a PE multiple of at least 50 times. We think this is a party that ends with a hangover.

These dynamics can persist for some time however, and while they do The Fund will find itself facing significant headwinds. As investors will appreciate, having a “market neutral” structure means that The Fund does not necessarily benefit from a rising market, (nor does it necessarily suffer in a falling market), but relies on our ability to select stronger investment candidates for the long portfolio, and weaker investment candidates for the short portfolio. However, we also need to market to reward that relative strength.

In time we are confident that the value, risk and quality attributes that guide The Fund’s stock selection will reassert themselves as investment truths, and the Fund will gain much better traction. We acknowledge, however, that The Fund has so far failed to make headway, and recognising this, the manager has decided to halve the management fee charged to The Fund for a 6-month period to 30 June 2018.



TOP COMPLETED HOLDINGS* (LONG)

(at 31 December 2017, out of 31 holdings)

COMPANY NAME	WEIGHT (%)
Rea Group Ltd	6.55
Rio Tinto Ltd	6.28
Wesfarmers Ltd	6.09
ASX Ltd	6.07
Sandfire Resources	6.00

TOP COMPLETED HOLDINGS* (SHORT)

(at 31 December 2017, out of 34 holdings)

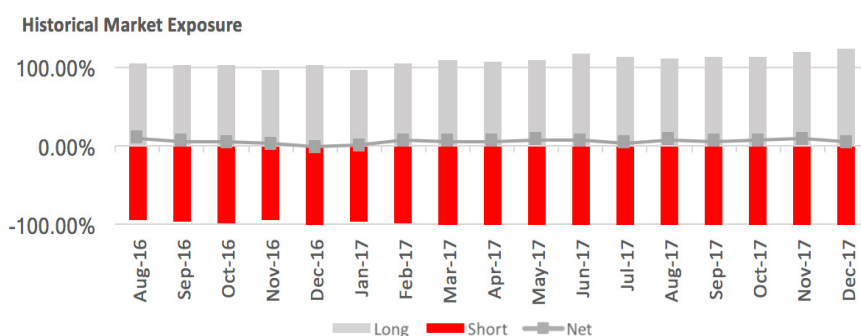
COMPANY NAME	WEIGHT (%)
Aveo Group	5.30
Independence Group	5.30
James Hardie Industries	5.00
HT&E Ltd	5.00
Fletcher Building Ltd	5.00

*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	7.85	-32.51	-24.66
Industrials	14.56	-5.25	9.31
Consumer Staples	13.75	-15.70	-1.95
Financials	32.84	-13.10	19.74
Real Estate	0.00	-9.73	-9.73
Information Technology	20.88	0.00	20.88
Health Care	9.69	-3.76	5.93
Materials	17.06	-29.92	-12.86
Energy	0.00	-5.61	-5.61
Telecommunications	7.62	-4.18	3.44

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.

