Montgomery Global Fund
INVESTMENT REPORT & FACT SHEET

FUND OVERVIEW

The Montgomery Global Fund (the Fund) employs a highly disciplined, bottom-up, value style and typically invests in 15 to 30 high conviction stocks listed on major global stock exchanges. The focus of The Fund is on investing in what Montgomery Global regards as high quality businesses with attractive prospects trading at a discount to their estimated intrinsic value.

The Fund has the flexibility to retain a reasonable level of cash, with a "soft" 30 percent limit. The Fund will generally be currency unhedged but we can put in place strategies aimed at protecting investor capital against currency fluctuations if we predict material upside to the Australian dollar.

The Fund aims to deliver superior positive returns when suitable investment opportunities are abundant, and to preserve capital through cash allocations when an insufficient number of company names are appealing.

FUND FACTS

INVESTMENT MANAGER
MGIM Pty Ltd
(AFSL: 516942)

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

BENCHMARK
MSCI World Net Total Return Index, in Australian dollars.

FUND CONSTRUCTION
The Fund will typically invest in a portfolio of 15-30 high-conviction stocks listed on the major global stock exchanges. Cash typically ranges from 0%-30%, but can be exceeded in certain situations.

APIR
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RECOMMENDED INVESTMENT TIMEFRAME
5 years

MINIMUM INITIAL INVESTMENT
$25,000

INCEPTION DATE
1 JULY 2015

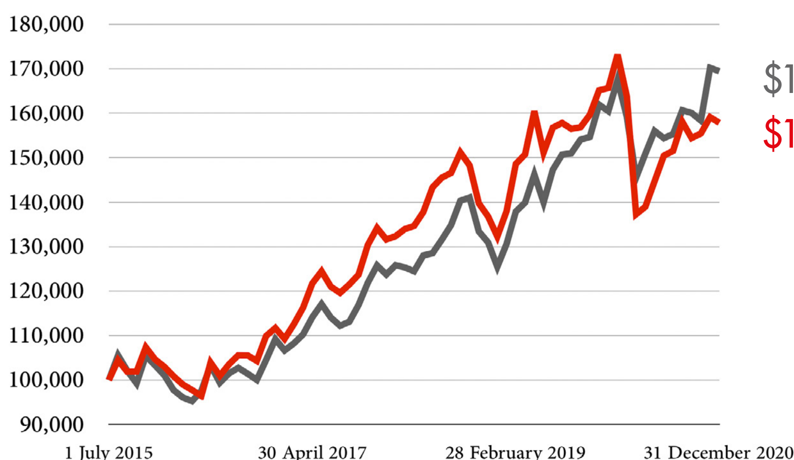
FUND SIZE
$169.9M

MANAGEMENT FEE
1.28% per annum, inclusive of GST/RITC.

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

APPLICATION & REDEMPTION PRICES
montinvest.com/mgf

PERFORMANCE GRAPH



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PORTFOLIO PERFORMANCE

(to 31 December 2020, after all fees)

	INCOME	CAPITAL GROWTH	MONTGOMERY GLOBAL FUND	MSCI WORLD NET TOTAL RETURN INDEX[1]	OUT/UNDER PERFORMANCE
1 month	0.00%	-0.79%	**-0.79%**	-0.46%	-0.33%
3 months	0.00%	2.22%	**2.22%**	5.85%	-3.63%
6 months	0.00%	4.92%	**4.92%**	9.74%	-4.82%
12 months	1.87%	-6.59%	**-4.72%**	5.58%	-10.30%
3 years (p.a)	6.69%	-0.44%	**6.25%**	11.04%	-4.79%
5 years (p.a)	6.41%	2.50%	**8.91%**	10.88%	-1.97%
Since inception[2]	37.50%	20.35%	**57.85%**	69.43%	-11.58%
Compound annual return (since inception)[2]	5.96%	2.69%	**8.65%**	10.06%	-1.41%

1) In Australian dollars 2) Inception: 1 July 2015

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FUND COMMENTARY

In the month of December, the Montgomery Global Fund (the Fund) declined by 0.79 percent, net of fees. Over the same period, the MSCI World Total Return Index in Australian dollar terms (the Benchmark) declined by 0.46 percent. Since inception, the Fund has increased by 57.85 percent, net of fees, delivered with an average cash holding of 17.2 percent. Over the same period, the Benchmark has increased by 69.43 percent.

Reflecting on 2020

Most importantly in 2020, we reinforced our commitment to long-term compounding of our client's capital, alongside our own. Our resolve to own the long-term winners in attractive markets has never been stronger which is demonstrated by the added exposures across both existing and new holdings.

It should come as no surprise that we consider the past year to be the most arduous for us since we established Montaka in 2015, and possibly since we started our careers almost two decades ago. The outbreak of coronavirus in the beginning of the year would go on to become the worst pandemic in more than a century, and over the remainder of the year caused enormous personal, social, economic, and financial market upheaval worldwide.

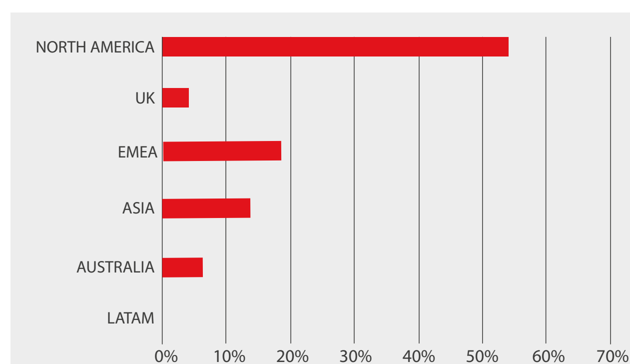
Continued on the next page…

TOP TEN HOLDINGS

(at 31 December 2020, out of 26 holdings)

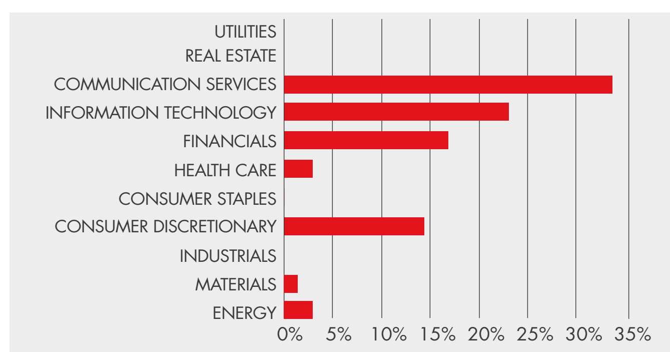
COMPANY NAME	COUNTRY OF DOMICILE	MARKET CAP ($USDM)	WEIGHT (%)
Facebook	US	778,040	7.0
Microsoft	US	1,681,606	6.8
Vivendi	FR	38,218	6.6
Spotify	SE	59,655	5.3
Alibaba	CN	649,372	5.3
REA Group	AU	15,130	4.8
Alphabet	US	1,185,264	4.8
St James's Place	GB	8,322	4.8
ServiceNow	US	107,389	4.7
Blackstone	US	77,385	4.7
PORTFOLIO MEDIAN		170,377	4.3
Total equity weighting			95.2
Total cash weighting			4.8

GEOGRAPHIC EXPOSURE*



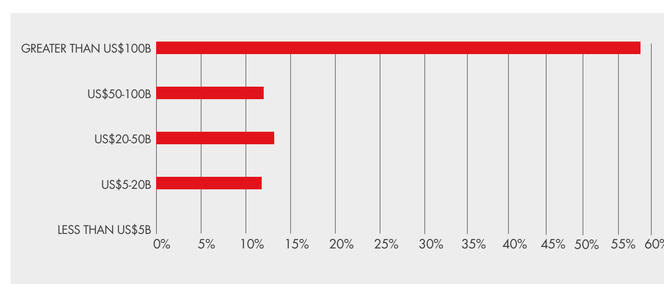
*Country of Domicile

INDUSTRY EXPOSURE*



*GICS Sector

MARKET CAPITALISATION EXPOSURE



PLATFORMS WE ARE ON: Netwealth IDPS · Netwealth Super · BT Panorama · BT Wrap · Powerwrap · Macquarie Wrap · HUB24 · Asgard · Colonial FirstWrap · Ausmaq · uXchange

#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 MGIM Pty Ltd, (ACN 604 878 533) AFSL 516 942 the investment manager of the Montgomery Global Fund (ARSN: 604 883 418). 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, financial 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. Available here: https://fundhost.com.au/fund/montgomery-global-fund/. 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 document. Past performance is not indicative of future performance.

The pandemic threatened lives, livelihoods, and lifestyles. Heavy restrictions were put in place around the globe causing a sharp reduction in output and heightened risk of substantial erosion of capital, even after already-large market declines. The largest fiscal and monetary policy response in history was provided to stop-gap the shutdown of entire economies and maintain functioning financial markets. This turned into the sharpest stock market rebound in history even as the public health tragedy continued and economies relied on government and central bank support.

At the same time the coronavirus pandemic ushered in enormous change to the way we live, work, and entertain ourselves. Entirely new behaviours and practices became commonplace and trends that had already been set in motion were accelerated. Large marketplaces expanded and winning businesses were cemented.

This change has created enormous opportunity to invest meaningfully in advantaged digital winners like Facebook, Microsoft, Spotify and ServiceNow, that are both stable and adaptable, with predictable and growing revenues and profits. We have also found wonderful opportunities across other sectors of the economy, like the payment network giants and large alternative asset managers, and over the next decade probabilities are favourable for them to compound shareholder value strongly.

Looking ahead to 2021 and beyond

As 2021 begins we believe conditions are favourable for equities broadly, recent record stock market levels and violent political confrontations in the US notwithstanding.

Consistent with the outlook of Dr. Anthony Fauci, we are looking forward to being "very close to a degree of normality" by the second half of this year.

Last month, the first coronavirus vaccine was approved for emergency use and several more have followed. This is an enormously positive outcome considering most vaccines take a decade or more to be developed and approved, and usually with significantly lower effectiveness. There is now a race to roll out the vaccines as the spread of the virus accelerates in many parts of the world, with cases, hospitalizations and deaths surpassing prior peak levels, and more transmissible strains identified, as lockdowns and restrictions have tightened. Already over 15 million people have been vaccinated and the ramp-up is expected to be exponential. Wealthy countries have purchased billions of doses and most of their populations should be vaccinated by some time after the middle of the year.

While questions around the robustness of the vaccine are outstanding, it is widely considered to provide a strong defence against the virus and its disease, especially in combination with existing social distancing, tracing, and testing practices.

Meantime most of the global economy will still require fiscal support and governments remain willing to provide this bridge. Early in 2020 the pandemic halted the longest economic expansion on record, and all large economies except China will record negative economic growth for 2020. Yet record fiscal stimulus is buoying economies, led by the US government which has provided a boost equivalent to 12% of GDP. Most recently US Congress passed its 5th stimulus bill to provide an additional $900 billion in the form of payroll support for businesses, and direct cheques and expanded unemployment benefits for households. Even more is expected under the incoming Biden administration.

Simultaneously global central banks are providing ongoing monetary support, injecting an unprecedented level of liquidity into the economy, and keeping policy interest rates low. The US Federal Reserve's balance sheet now exceeds US$7 trillion, policymakers expect short term interest rates to remain low for years, and Federal Reserve Chairman Jerome Powell last month pledged to continue purchasing bonds at the current pace until the "recovery is complete".

Aggressive policy actions combined with strong structural forces, like high levels of indebtedness, and technological and demographic change, are likely to keep interest rates low for an extended period. This boosts the value of equities, especially those with predictable and growing cash flows that we have consolidated around in the long portfolios.

We are witnessing closure on geopolitical events that once presented heightened uncertainty, notwithstanding some final convulsions.

After 47 years of EU membership Britain regained its independence and Prime Minister Boris Johnson averted potential economic and financial market fallout by reaching a trade deal with the EU on New Year's Eve.

Then in the first week of the new year, disturbing scenes showed rioters storming Capitol Hill in Washington D.C. Incited by President Trump's earlier speech, the mobs delayed the certification of the results of last November's US Presidential election. Congress resumed proceedings a few hours later and Joe Biden was ultimately confirmed as President-elect of the US, to be inaugurated 20th January. President Trump has promised an orderly transition of power at this time but is now under immense scrutiny from both Democratic and Republican lawmakers. As we published this letter, Trump became the only president to be impeached twice.

A day before the riot the Democrats won both Senate seats in the Georgia runoff completing a Blue sweep including a Democratic President, majority in the House and majority in the Senate (with Vice President-elect Kamala Harris as the tie breaker). Even so, sweeping and ambitious reform is unlikely given the narrowest winning margins in history and several moderates in both Republican and Democratic parties.

Instead, we are more likely to see some return of functional co-operative politics, notwithstanding Democratic control of the legislative agenda.

In the near-term, we are most likely to see additional fiscal stimulus buffer the economy and broad infrastructure spending should come into focus. While concern around corporate tax rate changes is justified, it could be moderate or tiered, and levies could also be applied to very wealthy individuals in part. All considered the first year of the Biden Presidency could be very stimulatory.

While Biden's rhetoric on China is tough, he should be less disruptive and unpredictable than President Trump, and more willing to work together with US allies. Meantime, US relations with China remain terse albeit somewhat on hold, including tariffs, trade deals and executive orders. Trump recently issued executive orders to ban Chinese payment apps AliPay and WePay, along with others, and the New York Stock Exchange has moved to ban trading in stocks of three important Chinese telecommunication companies in line with prior executive orders.

Regulation of Big Tech has come into focus over the past year, gaining bipartisan support, and building to the Federal Trade Commission, Department of Justice and state attorneys general filing lawsuits against Facebook and Google by the end of the year. However, given the benefits both companies provide consumers and societies, without charge, and their astoundingly high levels of investment in innovation, it seems these cases will likely be challenging to prosecute as well as time-consuming (Google's tentative case date is in 2023). Moreover, it is unclear that any resolutions would be particularly onerous on operations or business value, even if some acquisitions are ultimately reversed, or fines or settlements paid. At this stage we believe the companies and regulators are best to work together to find lasting practical solutions and this ultimately favours incumbency.

In China, a raft of regulatory crackdowns hastened toward the end of the year exerting pressure on technology platforms with expanding social and economic influence, in particular Jack Ma's Alibaba and Ant Financial. The Ant IPO was effectively halted by President Xi after banking regulators issued new draft rules proposing restrictions on microlenders; a week later the market regulator issued draft antitrust rules focussed on technology platforms; on Christmas Eve the regulator commenced an investigation into monopolistic practices at Alibaba specifically, and the People's Bank of China and bank regulator summoned Ant to a meeting to urge greater compliance with rules; and most recently, Ant's treasure trove of consumer credit and spending data is now being targeted as a source of unfair advantage over small lenders and big banks.

We expect the impacted companies to be highly co-operative and compliant. While they may ultimately face changes to their operations that curtail their aspirations, as well as fines or settlements, there is still scope for their industry dominance to co-exist with the Chinese Communist Party's objectives.

Even as risk levels moderate on balance and probabilities of favourable outcomes increase, equity markets have continued to rise following their sharp rebound earlier in the year and are now at record levels. Earlier, digital winners led the rally as they benefitted immediately from stay-at-home orders and then as the markets for their innovative products and services expanded. More recently, beneficiaries of economic re-openings have been strong performers, albeit many face significant structural pressures that have worsened through the pandemic and have been left without balance sheet stability. More speculative issues have traded to extremely high prices, and it is difficult to understand how investors can expect to generate attractive long-term returns. These include black-box SPACs and several recent tech IPOs, where it is still unclear if these businesses will come to dominate their markets, and if they will ever generate positive profits and cash flows.

On the other hand, we believe the collection of businesses owned in our funds remain substantially undervalued. They have lasting advantages, adaptability, highly predictable and durable cash flows, large expanding existing markets, and additional opportunities in new marketplaces that are unrecognised or underappreciated by the market. Many of these portfolio investments are digital winners or data-driven, but of course we have also made attractive investments in excellent businesses outside these trends. Together with Phill Namara, our most recent full-time addition to Montaka's analyst team, we present the investment case for Blackstone (NYSE: BX), the world's largest alternative asset manager.

CASE STUDY: BLACKSTONE

Blackstone was founded in 1985 as a mergers and acquisitions advisory firm by former bankers Stephen Schwarzman and Peter Peterson. After the 1987 stock market crash Blackstone transitioned into private equity and pioneered the leveraged buyout model. Since then, Blackstone has created the world's largest alternative asset management firm, and today manages nearly US$600 billion across private equity, real estate, infrastructure, natural resources, hedge funds and credit for clients that include some of the world's largest pension funds, sovereign wealth funds, insurance companies, and endowments.

Exponential growth in alternative and private assets

Over the past two decades the market for alternative and private assets has grown by more than ten times to around US$6 trillion. Over the next decade there is still enormous scope for this market to expand as institutional investors continue to seek investments that provide access to new opportunities, improve the risk profile of their portfolios, and with higher return potential to meet their obligations.

In the US the number of publicly listed equities has fallen by about a quarter over the last quarter of a century. The decline reflects mergers and acquisitions and a slowing rate of IPOs, as well as the delisting of many smaller companies. The remaining public companies have become older and more concentrated within selected industries.

By contrast the private equity universe has expanded significantly and now offers investors opportunities beyond traditional leveraged buyouts and across a wide range of sectors, like venture capital and growth equity in biotechnology and software. More broadly, private market investors can invest in real estate, infrastructure and energy assets that are unavailable in listed form.

Alternative assets also provide investors with portfolio diversification benefits. Typically, the returns from private assets, hedge funds and structured credit are uncorrelated with traditional public equities and bonds, so adding these investments improves portfolio risk/reward outcomes. Reported returns of private assets are also less variable than public markets because valuation remeasurements are more orderly than listed market price movements, which reduces portfolio volatility.

In addition, alternative assets have become a highly attractive substitute for fixed-income investments to improve returns, often without meaningfully increasing portfolio risk. Alternative assets promise higher returns than traditional assets, by using leverage, manager skill and resources, or extracting a liquidity premium. In an environment of low, zero, and even negative interest rates this is becoming even more valuable to institutional investors struggling to meet their fixed obligations. While a pension fund in the 1990s could achieve 80% of its required long-term returns by investing in US Treasuries, today only a quarter of its obligations can be funded with risk-free bond investments.

We expect alternative assets to grow by more than 10% per annum on average over the next decade, as penetration of the broader asset management industry continues, accelerated by an extended period of low interest rates. Even though the value of private equity companies worldwide has increased eight-fold over the last 20 years it still represents less than 4% of the market capitalization of global public equity markets; and about half of institutional investors report to be under-allocated to private equity, with private market allocations averaging just 6% of total assets.

Blackstone best-in-class and underappreciated

As the best-in-class alternative asset manager in the world, Blackstone is positioned to capture an outsized share of the industry's exponential growth and outperform the market's expectations. Blackstone's advantage comes from its strong reputation, stellar track record, and comprehensive scale platform that incentivises clients to place more assets with Blackstone and increases the cost of switching their business.

Since 1987 when Blackstone raised its first private equity fund, the firm has built an enviable track record of strong performance and has fostered strong client relationships. Blackstone's funds have consistently generated double-digit annual returns for more than thirty years and raised larger successor funds, including $26 billion for the largest ever private equity fund in 2019. Institutional clients have gained tremendous confidence allocating to Blackstone, with one senior executive commenting that "much like IBM, nobody ever got fired for choosing Blackstone".

Blackstone's enormous scale provides advantages beyond its compelling investment performance. With over half a trillion dollars of assets under management, and several mega-funds worth tens of billions of dollars, Blackstone is one of only a few firms that the world's largest institutional investors can rely on to effectively allocate their large sums of capital across different asset classes. For example, in 2018 the Saudi sovereign wealth fund pledged $20 billion to help Blackstone launch the world's largest infrastructure fund.

Blackstone's scale has also supported a comprehensive client service platform, including in-house teams that streamline due diligence, legal, compliance and regulatory checks that have become paramount for any institutional investor. Other teams work with clients to identify investment needs from exposures to timing of investments, as well as collaborating to augment, extend and restructure existing investments. These teams form close-knit relationships with clients and become embedded in their processes, improving the ease of allocating more assets to Blackstone, and increasing the risks, frictions, and costs of switching away.

We believe the market is substantially underestimating the growth in Blackstone's earnings power as institutional investors continue to allocate to alternative assets where Blackstone is their first and most compelling choice. We also think the market is underappreciating the boost to valuations of Blackstone's existing assets under management, and accelerating inflows of new assets, in an environment of low interest rates. Over the past year Blackstone's share price is almost unchanged even as assets under management have risen at a double-digit percentage rate and interest rates have fallen. In our view, the current share price offers investors an attractive acquisition price for the world's leading alternative asset manager as the industry expands exponentially.

Final words

As 2020 drew to a close the Montaka team gathered together last month for our annual retreat. Unfortunately, we could not bring our Sydney and New York team members together physically this year, but we managed to stage a virtual event which was no less effective. We reflected on our performance and processes, shared feedback, and looked for learnings and action items as we strive for continual improvement.

A highlight of this year's retreat was a presentation and discussion hosted by the mental skills coach for the All Blacks, which local readers will know as the New Zealand men's rugby team. The All Blacks are the world's most successful sports team and our speaker for the day has been training their minds and psyches for the past 20 years. We came away from the session with a library of notes, but there was one piece of advice that stood out as a guide to lasting success: be radically traditional, preserve the core and disrupt the edges.

Earlier this year we reinforced our commitment to long-term compounding of our client's capital, alongside our own. This is our core which we have preserved by focussing on the long-term winners in attractive markets. At the edges we are working tirelessly to ensure our processes, risk controls, and portfolios are continually being improved and updated to capture excellent investment opportunities.

At this time, we want to thank you for your trust and support over the past year, and all the years that you have been invested together with us. We know there will always be ups and downs from year to year but at the core of Montaka we have the right team, structure and philosophy to compound your capital, alongside our own, over the long term.

Sincerely,

Andrew Macken
Chief Investment Officer

Chris Demasi
Portfolio Manager