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
$451.0M

MANAGEMENT FEE
1.36% 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

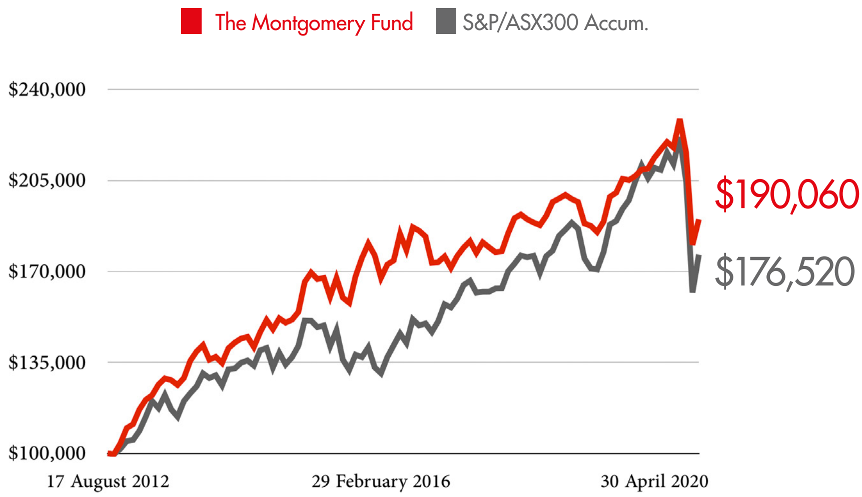
FINANCIAL YEAR RETURNS

FINANCIAL YEAR	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX
2013*	26.3%	14.1%
2014	11.6%	17.3%
2015	13.7%	5.6%
2016	11.2%	0.9%
2017	1.7%	13.8%
2018	9.3%	13.2%
2019	4.4%	11.4%
Since Inception**	8.70%	7.66%

* 2013 is the period 17 August 2012 to 30 June 2013

**Compound annual returns

PERFORMANCE GRAPH



PORTFOLIO PERFORMANCE

(to 30 April 2020, after all fees)

	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	5.41%	**5.41%**	9.02%	-3.61%
3 months	0.00%	-16.89%	**-16.89%**	-20.39%	3.50%
6 months	1.10%	-13.46%	**-12.36%**	-15.58%	3.22%
12 months	5.46%	-13.05%	**-7.59%**	-9.06%	1.47%
3 years (p.a.)	5.34%	-3.83%	**1.51%**	1.98%	-0.47%
5 years (p.a.)	5.30%	-2.69%	**2.61%**	3.51%	-0.90%
7 years (p.a.)	5.39%	0.32%	**5.71%**	5.36%	0.35%
Since inception#	57.26%	32.80%	**90.06%**	76.52%	13.54%
Compound annual return (since inception)#	6.05%	2.65%	**8.70%**	7.66%	1.04%

 # 17 August 2012

FUND COMMENTARY

The Montgomery Fund (The Fund) posted a 5.4 per cent return in April, despite maintaining a very defensive position and refraining from deploying meaningful cash ahead of a period in which we believe inheres heightened risk. The Fund's return lagged its benchmark by 3.6 per cent and held a cash balance of 28 per cent at the end of April, down from 32.5 per cent at the end March.

After the historic rout in March, where the ASX 300 recorded its largest monthly fall in 30 years, the market reversed course, producing its largest monthly rise of 9 per cent. The strong performance, which officially registers a new 'bull market', reflected enthusiasm about an end to lockdown measures, a flattening of the global coronavirus curve, elevated number of secondary capital raisings and positive trial results from Gilead's Remdesivir drug, as well as central bank and government support programs.

The gains however are at odds with sharply deteriorating and recessionary economic conditions, and a historic collapse in crude oil that saw West Texas Intermediate oil futures post its first ever negative price, settling on April 21 at -$37.63/barrel as futures holders had to pay buyers to remove their obligation to take delivery of physical oil.

We remain biased to the preservation of your capital at this stage of the crisis when, relative to current share prices, the risks to the economy and businesses remain high.

As an aside, The Fund's short-term relative performance was impacted by an 8 per cent decline in its Avita Medical (ASX:AVH) holding late in April. There was no specific operational catalyst and the company had provided a positive trading update earlier in the month, which at the time boosted the share price. We believe the company's announced intention to redomicile to the US may have raised concerns about a potential Australian de-listing.

Continued on the next page…

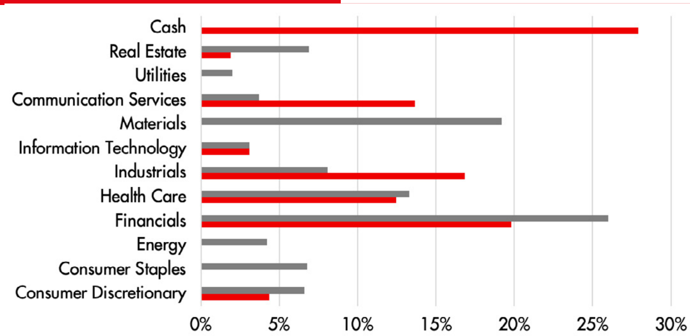
TOP COMPLETED HOLDINGS* (TCH)

(at 30 April 2020, out of 26 holdings)

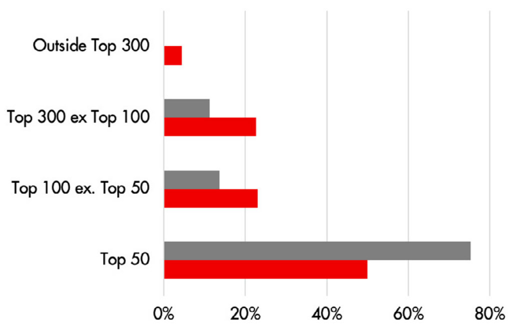
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
Atlas Arteria	5.3	21.9	52.4	6.05
CSL	N/A	N/A	N/A	5.53
Telstra Corp	20.3	114.6	12.6	5.20
Sydney Airport	N/A	N/A	32.3	5.05
Avita Medical	N/A	N/A	N/A	4.94
Reliance Worldwide	8.3	30.3	14.1	4.52
Spark New Zealand	28.6	114.3	19.3	4.34
Commonwealth Bank	12.0	N/A	14.7	4.09
Medibank Private	22.2	-33.9	16.5	3.36
Macquarie Group	9.0	N/A	13.6	2.99
TCH AVERAGE	15.1	49.4	21.9	
MARKET AVERAGE	9.5	47.8	17.9	
Total equity weighting				72.10
Total cash weighting				27.90

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: Ausmaq · AMP PortfolioCare · AMP Summit · AMP Wealthview · AMP North · Asgard · BT Wrap · BT Panorama · Colonial First Wrap · Clearview Wealthsolutions · Investment Exchange (IX) · Federation Accounts · HUB24 · Linear Managed Accounts · Macquarie Wrap · MLC Wrap · Navigator · Netwealth IPDS · Netwealth Super · OneVue · Powerwrap · UBS

Our discussions with management suggest re-domiciliation is a sensible course of action, most notably in eliminating duplication of compliance related activities and costs. The formation of Chess Depository Receipts (CDIs) in Avita ensures no disruption to trading in Australia, and we note Resmed (ASX:RMD) as a successful example of such arrangements.

As mentioned, April was characterised by an expected wave of secondary capital raisings. More than twenty-seven companies collectively raised a total exceeding $14 billion and we expect many more to follow. While The Fund sought to participate in a number of equity raisings and placements, the biggest of which was Ramsay Healthcare's $1.4 billion placement, we have had to be mindful of the fact that in some cases the raisings dilute both equity-per-share and return-on-equity (especially when the equity raised is being used to pay down low-interest-rate debt) and this adversely impacts intrinsic values on a per share basis. Again, in some cases, the enthusiastic share price responses are at odds with the fundamental reality.

Fund positioning

Despite the strong bounce recorded in April, the ASX 300 Accumulation Index remains some 22 per cent below its February 2020 peak. Given recent positive momentum in most risk assets, it is helpful to explain the hypothesis behind The Fund's continued caution.

As long-term investors will be aware, The Fund has historically held higher levels of cash. This was particularly detrimental to relative performance against the benchmark from 2016 to mid-2019. Since mid-2019, The Fund has registered outperformance and we are pleased to have outperformed during both the late stages of the bull market, and more meaningfully during the recent crash.

While the crash has presented opportunities, many depressed share prices come with an elevated level of risk, as coronavirus upends business models and clouds the outlook for both balance sheet liquidity and future profitability.

We note a multitude of companies have pulled their earnings guidance – even they don't know what their businesses are going to look like over the next reporting period, and many CEO's globally have noted some businesses won't come back.

The Fund's cautious stance is therefore a product of the potential risks that may impact the trajectory of economic activity and earnings over the remainder of 2020 – which will then flow to 2021 – before a hoped-for vaccine normalises human and economic activity.

The more severe the damage, the longer the necessary subsequent deleveraging that will impact the velocity of economic recovery. The outlook not only includes a severe recession of unknown duration, but also significant, somewhat observable tail risks including increasing civil unrest (in the US, for example) and deteriorating geopolitical relationships such as between the US and China.

The market's optimistic willingness to price in a short and sharp V-shaped recovery, and increasingly look beyond the 2020 earnings crevasse is highlighted in Table 1.

Table 1. reveals the ASX 300 Forward Price-to-Earnings ratio (PE) by sector and shows that while earnings per share (EPS) estimates continue to lag real-time updates for many companies and sectors, the market is willing to pay a high multiple for these earnings. This sets a very high bar for the earnings recovery required to justify current market prices.

Table 1. ASX 300 Forward PE's.

Sector	LTM	FY20	FY21
ASX300	18.3	18.4	16.8
Banks	12.1	13.1	11.3
Resources	13.1	12.8	13.4
Information Technology	58.4	49.2	41.7
Healthcare	45.1	42.4	36.1
Industrials	30.6	36.3	25.6
Consumer Staples	28.0	24.1	21.6
Consumer Discretionary	18.6	23.1	20.9
Telcos	33.1	20.0	19.2
Energy	15.0	20.0	18.4

* LTM: Last Twelve Months.

Following the rebound, those businesses marginally or negligibly impacted by the crisis remain expensive and therefore less attractive to us, while many companies with weak balance sheets and higher risk or cyclical business models demand a margin of safety that generally has not been available.

As mentioned earlier, we remain intent on preserving your wealth at this stage of the crisis.

A number of new holdings have been considered (and a small number introduced) over the past six weeks, however The Fund will likely stage or 'phase' weighting increases given both elevated levels of share price volatility and enduring uncertainty about earnings and prospects.

Outlook

As markets continue to focus on easing restrictions and a hoped-for economic recovery, our current view is that "opening up" will not equate to a normalisation of human activity. Instead, we anticipate governments will be forced to balance the requirement to limit economic damage against the need to protect citizens. Amid multiple reports of the Coronavirus mutating, social distancing requirements are expected to remain in place, mitigating a second wave of infections and limiting the pace of economic recovery.

Australia's low infection rate and contact tracing does not limit the uncertainty surrounding the success of any staged return to work and economic activity. We expect an elevated level of caution in human behaviour - especially during the Australian winter, and government benefits will, for many people, mitigate the need to return to productive work. This is likely, we believe, to mean the markets will reappraise the anticipated shape of the recovery from a "sharp V" to an "elongated U".

We note progress on both treatment and vaccine front, with encouraging news on Gilead's Remdesivir helping to fuel global market rallies. While progress is unequivocally positive for humanity and for a resumption of more normal activity (including travel), an optimistic timeline for wide-spread vaccine roll-out remains late 2020 or early 2021 given the development required and logistical challenges. As a result, social distancing will likely remain a feature of society for some time which limits the pace of economic recovery.

We remain entirely at your service, focused on preserving your capital at this juncture and available to answer your questions at any time.