THE MONTGOMERY FUND

INVESTMENT REPORT & FACT SHEET

FUND FACTS

INVESTMENT MANAGER

Montgomery Investment Management Pty Ltd

SUB-INVESTMENT MANAGER

Australian Eagle Asset Management Pty Ltd and their 17 year track record has been appointed as the sub-investment manager from 12 September 2022.

OBJECTIVE

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

STYLE

Active, bottom-up, fundamental, quality

BENCHMARK

The S&P/ASX 300 Accumulation Index

FUND CONSTRUCTION

The Fund's All Cap portfolio will typically comprise 25-35 high-conviction stocks listed on the ASX.

APIR

FHT0030AU

RECOMMENDED INVESTMENT TIMEFRAME

5 years

MINIMUM INITIAL INVESTMENT

$25,000

PORTFOLIO MANAGERS

Sean Sequeira
Alan Kwan

INCEPTION DATE

17 AUGUST 2012

FUND SIZE

$380.8M

MANAGEMENT FEES AND COSTS

1.36% per annum[1]

PERFORMANCE FEES

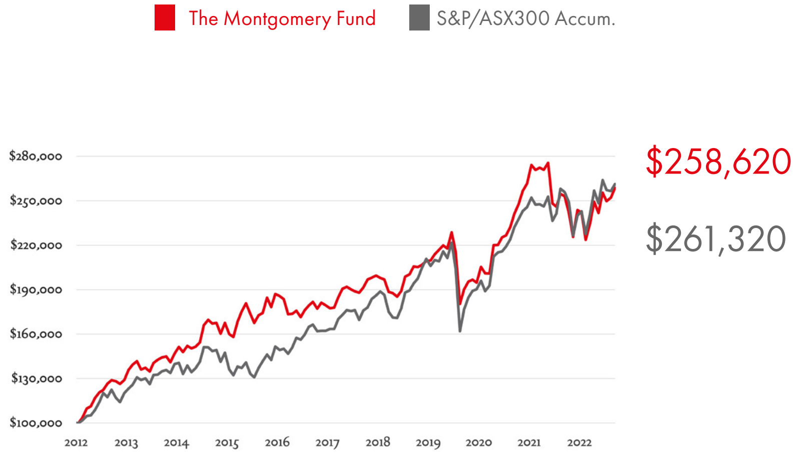
15.38% of the total return of The Fund that is in excess of the Index.[1]

[1] See page 5 of the PDS for more information

APPLICATION & REDEMPTION PRICES

montinvest.com/tmf

PERFORMANCE GRAPH



DISTRIBUTIONS

HALF-YEAR TO	CENTS PER UNIT	DISTRIBUTION RETURN (%)
December 2022	1.5263	1.07
June 2022	14.4221	8.20
December 2021	1.0019	0.59
June 2021	5.0329	3.46
December 2020	0.4601	0.35
June 2020	0.0857	0.06
December 2019	1.5974	1.11
June 2019	6.2488	4.75
December 2018	2.3155	1.52
June 2018	11.2554	7.55

PORTFOLIO PERFORMANCE

(to 30 April 2023, after all fees)

	1 month	3 months	6 months	12 months	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)	10 years (p.a.)	Since inception[2]	Compound annual return (since inception)[2]
THE MONTGOMERY FUND	2.60%	1.27%	10.24%	2.18%	10.81%	6.20%	5.80%	7.21%	158.62%	9.29%
S&P/ASX 300 ACCUM. INDEX	1.85%	-0.98%	8.38%	2.13%	13.97%	8.23%	9.14%	7.87%	161.32%	9.39%
OUT/UNDER PERFORMANCE	0.75%	2.25%	1.86%	0.05%	-3.16%	-2.03%	-3.34%	-0.66%	-2.70%	-0.10%

Fund performance prior to 12 September 2022 is not attributable to the current sub-investment manager, but the previous investment manager. Presented below is the longer-term record of the current sub-investment manager's strategy since its inception.

	1 month	3 months	6 months	12 months	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)	10 years (p.a.)	Since inception[2]	Compound annual return (since inception)[2]
AUSTRALIAN EAGLE COMPOSITE[3]	2.60%	1.27%	10.24%	4.59%	17.34%	11.41%	14.03%	11.27%	491.67%	10.25%
S&P/ASX 300 ACCUM. INDEX	1.85%	-0.98%	8.38%	2.13%	13.97%	8.23%	9.14%	7.87%	275.87%	7.54%
OUT/UNDER PERFORMANCE	0.75%	2.25%	1.86%	2.46%	3.37%	3.18%	4.89%	3.40%	215.80%	2.71%

[2] 17 August 2012

[3] The inception date of the Australian Eagle Composite is 07 February 2005. The performance represents the Australian Eagle SMA performance adjusted to include The Montgomery Fund's fees. 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. The returns in the composite include the Australian Eagle returns from 7 February 2005 to 30 September 2022, and from this point onwards include the returns in The Montgomery Fund (the first full month Australian Eagle commenced as the investment manager for this product).

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. Past performance is not indicative of future performance.

TOP COMPLETED HOLDINGS* (TCH)

(at 30 April 2023)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank of Australia	CBA	Financials	7.02
QBE Insurance Group	QBE	Financials	6.16
Rio Tinto	RIO	Materials	6.00
CSL	CSL	Health Care	5.93
Newcrest Mining	NCM	Materials	5.82
Macquarie Group	MQG	Financials	5.55
Woodside Energy Group	WDS	Energy	5.50
Cochlear	COH	Health Care	5.44
Transurban Group	TCL	Industrials	4.95
Altium	ALU	Information Technology	4.45
Total equity weighting			98.05
Total cash weighting			1.95

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

TOP 3 CONTRIBUTORS AND DETRACTORS

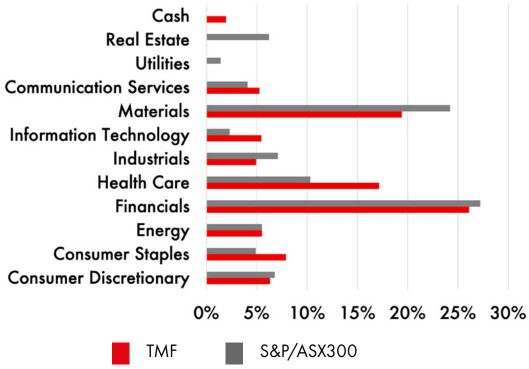
CONTRIBUTORS

Corporate Travel Management	The share price rose after being awarded with a $2 billion UK government contract
Newcrest Mining	The share price rose after receiving an improved takeover bid from Newmont Mining
QBE Insurance	The share price rose with short term U.S. bond yields

DETRACTORS

Rio Tinto	The share price fell with the iron ore price
Fortescue Metals Group	The share price fell with the iron ore price
Elders	The share price fell on weakening agricultural prices

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ ASX300 (%)	ACTIVE (%)	# STOCKS
S&P/ASX 1-20	57.1%	60.6%	-3.5%	13
S&P/ASX 21-50	20.6%	17.0%	3.6%	6
S&P/ASX 51-100	10.4%	11.7%	-1.3%	4
S&P/ASX 101-200	9.1%	8.2%	0.9%	5
S&P/ASX 201-300	0.0%	2.5%	-2.5%	0
Ex S&P/ASX 300	0.8%		0.8%	1
Cash	2.0%			
Total	100.0%			

CONTACT DETAILS

INVESTORS

Toby Roberts
t 02 8046 5017
e troberts@montinvest.com

David Buckland
t 02 8046 5004
e dbuckland@montinvest.com

ADVISERS, RESEARCHERS AND PLATFORMS

Scott Phillips
States – National
m 0417 529 890
e sphillips@montinvest.com

David Denby
States – VIC, SA & TAS
m 0455 086 484
e ddenby@montinvest.com

Michael Gollagher
States – QLD
m 0409 771 306
e mgollagher@montinvest.com

Dean Curnow
States – NSW, ACT & WA
m 0405 033 849
e dcurnow@montinvest.com

The Montgomery Fund (The Fund) returned 2.60 per cent net of all fees in April 2023 and continued its outperformance against the S&P/ASX 300 Accumulation Index, which rose 1.85 per cent. Over the past three and six months, The Fund has also outperformed its benchmark, generating outperformance of 2.25 and 1.86 per cent respectively.

Global markets remained volatile in April as company quarterly updates showcased the varying challenges of passing on rising costs, labour shortages and higher interest rates faced by businesses across industries.

Uncertainty surrounding the future path of interest rates continues to adversely impact market sentiment more broadly. The U.S. yield curve remained inverted (signalling recession expectations) but steepened slightly as U.S. inflation eased from six per cent to five per cent in March. The fast pace of interest rate hikes undertaken by the U.S. Federal Reserve appears to be beginning to have the desired effect of pushing inflation rates back down towards its target range of 2-3 per cent.

In positive political developments for Australia, the Chinese Government announced they would conduct a snap review of their trade restrictions on Australian barley in exchange for Australia suspending its World Trade Organisation dispute on Chinese barley tariffs for three months. This has been seen as a hugely positive move for Sino-Australian relations, generating hope for other Australian exports such as wine and lobster. The Fund's holding in Treasury Wine Estates (ASX:TWE) is not dependent on the lifting of trade restrictions, but the investment team is carefully monitoring the situation and remain cognisant of the risks and rewards of such external events.

In such an uncertain environment, the portfolio requires company-specific news to drive outperformance, and The Fund's concentrated positions continue to be the major contributors to performance.

A material contributor was Corporate Travel Management (ASX:CTD), a global provider of travel management services to the corporate market, which announced the award of a two-year contract worth £1.6 billion with the U.K. Government, backdated to start in March 2023. With the addition of an option for a one-year extension at its conclusion, this contract will meaningfully increase Corporate Travel Management's Total Transaction Value (TTV) and underwrite the profitability of the European region over the short to medium term.

The contract win adds to confidence about growing contributions from the company's European divisions, remembering management flagged Europe as the largest contributor to FY23 profit in its first half result, reflecting confidence in the recovery of European corporate travel. The Fund is holding Corporate Travel Management at its maximum weight.

Newcrest Mining (ASX:NCM), the largest gold producer listed on the Australian Securities Exchange, continued to outperform in April after rising strongly in February and March. The company received a revised non-binding indicative proposal from Newmont Corporation, sending the share price up closer to its implied bid value of $32.87 per share.

Newmont is one of the world's largest listed gold miners and had twice previously had its bid for Newcrest rejected by the board. While confirmatory due diligence has commenced, there is no guarantee the bid will be accepted.

Like with Treasury Wine Estates, our investment thesis for Newcrest Mining is not reliant on exogenous events and is instead based on the underappreciated improvement in the quality of the company's copper and gold production profile. We have retained our close-to-maximum weight in Newcrest Mining as we remain positive about the future progress of the company's production.

QBE Insurance Group (ASX:QBE) was also another meaningful contributor to The Fund's performance. The portfolio position has been at maximum weight since the announcement of the February 2023 result. The market is beginning to appreciate the improving quality of the company in this environment. The insurance business is operating with improved margins as gross written premiums rise at mid to high single digit rates, with management explaining increases are likely to continue at a similar rate for the foreseeable future. The investment side of the business has a $28.8 billion portfolio mainly containing short-term bonds. With an exit yield of 4.1 per cent in February and short-term bond yields remaining elevated in the past two months, the market is beginning to price in higher investment earnings for the current financial year. We await further information from management at the upcoming annual general meeting in May before deciding if action is needed to adjust our portfolio position.

Detractors to The Fund's performance mainly came from our iron ore exposure. Rio Tinto (ASX:RIO) and Fortescue Metals Group (ASX:FMG) both underperformed during the month due to the iron ore price falling US$20 per tonne to US$105 per tonne. The Chinese Government's strong support for their domestic economy failed to translate into growing demand for steel.

A relatively small position in BHP Group (ASX:BHP) has helped buffer any serious market underperformance from a falling iron ore price. Back at its quarterly update, BHP reported problems in dealing with rising costs, labour constraints and unfavourable weather so we reduced our position.

Regarding other portfolio changes, The Fund increased its position in online accounting software provider Xero Ltd (ASX:XRO) after initiating a position in March 2023. That was on the back of turnaround progress by new management installed at the end of last year.

In our opinion, under prior management, the company made questionable capital allocation decisions, including an acquisition that has since been completely written off. The company also, in our opinion, failed to take advantage of the post-COVID economic rebound.

PLATFORMS WE ARE ON: Ausmaq AMP PortfolioCare AMP Summit AMP Wealthview AMP North Asgard BT Panorama Colonial First Wrap Clearview Wealthsolutions HUB24 IDPS HUB24 Super Investment Exchange (IX) Macquarie Wrap MLC/Navigator S&P MLC/Navigator IDPS Netwealth OneVue Praemium Powerwrap Wealth02/uXchange

Green shoots are now appearing alongside cost reductions and a focus on disciplined growth. The new CEO has announced a self-imposed FY24 expense-to-revenue ratio target of 75 per cent and the exit of the cloud-based lending platform, Waddle, acquired in 2020. The company is scheduled to report their FY23 results in May, and we have added to our portfolio position in anticipation of a positive shareholder update.

CSL Ltd (ASX:CSL)

Just like some of our previous stock focus pieces, the subject of this one, CSL (ASX:CSL) has also been a long-term holding in the Australian Eagle portfolio. The only way a company can be a long-term holding is if they demonstrate elements of a 'dream company' – a strong competitive advantage, operating in a growing market and run by strong, accountable management that prioritises minority shareholders.

Looking back into the history of CSL provides us with something to compare the current state of the company to and, most importantly, assess the likelihood of future success.

Starting its journey in 1916 as an Australian Government-owned vaccine manufacturer called Commonwealth Serum Laboratories, CSL has evolved significantly over its 100+ year existence. After listing on the Australian Securities Exchange in 1994, CSL had become one of the most efficient plasma producers in the world. In the early 2000s, CSL acquired two large blood products businesses to become one of the world's largest manufacturers of plasma products. These purchases allowed CSL to scale and improve shareholder returns by extrapolating Australian efficiencies and research and development (R&D) to their new global base.

The focus on vaccines returned to the spotlight with an astute purchase of one of the world's largest influenza vaccine businesses from Novartis in early FY16. Despite the business losing over US$300 million each year under Novartis, management achieved a fast integration with their existing influenza vaccine division (bioCSL), generated US$70 million in cost synergies and broke even less than two years later. Management has repeatedly demonstrated their ability to successfully acquire new expertise in addition to building on existing capabilities.

Like other dream companies, management turnover is very low. Internal promotions to the top job have been a hallmark of well-run companies with a stable culture, and CSL reflects this. Succession planning is taken very seriously, with the newest CEO rising from the Chief Operating Officer.

The barriers to entry that protect the company are the large amounts of infrastructure and sophisticated technology required to efficiently produce blood products and vaccines. These barriers are constantly deepening and widening as CSL builds new manufacturing facilities and plasma collection centres worldwide. In addition to an expanding footprint, R&D expenditure is well over US$1 billion per annum and growing entrenching its competitive advantage while discovering new revenue streams.

CSL completed the acquisition of Vifor Pharma in August 2022. At first glance, Vifor Pharma is seemingly unrelated to CSL's existing operations, with products focused mainly on kidney diseases, dialysis and iron deficiency. However, the growth opportunity presented by acquiring the industry leader in an under-penetrated and growing market presents an attractive addition to the stable of existing, innovative products offered by CSL. Now called CSL Vifor, the division is expected to grow at over 10 per cent annually and has access to CSL's strong commitment to constant improvement through research and development.

Given CSL's excellent track record integrating large acquisitions and its exciting pipeline of new and existing products in multiple growing markets, we believe management will continue to be wise stewards of capital and provide strong returns for shareholders for many years.