

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 18 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

\$358.8M

MANAGEMENT FEES AND COSTS

1.36% per annum¹

PERFORMANCE FEES

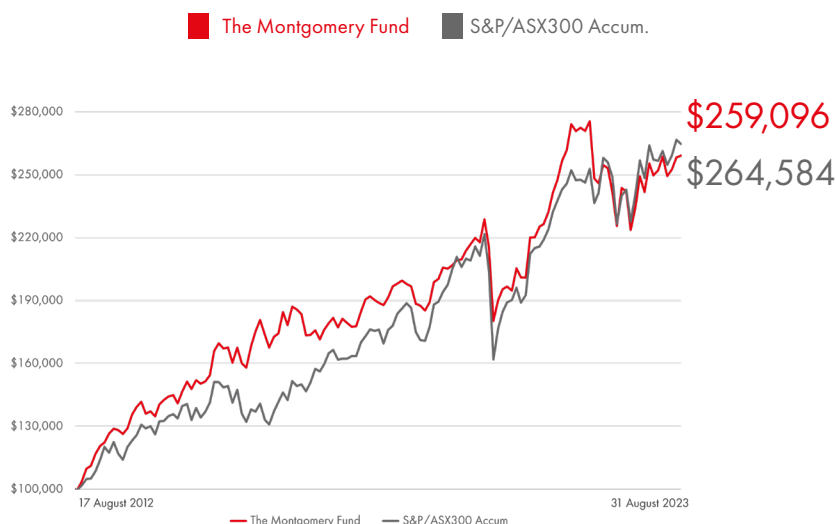
15.38% of the total return of The Fund that is in excess of the Index.¹

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 (%) |
|---------------|----------------|-------------------------|
| June 2023 | 4.4834 | 3.25 |
| 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 |

PORTFOLIO PERFORMANCE

(to 31 August 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 | 0.34% | 3.91% | 3.77% | 7.06% | 8.05% | 5.53% | 4.87% | 6.69% | 159.10% | 9.01% |
| S&P/ASX 300 ACCUM. INDEX | -0.76% | 3.88% | 2.87% | 8.96% | 10.51% | 6.99% | 8.53% | 7.95% | 164.58% | 9.22% |
| OUT/UNDER PERFORMANCE | 1.10% | 0.03% | 0.90% | -1.90% | -2.46% | -1.46% | -3.66% | -1.26% | -5.48% | -0.21% |
| AUSTRALIAN EAGLE COMPOSITE ³ | 0.34% | 3.91% | 3.77% | 9.20% | 11.55% | 10.01% | 12.33% | 11.39% | 492.75% | 10.06% |
| S&P/ASX 300 ACCUM. INDEX | -0.76% | 3.88% | 2.87% | 8.96% | 10.51% | 6.99% | 8.53% | 7.95% | 280.56% | 7.47% |
| OUT/UNDER PERFORMANCE | 1.10% | 0.03% | 0.90% | 0.24% | 1.04% | 3.02% | 3.80% | 3.44% | 212.19% | 2.59% |

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.



| COMPANY NAME | ASX CODE | SECTOR | WEIGHT (%) |
|--------------------------------|----------|------------------------|--------------|
| Commonwealth Bank of Australia | CBA | Financials | 6.90 |
| QBE Insurance Group Ltd | QBE | Financials | 5.99 |
| Rio Tinto Ltd | RIO | Materials | 5.91 |
| CSL Ltd | CSL | Health Care | 5.74 |
| Cochlear Ltd | COH | Health Care | 5.67 |
| Macquarie Group Ltd | MQG | Financials | 4.97 |
| woodside energy group Ltd | WDS | Energy | 4.95 |
| Transurban Group | TCL | Industrials | 4.87 |
| Altium Ltd | ALU | Information Technology | 4.49 |
| Newcrest Mining Ltd | NCM | Materials | 4.20 |
| Total equity weighting | | | 97.49 |
| Total cash weighting | | | 2.51 |

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

TOP 3 CONTRIBUTORS AND DETRACTORS

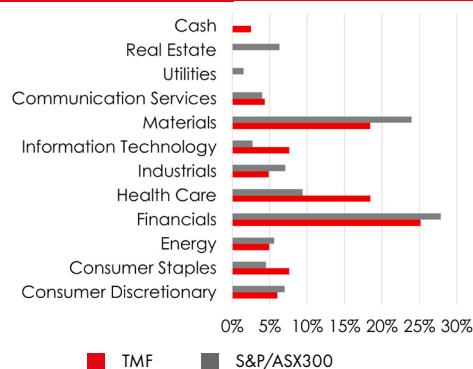
CONTRIBUTORS

| | |
|------------------|---|
| Altium Limited | The share price rose after announcing continued growth of higher value subscriptions. |
| Cochlear Limited | The share price rose on a continued strong recovery from COVID. |
| AMP Ltd | The share price outperformed after announcing a relatively small provision for its buyer of last resort legal case. |

DETRACTORS

| | |
|--------------------------|--|
| ResMed | The share price fell after reporting continued elevated costs resulting in margin compression. |
| Costa Group Holdings Ltd | Management announced its flagship Citrus division suffered from a deterioration of quality. |
| Transurban Group | The share price fell on disappointment over the size of the forecast FY24 distribution. |

INDUSTRY EXPOSURE



MARKET CAPITALISATION

| | TMF (%) | S&P/ASX300 (%) | ACTIVE (%) | # STOCKS |
|-----------------|---------------|----------------|------------|-----------|
| ASX 1 -20 | 53.3% | 60.2% | -6.9% | 13 |
| ASX 21 -50 | 23.8% | 17.1% | 6.7% | 7 |
| ASX 51 -100 | 9.9% | 12.1% | -2.2% | 3 |
| ASX 101 -200 | 9.8% | 8.2% | 1.6% | 6 |
| ASX 201 -300 | 0.0% | 2.5% | -2.5% | 0 |
| Ex S&P/ ASX 300 | 0.7% | | 0.7% | 1 |
| Cash | 2.5% | | | |
| Total | 100.0% | | | 30 |

CONTACT DETAILS

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As we reflect on August's performance, I'm pleased to share with you a comprehensive overview of The Montgomery Fund's (The Fund) success amidst a challenging equity market landscape.

Performance overview

Despite the broader equity market facing headwinds, The Montgomery Fund showcased its resilience. We achieved a positive return of 0.34 per cent net of fees in August, marking an outperformance of 1.10 per cent against the S&P/ASX 300 Accumulation Index, which declined 0.76 per cent.

August, being a part of the "reporting season", witnessed significant but useful volatility. This period allows investors to align their expectations with actual company results or take advantage of the tendency for other investors to overestimate the short term and underestimate the long term.

While many companies faced the brunt of market dynamics, those with a robust market position managed to leverage their competitive advantages, further solidifying our belief in strategic investments.

It is also worth calling out the fact some companies, as was highlighted by the media coverage of Qantas, Coles and Woolworths, arguably leveraged their monopoly, duopoly or oligopoly positions too much and were accused of price gouging and contributing to the hardship of Australian consumers.

The reporting season for FY23 itself was satisfactory despite prior downgrades by analysts. However, FY24 guidance was broadly disappointing, leading analysts to further reduce their estimates. Inflation and interest rates were major factors in FY23, affecting corporate costs, and they will continue to impact FY24. We expect interest rates to remain relatively unchanged until late 2024, and wage increases from July haven't yet affected operating costs. Core inflation is expected to stay above four per cent, while energy prices, especially oil, remain high. We note, Westpac's chief economist, Bill Evans, also predicts no change in rates until the third quarter of 2024.

Top performers

Our strategic investments paid off with three of the top five performing stocks in the ASX100 Accumulation Index in August being significant holdings in The Fund. Altium (ASX:ALU) stood out, registering a 26 per cent surge on its results announcement day. Cochlear (ASX:COH) followed suit, marking a 16 per cent growth, reflecting its strategic market moves and innovative initiatives.

Navigating challenges

While we celebrate our highs, we're also cognizant of the challenges. Stocks like ResMed Inc (ASX:RMD) and Costa Group (ASX:CGC) underperformed. However, we view these phases as transient and remain confident in their medium to long-term potential. Such moments often present opportunities to reinforce our belief and position in quality stocks.

Altium (ASX:ALU): Demonstrating its prowess, Altium emerged as the top performer for The Fund in August, surging by an impressive 26 per cent on the day of its results announcement. This surge is a testament to the robust business momentum highlighted in their recent annual report. With unwavering confidence in Altium's trajectory, our investment team has decisively augmented its overweight position. We've spotlighted Altium as this month's stock focus, which you'll find detailed at the end of this report.

Cochlear (ASX:COH): Cochlear reported robust results, driven by contributions from all divisions, underscoring its recovery post COVID-19. Notably, Cochlear's strategic move to commence sound processor manufacturing in China has garnered our attention. This initiative promises a cost-effective approach to cater to developing nations. While there were understandable delays due to the pandemic, we anticipate the approval for cochlear implant manufacturing in China within the next 18 months. Our trust in Cochlear's ability to deliver on its management's promises is unwavering. Reflecting our confidence, we've increased our portfolio weight for Cochlear.

AMP (ASX:AMP): AMP, despite facing challenges, emerged as the third-largest contributor to The Fund's performance. While there was speculation regarding the financial implications of the class action against AMP, management's announcement of a \$50 million provision for the case was a reassuring move. Operationally, AMP is on a steady path to recovery. However, given the current uncertainties, we've opted for a prudent approach, maintaining our portfolio weight for AMP.

ResMed Inc (ASX:RMD): Despite facing headwinds during the reporting season, we remain steadfast in our belief in ResMed's potential. The company's share price faced pressure due to external factors, but we are confident in the management's ability to navigate these challenges. Recognising the inherent value, we've leveraged this as an opportune moment to augment our position in ResMed.

Costa Group (ASX:CGC): Costa Group faced challenges due to external factors affecting its citrus division. However, we are closely monitoring the ongoing due diligence by the private equity bidder, Paine Schwartz. Recognising the external risks, we've ensured The Fund's exposure remains at judicious levels.

Transurban Group (ASX:TCL): Transurban, despite its share price underperformance, reported a significant 20 per cent traffic volume growth and margin expansion. With the majority of the company's debt hedged, we are optimistic about its future prospects. The inflation-linked toll escalations are set to benefit shareholders in the coming financial year. Our conviction in Transurban remains strong, and we continue to be overweight on the stock.

In conclusion, our investment decisions are driven by rigorous analysis, unwavering confidence, and a commitment to ensuring optimal returns for our stakeholders. Rest assured, we remain vigilant and proactive in navigating an always dynamic market landscape.

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 ⇄

This report was prepared by Montgomery Investment Management Pty Ltd, AFSL No: 354564 ('Montgomery') the investment manager of The Montgomery Fund ('TMF'), ARSN 159 364 155. 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. Both the PDS and the Target Market Determination are available here: <http://fundhost.com.au/investor/tmf>. 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.



Strategic portfolio adjustments

We've augmented our portfolio weight in promising prospects like Deterra Royalties (ASX:DRR) and Telix Pharmaceuticals (ASX:TLX). Their recent performances and future outlooks align with our vision of growth and value addition.

In line with our commitment to safeguarding and growing your investments, we made the decision to exit Chorus Ltd (ASX:CNU) and down-weight Newcrest Mining (ASX:NCM). These decisions stem from a blend of market dynamics and our strategic vision.

Deep dive into Altium Ltd (ASX:ALU)

Altium, over the years, has transformed into a beacon of growth and innovation. It's not just a stock to us but a testament to what we term a "dream company." Their robust competitive advantage, coupled with a visionary management team, has set them apart. Their cloud-based ecosystem for designing printed circuit boards and their adaptability during challenging times, like the COVID-19 pandemic, underscores their market leadership. We remain bullish on Altium's prospects and will continue to monitor its trajectory closely.

The ideal investment for us is a company that not only stands head and shoulders above its peers but is also steered by a trustworthy management team, thrives in an expanding market, and consistently showcases untapped growth potential.

While many companies might tick a few of these boxes occasionally, only a select few consistently meet all the criteria. Altium is one such gem. Since Sean, Alan and Daniel first owned the stock in 2017, Altium has not only met but exceeded their expectations, driving significant long-term outperformance.

Altium flagship software, Altium Designer, has been the market leader for many years. Updated annually based on invaluable customer feedback, this software has quickly become the gold standard for designing printed circuit boards. And Altium stopped. They leveraged their top-tier product, expanding their competitive edge by pioneering a cloud-based ecosystem that streamlined the entire manufacturing process for connected smart devices. This innovative approach has already garnered tens of thousands of dedicated users, with projections of reaching 100,000 subscribers in the foreseeable future.

Altium's prowess didn't go unnoticed. In 2021, industry giant Autodesk recognised the company's immense value and made a takeover bid. Altium, confident in its worth, declined the offer. Time proved them right, as the market value soon surpassed the bid price.

A company's true mettle is tested not in its successes but in its ability to navigate challenges. During the COVID-19 crisis, when many hesitated, Altium adapted, introducing term-based licenses. This strategic move not only bolstered their revenue but showcased their unwavering commitment to customer service and continuous product enhancement.

Time and again, Altium has demonstrated an unwavering commitment to its stakeholders. Our trust in their management is not mere sentiment; it's earned through consistent performance and accountability.

However, we're not complacent. The dynamic nature of investment mandates vigilance. While Altium shines brightly today, our team is ever-watchful, ensuring it continues to meet our high standards. Recent announcements have solidified our confidence. Altium's growth in high-value subscriptions and its partnership with global semiconductor provider Renesas Electronics Corporation is a testament to its enduring excellence.

Given Altium's robust performance, even in challenging times, we are more than just optimistic. We are confident in its continued growth. Rest assured, we will keep a close watch, ensuring Altium remains deserving of its position in The Fund.

In wrapping up, our commitment to you remains unwavering. We're here not just to navigate the complexities of the financial markets but to chart a course that ensures consistent growth and value creation. Your trust fuels our dedication, and we're grateful for your continued partnership.

