



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

\$329.3M

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

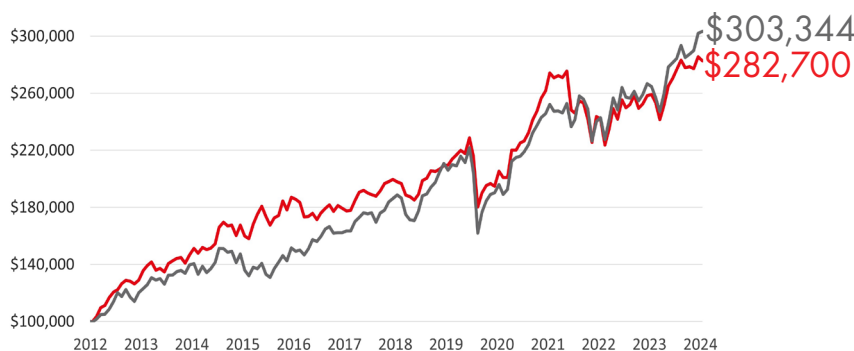
¹ See page 5 of the PDS for more information

APPLICATION & REDEMPTION PRICES

montinvest.com/tmf

PERFORMANCE GRAPH

■ The Montgomery Fund ■ S&P/ASX300 Accum.



DISTRIBUTIONS

HALF-YEAR TO	CENTS PER UNIT	DISTRIBUTION RETURN (%)
June 2024	11.4223	7.87%
December 2023	2.1568	1.51%
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%

PORTFOLIO PERFORMANCE

(to 31 August 2024, 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	-0.97%	1.51%	2.23%	9.11%	1.04%	6.17%	6.88%	6.45%	182.70%	9.02%
S&P/ASX 300 ACCUM. INDEX	0.44%	5.55%	6.71%	14.65%	6.37%	8.05%	9.23%	7.99%	203.34%	9.66%
OUT/UNDER PERFORMANCE	-1.41%	-4.04%	-4.48%	-5.54%	-5.33%	-1.88%	-2.35%	-1.54%	-20.64%	-0.64%

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	-0.97%	1.51%	2.23%	9.11%	6.38%	9.88%	11.67%	10.96%	546.75%	10.01%
S&P/ASX 300 ACCUM. INDEX	0.44%	5.55%	6.71%	14.65%	6.37%	8.05%	9.23%	7.99%	336.31%	7.82%
OUT/UNDER PERFORMANCE	-1.41%	-4.04%	-4.48%	-5.54%	0.01%	1.83%	2.44%	2.97%	210.44%	2.19%

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 31 August 2024)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank of Australia	CBA	Financials	8.25
Rio Tinto Ltd	RIO	Materials	6.03
Macquarie Group	MQG	Financials	5.73
Cochlear Ltd	COH	Health Care	5.52
QBE Insurance Group	QBE	Financials	4.98
Xero Ltd	XRO	Information Technology	4.94
Transurban Group	TCL	Industrials	4.76
CSL Ltd	CSL	Health Care	4.49
Woodside Energy	WDS	Energy	4.30
Treasury Wine Estates	TWE	Consumer Staples	3.98
Total equity weighting			95.49
Total cash weighting			4.51

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

TOP 3 CONTRIBUTORS AND DETRACTORS

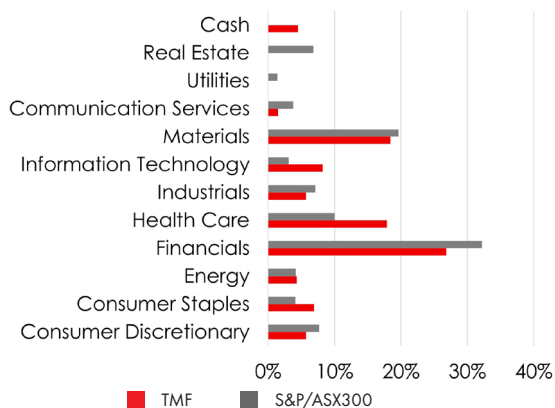
CONTRIBUTORS

ResMed Inc	The share price rose after reporting a return towards higher margins.
TechnologyOne	The share price rose after announcing an increase in market size.
Transurban Group	The share price rose after revealing growing traffic volumes and upcoming growth projects.

DETRACTORS

Cochlear Ltd	The share price fell management forecast for slowing growth.
QBE Insurance Group	The share price fell as the dividend did not meet expectations.
Treasury Wine Estates	The share price fell on concerns of a weakening Chinese economy.

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ASX300 (%)	ACTIVE (%)	# STOCKS
ASX 1 -20	53.9	61.7	-7.8	13
ASX 21 -50	26.1	16.7	9.5	7
ASX 51 -100	7.2	12.0	-4.7	3
ASX 101 -200	4.2	7.6	-3.4	2
ASX 201 -300	0.9	2.1	-1.2	1
Ex S&P/ ASX 300	3.1		3.1	2
Cash	4.5			
Total	100.0			28

CONTACT DETAILS

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PLATFORMS WE ARE ON: Asgard ⇄ BT Panorama ⇄ Colonial First Wrap ⇄ Clearview Wealthsolutions ⇄ Investment Exchange (IX) ⇄ Clearstream ⇄ DASH ⇄ HUB24 ⇄ Xplore Wealth ⇄ Macquarie Wrap ⇄ Mason Stevens ⇄ MLC/Navigator ⇄ Netwealth ⇄ North ⇄ OneVue ⇄ Praemium ⇄ Powerwrap



Australia's four major banks continued to rally in August, and to record highs, ensuring the S&P/ASX 300 Accumulation Index rose 0.44 per cent despite a reporting season that revealed ongoing economic challenges.

As we have explained previously, we will remain structurally underweight the banks, which represent more than 20 per cent of the broad market by capitalisation. Consequently, during any month, quarter or year the banks run, and in this case, to record highs, The Montgomery Fund will underperform.

The Montgomery Fund (The Fund) – declined by 0.97 per cent in August. Some of the underperformance was due to the structural underweight position in the banks, but the other contributor in August was a plunge in the share price of one of Australia's highest-quality healthcare companies, Cochlear, which at one point was down nearly 13 per cent from its intra-month high. More on Cochlear in a moment.

Despite recent underwhelming portfolio performance, our unwavering focus on businesses with improving quality is expected to generate superior portfolio returns, as it has done for Australian Eagle investors for nearly 20 years.

This year's reporting season delivered a sobering message for Australian investors, blending flashes of strength with growing concerns about the economic outlook. As companies shared their results and the season progressed, it became clear that rising interest costs, deteriorating earnings, and margin pressures were weighing heavily on corporate Australia. The end result? A reporting season that began with optimism but finished on a note of disappointment and caution.

The season began powerfully, with 40 per cent of companies beating consensus expectations by mid-August. Yet, the initial momentum quickly faded. By the time 75 per cent of companies had reported, beats and misses were evenly split at 25 per cent, and the final numbers closed with just 27 per cent of companies beating expectations. Meanwhile, 26 per cent missed estimates, and the remaining 47 per cent landed in line. Despite these results, a recurring theme was the expansion of price-to-earnings (P/E) ratios, driven largely by the tech and communications sectors, which saw multiples expand over seven P/E points and three P/E points, respectively.

However, while tech may have been a bright spot, other areas of the market faltered. Aggregate earnings declined, falling by more than three per cent by season's end, with margins suffering across the board. Analysts noted that the negative earnings revisions were especially pronounced in sectors like healthcare, with Cochlear (ASX:COH) and CSL (ASX:CSL) both enduring downgrades.

Despite cost-of-living pressures affecting consumer budgets and interest rates provide little sign of relief, banks reported lower-than-expected loan impairment charges. Reported asset quality remains stable and despite announcing a lower profit, the Commonwealth Bank of Australia (ASX:CBA) increased its dividend by two cents per share.

In addition to a structural underweight position in the banks, our investment philosophy and process has determined a lower relative exposure to the big banks is appropriate due to the intense competitive pressures and minimal growth in their total addressable market, resulting in inadequate earnings appreciation. Indeed, the only significant change in the banking sector over the last year has been ANZ's acquisition of Suncorp Bank, an acquisition that comes with significant integration risk. Our major banks demonstrate no reason to change our thesis nor our attitude towards them.

All things being equal, a period of underperformance by the banks, which should naturally follow a period of outperformance, will be a positive relative contributor to fund performance.

Global market impacts

Globally, markets endured a volatile August, with U.S. and European markets down close to five per cent and the Japanese Nikkei Index crashed 20 per cent in the first week. This latter fall was triggered by the Bank of Japan (BoJ) raising interest rates for the second time since 2007 in a bid to save its falling currency. It worked, with the Japanese Yen rising by 13 per cent. Investors who had hitherto borrowed in Yen at extremely low Japanese interest rates to invest in another currency yielding a much higher rate were forced to unwind their trades.

In the U.S., Federal Reserve chairman Jerome Powell stated, "The time has come" for U.S. interest rate cuts, leading markets to believe lower rates are likely after the September meeting. Despite giving less detailed commentary on the pace of cuts over the next few months, U.S. Treasury yields fell across all maturities, with the two-year yield down 34 basis points to 3.92 per cent and the 10-year yield falling 13 basis points to 3.90 per cent.

Elsewhere, China's economic woes continued to plague sentiment, with new house prices falling the most since 2015. Earlier in 2024, the Chinese government pledged CNY 400 billion to help clear excess housing inventory by turning unsold homes into affordable housing, but action has not met the promise. The lacklustre property market, as well as deflationary pressure from weak consumer sentiment and high government debt have all contributed to the 10-year Chinese bond yield falling to all-time lows.

Domestically, the Reserve Bank of Australia (RBA) kept rates steady at 4.35 per cent while reiterating earlier remarks that rate cuts are unlikely in 2024, and while services inflation persists. Consequently, almost every company that reported through August alluded to keeping costs under control.

Reporting season also highlighted the extent of Australia's reliance on China, with most miners and commodity/raw material-related stocks reporting lower earnings from lower realised commodity prices. Miners with low-cost production and ungeared balance sheets outperformed indebted companies and those with higher cost bases.

Reflecting on reporting season, we remain comfortable with portfolio holdings as balance sheets remain robust and competitive advantages are functioning as expected.

Portfolio changes

Despite August being a major information point for companies, The Fund only increased its position in ARB Corporation Ltd (ASX:ARB) and decreased Cochlear Ltd (ASX:COH). As readers may be aware, Cochlear comes up as an extremely high-quality company in our analysis, but the short-term slowdown in forecasted FY25 growth resulted in the share price underperforming the market. We have decreased the model weight to be closer to the actual portfolio weight, and we are buying stock up slowly as the team remain strong believers in the underlying long-term strength of the company.

Major contributors

ResMed (ASX:RMD) – ResMed's share price rose after a reporting strong volume growth, recovering margins and an increased dividend. Strong cashflow enabled the company to repay more than US\$700 million in debt while the SaaS business accelerated revenue growth from high single-digit to strong double-digit rates.

TechnologyOne (ASX:TNE) – Technology One's share price continued to rise after management upgraded medium-term guidance and its total addressable market at the most recent investor day. Management has focused on implementing SaaS+ for their new and existing clients, which involves setup, implementation and maintenance of a constantly evolving SaaS solution by TechnologyOne. Adoption by customers generates higher revenue per customer and increases the addressable market size to \$13.5 billion.



The medium-term guidance of \$500 million annual recurring revenue (ARR) is now expected to be achieved before the end of the first half of Financial Year (FY) 2025. Previously, the company expected to achieve this goal in FY26. Management also reiterated their goal of doubling ARR every five years, equating to 15 per cent per annum.

Transurban Group (ASX:TCL) – Reflecting the thesis we have described in previous monthly reports, Transurban’s share price rose after the company reported revenue growth driven by inflation-adjusted price increases and higher traffic volumes. Management have forecast an increase in distributions from 62 to 65 cents per share for FY25, and two new toll roads expected to be operating over the next two years.

Major detractors

Cochlear (ASX:COH) – As noted earlier, Cochlear’s share price fell after reporting a softer-than-expected outlook with one-off costs temporarily impacting earnings growth. The company’s investment in the seniors’ market is paying off, with the division beginning to outperform other business segments. The ramp-up of production in a new Chinese factory in Chengdu will incur additional costs in the near term but will benefit the company in the long term as the company provides emerging countries with more cost-effective product solutions.

QBE Insurance Group (ASX:QBE) – QBE’s share price fell after the dividend payout ratio declined below its normal range. Management explained that a normalisation of dividends will return in the second half of the year. The company has experienced a slight moderation in gross written premium growth, but the insurance business remains highly profitable, with management reiterating its full-year guidance.

Treasury Wine Estates (ASX:TWE) – Treasury’s share price fell despite reporting a solid result and a positive outlook. The long-awaited restructure announcement revealed the Premium and Commercial brands will either form part of a new Global Premium Brands division or be divested by FY26. Meanwhile, China’s economic slowdown will be affecting sentiment around luxury goods irrespective of the green shoots emerging after tariffs on Australian-made wines were lifted in March.

