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
$530.1M

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

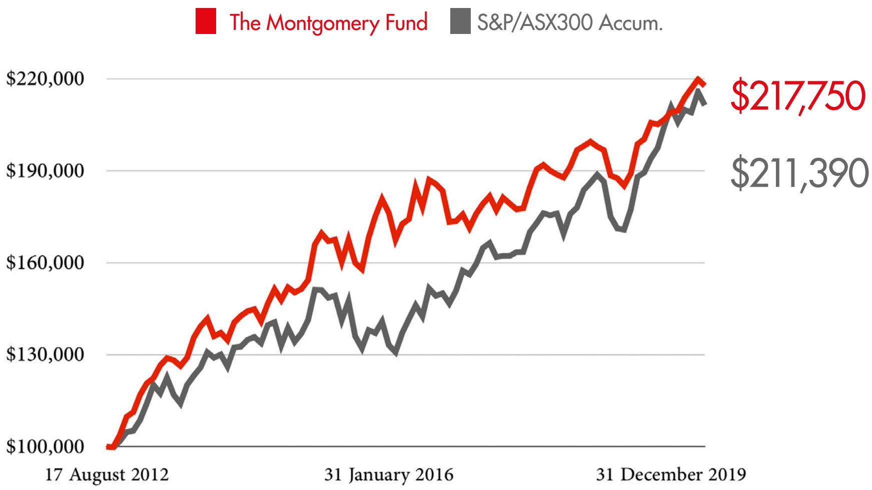
FINANCIAL YEAR RETURNS

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**	11.1%	10.7%

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

**Compound annual returns

PERFORMANCE GRAPH



PORTFOLIO PERFORMANCE

(to 31 December 2019, after all fees)

	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	1.09%	-2.04%	-0.95%	-2.02%	1.07%
3 months	1.12%	0.74%	1.86%	0.71%	1.15%
6 months	1.11%	4.21%	5.32%	3.28%	2.04%
12 months	5.96%	11.63%	17.59%	23.77%	-6.18%
3 years (p.a.)	5.47%	1.93%	7.40%	10.33%	-2.93%
5 years (p.a.)	5.74%	1.80%	7.54%	9.07%	-1.53%
7 years (p.a.)	5.86%	3.44%	9.30%	9.97%	-0.67%
Since inception#	57.26%	60.49%	117.75%	111.39%	6.36%
Compound annual return (since inception)# # *17 August 2012*	6.33%	4.81%	11.14%	10.69%	0.45%

FUND COMMENTARY

The Montgomery Fund performed relatively well in both the December 2019 Quarter and the six months to December, up 1.86 per cent and 5.32 per cent respectively. Over these periods, the S&P/ASX 300 Accumulation Index put on 0.71 per cent and 3.28 per cent respectively. Therefore, the Fund outperformed its benchmark by 1.15 per cent and 2.04 per cent over the respective periods.

The Fund's low weighting to the Australian banking sector (6 per cent to Macquarie Group and 5 per cent to Westpac) was a significant contributor to the relative outperformance during the December 2019 Quarter, as the large banks continued to experience negative news flow and a tightening regulatory environment. The consumer discretionary, communication services and information technology sectors also contributed positively to relative performance, while healthcare, materials, and energy contributed negatively to relative performance.

In terms of the top individual contributors to relative performance, it was a familiar story with Avita Medical and Codan again doing the heavy lifting in the December 2019 Quarter. Avita Medical raised capital during the Quarter to accelerate the development process for several additional indications, including paediatric scalds and vitiligo. Codan continued its recent trend of earnings upgrades, with positive earnings guidance released for the December 2019 half-year. Also making a positive contribution for the Quarter was Aristocrat Leisure which reported pleasing full-year results as well as a solid outlook for FY20. The three largest negative contributors on a relative basis were Prospa, CSL (due to an underweight position compared to the Index) and Healius.

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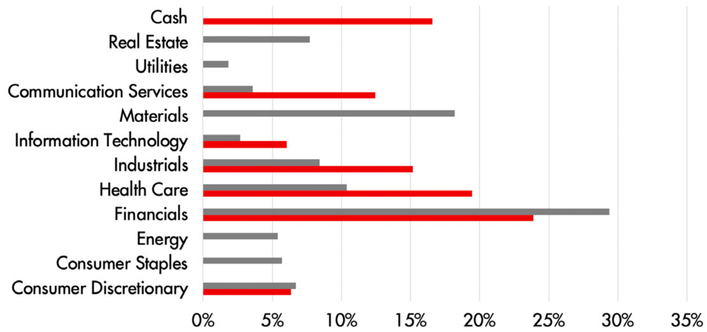
TOP COMPLETED HOLDINGS* (TCH)

(at 31 December 2019, out of 22 holdings)

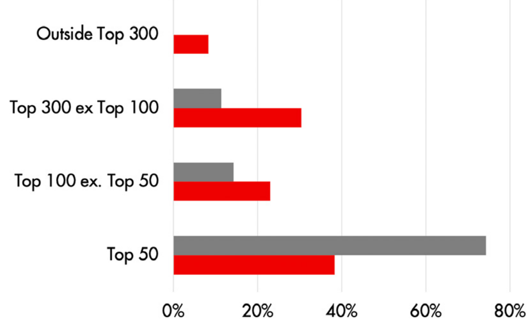
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
Aristocrat Leisure	38.6	103.8	20.6	6.37
Telstra Corp	19.1	114.6	17.4	6.26
Macquarie Group	9.0	N/A	15.5	6.06
Avita Medical	N/A	N/A	N/A	5.93
Healius	10.1	33.0	17.2	5.34
Atlas Arteria	5.3	85.6	33.3	5.23
Spark New Zealand	27.6	114.3	19.1	5.22
Westpac Banking	10.5	N/A	13.2	5.03
Medibank Private	23.3	-33.9	22.3	4.74
Ramsay Health Care	26.7	160.4	25.5	4.43
TCH AVERAGE	18.9	82.5	20.5	
MARKET AVERAGE	12.1	76.2	17.8	
Total equity weighting				83.44
Total cash weighting				16.56

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

INDUSTRY EXPOSURE



MARKET CAPITALISATION EXPOSURE

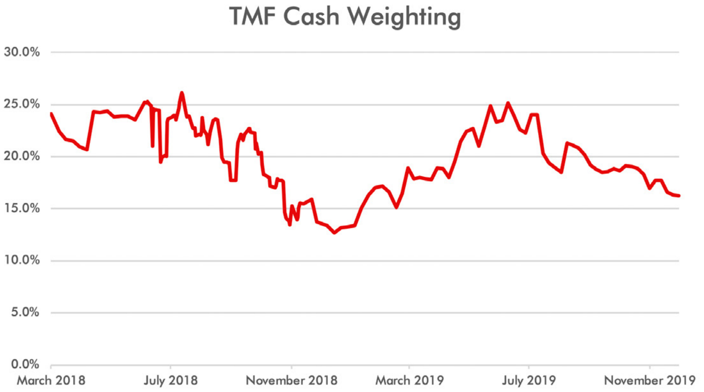


TMF S&P/ASX300

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

The Fund's cash balance declined marginally, ending the year with a weighting of 16.6 per cent. This is not indicative of valuations, in general, becoming more attractive, but instead reflects The Fund's participation in capital raisings for two of its holdings, Atlas Arteria and Avita Medical. While share prices were relatively flat for the Quarter, earnings revisions, in fact, declined by around 4 per cent, making the market as a whole slightly more expensive than at the end of September.

On a more positive note, macro risks appear slightly more benign, with Brexit seemingly moving towards a resolution and trade tensions between the US and China appearing to ease. Nonetheless, we remain cautious with respect to Australian valuations more broadly, as reflected in The Fund's cash balance. The Fund's cash levels over the last 18 months can be seen in the chart below:



Source: MIM, Fundhost

Portfolio Changes

There were two notable changes to the portfolio during the Quarter.

The first was, after a couple of years on the sideline, the reintroduction of CSL to the portfolio. CSL is a company that The Fund has held historically but we (mistakenly) exited due to valuation considerations. Following a detailed analysis earlier this year, we determined that despite a strong share price gain, CSL presented an attractive risk/reward proposition due to accelerating demand for plasma-derived products and limited supply growth leading to a classic supply/demand squeeze and potential price increases. This thesis has played out to some extent since the position was initiated. The CSL investment was funded partly from cash and partly from a reduction in Ramsay Healthcare, thus maintaining The Fund's healthcare sector exposure within mandated limits.

The second change saw the exit of Citadel. The Citadel position was entered about one year ago with the dual thesis that firstly, we expected Citadel's healthcare IT systems business would benefit from investments by Australian healthcare companies in necessary productivity improvement; and second, Citadel's information security business (which serves Australian government clients) would benefit from growing recognition of the need to invest in this capability in an environment of increasing cyber espionage. Unfortunately, Citadel has been negatively impacted by unexpected project delays and cancellations attributed to the federal election. Following a series of management meetings where we were unable to gain sufficient comfort around the short-term impact of funding delays and the longer-term trajectory of its various divisions, we made the decision to exit our small position.

Business in Focus – Atlas Arteria (ASX: ALX)

As mentioned above, Atlas Arteria undertook a capital raising during the Quarter to fund the acquisition of an additional 6.14 per cent interest in the most valuable asset in its portfolio, the APRR motorway system in France. The Fund has been invested in Atlas Arteria for two years, in part due to the possibility of corporate activity. We were pleased to see this transaction announced and we elected to participate in the capital raising to further increase our weighting to the company.

From our perspective, the transaction is attractive for several reasons, namely:

- The price paid for the stake is reasonably attractive at around 10.3x EV/EBITDA. This compares well with similar asset valuations and should provide Atlas Arteria with increased distribution capacity from the increased dividends received.
- The transaction also enables a future refinancing of the APRR asset with debt amortization being pushed out towards the end of the concession life. This has positive net present value ramifications for the equity owners.
- The transaction removes any remaining influence from Macquarie Group which may lower the perceived risk of the APRR network. This could result in the market applying a slightly lower discount rate and a higher valuation.

In short, we see the transaction as both value and cash-flow accretive for Atlas Arteria, with the deal accompanied by an immediate increase in distribution guidance for the foreseeable future. We believe the new independent management team of Atlas Arteria has gotten off to a good start in consolidating the ownership structure of the APRR entity.

Key Portfolio Metrics

Starting with this Quarterly letter, we are introducing a new section highlighting the key portfolio metrics for The Fund on both a trailing 12-month basis; and since inception (August 2012) with the aim of highlighting the risk-adjusted returns of The Fund. (These metrics are further explained below the table):

Metric	The Fund (last 12 months)	The Fund (since August 2012)	ASX 300	ASX 300 (since August 2012)
Beta	0.78x	0.82x	1.00x	1.00x
Standard Deviation	10.6%	9.4%	11.1%	10.7%
Upside/Downside capture (monthly basis)	Up 59%, Down -15%	Up 80%, Down 59%		
Forecasted EPS growth	12.3%		13.3%	

Beta is a measure of the systematic risk with respect to a benchmark. A beta of 1.0 indicates that a fund tends to move in line with the benchmark, while a beta below 1.0 indicates that a fund tends to move less than the benchmark, either up or down.

Standard deviation of returns measures how widely returns vary over time. A high standard deviation implies higher volatility of returns, while a low standard deviation implies lower volatility of returns.

Upside/Downside capture measures how much of the market upside and downside movements a fund tends to capture. An upside capture below 100 per cent means a fund tends to capture less of upward market movements. A downside capture ratio below 100 per cent means a fund tends to capture less of downward market movements.

Since inception in August 2012, The Fund has a beta of 0.82x, a standard deviation of 9.4 per cent versus the benchmark's 10.7 per cent, and an upside/downside capture ratio of 80 per cent/59 per cent. Since inception, The Fund has outperformed its benchmark by 0.45 per cent per annum (11.14 per cent versus 10.69 per cent) and in conjunction with the above data, this indicates The Fund is producing attractive long-term risk-adjusted returns.

For the downside capture ratio over the past 12 months, the reason this is a negative number is that in 2019 the ASX 300 Accumulation Index produced a negative return in three months (August, October, and December) which aggregated to negative 4.7 per cent. Meanwhile The Fund produced an aggregate positive return in the same three months of 0.7 per cent, resulting in a negative ratio of 15 per cent, which is a desirable outcome. We do not, however, anticipate that we will be able to consistently produce positive (monthly) returns in falling markets.

Distribution

For the six months to 31 December 2019, The Fund paid a distribution of 1.5974 cents per unit reflecting income received during the past six months. The Fund's unit price declines by the amount equal to the distribution paid, and accordingly, after finishing calendar 2019 with a unit price of $1.4548, we commence calendar 2020 with a unit price of $1.4389.