



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

\$468.0M

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

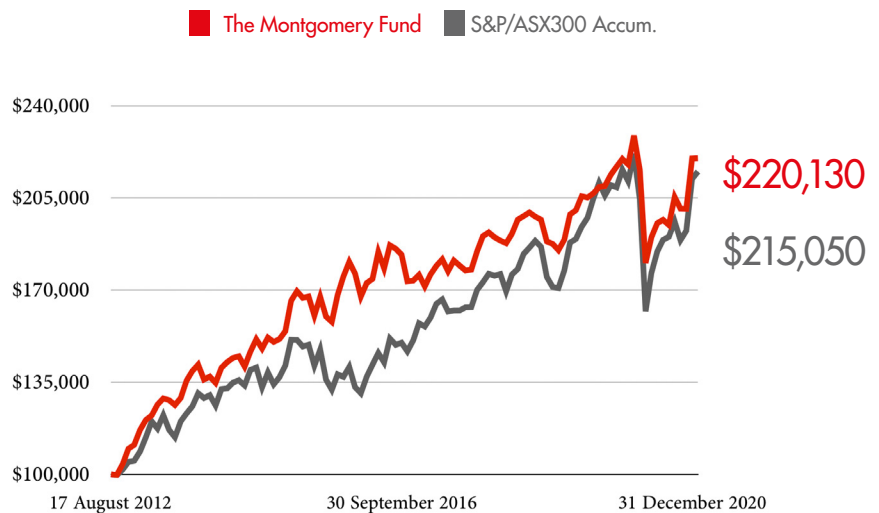
FINANCIAL YEAR RETURNS

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%
2020	-4.9%	-7.6%
Since Inception**	9.9%	9.6%

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

**Compound annual returns

PERFORMANCE GRAPH



PORTFOLIO PERFORMANCE

(to 31 December 2020, after all fees)

	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.32%	-0.27%	0.05%	1.32%	-1.27%
3 months	0.35%	9.19%	9.54%	13.79%	-4.25%
6 months	0.35%	11.57%	11.92%	13.73%	-1.81%
12 months	0.38%	0.71%	1.09%	1.73%	-0.64%
3 years (p.a.)	4.69%	-0.02%	4.67%	6.87%	-2.20%
5 years (p.a.)	4.10%	-0.08%	4.02%	8.84%	-4.82%
7 years (p.a.)	4.75%	2.24%	6.99%	7.45%	-0.46%
Since inception#	57.80%	62.33%	120.13%	115.05%	5.08%
Compound annual return (since inception)#	5.60%	4.28%	9.88%	9.58%	0.30%

17 August 2012



FUND COMMENTARY

December saw the market managing to hold on to most of the strong gains recorded in November, albeit the gains were primarily driven by the big 3 iron ore producers BHP Billiton, Rio Tinto and Fortescue Metals Group.

The S&P/ASX 300 Accumulation Index was up by 1.32 per cent whilst The Montgomery Fund (The Fund) was flat.

The month of December was all about the resources stocks as commodity prices, and iron-ore in particular, skyrocketed. The Materials sector generated a return of 8.8 per cent over the month. Excluding the Resources stocks, the rest of the Australian market generated a loss of 0.43 per cent.

The primary driver of the performance of the materials sector came from the big iron ore producers, BHP (+11.5 per cent), Rio Tinto (+12.3 per cent) and Fortescue Minerals (+28.5 per cent) on the back of the 16.3 per cent increase in the US\$ iron ore futures price over the month. The Fund's relative underperformance for the month is largely attributed to the lack of the afore-mentioned iron-ore producers, with the 3 majors contributing 1.38 per cent of the 1.32 per cent gain in the index.

There have been three factors driving the iron-ore price of late. First, Chinese demand has remained strong as steel production benefited from Government stimulus in both easing credit and fixed-asset investment following the COVID-19 shutdowns earlier in the year. This demand growth has occurred at a time of perceived supply constraints, as the world's second biggest exporter Brazil continues to struggle with meeting its production targets following a safety incident in 2019 and COVID impacts earlier this year. Finally, aggressive monetary stimulus has fuelled speculative activity in prices more broadly, leading to price appreciation across the ex-gold commodity spectrum. In November and December, these factors drove further increases in iron-ore prices.

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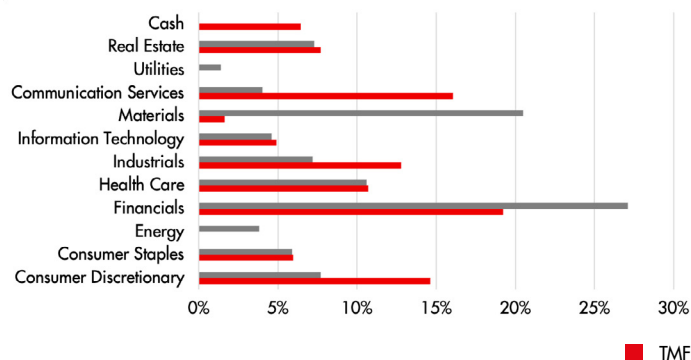
TOP COMPLETED HOLDINGS* (TCH)

(at 31 December 2020, out of 31 holdings)

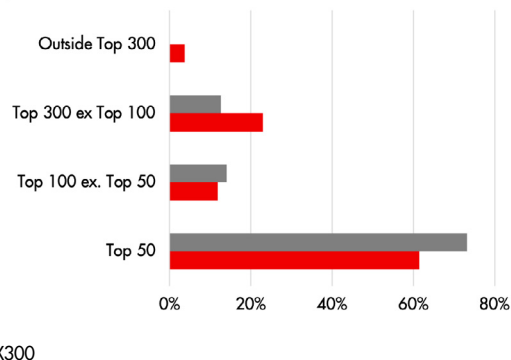
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
Woolworths Group	17.1	183.7	27.1	5.97
Commonwealth Bank	10.6	N/A	20.5	5.84
Westpac Banking Corp	2.8	N/A	13.6	5.82
Wesfarmers	23.2	74.8	27.7	5.33
CSL	35.7	73.5	43.3	4.96
Sydney Airport	N/A	N/A	N/A	4.43
Macquarie Group	3.8	N/A	19.1	4.36
REA Group	28.7	12.1	62.3	4.28
Seek	-9.3	101.2	188.1	3.89
Atlas Arteria	3.1	21.9	39.1	3.43
TCH AVERAGE	12.9	77.9	49.0	
MARKET AVERAGE	10.3	58.9	20.8	
Total equity weighting				93.89
Total cash weighting				6.11

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

INDUSTRY EXPOSURE



MARKET CAPITALISATION EXPOSURE

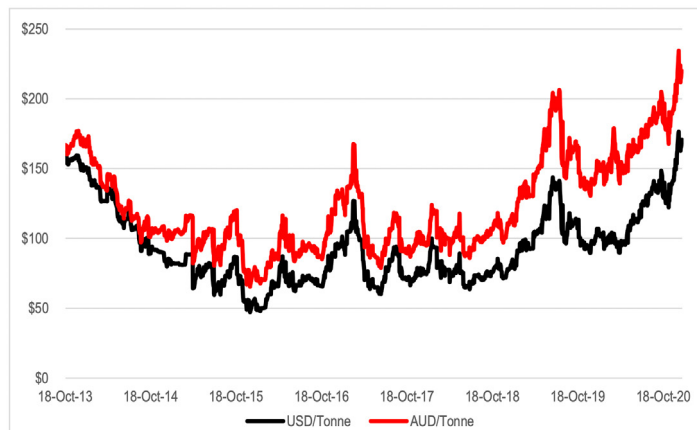


PLATFORMS WE ARE ON: Ausmaq ⇄ AMP PortfolioCare ⇄ AMP Summit ⇄ AMP Wealthview ⇄ AMP North ⇄ Asgard ⇄ BT Wrap ⇄ BT Panorama ⇄ Colonial First Wrap ⇄ Clearview Wealthsolutions ⇄ Investment Exchange (IX) ⇄ Federation Accounts ⇄ HUB24 ⇄ Linear Managed Accounts ⇄ Macquarie Wrap ⇄ MLC Wrap ⇄ Navigator ⇄ Netwealth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

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. 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. 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.



Figure 1: Iron Ore Futures Price Per Tonne in USD and AUD - Landed Dalian



Source: Bloomberg

As long-term investors would be aware, The Fund has avoided major investments in the resources sector given its quality philosophy and the commodity nature of their revenue streams. However, the miners have enjoyed a period of buoyant prices for its key profit-driver iron ore due to the aforementioned supply disruptions and stronger domestic steel demand in China due to government stimulus measures. Stronger prices will likely lead to better than forecast capital management initiatives in the short-term.

We are cognisant of their improved quality arising from balance sheet strength and industry rationalisation in iron-ore on both the supply and demand side (Chinese steel production). However, we remain cautious of the recent spot price strength given the move in the iron-ore price (+80 per cent since May, +24 per cent in December) relative to announced supply disruptions (approximately 2 per cent of global seaborne supply), amid flat iron ore inventories and falling mill margins. The global economy has also seen a surge in manufacturing due to shifts in consumption brought about by COVID-19 restrictions which we believe is unlikely to be sustained in a post vaccine world.

Notable winners in December include Redbubble (ASX:RBL), which continued its upward trajectory following the re-emergence of COVID-19, while Megaport (ASX:MP1) posted a solid rebound after a couple of weak months on the back of no specific news other than a rotation into COVID-19 winners on the back of afore-mentioned COVID-19 fears. The Fund continues to take profits in Redbubble, albeit maintains an exposure to the stock given expected positive momentum in both sales and earnings.

Portfolio stalwart Seek (ASX:SEK) also had a good month on the back of continued positive updates on the recovery in the Australian labour market. SEEK's data, as well as the ANZ Job Ad data, are now indicating that job ad volumes are higher than this time last year. That is an impressive performance from the economy, reflecting a strong bounce back following the sharp downturn experienced mid-2020. This recovery increases the likelihood that Seek will raise its earnings guidance for FY21.

The main detractor from performance was again Avita Medical (ASX:AVH). We have discussed this stock many times in previous letters so will refrain from repeating our thesis except to reiterate there has been minimal change to our view of the longer-term prospects for the company and its key product RECELL. The share price performance remains disappointing but creates further upside in the longer term. In the near term, we await an announcement on the company's application for outpatient reimbursement through a Transitional Pass-through Payment application with The Centers for Medicare & Medicaid Services in the US which we expect will accelerate production adoption in the US.

There was also a partial reversal in performance from some of the winners in November that benefitted from the announced vaccine results such as Sydney Airport (ASX:SYD), IDP Education (ASX:IEL) and Webjet (ASX:WEB). These stocks are expected to remain volatile, fluctuating on the back of incremental news regarding vaccine effectiveness and the roll out timetable, as well as any improvement or worsening of the spread of the virus.

With control of the US Government and policy shifting to the Democrats, the outlook for fiscal stimulus is likely to increase. This should add positive sentiment for the markets in the near term, with a focus on value and cyclical names. The Fund maintains a very low cash level from a historical perspective, as well as an elevated weighting to the banks and similar exposures that should benefit from this environment.

2020 was undoubtedly a very challenging year on multiple levels. While the new year brings hope of a return to normalcy, we note the potential for setbacks, as evidenced by Sydney's recent COVID-19 cluster and logistics challenges to wide-spread vaccine roll-out. Sentiment is likely to remain volatile as optimism rises and fades periodically on the back of incremental news. We look to remain nimble to take advantage of opportunities while remaining focused on longer term value to minimise downside risk from any material change in sentiment that could devastate a momentum driven investment case.

For the six months to 31 December 2020 The Montgomery Fund will pay a distribution of 0.4601 cents per unit. We ended 2020 with a unit price of \$1.4537 and we commence calendar year 2021 with a unit price of \$1.4491.

