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
$349.9M

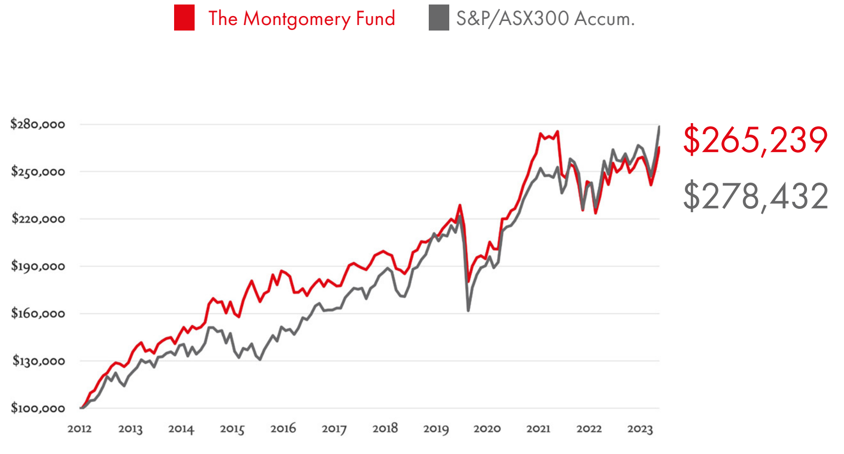
MANAGEMENT FEES AND COSTS
1.36% per annum[1]

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 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
June 2019	6.2488	4.75

PORTFOLIO PERFORMANCE

(to 31 December 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	5.46%	4.70%	5.06%	9.70%	6.41%	7.45%	6.05%	6.82%	165.24%	8.96%
S&P/ASX 300 ACCUM. INDEX	7.22%	8.36%	7.45%	12.13%	8.99%	10.27%	8.49%	7.91%	178.43%	9.42%
OUT/UNDER PERFORMANCE	-1.76%	-3.66%	-2.39%	-2.43%	-2.58%	-2.82%	-2.44%	-1.09%	-13.19%	-0.46%

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]	5.46%	4.70%	5.06%	9.70%	9.22%	13.22%	12.11%	11.14%	506.81%	10.01%
S&P/ASX 300 ACCUM. INDEX	7.22%	8.36%	7.45%	12.13%	8.99%	10.27%	8.49%	7.91%	300.48%	7.62%
OUT/UNDER PERFORMANCE	-1.76%	-3.66%	-2.39%	-2.43%	0.23%	2.95%	3.62%	3.23%	206.32%	2.39%

[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 December 2023)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank of Australia	CBA	Financials	7.53
Macquarie Group Ltd	MQG	Financials	6.10
CSL Ltd	CSL	Health Care	6.08
Rio Tinto Ltd	RIO	Materials	6.04
QBE Insurance Group Ltd	QBE	Financials	5.62
Cochlear Ltd	COH	Health Care	5.57
Transurban Group	TCL	Industrials	5.13
Altium Ltd	ALU	Information Technology	4.98
Woodside Energy Group Ltd	WDS	Energy	4.57
Bhp Group Ltd	BHP	Materials	4.56
Total equity weighting			98.81
Total cash weighting			1.19

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

TOP 3 CONTRIBUTORS AND DETRACTORS

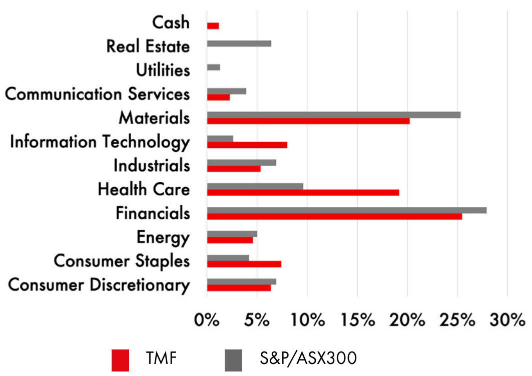
CONTRIBUTORS

Cochlear	The share price rose as long term bond yields fell.
Rio Tinto	The share price rose with the iron ore price.
Macquarie Group	The share price rose after a period of underperformance.

DETRACTORS

QBE Insurance Group	The share price fell as the Federal Reserve indicated interest rates will fall in 2024.
Evolution Mining	The share price fell after the company completed a capital raising to fund an acquisition.
AMP	The share price fell after the company paused its on-market buyback.

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ ASX300 (%)	ACTIVE (%)	# STOCKS
ASX 1 -20	53.0	61.1%	-8.1%	13
ASX 21 -50	27.0	16.5%	10.5%	8
ASX 51 -100	9.8	11.6%	-1.8%	4
ASX 101 -200	8.7	8.3%	0.4%	5
ASX 201 -300	0.2	2.4%	-2.2%	1
Ex S&P/ ASX 300	0.0		0.0%	0
Cash	1.2			
Total	100.0			31

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

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

Global equity markets ended the 2023 calendar year with a strong rally in December, boosted by falling U.S. Bond Yields and expectations of interest rate cuts in 2024. The Montgomery Fund (The Fund) also followed markets higher, rising 5.46 per cent net of fees for the month. For calendar year 2023, the Fund has returned 9.70 per cent compared to the benchmark S&P/ASX 300 Accumulation Index's return of 12.13 per cent, which in turn, was far better than its negative 1.77 per cent return of the prior year.

The S&P/ASX 300 Accumulation Index's December return of 7.22 per cent delivered the bulk of the market's annual 12.13 per cent gain and was the best monthly return since November 2020. The S&P/ASX 300 Accumulation Index also rose 12.65 per cent in the final two months of the year, and given it rose 12.13 per cent for the calendar year 2023, stocks fell 0.52 per cent over the first 10 months.

The Australian market's 2023 gain, however, was less impressive than its U.S. peer, the S&P 500, which rallied 24.23 per cent (excluding dividends). Throughout the year, the U.S. Federal Reserve's interest rate policy and inflation concerns were central to market sentiment and, therefore, the cornerstone for market movements in 2023.

While you might recall we thought 2023 would be a generally good year for stocks, many market analysts and commentators thought the most advertised recession in history would prevail early and cause the market to continue to perform poorly, mounting further losses on the 18.1 per cent bloodletting of 2022.

From the economy avoiding a recession to a substantial U.S. stock market rally, 2023 defied the expectations of most. Indeed, the 2023 year turned into one of the biggest years for stock market performance in the past decade, with mega-cap technology stocks and innovative growth companies – those that suffered the biggest losses in the 2022 bear market – sharply reversing.

U.S. technology stocks posted a huge year, and recording their best performance since 2009. The poster child for the 2023 rally was semiconductor chip designer Nvidia, whose shares reversed the prior year's 50 per cent decline and rallied 239 per cent amid expectations artificial intelligence (AI) will reshape the tech sector and transform the world.

Chip manufacturing competitor Advanced Micro Devices jumped 128 per cent, while rallies in Alphabet, Meta Platforms, and Netflix helped the Communications Services sector record the second-best gain of 54.5 per cent.

As bottom-up stock pickers, our focus is always on the performance of individual companies, their actions and their combined effect on the portfolio. Historically, this has been the main driver of our outperformance. Market movements in the last six months, however, and in December in particular, were not driven by idiosyncratic factors but by a reversal in the outlook for the macroeconomic environment spurring a rebound in previously underperforming companies.

Most of these companies are of lower quality and normally do not feature in our higher-quality biased portfolio. The lower-quality names have reverted to their normal valuation trading ranges, and assuming no company-specific changes in quality, their scope for further outperformance appears limited.

Our analysis reveals the market's top performers were lower-quality resource companies and international construction-related companies, as well as real estate investment trusts (REITs). These cyclical companies' shares were driven by the abrupt change in the outlook for 2024 interest rates. The sizeable decline in bond yields had predictably significant flow-on effects for the equity market, with investors quickly repositioning portfolios into high-growth companies with long-dated earnings, including those in the technology and healthcare sectors, at the expense of companies in sectors that benefit from higher interest rates, such as insurance.

It is also a feature of sharply rising markets that a quality-biased portfolio like that owned by The Fund – one comprised of companies with solid balance sheets and relatively dependable earnings – will lag cyclical sectors of the market.

There were also some portfolio company announcements that were not well received by the market. The consequent underperformance of these companies during the month dragged on the performance of the portfolio.

Contributors to performance

Cochlear Ltd (ASX:COH)

Cochlear has been the top contributor to performance for two consecutive months. Cochlear released no specific news nor made any announcements during December, suggesting its outperformance was driven by the decline in long-term bond yields, which support high-growth stocks like Cochlear.

Our investment thesis for Cochlear was examined in The Fund's November 2023 monthly report, and we refer you to that report for an understanding of our view.

Rio Tinto Ltd (ASX:RIO)

Rio Tinto is The Fund's largest overweight exposure to iron ore and driven by an eight per cent gain in the iron ore price in December, Rio Tinto was one of the top contributors to December 2023 performance. The iron ore price has risen close to 23 per cent in the last six months due to constant commentary and announcements from the Chinese government about economic stimulus and support for the ailing property market.

Iron Ore prices have now risen past U.S.$140 per tonne, and Rio Tinto is one of the lowest-cost producers in the world. With C1 costs of approximately US$20 per tonne, the profit margin per tonne is substantial. With over 300 million tonnes of production per year, the resulting free cash flow and shareholder returns also experience significant increases.

Investors with experience in the big three iron ore miners (Rio Tinto, BHP and Fortescue) have come to expect large, fully-franked dividends when they declare distributions during the February reporting season, changing the perception of the large mining companies from purely cyclical commodity producers to income producers yielding over eight per cent in some historical cases.

The investment team have maintained The Fund's position in Rio Tinto at maximum weight.

Macquarie Group Ltd (ASX:MQG)

Macquarie Group experienced a period of underperformance ever since reporting a subdued second-half 2023 result in its annuity-style asset management and banking businesses. The share price's performance had improved recently, aided by the announcement of a $2 billion buyback and expectations of more green infrastructure deals following the COP28 United Nations Climate Change Conference in December.

Detractors to performance

QBE Insurance Group Ltd (ASX:QBE)

With global equity markets recently driven by falling bond yields, QBE Insurance Group was not a surprising underperformer for the month. However, short-term bond yields have fallen a lot less than long-term bond yields, meaning that QBE Insurance Group's investment book returns are still projected to be quite substantial. The mark-to-market gains in their fixed investment book will also partly offset any lost revenue from falling bond yields.

With global inflation numbers heading lower, the likelihood of insurance premiums maintaining their high single-digit or low double-digit rises has decreased. Consequently, the investment team has decided to reduce The Fund's exposure to QBE Insurance Group. The position remains overweight versus the index, as we anticipate earnings and shareholder returns to be significant, given the events of the past year.

Evolution Mining Ltd (ASX:EVN)

Evolution Mining's share price underperformed in December as the broader market was given a shot in the arm by a growing belief the U.S. Fed will commence interest rate cuts as early as March 2024. Naturally, gold-related and inflation-hedge stocks underperformed as participants rotated their portfolios into high-growth and longer-dated earnings companies.

Evolution's management also raised $525 million in new equity at the end of November, causing the share price to fall below its $3.80 raising price.

Despite the temporary headwind, the investment team believes in management's turnaround plan. Red Lake in Canada has been a problem since they acquired it in 2019, plagued by high costs and operational issues. However, there are signs that management's plan is working, and production numbers are growing alongside declining production costs.

Evolution Mining's copper production is still the main attraction, and the recent acquisition of the Northparkes mine will grow copper production by 50 per cent, with the new mine also being in close proximity to the Cowal mine, another long-life and low-cost asset.

The investment team took advantage of share price falls to increase the position in Evolution. The growing copper production profile increases the quality of the company.

AMP Ltd (ASX:AMP)

Following the announcement in November about the finalisation of the Buyer of Last Resort (BOLR) class action, the investment team expected AMP's $1.1 billion capital management program to resume immediately. Disappointingly, the company made a mid-December announcement to pause on the final $350 million of capital return until the February 2024. As the market rose quite strongly in December, a flat AMP share price for the month contributed to portfolio underperformance. AMP also previously stated that its banking operations and margins remain under pressure due to intense competition. We have reduced our position in AMP, recycling capital into other stocks with better risk/reward characteristics.

Portfolio Changes

Pilbara Minerals Ltd (ASX:PLS)

As one of the lowest-cost producers of lithium (spodumene) in Australia, Pilbara Minerals is a high-quality company that has experienced a rapid ascent into the top 100 Australian listed companies. Like every other commodity producer, the company's recent fortunes have been at the mercy of the commodity price. However, despite the recent downturn in spot price of lithium, the company's operations have remained profitable.

Spodumene needs to be converted to lithium carbonate or lithium hydroxide before it can be employed in the manufacture of electric vehicle or mobile phone batteries. This conversion process is performed by Chinese factories, which command the majority share of global battery production.

Pilbara Minerals is also vertically integrated with upstream, midstream and downstream operations all along the lithium product cycle. Spodumene concentrate production provides most of the company's earnings, while mid-stream and downstream joint ventures are set to contribute over the next two years. By partnering with respected names, including Calix and POSCO, in the environmental technology and industrial sectors, Pilbara Minerals has the potential to generate material returns for shareholders over the medium term.

Management has been astute stewards of capital, accumulating over $3 billion of cash during the period of higher lithium prices and helping to fund future growth projects and pay an inaugural dividend. Current upstream projects include the P680 and P1000, which involve increasing annual spodumene concentrate production from 620,000 tonnes to one million tonnes.

Given profitability at lower lithium prices and the strong balance sheet, we see limited downside and have initiated a position. Current upstream operations provide a strong foundation for management to fund and develop growth projects which could generate strong future returns.

Lithium prices are currently at cyclical lows, and we remain confident that prices will rise in the medium term as the lithium market remains in long-term undersupply amid rising demand for Electric Vehicles (EVs) and battery storage.

Silex Systems Ltd (ASX:SLX)

The general acknowledgement of nuclear power as a lower carbon footprint source of energy for future generations has increased the urgency among developed nations to more efficiently enrich nuclear material. The uranium price has also risen amid the construction of more than 50 new nuclear reactors globally. Furthermore, the United Nations Climate Change Conference (COP28) meeting in December 2023 recognised the key role of nuclear power in future energy infrastructure and consumption in reaching net zero carbon emission targets.

Silex Systems is a laser enrichment technology company and has a critical part to play in the path to net zero emissions.

SILEX stands for "Separation of Isotopes by Laser Excitation", and this technology has many potential applications, including nuclear enrichment and quantum computing.

Management has targeted a mid-2024 deadline for its commercial pilot demonstration project. A successful demonstration will fast-track the company's commercial operations at the Paducah Laser Enrichment Facility in North Carolina to 2028 – three years earlier than originally planned.

Given Russia dominates the global supply of both raw and enriched uranium, its conflict with Ukraine has increased urgency among Western allies to find alternative sources to meet energy demands. The passing of the U.S. government's Inflation Reduction Act, in 2022, included the allocation of U.S. $700 million by the Department of Energy (DOE) to the development of uranium enrichment technology and infrastructure for the next generation of advanced modular reactors.

Silex Systems' growth projects are currently focused on the advancement of uranium enrichment but its applications in quantum computing and medical isotopes should not be ignored as a source of growth.

The investment team has initiated a position in Silex Systems.

Newmont Corporation CDI (ASX:NEM)

The Fund's original position was in Newcrest Mining, Australia's premier listed gold stock at the time. The attraction of Newcrest Mining to the investment team was its substantial and growing copper production profile. Since the takeover of Newcrest by Newmont Corporation in 2023, the copper exposure has been significantly diluted due to the comparatively large gold operations of Newmont.

For that reason, the investment team have decided to exit the position in Newmont and subsequently increase its position in Evolution Mining (ASX:EVN) to return the copper and gold exposure to appropriate levels.

Distribution

At the conclusion of the 6 months to December 2023, The Montgomery Fund will pay a distribution of 2.1568 cents per unit. After finishing the year with a unit price of $1.4511, the starting unit price for the commencement of the 2024 calendar year is $1.4295.