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
$511.6M

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

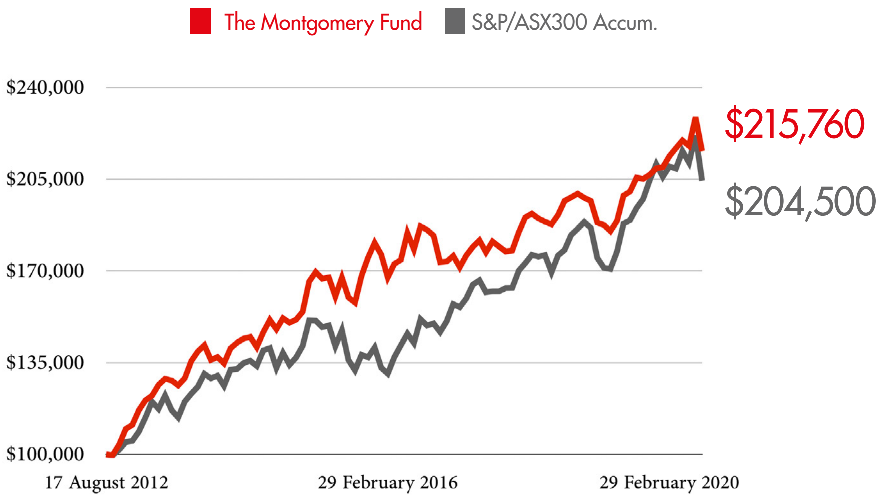
FINANCIAL YEAR RETURNS

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**	10.8%	10.0%

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

**Compound annual returns

PERFORMANCE GRAPH



PORTFOLIO PERFORMANCE

(to 29 February 2020, after all fees)

	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	-5.65%	-5.65%	-7.76%	2.11%
3 months	1.09%	-2.95%	-1.86%	-5.22%	3.36%
6 months	1.14%	1.79%	2.93%	-0.71%	3.64%
12 months	5.65%	2.91%	8.56%	8.75%	-0.19%
3 years (p.a.)	5.50%	1.52%	7.02%	8.62%	-1.60%
5 years (p.a.)	5.33%	0.06%	5.39%	6.23%	-0.84%
7 years (p.a.)	5.64%	2.81%	8.45%	7.90%	0.55%
Since inception#	57.26%	58.50%	115.76%	104.50%	11.26%
Compound annual return (since inception)#	6.19%	4.56%	10.75%	9.96%	0.79%

\# *17 August 2012*

FUND COMMENTARY

How quickly things can change in a month. After an unusually strong market performance in January in which the ASX300 Accumulation Index posted a 4.9 per cent increase, February was a classic demonstration of how quickly markets, and global investor sentiment can change within a few short days, with the index declining 7.8 per cent for the month. Early headlines were dominated by reporting season results and outlook statements that were generally not as bad as feared - with some pockets of optimism around housing market recovery - as investors initially shrugged off the potential broader ramifications of the Coronavirus situation in China. Fuelled by an improving outlook and historically low rates, the ASX All Ordinaries Index posted an all-time high on 20 February.

This all reversed in the last week of February as the Coronavirus outbreak hit developed nations, sparking fears of contagion across the world. The S&P 500 posted the fastest correction – defined as a drop of 10 per cent from its recent peak – since the Great Depression, and the worst one-week performance since the GFC (October 2008). The Australian market declined by 9.9 per cent over this period.

The Montgomery Fund (The Fund) increased its defensiveness over February as the Coronavirus outbreak evolved, increasing cash levels during the month and generally holding investments we consider defensive. While not immune to the sell-off, the combination of portfolio positioning and increased cash levels helped deliver relative outperformance of 2.1 per cent during the month, with The Fund declining 5.6 per cent over the period.

The top contributor to relative performance for the month was Healius, which received a non-binding, indicative takeover offer at $3.40 per share, a 23 per cent premium to its previous close. The bid from Partners Group – a Swiss private equity firm – was entered into in conjunction with an option agreement over major shareholder Jangho's shares.

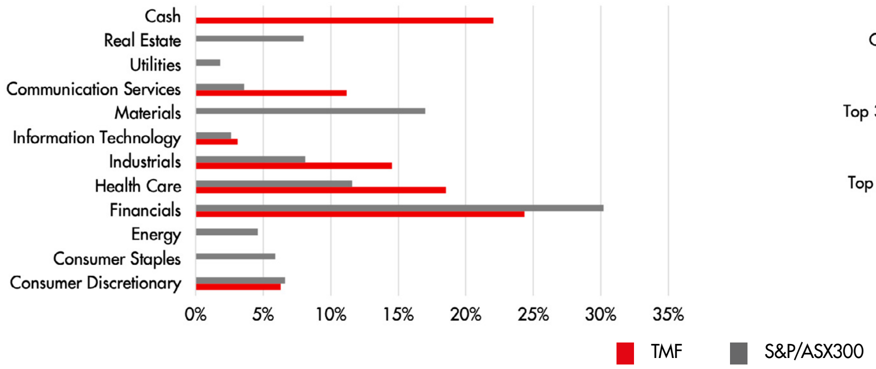
TOP COMPLETED HOLDINGS* (TCH)

(at 29 February 2020, out of 20 holdings)

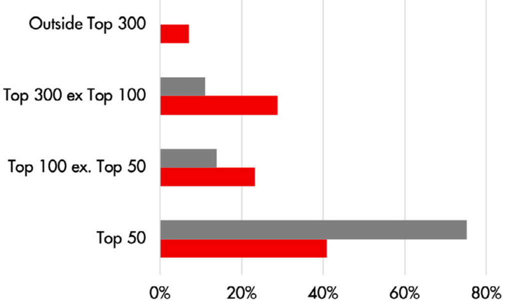
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
Aristocrat Leisure	38.6	103.8	20.0	6.29
Telstra	20.3	114.6	12.8	6.15
Macquarie Group	9.0	N/A	15.3	6.15
Spark New Zealand	28.6	114.3	20.5	5.42
Avita Medical	N/A	N/A	N/A	5.23
Atlas Arteria	5.3	21.9	23.9	5.15
Westpac	10.5	N/A	12.6	5.09
CSL	36.7	76.3	38.1	4.87
Healius	12.2	33.0	17.5	4.73
Medibank Private	22.2	-33.9	19.2	4.39
TCH AVERAGE	20.4	61.4	20.0	
MARKET AVERAGE	11.8	77.7	17.1	
Total equity weighting				77.96
Total cash weighting				22.04

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

The Fund has held Healius for a long time, and while the new management team had shown some progress with the operational turnaround of the Group, the potential for corporate activity had also formed part of the investment thesis. The Fund de-risked some of its position in Healius following receipt of the offer, but we anticipate the Board will engage with Partners Group in the coming weeks to negotiate terms.

Centuria and QMS were the only other two investments posting a positive return over the period, which highlights the broad-based nature of the sell-off. Centuria posted a positive half-year result, highlighting a better than expected pipeline of unlisted Property Fund opportunities and performance fees, while QMS was de-listed in early February following completion of the takeover offer from Quadrant.

The largest detractor was Reliance Worldwide which downgraded guidance due to softer US sales than expected, and greater investment in research and development. After disappointing the market in June last year, the Reliance share price had recovered nicely as the outlook for its core markets in the US and UK was expected to show sequential improvement for future periods. However, Reliance missed out on an opportunity in a key retail distributor to roll out additional product, which resurfaced questions around sustainable growth for the company. While the setback is disappointing, we believe the sell-off is overdone, with the current share price attractive for a quality, cash generative industrials business with a strong management team focused on execution. We used the sell-off as an opportunity to buy additional shares.

Avita Medical and Aristocrat Leisure were also amongst the top three negative contributors. In the case of Avita, the sell-off is somewhat attributable to the lack of perceived valuation support during the sell-off. We have used the share price weakness to buy back some shares The Fund sold during periods of more exuberant pricing activity. In the case of Aristocrat, the company sold off with the broader market given the potential for a slowdown in activity in its land-based slots division as a result of COVID-19, despite continued positive momentum in its Digital Gaming division. The Fund has selectively reduced its weight in Aristocrat given the discretional nature of its business and at the time of writing it is no longer the biggest position in The Fund.

Looking forward, we have adopted a more cautious stance in the immediate aftermath of the selloff given our view that we are closer to the beginning than the end of the rapidly evolving Coronavirus situation. While we appreciate the seemingly temporal impact of Coronavirus, we are only now starting to appreciate the broader significance of how Coronavirus may impact human activity and behaviour, along with potential implications on economic activity. Our caution is represented by a cash level of 22 per cent, which excludes our significant stake in Healius.

Despite our caution, we are mindful that a market sell-off and heightened volatility will present more opportunities than in the past. We remain vigilant on potential opportunities for the fund to selectively deploy cash in turbulent times despite negative earnings revisions, seeking companies with quality attributes that are well placed for any recovery when it plays out.