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 17 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
$377.5M

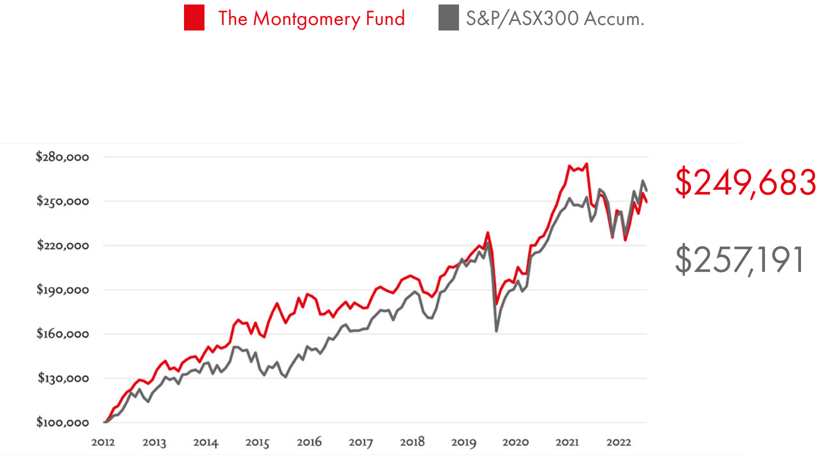
MANAGEMENT FEES AND COSTS
1.36% per annum[1]

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 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
December 2018	2.3155	1.52
June 2018	11.2554	7.55

PORTFOLIO PERFORMANCE

(to 28 February 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	-2.23%	0.18%	3.17%	1.52%	4.99%	5.74%	5.86%	7.40%	149.68%	9.08%
S&P/ASX 300 ACCUM. INDEX	-2.55%	0.17%	5.92%	6.54%	7.94%	7.87%	10.14%	7.91%	157.19%	9.38%
OUT/UNDER PERFORMANCE	0.32%	0.01%	-2.75%	-5.02%	-2.95%	-2.13%	-4.28%	-0.51%	-7.51%	-0.30%

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]	-2.23%	0.18%	5.23%	10.28%	11.97%	10.90%	14.80%	11.08%	471.22%	10.13%
S&P/ASX 300 ACCUM. INDEX	-2.55%	0.17%	5.92%	6.54%	7.94%	7.87%	10.14%	7.91%	269.93%	7.51%
OUT/UNDER PERFORMANCE	0.32%	0.01%	-0.69%	3.74%	4.03%	3.03%	4.66%	3.17%	201.29%	2.62%

[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 28 February 2023)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank Of Australia	CBA	Financials	7.18
Rio Tinto Ltd	RIO	Materials	6.02
QBE Insurance Group Ltd	QBE	Financials	5.94
CSL Ltd	CSL	Health Care	5.92
Woodside Energy Group Ltd	WDS	Energy	5.62
Macquarie Group Ltd	MQG	Financials	5.49
Cochlear Ltd	COH	Health Care	5.10
Transurban Group	TCL	Industrials	4.98
Altium Ltd	ALU	Information Technology	4.61
Newcrest Mining Ltd	NCM	Materials	4.46
Total equity weighting			98.26
Total cash weighting			1.74

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

TOP 3 CONTRIBUTORS AND DETRACTORS

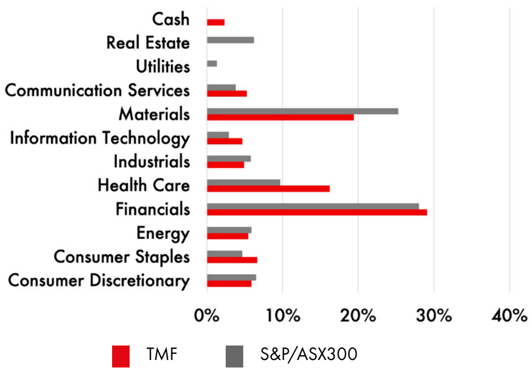
CONTRIBUTORS

QBE Insurance Group	The share price rose after reporting rising premium growth and higher investment income.
Cochlear	The share price rose after management revealed a recovery in implant unit growth.
Avita Medical	The share price outperformed after management presented a strong fourth quarter result and continued positive momentum for FY23.

DETRACTORS

AMP	The share price fell after reporting a fall in second half FY23 profit.
Rio Tinto	The share price fell after reporting falling free cashflow after enduring challenging market conditions.
Pro Medicus	The share price fell after a period of outperformance.

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ ASX300 (%)	ACTIVE (%)	# STOCKS
S&P/ASX 1-20	55.9%	60.6%	-4.7%	13
S&P/ASX 21-50	18.8%	17.0%	1.7%	5
S&P/ASX 51-100	13.3%	11.8%	1.4%	4
S&P/ASX 101-200	8.8%	8.1%	0.7%	5
S&P/ASX 201-300	0.0%	2.5%	-2.5%	0
Ex S&P/ASX 300	1.5%		1.5%	2
Cash	1.7%			
Total	100.0%			

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Pleasingly, The Montgomery Fund (The Fund) outperformed its benchmark, the S&P/ASX 300 Accumulation Index, by 0.32 per cent in February 2023. The market, however, fell 2.55 per cent, reversing slightly more than half the gains made in January. While beating its benchmark, The Montgomery Fund returned negative 2.23 per cent net of all fees.

Contradictory U.S. economic news released over the course of February resulted in a resumption of volatility.

Early in February, the U.S. Federal Reserve slowed the pace of interest rate hikes to 25 basis points and its Chairman, Jerome Powell, stated inflation had become disinflation. Investors interpreted this to mean that the battle against stubbornly high inflation was nearing a conclusion.

In mid-February, a higher than expected January inflation rate shifted the entire yield curve higher, with the 12-month bond yield rising 32 basis points to 4.97 per cent reflecting expectations of further rate hikes. The 10-year bond yield also rose 40 basis points to 3.91 per cent, breaching 4.0 per cent in early-March, reflecting expectations interest rates will now stay higher for longer.

An inverted yield curve persisted, suggesting expectations of recession remain.

On the domestic front, the Reserve Bank of Australia (RBA) raised interest rates for the ninth time from 3.10 per cent to 3.35 per cent. More hikes were also promised in order to return inflation to target levels and avoid higher expectations. Meanwhile, unemployment rose from 3.5 per cent to 3.7 per cent as higher interest rates stymied new jobs growth.

Since the the Australian Labor government's election victory in May 2022, Sino-Australian relations appear to be thawing. Australian coal was accepted at Chinese ports after being unofficially banned for more than two years. Rumours and media coverage about the lifting of Chinese import tariffs on other Australian exports, including wine and lobsters, fuelled hope of strengthening bilateral trade relations.

February also accommodated Australia's December 2022 half-year reporting season. Many companies were understandably challenged by inflation with a material number passing higher costs on to their customers. Meanwhile, worker shortages continued to plague many skilled and non-skilled labour intensive companies, leading to lower margins and earnings in some cases.

Inflation challenges however were universally experienced. Several prominent companies in retail and banking inadvertently revealed they were at least partly responsible for Australia's inflation narrative, reporting either record gross profit margins or higher margins than prior to the pandemic.

Companies held by The Fund enjoyed a relatively positive reporting season with only a few surprises.

One of our large overweight positions in QBE Insurance Group (ASX:QBE) reported a pleasing full year result for 2022 despite elevated catastrophe costs. QBE was The Fund's top contributor to performance in February and we've increased the position to its maximum allowable weight as we expect the recent tailwinds of higher premiums and higher interest rates to continue. We detail our QBE investment thesis below.

Cochlear (ASX:COH) was another top contributor to performance in February. Cochlear implant unit growth showed strong momentum in the six months to December in both developed and emerging markets. This occurred despite widespread COVID shutdowns and labour shortages.

Management also expects demand growth to continue in the second half of FY23 with the release of a new sound processor and continued clearing of the COVID backlog for surgeries. Cochlear maintained their number one position in the global severe hearing loss market throughout COVID. They also continued to deliver on their objective to bring market-leading products and services to their life-long customers. Cochlear is also one of our large portfolio holdings and after a recent period of underperformance, we have increased the portfolio weight to reflect the optimism and trust we have in management's stewardship of the company.

We also maintain a significant portfolio weight in Commonwealth Bank (ASX:CBA) due to its high-quality retail franchise and large market share in consumer and business lending. However, the first-half result indicated that the recent period of positive earnings leverage to rising short-term interest rates was coming to an end due to significant competition for customers. Bad debts will eventually normalise as higher interest rates bite, and all banks reporting in February increased loan impairment provisions from immaterial levels in previous halves.

The Fund has a relatively small weighting in Avita Medical Inc (ASX:AVH) but significant share price outperformance during the month elevated the holding to be one of the top contributors to performance. The company's competitive advantage is its FDA approved RECELL System, which has disrupted the standard of care for skin restoration. The RECELL System technology involves being able to treat wounds and skin defects using very small samples of the patient's own cells in less than 30 minutes without the need for laboratories or specialised staff. The process is currently only Federal Drug & Administration (FDA) approved for treatment of burns, but the company has applied to the FDA to have the same technology approved for use on soft tissue repair and to treat lack of skin pigmentation. Management have expressed their confidence in FDA approval and are consequently preparing the company for an aggressive product launch, given the success of the previous application on burns, significant revenue and cost synergies and increased total addressable market size. The company also released pleasing fourth quarter results with 36 per cent revenue growth and an upbeat outlook for accelerating growth due to increasing adoption and usage among skincare professionals.

The biggest detractor to performance was AMP Ltd (ASX:AMP). This was a large overweight position in our portfolio and unfortunately, it has not worked out as planned. Consequently, we have lowered our portfolio weight but remain confident the share price will be supported by the current $350 million buyback, a soon-to-be approved additional $500 million share buyback, and a potential annual five-cents- per-share fully-franked distribution. We discuss AMP in detail below.

The Fund's holding of CSL Ltd (ASX:CSL) was increased to the maximum allowable weight after the announcement of the FY2023 half-year result. After suffering through COVID due to lack of social mobility from closed borders, the company experienced a return to growth with record plasma collections, high single-digit growth in vaccines revenue, as well as successful completion and five months contribution from its Vifor acquisition. The outlook for CSL remains positive, with collections expected to grow from eight new plasma collection centres, the integration of Vifor, and the launch of the first FDA-approved gene therapy process for haemophilia-B sufferers.

We reduced The Fund's holding in Incitec Pivot Ltd (ASX:IPL). Despite elevated fertiliser and urea prices their recent declines expose the company's share price to downside earnings risk. Towards the end of last year, management announced the strategic review of its Waggaman ammonia plant as well as a planned demerger of its fertiliser business. February's AGM represented an opportunity for management to reassure the market their plans are progressing well but they failed to provide more detail other than that the strategic review of Waggaman in Louisiana was underway and shareholders would be updated before or at the half-year result in May. Consequently, we reinvested sale proceeds elsewhere.

QBE Insurance Group (ASX:QBE)

As with many of the larger capitalisation stocks on the ASX, the Australian Eagle investment team has followed QBE from the early 2000s when then management successfully expanded internationally and domestically, buying many niche insurance businesses and leveraging the company's advantage in pricing risk. Even though QBE today looks very different, our understanding of the drivers of the company and the share price remain fundamentally similar.

After many false starts with different management teams, it seems the planets are beginning to align and the company is returning to the performance last seen when John Cloney and Frank O'Halloran were in charge in the late 1990s and early 2000s. Subsequent CEOs prepared the platform by attempting to simplify an incredibly complex business, selling or closing unprofitable insurance lines and cutting costs. The new CEO – appointed in September 2021 – turned a loss-making North American insurance division into a profitable region within 18 months by exiting some unprofitable lines, targeting growth to reach scale and reducing volatile legacy exposures through reinsurance.

With the North American turnaround coinciding with higher inflation and interest rates, the most recent results announcement in February 2023 confirmed our investment thesis for QBE. The company continues to experience high single-digit gross written premium growth in addition to a welcome rise in investment returns from its $28.8 billion investment book. Investment income grew from $382 million to $567 million mainly due to the recent increase in bond yields on a shorter-duration portfolio of bonds. Management has continued their prudent approach to riskier areas with a broad-based reinsurance transaction that de-risks exposure to North America and International long-tail claims. Another shrewd move was to reduce exposure to lenders' mortgage insurance in Australia, especially as cost-of-living and rising rate expenses begin to bite. We take the view that the judicious de-risking of the insurance book will reduce earnings volatility from insurance and expose shareholders to the benefits of rising premiums and the potential upside of higher returns from investments. Additionally, this may lead to a re-rating of QBE from its currently modest 10-11x PE ratio.

The FY23 outlook provided by management presents a picture congruent with our short-term expectations for mid to high single-digit gross written premium growth, continued profitability in the insurance underwriting division, and a significant improvement in the 2022 exit yield of 4.10 per cent for the investment book. Our positioning has expressed our confidence QBE has been structured to benefit from the industry tailwinds of higher premiums and higher interest rates while limiting the downside risks such as the effect of inflation on large long-tail claims.

AMP Ltd (ASX:AMP)

As one of the oldest and most reliable pillars of the financial system, many Australians held AMP in high regard, with numerous individuals and institutions using their products and services in life insurance, superannuation, financial advice, funds management and banking. That well-regarded reputation was decimated by the financial services and banking royal commission in 2018, which accused AMP and the broader financial industry of unethical and negligent behaviour towards customers.

The explosive findings resulted in significant client remediation costs, the substantial outflow of client funds and constant negative media attention for AMP. While the stock price fell from over $5.00 per share to about $1.50, the company immediately went about salvaging their reputation and formulated a turnaround plan, focusing on replacing management, selling the life insurance business and raising additional equity to stabilise the business. However, things deteriorated as the promotion of an employee in AMP Capital was leaked to the media, resulting in controversy and accelerated fund outflows.

During this turbulent time for the company's shares, the Australian Eagle team concluded the downside risk was limited and upside potential evident. The downside was protected by a large portion of the market capitalisation represented by surplus capital, and valuable divisions displaying resilient earnings. The change we saw involved not only the realisation of the value within AMP Capital via an asset sale but also the subsequent return of capital. This provided confidence that steps were being taken that would close the gap between price and value. The portfolio weight was further increased when management commenced delivering on cost-cutting measures within the loss-making Advice business. With evidence of growth in already-profitable business units, confidence was growing that substantial latent value would ultimately be reflected in the share price and. AMP's share price was one of the best performers during a difficult 2022 calendar year.

The 2022 financial report released in February this year, however revealed a larger-than-expected deterioration in revenue and a slower-than-expected pace of cost-cutting. When combined with management apparently softening their resolve to achieve pre-announced targets, we concluded reduced earnings and significant delays to earnings growth expectations are likely.

In the 18-year history of Australian Eagle, it is rare for a company's quality to be reassessed adversely after momentum for positive change and improvement has already been demonstrated. The Fund's investment process focuses on the characteristics of quality and valuation supporting the share price of a company. While AMP scraped into the bottom of our quality ratings assessment upon the commencement of our position, the company displayed encouraging progress towards improving its overall quality.

Alongside positive change occurring in the business, our conviction, and consequently the size of the position, was based on the downside protection offered by the discount to book value, which in turn was supported by surplus capital. This downside protection, which gives us time to reduce our position, is further reinforced by the confirmation of at least five cents per share in dividends this year, and the recent request for shareholders to approve up to an additional $500 million share buyback.