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
$335.9M

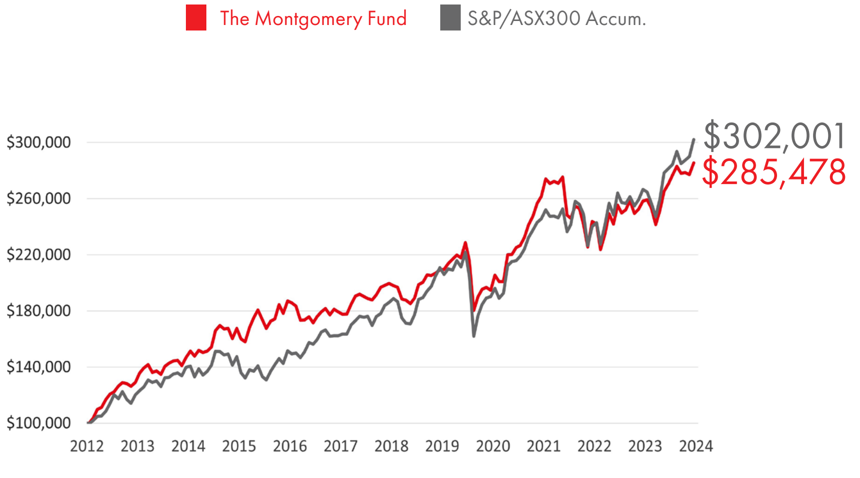
MANAGEMENT FEES AND COSTS
1.36% per annum[1]

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 (%)
June 2024	11.4223	7.87%
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%

PORTFOLIO PERFORMANCE

(to 31 July 2024, 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	3.01%	2.71%	5.55%	10.55%	2.95%	6.42%	6.87%	6.89%	185.48%	9.17%
S&P/ASX 300 ACCUM. INDEX	4.13%	5.98%	7.28%	13.27%	7.12%	7.46%	9.28%	8.02%	202.00%	9.69%
OUT/UNDER PERFORMANCE	-1.12%	-3.27%	-1.73%	-2.72%	-4.17%	-1.04%	-2.41%	-1.13%	-16.52%	-0.52%

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]	3.01%	2.71%	5.55%	10.55%	7.38%	9.49%	12.26%	11.28%	553.11%	10.11%
S&P/ASX 300 ACCUM. INDEX	4.13%	5.98%	7.28%	13.27%	7.12%	7.46%	9.28%	8.02%	334.38%	7.83%
OUT/UNDER PERFORMANCE	-1.12%	-3.27%	-1.73%	-2.72%	0.26%	2.03%	2.98%	3.26%	218.73%	2.28%

[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 July 2024)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank of Australia	CBA	Financials	7.97
Rio Tinto Ltd	RIO	Materials	6.05
Cochlear Ltd	COH	Health Care	5.94
Macquarie Group	MQG	Financials	5.75
QBE Insurance Group	QBE	Financials	5.35
Xero Ltd	XRO	Information Technology	5.02
Transurban Group	TCL	Industrials	4.77
CSL Ltd	CSL	Health Care	4.44
Woodside Energy	WDS	Energy	4.27
ResMed Inc	RMD	Health Care	4.06
Total equity weighting			96.63
Total cash weighting			3.37

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

TOP 3 CONTRIBUTORS AND DETRACTORS

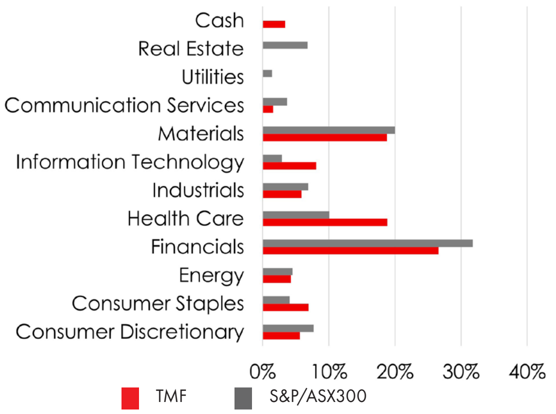
CONTRIBUTORS

Wesfarmers	The share price rose in anticipation of a strong result during reporting season.
ResMed Inc	The share price rose after a period of underperformance.
TechnologyOne	The share price rose after announcing an increase in market size.

DETRACTORS

Fortescue	The share price fell after a large institutional shareholder sold down its stake.
Silex Systems	The share price fell with the uranium price.
Pilbara Minerals	The share price fell with the lithium price.

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ ASX300 (%)	ACTIVE (%)	# STOCKS
ASX 1 -20	54.5	61.9	-7.4	13
ASX 21 -50	26.7	16.4	10.3	7
ASX 51 -100	7.2	11.8	-4.5	3
ASX 101 -200	4.1	7.8	-3.6	2
ASX 201 -300	1.1	2.2	-1.1	1
Ex S&P/ ASX 300	2.9		2.9	2
Cash	3.4			
Total	100.0			28

CONTACT DETAILS

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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

The Montgomery Fund (The Fund) delivered a positive return of 3.01 per cent in July in a very strong market (that has reversed sharply at the time of writing). Our lower exposure to the major banks and miners (collectively, these represent over 32 per cent of the market) means we typically lag when these stocks rise rapidly.

The major banks, which represent more than a fifth of the entire market, produced an average return of 6.7 per cent in July, helping to drive the S&P/ASX 300 Accumulation Index to a 4.13 per cent gain. Our exposure to the banks is necessarily much lower than their market weight because, as we have also explained previously, we see very little earnings growth and only middling returns on equity being produced.

Turning to global developments, over the first six months of this calendar year, the U.S. market was driven largely by the performance of large technology companies. However, July saw a shift in the narrative and a rotation out of the large technology companies and into smaller capitalisation stocks. This rotation is perhaps best reflected in the monthly performance of the Nasdaq compared to the small-cap Russell 3000 Index. The technology-heavy Nasdaq index fell 0.75 per cent in July, while the Russell 3000 Index rose 1.78 per cent. Another small-cap index, the S&P600, rose 10.71 per cent, in stark contrast to the large-cap S&P500 Index, which rose by just 1.13 per cent.

As an aside, and by contrast, rumours of potential hikes by the Reserve Bank of Australia (RBA) dominated domestic headlines.

It appears global investors are finally realising something we have written about previously; while excitement surrounds the advent and adoption of artificial intelligence (AI), AI-enhanced software and user experiences, the benefits all seem to be accruing to the consumer. The tech companies racing to successfully release AI versions of their products have been less successful at increasing the prices they charge and, therefore, less successful at generating additional revenue.

It is not new that novel and transformational technology should benefit consumers more than shareholders. The advent of the motor car, commercial air travel, and television likewise was enormously beneficial for consumers but less so, in aggregate, for shareholders of companies that elected to provide those products and services.

Still in the U.S., recent economic data for inflation, employment and consumer spending led the U.S. Federal Reserve Chairman, Jerome Powell, to intimate rate cuts were on the table for September. This inspired Treasury bond yields to fall across all maturities, with the two-year yield down 49 basis points to 4.26 per cent and the 10-year yield falling 37 basis points to 4.03 per cent.

Rate cuts have already occurred in Canada, the UK, Switzerland and Sweden, and the European Central Bank has also cut rates. China's central bank, the People's Bank of China, cut interest rates after gross domestic product (GDP) fell below its five per cent target (long gone are the days of double-digit growth in China – which itself was fuelled by massive debt-funded infrastructure building). Recent weakness in the Chinese economy is reflected in a lethargic property market, sluggish domestic demand, high youth unemployment and increased geopolitical tensions with the West.

Chinese government stimulus measures are failing, and the consequent economic weakness triggered a fall commodity prices falling throughout the month. Iron ore, copper, oil and lithium prices all fell.

Here in Australia, economic data painted an opaque picture. With inflation rising only modestly, investors were inspired to buy shares, comfortable in the knowledge the RBA might not raise rates. However, a marginal rise in the unemployment rate to 4.1 per cent, alongside a rise in the number of available jobs and a rise in the participation rate, was received negatively.

In terms of idiosyncratic news, July is a typically quiet month because companies head into blackout periods ahead of reporting season in August. That leaves only macroeconomic or geopolitical news to inspire investors and drive markets. Consequently, price moves in July often have very little to do with the fundamentals of companies in the portfolio.

All that is about to change, with reporting season well and truly underway at the time of writing. Our strategy of focusing on businesses with improving quality or those undergoing operational or organisational changes that will lead to accelerating earnings growth is expected to result in attractive portfolio returns over time. This focus underscores our confidence in the potential of these businesses, and Australian Eagle's long-term track record of outperformance bears this out.

Portfolio changes

The Fund has increased positions in ARB Corporation Ltd (ASX:ARB), Infratil Ltd (ASX:IFT) and Woolworths Ltd (ASX:WOW). Two positions were exited during the month – IGO Ltd (ASX:IGO) and IDP Education Ltd (ASX:IEL).

IGO has exposure to two future-facing commodities, nickel and lithium, both of which have been under pressure due to large amounts of low-cost Indonesian nickel and new African and Chinese lithium production arriving. Despite part owning Greenbushes – the lowest-cost spodumene mine in the world – IGO's 24.99 per cent stake does not entitle it to any control, only a share of the profits and losses.

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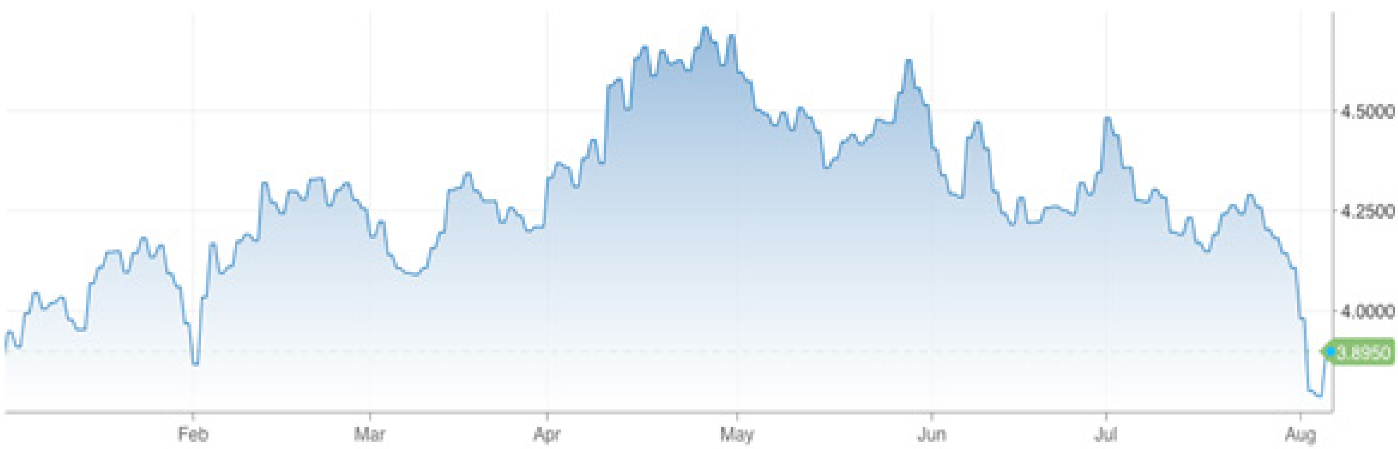
Figure 1. U.S. 10-year Treasury Yield



The conduct of Greenbushes's main JV owners has been perplexing in this low-price environment. We expected them to exert their competitive advantage over higher-cost peers by selling all their production and inventory and forcing smaller and less efficient mines to close. Instead, they chose to stockpile their low-cost production, to the detriment of partners like IGO.

We have seen this behaviour before in Australia's wool market of the early 1990s. Following the wool pricing debacle of 1990-91, the subsequent failure to dump holdings of raw material when prices were low created an overhang that keeps prices under pressure and cost the industry billions. Now, with the pace of electric vehicle (EV) sales slowing, an overhang of upstream commodities is equally likely to keep commodity prices under pressure for longer than initially-anticipated.

IGO's nickel assets reported mixed results, with its low-cost Nova mine reporting positive cash flow and profit, while its Cosmos and Forrestania sites suffered value impairments and were placed under strategic review.

Our position in IDP Education was exited after confirmation of an extended downturn in global migration levels. As a higher-quality player in the sector, IDP Education expects to outperform the rest of the industry during this downturn, but the deterioration in conditions has shown no sign of ending in the short term. The company's English testing division may support earnings in the short-term but will not fully offset the expected dip in international student placements. The protracted timeline for recovery has invalidated our thesis, and the position was subsequently exited.

Despite IGO and IDP Education being both high-quality companies, the timing of our investments remains an important factor. We will continue to monitor both companies and for industry headwinds to subside.

Major contributors

Wesfarmers (ASX:WES) – Wesfarmers' share price rose in anticipation of a strong results announcement in August. The cost of living crisis has been well covered in the media over the past two years. Kmart Group was a strong beneficiary of Australia's consumer woes and this was reflected in the half year results. With no inflation relief in sight, consumers have continued to seek more value with their purchases from Kmart, which has been transformed by management who simply decided to source product from the same suppliers as U.S. discount variety giants such as Walmart and Costco.

ResMed (ASX:RMD) – ResMed's share price rose after a recent period of underperformance. In late June, multinational pharma company Eli Lilly announced the results of a trial that revealed patients with both obesity and obstructive sleep apnea reported potential "disease resolution", and significant improvements in their sleep quality indicators after taking Eli Lilly's weight loss drug.

ResMed refuted the study's findings, stating this would not hinder growth. Management stated that this would not be the end of Continuous Positive Airway Pressure (CPAP) treatment but reinforces the strong need for continuing this treatment plan for obese patients. The company subsequently announced its fourth quarter results in early August, reporting strong volume growth, recovering margins, and an increased dividend.

TechnologyOne (ASX:TNE) - TechnologyOne's share price rose after the company upgraded medium-term guidance and addressable market size numbers. Management has focused on implementing SaaS+ for new and existing clients, establishing, implementing and maintaining a constantly evolving SaaS solution. We expect this to generate higher revenue per customer and increase the addressable market size to $13.5 billion.

The hitherto medium-term guidance of $500 million in annual recurring revenue (ARR) is now slated to be achieved a year earlier and by the end of the first half of the 2025 financial year. Management also reiterated their goal of doubling annual recurring revenue ARR every five years.

Detractors

Fortescue (ASX:FMG) – Fortescue's share price fell after a large institutional investor sold a material block of shares towards the end of the month. The shares were offered at an almost nine per cent discount to the end-of-day price, and the share price remained at these lower levels for the remainder of the month. This was despite the iron ore price remaining above US$100 per tonne.

Silex Systems (ASX:SLX) – Silex has outperformed other pure-play uranium stocks recently, but the share price still fell in sympathy with the uranium price. A key piece of more recent news is that Kazatomprom, the largest producing uranium mine in the world, increased production guidance by one million tonnes for FY24, after previously lowering guidance by 12 to 14 per cent.

Pilbara Minerals (ASX:PLS) – Pilbara's share price fell alongside the lithium price. The company recently announced the results of a pre-feasibility study, revealing a potential tripling of current production to 2mtpa from their Pilgangoora Mine. The company's balance sheet remains in a strong net cash position, while existing low-cost operations will continue to generate positive cash flow despite the low lithium price.