June 2019

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
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RECOMMENDED INVESTMENT TIMEFRAME
5 years

MINIMUM INITIAL INVESTMENT
$25,000

INCEPTION DATE
17 AUGUST 2012

FUND SIZE
$571.0M

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

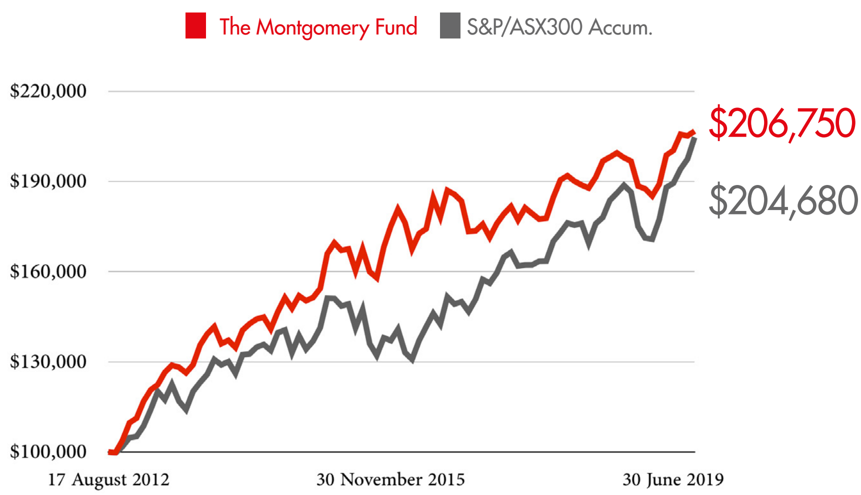
FINANCIAL YEAR RETURNS

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%
Since Inception**	11.2%	11.0%

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

**Compound annual returns

PERFORMANCE GRAPH



PORTFOLIO PERFORMANCE

(to 30 June 2019, after all fees)

	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	4.36%	-3.59%	**0.77%**	3.64%	-2.87%
3 months	4.47%	-1.28%	**3.19%**	8.05%	-4.86%
6 months	4.75%	6.89%	**11.64%**	19.84%	-8.20%
12 months	5.63%	-1.26%	**4.37%**	11.42%	-7.05%
3 years (p.a.)	5.04%	0.03%	**5.07%**	12.82%	-7.75%
5 years (p.a.)	5.97%	2.00%	**7.97%**	8.88%	-0.91%
Since inception#	55.66%	51.09%	**106.75%**	104.68%	2.07%
Compound annual return (since inception)#	6.66%	4.50%	**11.16%**	10.99%	0.17%

17 August 2012

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FUND COMMENTARY

Equity markets continued their strong recovery in the second quarter of 2019 with the S&P/ASX 300 Accumulation index increasing by 8.0 per cent which comes on the back of the 10.9 per cent increase in the preceding quarter and lifting the index to an all-time high on June 20.

Readers will remember from last quarter's report that The Montgomery Fund (The Fund) deployed a significant amount of cash during the December quarter, ending with a cash weighting of around 13 per cent. During the March quarter, as the market rallied, the cash weighting increased to approximately 20 per cent. As the market rally continued to the end of June, we continued to increase the cash weighting of The Fund, ending the quarter with a cash weighting of 23.3 per cent. The weighting reflects our view that valuations are stretched.

Preservation of capital is of utmost importance to us and holding higher levels of cash when we consider the market expensive is our key tool for minimizing the risk to investors capital. It also puts us in a position to take advantage of opportunities should the market experience a correction. We also continue to position The Fund away from high-growth names that have generally seen very strong recent performance and where we perceive valuations to be unsustainably and dangerously stretched.

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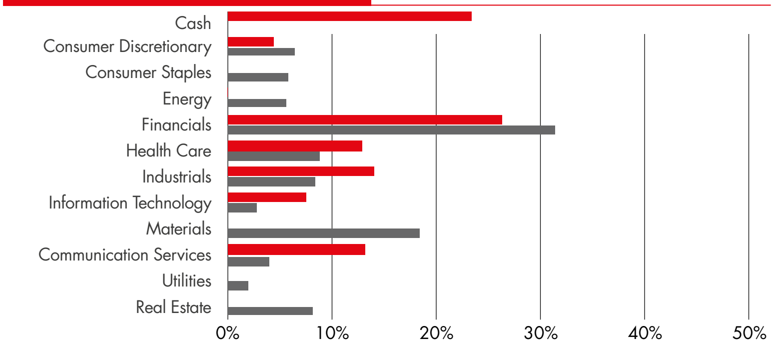
TOP COMPLETED HOLDINGS* (TCH)

(at 30 June 2019, out of 24 holdings)

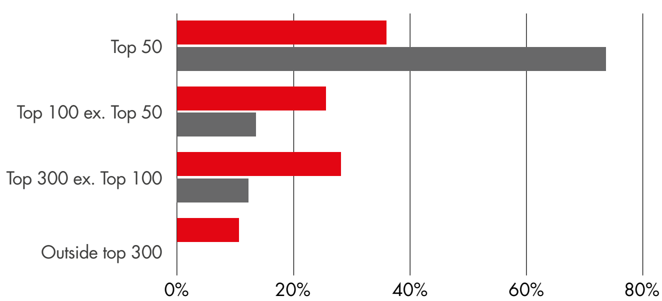
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
Healius	3.7	42.7	18.3	5.19
Spark New Zealand	26.3	104.3	18.3	5.18
Reliance Worldwide	11.3	29.3	18.5	5.10
Telstra	20.4	112.1	18.7	4.88
Ramsay Health Care	22.4	130.0	24.4	4.75
Medibank Private	22.6	-25.7	23.6	4.74
Westpac	11.4	N/A	12.8	4.21
Atlas Arteria	2.2	85.6	26.5	4.14
National Australia Bank	11.6	N/A	12.1	4.05
Macquarie Group	9.9	N/A	14.7	4.04
TCH AVERAGE	14.2	68.3	18.8	
MARKET AVERAGE	17.4	76.4	25.4	
Total equity weighting				76.67
Total cash weighting				23.33

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

INDUSTRY EXPOSURE



MARKET CAPITALISATION EXPOSURE



TMF S&P/ASX300

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 returned 3.2 per cent during the quarter. This is of course a disappointing result compared to the 8.1 per cent performance of the S&P/ASX 300 in the quarter. To better understand the discrepancy in performance between the index and The Fund, it is worth noting that out of the 8.1 per cent performance of the S&P/ASX 300 in the quarter, about 3.3 per cent can be attributed to financials, of which the big four banks account for the absolute majority (about 2.9 per cent). Due to The Fund's index-unaware portfolio construction, The Fund is unlikely ever to hold the large banks at market weight, and when they rally, as they did this quarter, The Fund will struggle to keep pace. We also note here that further declines in interest rates and interest rate expectations are a negative for the net interest margins earned by the banks, and that where the RBA is prompted by a weak economy to reduce interest rates, it may be reasonable to contemplate a correspondingly weak outlook for the major banks.

The materials sector was the second strongest contributor to market returns for the quarter, adding approximately 1.4 per cent to the index performance. As many investors will know, we are very reluctant to invest in the resource sector as we find it hard to align commodity-producing companies with our "quality-first" philosophy.

Finally, the average cash weighting of about 22 per cent during the quarter contributed approximately 1.4 per cent to the underperformance vs. the index.

Portfolio changes

The June quarter saw the exit of a few of The Fund's long-term holdings.

The most notable of these is probably IDP Education which has been one of the best performing stocks for The Fund. IDP's share price is up 114 per cent since its November lows and the decision to exit the position was taken on valuation grounds. Even though IDP continues to produce very strong growth in both revenues and profits and the outlook continues to be bright, the valuation has increased to levels that we can no longer justify with any reasonable set of assumptions. IDP is a business that we would very much like to own long-term and we will continue to follow its development closely to see if an attractive re-entry opportunity presents itself.

The Fund also exited Navitas and Trade Me as a result of takeovers by private equity companies at valuations we considered attractive for investors.

Another notable exit is listed funds management business, Pendal, following a review of recent performance numbers for some of Pendal's major funds. The relevant funds have now experienced several years of weak performance, and while we continue to believe that Pendal's investment teams have the skill to restore performance, it is clear that funds flows - and therefore Pendal's profitability - will continue to be under pressure.

Finally, Virtus Health was removed from The Fund's portfolio due to our concerns that consumer spending pressures are negatively impacting demand for IVF procedures and resulting in strong growth for low cost IVF alternatives.

Additions

There were a few additions to the portfolio in the period. The Fund added small investments in the IPOs of both Prospa Group and Life360. Both businesses display sustainable business models in attractive niches. The initial share price reaction was positive for both following their listing, but the share prices have, as often happens in the information vacuum following an IPO, fallen back recently. We are looking forward to seeing both companies release updated information to the market and prove that they perform at least in-line with pre-IPO forecasts.

We have also continued to increase our positions in Citadel and Avita Medical.

Business in Focus – Avita Medical

Avita has created/patented and produces a medical device which reduces the amount of skin required to treat burn patients by producing a "suspension" of spray-on skin cells using a small sample of the patient's own skin. The sample contains the cells necessary to regenerate the outer layer of skin and is applied at point-of-care.

The main benefits compared to the current standard of care (which is Skin Grafting) are:

- Much less donor site skin area required leading to less pain, reduced scarring and quicker healing
- Lower risk of infection
- More effective healing of the wound sites with better cosmetic outcomes

The main negative compared to Skin Grafting is the cost as the devices are expensive at around US$5,500 each and a large wound would likely require a number of devices meaning that it can be quite costly to use. However, given the cost of a hospital bed, if the treatment can reduce a stay by a couple of days, it is likely cost effective from a total treatment cost perspective.

Avita has received US FDA approval for treatment of adults for burn wounds and are currently rolling out sales to the major burn hospitals.

Although the treatment of adult burn patients is exciting, we believe that the company has the potential to extend the use of the product into several other areas and in this way generate additional revenues. These areas include:

- Treatment of children with burn injuries
- Chronic wound treatment (especially venous leg and diabetic foot ulcers)
- Hypopigmentation – vitiligo and scars
- Trauma wounds

All these applications are currently going through various stage trials and we look forward to seeing development over time in these areas.

Distribution

At the end of the financial year The Fund paid a distribution of 6.2488 cents per unit. Accordingly, after ending the 2019 financial year with a unit price of $1.4439, we commence the 2020 financial year with a unit price of $1.3813.

Annual Letter

Later this month, investors in The Fund will receive The Fund's annual letter, which will contain detailed commentary on the performance of The Fund, our thoughts on current equity market conditions and the way we are positioning The Fund in what continues to be a challenging environment for value-conscious investors.