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
$355.9M

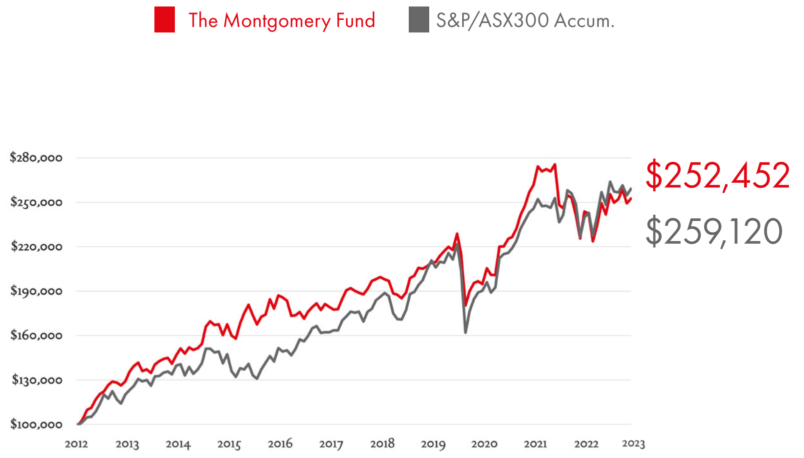
MANAGEMENT FEES AND COSTS
1.36% per annum[1]

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 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
December 2018	2.3155	1.52

PORTFOLIO PERFORMANCE

(to 30 June 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	1.25%	0.15%	4.41%	11.92%	8.68%	4.97%	5.10%	7.17%	152.45%	8.90%
S&P/ASX 300 ACCUM. INDEX	1.73%	0.99%	4.36%	14.40%	11.07%	7.12%	8.91%	8.55%	159.12%	9.16%
OUT/UNDER PERFORMANCE	-0.48%	-0.84%	0.05%	-2.48%	-2.39%	-2.15%	-3.81%	-1.38%	-6.67%	-0.26%

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]	1.25%	0.15%	4.42%	14.75%	12.49%	9.89%	13.62%	12.11%	477.58%	10.01%
S&P/ASX 300 ACCUM. INDEX	1.73%	0.99%	4.36%	14.40%	11.07%	7.12%	8.91%	8.55%	272.70%	7.42%
OUT/UNDER PERFORMANCE	-0.48%	-0.84%	0.06%	0.35%	1.42%	2.77%	4.71%	3.56%	204.87%	2.59%

[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 30 June 2023)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank of Australia	CBA	Financials	7.05
Rio Tinto	RIO	Materials	5.98
QBE Insurance Group	QBE	Financials	5.97
CSL	CSL	Health Care	5.85
Newcrest Mining	NCM	Materials	5.51
Cochlear	COH	Health Care	5.46
Woodside Energy Group	WDS	Energy	5.25
Macquarie Group	MQG	Financials	5.05
Transurban Group	TCL	Industrials	5.00
Altium	ALU	Information Technology	4.27
Total equity weighting			97.21
Total cash weighting			2.79

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

TOP 3 CONTRIBUTORS AND DETRACTORS

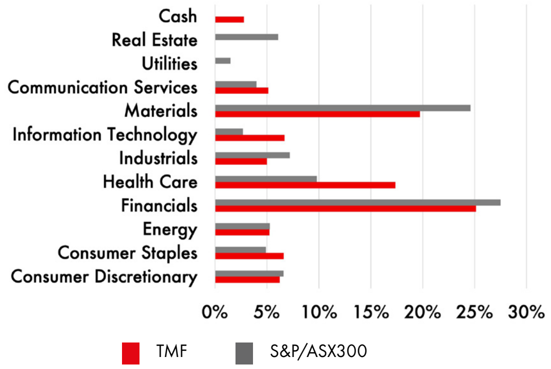
CONTRIBUTORS

QBE Insurance Group	The share price rose with bond yields on expectations of higher investment earnings.
Rio Tinto	The share price rose with the iron ore price.
Avita Medical	The share price rose after the FDA approved the company's RECELL product for full-thickness skin defects.

DETRACTORS

Corporate Travel Management	The share price fell on weak economic data and concerns about a travel slowdown.
Cochlear	The share price fell after a UK regulator rejected part of the company's acquisition plans.
CSL	The share price fell after management downgraded FY23 earnings due to foreign exchange headwinds.

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ ASX300 (%)	ACTIVE (%)	# STOCKS
S&P/ASX 1-20	56.1%	60.3%	-4.2%	13
S&P/ASX 21-50	21.2%	17.3%	3.9%	6
S&P/ASX 51-100	9.3%	11.9%	-2.6%	3
S&P/ASX 101-200	9.6%	7.8%	1.8%	6
S&P/ASX 201-300	0.0%	2.7%	-2.7%	0
Ex S&P/ASX 300	0.9%		0.9%	1
Cash	2.8%			
Total	100.0%			

CONTACT DETAILS

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The Montgomery Fund (The Fund) followed international markets higher, rising 1.25 per cent compared to the S&P/ASX 300 Accumulation Index rising 1.73 per cent for June. On a 12-month basis, the Fund returned 11.92 per cent net of fees, underperforming the benchmark index by 2.48 per cent. It is also important to note that around two and a half months of the last 12 months contained the portfolio performance of the previous team prior to the handover to the Australian Eagle investment team, which is making good headway.

With the conclusion of the financial year, The Fund paid a distribution of 4.4834 cents per unit (taking the distribution to 6.0097 cents per unit for the 12 months to June 2023 and 84.27 cents per unit since inception in August 2012). Accordingly, after ending FY23 with a unit price of $1.4259, we commence FY24 with a unit price of $1.38111.

International markets endured another volatile month, switching between fear and greed on news of more rate hikes promised by central banks around the world and the NASDAQ-led boom in artificial intelligence (A.I.) stocks. As readers are aware, the Australian stock exchange does not contain many A.I. related stocks and so the large daily fluctuations of the U.S. market were less pronounced domestically.

The U.S. Federal Reserve maintained their hawkish stance, stating that two more hikes are likely and would not rule out consecutive meeting hikes either. However, the Fed hit pause at the June 2023 meeting as the board wanted to give the U.S. economy more time to absorb the last 15 months of rate hikes before more decisions are made.

The U.S. bond market also began to reflect the hawkish tone of the Federal Reserve with the shorter-term bond yields rising to recent highs during the month. With the official cash rate at 5 to 5.25 per cent, the U.S. 2 year and 5 year bond yields both started trading at elevated levels; for the month they were up 52 basis points and 42 basis points respectively.

Domestically, the Reserve Bank of Australia (RBA) hiked interest rates another 25 basis points to 4.10 per cent. The RBA (as well as other central banks) has an unenviable job of engineering a soft landing for the economy, where inflation needs to be coaxed back to target levels without inducing a recession. Although headline inflation has fallen from December 2022 peaks, core inflation has remained stubbornly high. In addition to an inflationary federal budget, the mid-single digit minimum wage growth announced in June is not making the RBA's task any easier.

The top contributors to June 2023 performance came from different sectors, highlighting the investment team's focus on finding quality in various parts of the market in such a volatile environment. Our position in Rio Tinto (ASX:RIO) was the top contributor as the iron ore price rose throughout the month on increasing expectations of stronger stimulus measures introduced by the Chinese government to support its economic rebound after a COVID-19 induced slump. The Chinese property sector has been under pressure for the past few years and investors expect it to be one of the first sectors to receive significant support.

QBE Insurance Group (ASX:QBE) was another solid contributor. As mentioned earlier, the U.S. Fed's recent hiking cycle and intentions to increase rates further have driven bond yields to recent highs which acts as a natural tailwind for the US$27 billion investment book for the multinational insurer. As such, with every 1 per cent increase in bond yields, we can expect an extra US$270 million in pre-tax profit. Their most recent update in May also revealed strong growth in gross written premium pricing along with profitable underwriting operations. QBE has been at maximum weight for The Fund for many months as we expect the recent step up in short term interest rates (1 and 2 years) will flow through to QBE's bottom line along with continued increases in premiums.

AVITA Medical (ASX:AVH) is only a small position in The Fund but managed to be a top contributor, rising 50 per cent over the month. The company announced that its RECELL product was approved by the U.S. Food and Drug Administration (FDA) for treatment for full-thickness skin defects. In the middle of June, the FDA also approved AVH's application for premarket approval for RECELL as a treatment for vitiligo. RECELL has demonstrated superior results for patients needing skin reconstruction, only using a small amount of a patient's own skin versus the traumatic process of skin grafts which result in an additional wound to the patient as well as risk of infection, significant pain, and delayed healing. The total addressable market for AVH has expanded significantly because of these announcements and we keenly wait for further information regarding the outcomes of the commercial launch for treatment for full-thickness skin defects.

The detractors to The Fund's performance were unfortunately some of our larger positions. CSL (ASX:CSL) was the worst performer for the portfolio as the company announced a profit downgrade as the forecast improvement in margins due to COVID restrictions on blood donations is taking longer than expected to manifest. This came as a surprise to the market after the company experienced a strong rebound in post-COVID-19 trading where plasma donations were at record levels. The "expensive" COVID plasma is still working its way through CSL's inventory and the recent pickup in plasma donations will benefit margins in the next few years. Fundamentally, the company is still performing well with strong double digit growth rates forecast by management for FY23 and FY24. We have since reweighted our position in CSL back to model weight as we remain confident that this headwind is temporary, and that the improving quality of the company will still result in a superior earnings growth profile in the future.

Cochlear Ltd (ASX:COH) was also a detractor to performance. COH had proposed to acquire Oticon Medical, a direct Danish rival, for $170 million in April 2022 after its parent, Demant decided to exit the hearing loss segment. This would add another 75,000 hearing loss customers into the Cochlear ecosystem and add $80 million to revenue despite Oticon Medical being loss making at the time. However, the U.K. regulator chose to approve the Cochlear implant division but block the bone conduction implant business as it would substantially lessen competition in that area.

PLATFORMS WE ARE ON: Ausmaq · AMP PortfolioCare · AMP Summit · AMP Wealthview · AMP North · Asgard · BT Panorama · Colonial First Wrap · Clearview Wealthsolutions · HUB24 IDPS · HUB24 Super · Investment Exchange (IX) · Macquarie Wrap · MLC/Navigator S&P · MLC/Navigator IDPS · Netwealth · OneVue · Praemium · Powerwrap · Wealth02/uXchange

While this is a small setback, the investment team is confident that the existing operations can continue to utilise their dominant market position to generate superior earnings growth.

Despite the company announcing it had been awarded a large contract with the Australian Government for at least 4 years and a A$3 billion contract win in the UK announced in April, Corporate Travel Management Ltd (ASX:CTD) was another detractor in June. The market started selling off travel stocks prior to the announcement on increased fears of a cut back on travel spending from both individuals and businesses due to an impending economic slowdown. We have reweighted our position in CTD as we expect the recent material contract announcements will give revenue and earnings a significant boost towards its medium-term recovery targets.

In terms of portfolio changes, the team chose not to make any large wholesale changes to The Fund as we are fast approaching an important information point with quarterly, half year and annual reports being released in the next 2 months. After assessing the new information, the investment team will be able to make better decisions regarding the replacement of higher risk positions to ones with relatively lower risk but larger upside.

Wesfarmers Ltd (ASX:WES)

Most people associate Wesfarmers with some of Australia's best known retail names such as Bunnings, Kmart and Officeworks. While this is where the bulk of the earnings are generated now, the role of Wesfarmers in everyday Australians' lives actually runs deeper than it would appear on the surface with a growing healthcare and resources exposure.

As one of the few remaining conglomerates, Wesfarmers has a good track record of acquiring and divesting strategic assets. Headquartered in Perth, the company has cycled through many different types of energy assets, starting with coal mines in the 1990s and 2000s and oil and gas assets through a minority stake in Quadrant Energy in 2015. Fast forward to today, Wesfarmers has a 50 per cent stake in a joint venture with one of the world's largest lithium producers, SQM, in Mount Holland lithium mine through its 2018 acquisition of Kidman Resources.

With 84 million tonnes of reserves and 186 million tonnes of lithium resources available, Mount Holland is a high-grade hard rock deposit with an estimated 50 year mine life. Construction of the concentrator is over 90 per cen t complete with first spodumene production expected at the end this calendar year. The Kwinana refinery, which will produce battery grade lithium hydroxide, has production expected to start in the first half of calendar year 2025, ramping up to 50,000 tonnes per year. The joint venture has also indicated their intention to double the lithium hydroxide production capacity to 100,000 tonnes once initial construction plans have been completed.

Contrary to common belief, Wesfarmers will not be a passive partner in this project as their over 50 year history of designing, building and operating chemical processing plants will be used to complement the extraction and lithium processing abilities of SQM.

Due to recent inflationary pressures, Wesfarmers' share of the budget for Mt Holland has risen by 10-20 per cent compared with previous guidance to $1.2 to $1.3 billion in response to a tight labour market, supply chain issues and higher inflation. In isolation, this may sound like a capital-intensive project to undertake but Wesfarmers has funded its share through its strong cashflow generation over the last few years and barely noticeable to most market observers.

With the general market starting to price in an imminent slowdown in consumer discretionary spending, Wesfarmers seems well positioned to benefit from the eventual recovery with a strong portfolio of household retail brands, combined with the considerable optionality upside given the planned ramp up of spodumene and lithium hydroxide production to come in the next few years.

Demand for lithium hydroxide is also projected to increase significantly with many countries focused on lowering their carbon footprint, paving the way for growing sales for electric vehicles and renewable energy storage.

Observing the recent Wesfarmers share price versus the pure play lithium producers, there is little evidence to suggest that Wesfarmers is affected by the lithium price so the upside may be significant once the Mount Holland earnings start appearing on the financial statements in FY24. For example, at current lithium prices, Mt Holland's earnings could eventually be half as much as Bunnings, which is Wesfarmer's largest division.