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

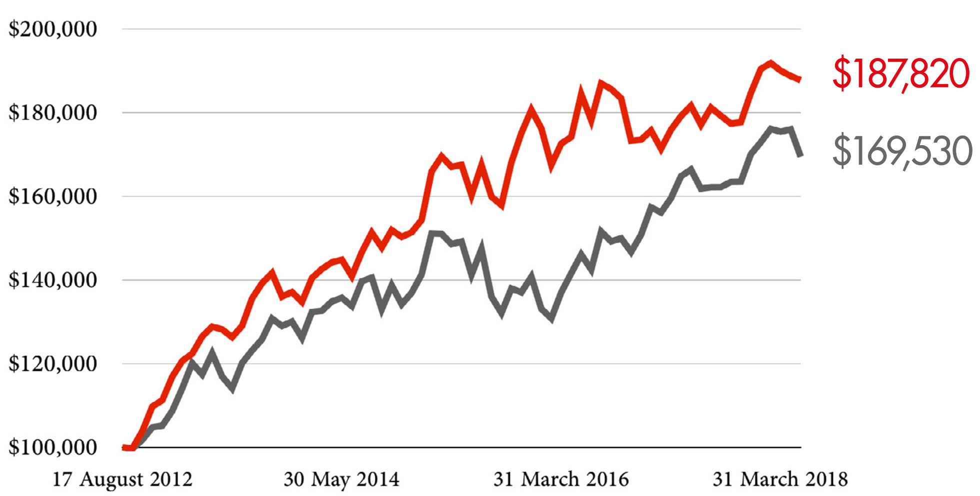
FUND SIZE
$653.5M

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

PERFORMANCE GRAPH



CONTACT DETAILS

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PORTFOLIO PERFORMANCE

(to 31 March 2018, after all fees)

	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	-0.54%	**-0.54%**	-3.73%	3.19%
3 months	0.00%	-2.15%	**-2.15%**	-3.78%	1.63%
6 months	1.16%	4.48%	**5.64%**	3.67%	1.97%
12 months	1.83%	2.96%	**4.79%**	2.86%	1.93%
3 years (p.a.)	4.79%	-1.32%	**3.47%**	3.92%	-0.45%
5 years (p.a.)	5.12%	3.11%	**8.23%**	7.62%	0.61%
Since inception#	35.84%	51.98%	**87.82%**	69.53%	18.29%
Compound annual return (since inception)#	5.60%	6.27%	**11.87%**	9.85%	2.02%

 # 17 August 2012

FUND COMMENTARY

The 2018 calendar year started on a somewhat bumpy note for the Australian equity market, with the S&P/ASX300 Accumulation Index declining by 3.78 per cent in the March Quarter. The more prominent features of the quarter included two modest (but sudden) downturns, one in early February and another in late March, separated by a market recovery during the February reporting season. The pattern seen in the Australian equity market broadly reflected that of global markets, with the US market in particular experiencing sudden declines led by large cap technology names.

Against this backdrop, The Montgomery Fund (The Fund) performed somewhat better, declining by 2.15 per cent and outperforming its benchmark by 1.63 per cent. Unsurprisingly, The Fund's cash holdings provided some insulation against the overall market decline and, pleasingly, the equity component of The Fund's portfolio also delivered relative outperformance.

The strongest contributors to the results for the quarter included Resmed, IDP Education and REA Group, all of which delivered solid results during the February reporting season. Notably, Resmed, which produces flow generators and masks for the treatment of sleep apnoea, achieved double-digit growth in both mask and device revenues, reflecting significant investments made in research and development in prior years. Resmed's market leadership, scale and capacity to invest makes it a formidable competitor in the sleep apnoea market.

Continued on the next page..

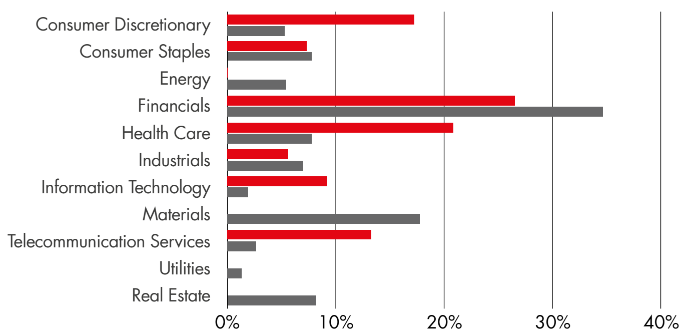
TOP COMPLETED HOLDINGS* (TCH)

(at 31 March 2018, out of 26 holdings)

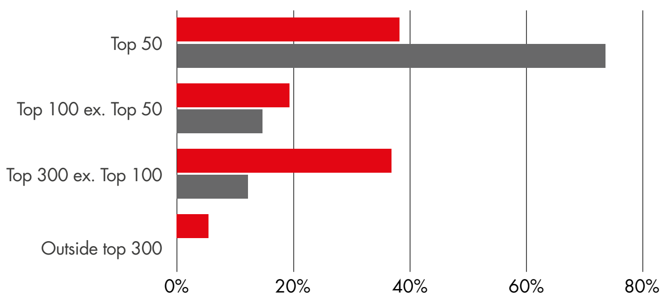
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
Rea Group	21.4	16.7	36.3	5.87
Ramsay Health Care	27.5	124.1	21.8	4.77
Trade Me Group	13.1	11.5	17.8	4.55
BT Investment Management	19.4	-24.3	15.7	4.49
Resmed	22.4	13.1	27.6	4.43
Spark New Zealand	24.6	51.1	15.1	4.17
Westpac Banking Corp	13.2	N/A	12.0	3.73
Challenger	12.5	N/A	15.6	3.48
Primary Health Care	4.1	42.0	20.7	3.30
Steadfast Group	7.3	-13.5	19.7	3.20
TCH AVERAGE	16.5	27.6	20.2	
MARKET AVERAGE	15.7	69.7	17.8	
Total equity weighting				76.0
Total cash weighting				24.0

**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

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. This report was prepared by Montgomery Investment Management Pty Ltd, AFSL No: 354564 ('Montgomery') the investment manager of The Montgomery Fund ('TMF'), ARSN 159 364 155. The Responsible Entity of The Fund is Fundhost Limited (ABN 69 092 517 087) (AFSL No: 233 045) ('Fundhost'). This document has been prepared for the purpose of providing general information, without taking into account your particular objectives, financial circumstances or needs. You should obtain and consider a copy of the Product Disclosure Document ('PDS') relating to the Fund before making a decision to invest. Available here: http://fundhost.com.au/investor/tmf. While the information in this document has been prepared with all reasonable care, neither Fundhost nor Montgomery makes any representation or warranty as to the accuracy or completeness of any statement in this document including any forecasts. Neither Fundhost nor Montgomery guarantees the performance of the Fund or the repayment of any investor's capital. To the extent permitted by law, neither Fundhost nor Montgomery, including their employees, consultants, advisers, officers or authorised representatives, are liable for any loss or damage arising as a result of reliance placed on the contents of this report. Past performance is not indicative of future performance.

The IDP Education result was also noteworthy, with the company comfortably exceeding analyst expectations for growth in its International English Language Testing System (IELTS), as the company benefits from its investments in digital and online testing.

The largest detractors from performance for the quarter included Challenger, BT Investment Management and Ramsay Health Care. The share price declines for these names were not especially unusual in the context of a volatile market, and their status as the leading detractors for the quarter owes as much to position sizes as it does to absolute share price moves. Overall, we remain comfortable with the long-term prospects for each of these businesses and are happy to hold them at current levels.

Portfolio Changes

There were relatively few big changes to The Fund's portfolio during the quarter. Two new positions were added, being Aristocrat Leisure and Woolworths, and The Fund completed the exit of small positions in SmartGroup, Monash IVF and Carsales.

Our analysis of Aristocrat Leisure in recent months identified some interesting features of the company and its evolving industry. Aristocrat is best known for its gaming machines, and in recent years has significantly grown its share of floor space in major casinos by producing entertaining content with strong appeal to casino customers. Aristocrat's strong design and technical capabilities combined with a significant investment in R&D has allowed it to steal a march on competitors, and we anticipate that it may be difficult for those competitors to respond quickly. In addition, Aristocrat has positioned itself well in the emerging digital and online landscape and is enjoying very strong rates of growth in a rapidly evolving marketplace. Despite a strong run in the company's share price, we feel that market expectations for growth remain relatively undemanding and a solid valuation case exists.

In the case of SmartGroup and Carsales, we see a significant, though admittedly long-dated, risk in the form of the adoption of electric and autonomous vehicles. Our analysis leads us to believe that the changing economics of automotive transport will strongly favour the adoption of a Transport as a Service (TaaS) model over time, and that companies leveraged to private vehicle purchase will be on the wrong side of this change. While it will be some years before this trend gathers momentum, the impact to estimated valuations of this potential shift is large, and our preference in positioning The Fund for change is sooner rather than later.

Fund Positioning

As many investors will know, a cornerstone of The Fund's approach is preservation of capital. The Fund aims to deliver better returns than the broader equity market but, importantly, aims to do this with a lower level of risk. While it is nice to beat the market when prices are rising steadily, we believe it is more important to "beat" the market when conditions become challenging. The Fund seeks to provide a measure of shelter from the storms that periodically wreak havoc on equity prices, and the portfolio is structured to do relatively well when prices fall. We do this because it is at these times that good long-term opportunities can emerge, and it is helpful to preserve the ability to capture them when they do.

Accordingly, The Fund holds cash, and when equity prices become stretched it holds relatively large amounts of cash. This is where we are today, with The Fund towards the high end of its normal 0-30 per cent cash range. Indeed, this is where we have been for an extended period. In addition, the securities held in The Fund are chosen in part for their ability to weather difficult conditions. This generally means holding a portfolio with modest aggregate financial or other fixed leverage and limited sensitivity to economic conditions. Because of these structural features, The Fund is more likely to trail the market when times are buoyant, but beat the market when times are challenging.

The recent market declines present some opportunity to reduce cash holdings in favour of more equity exposure, but at this stage the declines have been small, and so for the time being The Fund remains conservatively positioned with more than 20 per cent of its assets in cash.

The largest sectoral exposures currently in The Fund are Financials, which make up close to 20 per cent of Fund assets, and Health Care, which accounts for more than 16 per cent of Fund assets. In the case of Financials, The Fund retains some exposure to the big four banks, where share prices have been under pressure and valuations appear relatively undemanding. However, at around 6 per cent of Fund assets exposure to the big four remains far below their representation in the ASX300 Index. The largest exposure for The Fund in the Financials sector is BT Investment Management – a position that was initiated late in 2017 and which has been added to, on recent price weakness. More on this below.

In Health Care, The Fund continues to hold a range of positions including the large private hospital operators, Ramsay and Healthscope, as well as Primary Health Care and Resmed. Each of these businesses has a strong competitive position in an attractive industry, and while share prices will fluctuate from year to year, we anticipate that over longer stretches of time, businesses like these will enjoy solid growth in earnings and good returns on incremental investment. These features generally make for a good long-term investor experience.

Business in Focus – BT Investment Management

As noted above, one of the larger and more recent positions in The Fund is BT Investment Management, which manages equity, cash and other asset classes for a range of institutional and other clients. One of the appealing features of funds management businesses is their leverage to growth and success. In contrast with many industrial businesses, fund managers require very little capital to grow, which makes growth particularly valuable. Because of this, a fund manager that is able to attract inflows by demonstrating strong investment performance can offer a compelling investment profile. Of course, this works in both directions. Poor performance or unhelpful market conditions can drive funds under management (FUM) and earnings backwards, and so an investment case for this sort of business should be focused on the future growth potential, particularly over an extended timeframe.

In the case of BT, we see a fund manager with an impressive long-term track record of outperformance, but one that has suffered significant performance headwinds in more recent periods. On a 5-year view, BT reports that 95 per cent of its FUM has outperformed the relevant benchmark – an impressive result. However, over shorter periods, performance has been softer, with a large percentage of FUM failing to keep pace with the benchmark. This has translated into market expectations for relatively slow fund inflows for BT, and correspondingly modest expectations for profit growth.

The weaker recent investment performance for BT could be explained in different ways. One possibility is that the management skill that delivered the strong 5-year numbers is no longer present, and that the company will struggle to achieve results similar to those of the past. Another explanation is that BT retains the skill that drove its longer-term numbers but has experienced style headwinds in recent periods.

Our analysis puts us firmly in the latter camp. For example, we note that many of BT's investment strategies focus on higher-quality businesses, and we see that in the markets BT is most active in (Australia and Europe), lower-quality businesses have enjoyed a period of relative strength. As quality-oriented managers ourselves, we are keenly attuned to this issue, having felt a corresponding hit to our own relative performance during 2016.

Periods of underperformance like this are inevitable from time to time, but we view this very much as a temporary phenomenon and anticipate that BT will again deliver good investment results from its main strategies in periods to come. In this context, we view market expectations for the company as unduly pessimistic, and the current share price as correspondingly good value.

Offsetting this, we note that BT is exposed to overall market conditions, and an extended downturn would have a significant negative impact. However, from the point of view of The Fund, significant cash holdings and generally conservative stock selection mean that, in aggregate, it remains well-placed overall to weather any such downturn.