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
$466.9M

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

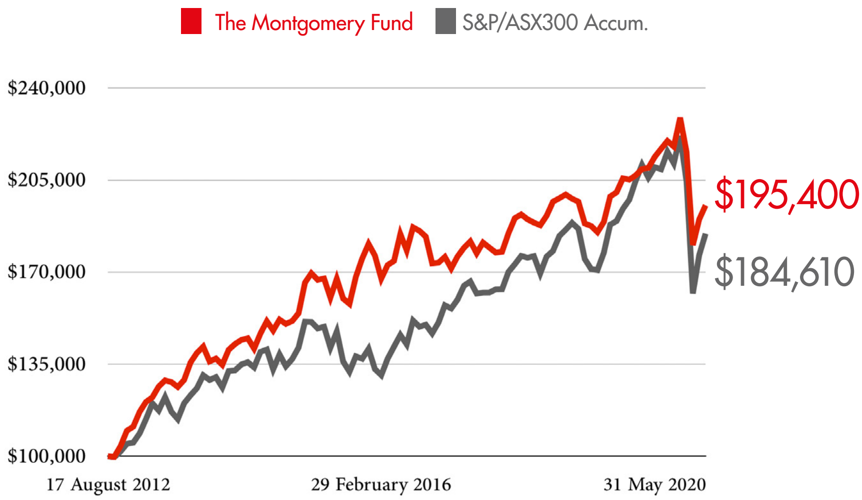
FINANCIAL YEAR RETURNS

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**	8.98%	8.19%

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

**Compound annual returns

PERFORMANCE GRAPH



PORTFOLIO PERFORMANCE

(to 31 May 2020, after all fees)

	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	2.81%	**2.81%**	4.58%	-1.77%
3 months	0.00%	-9.43%	**-9.43%**	-9.73%	0.30%
6 months	1.09%	-12.20%	**-11.11%**	-14.44%	3.33%
12 months	5.48%	-10.24%	**-4.76%**	-6.52%	1.76%
3 years (p.a.)	5.47%	-2.15%	**3.32%**	4.48%	-1.16%
5 years (p.a.)	5.29%	-2.17%	**3.12%**	4.35%	-1.23%
7 years (p.a.)	5.42%	0.79%	**6.21%**	6.74%	-0.53%
Since inception#	57.26%	38.14%	**95.40%**	84.61%	10.79%
Compound annual return (since inception)#	5.99%	2.99%	**8.98%**	8.19%	0.79%

17 August 2012

FUND COMMENTARY

Following a slow start in the first two weeks of May, the financial markets quickly shrugged off all bad news as optimism around re-opening and gave way to both the Fear of Missing Out (FOMO) and There is No Alternative (TINA). The widespread belief of unlimited Central Bank and Government support has instilled confidence in bidding up risk assets as traditional earnings and valuation metrics are discarded in favour of a buy-now, ask-questions-later approach. This price action has occurred despite the intensifying risk in China-US relations and the significant US civil unrest outbreak at the end of May.

The month of May saw the S&P ASX 300 Accumulation index rise 4.58 per cent, compared to The Montgomery Fund (The Fund) which increased 2.81 per cent. Reduced virus transmission rates, re-opening of economies and ample liquidity has allowed investors to ignore a downturn of unknowable duration of the broader economy and instead exhibit optimism on the recovery.

While we remain cautious on the broader risk backdrop, we remain alert for opportunities that present positive risk return on the prevailing share price, regardless of broader market performance. This is reflected by the elevated activity of The Fund over the past month as well as exiting May with a cash weighting of 25 per cent, slightly above the average over the life of The Fund.

Fund positioning

The Fund used the price volatility to opportunistically acquire a significant position in the Commonwealth Bank of Australia (CBA) and Woolworths (WOW). The Fund also increased positioning in certain newly acquired positions including Magellan Financial Group (MFG). Notable reductions and exits include Medibank Private (MPL), Healius (HLS) and Australian Financial Group (AFG).

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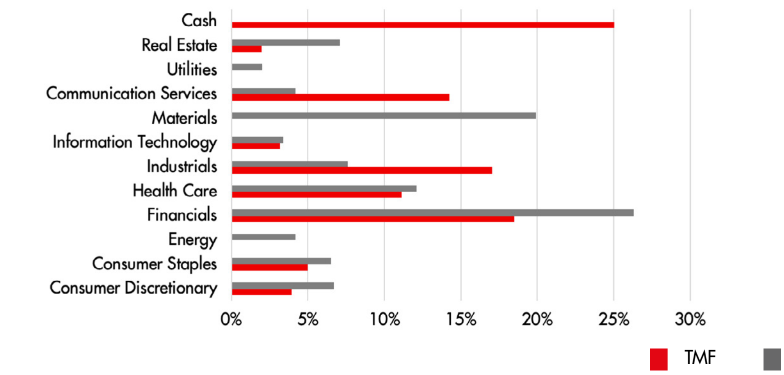
TOP COMPLETED HOLDINGS* (TCH)

(at 31 May 2020, out of 25 holdings)

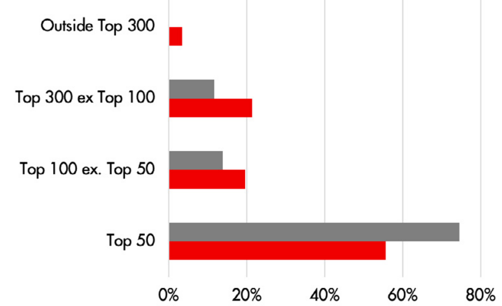
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
Atlas Arteria	5.3	21.9	52.4	6.81
Commonwealth Bank	12.0	N/A	16.6	5.35
Telstra	20.3	114.6	13.2	5.34
Woolworths Group	15.9	19.3	26.4	4.99
Avita Medical	N/A	N/A	N/A	4.78
CSL	36.7	76.3	37.9	4.77
Sydney Airport	N/A	N/A	N/A	4.53
Reliance Worldwide	8.3	30.3	17.5	4.49
Spark New Zealand	28.6	114.3	19.2	4.33
Seek	11.4	71.8	51.7	3.19
TCH AVERAGE	17.3	64.1	29.4	
MARKET AVERAGE	9.2	47.0	20.6	
Total equity weighting				74.95
Total cash weighting				25.05

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

INDUSTRY EXPOSURE



MARKET CAPITALISATION EXPOSURE



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 ▭

We had previously observed signs of a bifurcated market as so-called growth companies were given the benefit of doubt from an earnings perspective, while higher-risk cyclicals – including the Bank sector - remained unloved. We used this opportunity to acquire our 5 per cent position in CBA prior to this significant rotation witnessed at the end of May. With the domestic economy in recession, and the impact on unemployment in certain sectors (travel, hospitality, education and construction), we believe CBA is best placed amongst the Banks to withstand any shock given its superior capital position. It has also demonstrated product leadership during the COVID-19 crisis, and is well positioned to gain additional market share given its better quality technology-stack and brand.

Woolworths was a late addition to the portfolio over May. The Fund used recent weakness in the share price to accumulate a significant stake, as the price fell on higher temporary costs associated with their initial COVID-19 response. Woolworths is well placed to benefit from a number of potential trends including an uptick in food inflation, a reduction in competitor set for Big W and Australian Leisure and Hospitality Group. It has an attractive fully-franked dividend yield of 3 per cent with a demand profile underpinned by a stronger retail channel due to a slowing economy and increased stay-at-home measures.

During the month, The Fund exited its small position in Australian Financial Group. While the recent recapitalisation of AFG improves the balance sheet position, AFG's exposure as the riskiest portion of debt in its securitised mortgage book gives us some concern around the risk-reward profile of its earnings. We also note the big shift in market share towards the major banks as AFG has been unable to compete on a pricing level, particularly around fixed income offerings.

Outlook

We have observed the market's eagerness to look past the coronavirus interruption and assume "business as usual" for most listed companies. Given the euphoria of markets - along with the earlier than expected opening-up of large segments of the economy – it is difficult not to be cautiously optimistic given widescale lockdowns.

However, our role as custodians of your capital is to manage both risk and return. While it is tempting to chase rallies based on anecdotal evidence of opening up and pockets of pent-up demand, high-frequency data suggest it will be extremely difficult for the Australian economy to avoid a broad recession of uncertain duration and magnitude.

Recent moves clearly illustrate the market is not the economy – especially in the US which has seen markets retrace most of its year-to-date losses despite record unemployment and the collapse in consumer spending. However, we remain focused on the need to assess each individual investment opportunity on its own merits. We continue to seek quality companies with bright prospects that fit our valuation framework to generate returns while mitigating the likelihood of capital loss.