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
$392.5M

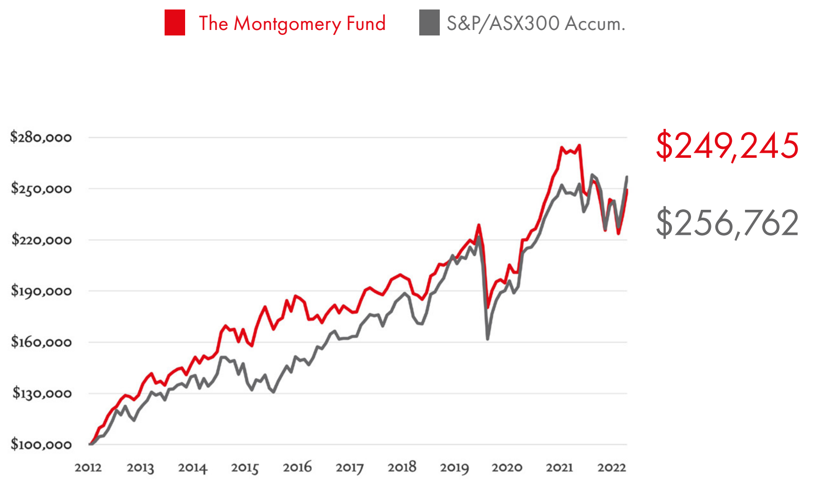
MANAGEMENT FEES AND COSTS
1.36% per annum[1]

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 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
June 2018	11.2554	7.55
December 2017	1.6005	1.14

PORTFOLIO PERFORMANCE

(to 30 November 2022, 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	6.25%	2.99%	3.19%	-7.98%	4.27%	5.52%	5.17%	8.40%	149.25%	9.28%
S&P/ASX 300 ACCUM. INDEX	6.49%	5.74%	3.19%	4.27%	5.97%	8.22%	9.38%	9.34%	156.76%	9.60%
OUT/UNDER PERFORMANCE	-0.24%	-2.75%	0.00%	-12.25%	-1.70%	-2.70%	-4.21%	-0.94%	-7.51%	-0.32%

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]	-	5.05%	5.15%	4.79%	9.66%	12.01%	14.22%	12.77%	470.22%	10.27%
S&P/ASX 300 ACCUM. INDEX	-	5.74%	3.19%	4.27%	5.97%	8.22%	9.38%	9.34%	269.31%	7.61%
OUT/UNDER PERFORMANCE	-	-0.69%	1.96%	0.52%	3.69%	3.79%	4.84%	3.43%	200.91%	2.66%

[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.

TOP COMPLETED HOLDINGS* (TCH)

(at 30 November 2022)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank	CBA	Financials	7.40
Rio Tinto	RIO	Materials	6.22
QBE Insurance Group	QBE	Financials	5.68
Cochlear	COH	Health Care	5.61
AMP	AMP	Financials	5.60
Macquarie Group	MQG	Financials	5.55
Woodside Energy Group	WDS	Energy	5.50
CSL	CSL	Health Care	5.43
Transurban	TCL	Industrials	5.07
Incitec Pivot	IPL	Materials	4.90
Total equity weighting			96.82
Total cash weighting			3.18

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

TOP 3 CONTRIBUTORS AND DETRACTORS

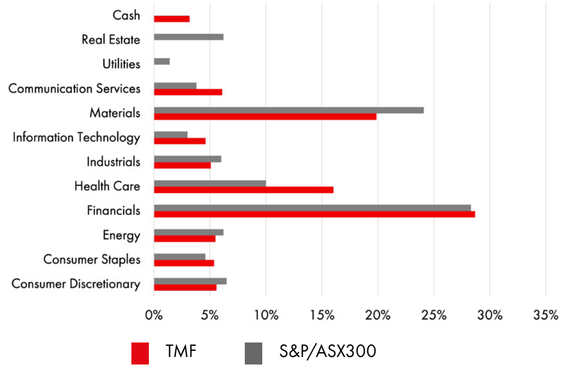
CONTRIBUTORS

Rio Tinto	The share price rose with the iron ore price after China announced further measures to support its declining property market.
AMP	The share price rose after the CEO reiterated her commitment to cost cutting targets and previously announced $750m capital return in FY23.
Avita Medical	The share price rose as the company announced updated analysis which further promotes the safety and effectiveness of its FDA approved RECELL System for soft tissue repair.

DETRACTORS

Elders	The share price fell as the company announced the planned departure of its long time CEO on or before November 2023.
Corporate Travel Management	The share price fell on fears of a potential economic slowdown in the US in 2023.
ResMed	The share price underperformed after the latest quarterly report revealed an unexpected slowdown in sales for the European and Asian sleep apnea division.

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ ASX300 (%)	ACTIVE (%)	# STOCKS
S&P/ASX 1-20	52.4%	60.8%	-8.4%	13
S&P/ASX 21-50	18.4%	16.3%	2.1%	5
S&P/ASX 51-100	17.7%	12.5%	5.1%	4
S&P/ASX 101-200	6.8%	8.0%	-1.2%	4
S&P/ASX 201-300	0.0%	2.6%	-2.6%	0
Ex S&P/ASX 300	1.7%		1.7%	2
Cash	3.2%			
Total	100.0%			

CONTACT DETAILS

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The Australian share market continued its rebound, rising by 6.49 per cent in November and adding to the 5.96 per cent gain of the month before. The Montgomery Fund also rose, returning 6.25 per cent after fees but marginally underperforming the S&P/ASX 300 Accumulation Index by 0.24 per cent.

World markets were buoyed by softer-than-expected economic data, led by the U.S., where reported inflation fell from an annual 8.2 per cent in September to 7.7 per cent in October. As we have written about extensively, disinflation – consecutive lower rates of inflation – should be positive for equity markets.

Although the U.S. Federal Reserve board members publicly stated the latest inflation data only represents one data point, Chairman Jerome Powell announced in late November that the pace of interest rate hikes may start to slow, commencing December.

Meanwhile, longer-term bond yields also fell, pointing to expectations of interest rate cuts as early as next year, and producing a more pronounced inversion of the yield curve (implying recession). The 5-year bond yield fell 49 basis points to 3.74 per cent, and the 10-year U.S. bond yield fell 44 basis points to 3.61 per cent, while the 12-month yield rose nine basis points to 4.69 per cent.

In other relevant global news, the Chinese economy continued to suffer at the hands of President Xi's zero COVID-19 policy. The surge in daily COVID-19 cases to record levels put cities all over the country into lockdown and resulted in increased social unrest as citizens began protesting their opposition to almost three years of sporadic lockdowns. China's central bank, the People's Bank of China, cut its cash lender reserve requirements for the second time this year as it tried to stimulate its fading economy. The Chinese government pledged further support for its under-siege property sector with a comprehensive 16-point rescue package.

The iron ore price rose 27 per cent to end the month at US$101 per tonne as the Australian dollar rose US4 cents to US68 cents, mostly after the U.S. Fed chairman announced an easing in the pace of rate hikes.

Domestically, the Reserve Bank of Australia (RBA) continued on its path of reduced pace of interest rate hikes, raising rates by 25 basis points as inflation eased from 7.3 per cent in September to 6.9 per cent in October. The Australian unemployment rate remained stubbornly strong, falling 0.1 per cent to 3.4 per cent.

The surge in the price of iron ore lent support to the big Australian miners, including BHP (ASX:BHP), Rio Tinto (ASX:RIO) and Fortescue (ASX:FMG). After the folding of BHP's London listing into the ASX, BHP overtook the Commonwealth Bank of Australia (ASX:CBA) as the largest component of the Australian share market and now represents close to 10 per cent of the total ASX 300 Index. A consequence of being such a large index weighting is the recent share price rises have had an outsized influence on the performance of the overall Australian market.

While The Montgomery Fund holds all three big miners, an overweight position in Rio Tinto contributed to performance but the underweight positions in both BHP and Fortescue Metals Group were a factor behind November's minor underperformance.

AMP (ASX:AMP), a company we have highlighted in recent reports, and a recent addition to the portfolio, was a positive contributor to portfolio performance. The CEO reiterated her commitment to reducing the company's cost base as well as $750 million of capital returns planned for FY23.

Avita Medical Inc (ASX:AVH) was also a top contributor to performance, rising almost 50 per cent during the month, after the company announced pleasing analysis for the safety and effectiveness of its FDA-approved RECELL System for soft tissue repair.

Positions in Elders (ASX:ELD), Corporate Travel Management (ASX:CTD) and ResMed (ASX: RMD), however, detracted from November's performance.

Elders reported robust contributions from every operating division, taking full advantage of an encouraging external environment. However, this was tempered by the unexpected news of the resignation of its long-serving CEO, resulting in a large fall in the share price.

Corporate Travel Management's share price also fell despite other travel companies announcing encouraging updates about the ongoing recovery in the domestic and international travel sector.

Meanwhile, ResMed's quarterly report revealed a continuing recovery in the core North and South Americas division. This was however offset by an unexpected slowdown in Europe and Asia, resulting in an underperforming share price in November.

No new positions were added during the month and no positions were exited.

The position in Newcrest Mining (ASX:NCM) was increased one per cent. Most market participants would normally associate Newcrest Mining with gold, but an often-overlooked aspect of their operations is the growing copper production. Newcrest Mining expects to produce over 135kt of copper this year, which is about the same as OZ Minerals (ASX:OZL), a company that has just accepted a takeover offer from BHP valuing the company at $9.6 billion. Copper has historically been an important commodity linked to economic growth and will continue to be so, especially with the rise of electric vehicles and large-scale energy storage.

The position in Treasury Wine Estates (ASX:TWE) was increased by 0.75 per cent, reflecting our confidence in management's execution of its growth strategy. Treasury Wine's transformation into a premium wine producer and distributor has been well-documented after a period of mixed performance. Its recent acquisition of another luxury label, Frank Family Vineyards – a company with higher profit margins than TWE – is already contributing to group earnings, while its multi-country-of-origin plan is providing downside protection and upside potential in the event of any future geopolitical or isolated supply chain problems.

A major portfolio reduction in November was IGO Ltd (ASX:IGO). This position was reduced by a full percentage point as the team seeks to reposition the resources exposure towards copper and gold. The position in IGO has generated significant outperformance to date, and we have reduced our lithium and nickel position, given we see more upside in other sectors.

Another commodity stock, Incitec Pivot (ASX:IPL) was also reduced by one per cent. As mentioned earlier, the company announced a large increase in FY22 profit due to significant increases in fertiliser, urea and di-ammonium phosphate prices. With management increasing its dividend and commencing a $350 million on-market buyback, we have decided to start harvesting this position and reallocate your capital in positions that contain further upside.

Continuing with our description of the thesis behind our portfolio stocks, please read our investment thesis on Elders (ASX:ELD) and National Australia Bank (ASX:NAB).

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

Elders Ltd (ASX:ELD)

Sean, Alan and Dan have followed Elders for a very long time, noting the important contribution agriculture has made to the success of Australia. That said, prior to the Global Financial Crisis (GFC), Elders was a conglomerate with operations in agribusiness, telecommunications, automotive components, banking, insurance and MIS plantation schemes. It was then known as Futuris Corporation. Futuris struggled to service its debt during the GFC and underwent a significant restructure. Management decided to focus on its core agricultural distribution business and subsequently sold off non-core businesses, renaming itself Elders Ltd.

In the ensuing years, management fought hard to turn the business around, resetting the cost base and repairing the balance sheet with the proceeds of asset disposals. By 2015, management had seen enough progress in the turnaround to start rewarding shareholders with dividends. However, standing in the way of this were hybrid securities entitled to distributions before ordinary shareholders. Management acquired these hybrid securities to utilise unused franking credits. Prior to partnering with Montgomery, Sean, Alan, and Dan initiated a position in Elders believing the announcement of a buyback of these hybrids signalled management's confidence in the outlook for earnings and their intention to reward long-suffering shareholders with dividends.

Initially, and despite enduring an extended drought, the company managed to generate excellent returns on capital, usually well above their self-imposed target of 15 per cent per annum. Management had also proved to be shrewd allocators of capital with a series of well-timed bolt-on acquisitions, which were all earnings accretive. As weather is also cyclical, the drought eventually broke and the company further benefitted.

At the most recent results announced in November, Elders once again reported a robust set of numbers with top and bottom-line growth, along with the full-year dividend rising from 42 cents per share to 56 cents per share. However, the long-serving CEO, Mark Allison, also announced his retirement on or before November 2023, sparking a material fall in the share price. With the business still in a strong position to grow, as well as experiencing a favourable external environment, the investment team retains confidence the company will continue to take advantage of, and benefit from, the operations setup by Mr Allison.

National Australia Bank (ASX:NAB)

After many years of underperformance versus its peers, National Australia Bank finally seems to be moving in the right direction. Previous generations of management tended to focus on other areas of growth, trying to expand into different areas of banking and financial services, including wealth management and insurance, both domestically and internationally. After the Banking Royal Commission, all four big banks re-focused on core domestic operations by divesting life insurance, financial advice and wealth management platforms as well as stakes in overseas banks.

One of these banks, owned by NAB, was the wholly-owned and UK-based bank Clydesdale (now known as Virgin Money UK (ASX:VUK)). Clydesdale was an overpriced, perennial underachiever, and a capital-intensive asset that constantly produced low Returns on Equity (RoE), high costs and stale technology. By far the biggest issue with Clydesdale was the reputational damage associated with a GBP1.7 billion penalty paid (by NAB upon demerger) for selling complex financial products to small business customers.

After the successful demerger, NAB was the smallest of the big four banks for a period of time but has now fought its way back through business banking growth, cost cutting programs, technology investment and capturing market share from ANZ and Westpac residential mortgage loans. NAB is now the second largest bank behind Commonwealth Bank of Australia (ASX:CBA). Group RoE has improved and is now second, behind CBA.

As the largest business bank in Australia, business banking has always been the strength of this company, evidenced by NAB's 20 per cent market share. Recently, NAB has focused on strengthening its advantage in business banking by investing in both the internal systems and customer-facing platforms, resulting in further market share gains over the most recent year. The speed of business loan approval has improved, and is reflected in Business and Private banking earnings growth of 22 per cent, which in turn, is driven by strong volume growth and higher margins. Business banking remains the NAB's largest and most profitable division.

In a concerted effort to advance the company's digital capabilities, NAB's digital transformation strategy has seen over 70 per cent of applications successfully migrated to the cloud, increasing efficiency and accessibility yet still providing strong protection against cybercrime.

With the future RBA interest rate movements largely unknowable, loan impairments for all big four banks will be keenly watched and will largely determine investor sentiment for the entire sector. With small businesses playing a vital role in future economic revivals, we remain confident NAB will be able to use the last five years of heavy technology investment to grow its market share in Australian business and consumer banking over the medium term.