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 18 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
$339.0M

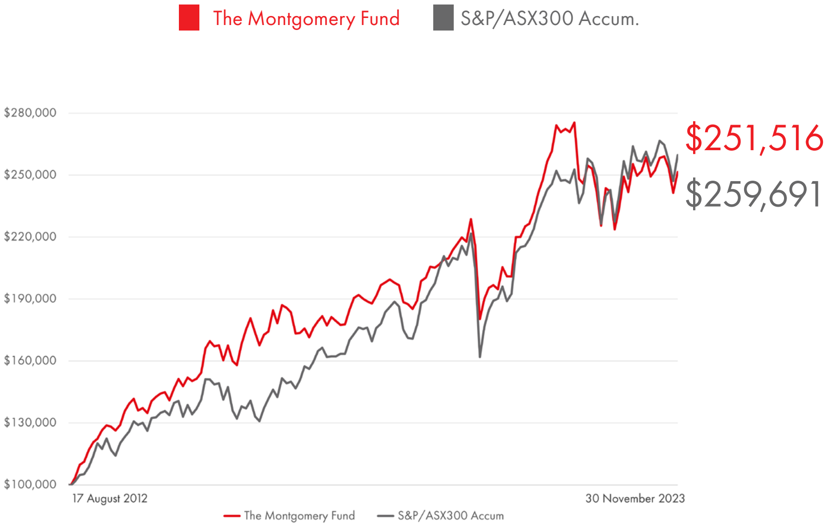
MANAGEMENT FEES AND COSTS
1.36% per annum[1]

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 November 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	4.18%	-2.93%	0.87%	0.91%	4.56%	6.04%	5.44%	6.34%	151.52%	8.52%
S&P/ASX 300 ACCUM. INDEX	5.06%	-1.85%	1.96%	1.14%	6.96%	8.69%	8.07%	7.25%	159.69%	8.82%
OUT/UNDER PERFORMANCE	-0.88%	-1.08%	-1.09%	-0.23%	-2.40%	-2.65%	-2.63%	-0.91%	-8.17%	-0.30%

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]	4.18%	-2.93%	0.87%	0.91%	7.24%	12.01%	11.88%	10.55%	475.41%	9.75%
S&P/ASX 300 ACCUM. INDEX	5.06%	-1.85%	1.96%	1.14%	6.96%	8.69%	8.07%	7.25%	273.52%	7.26%
OUT/UNDER PERFORMANCE	-0.88%	-1.08%	-1.09%	-0.23%	0.28%	3.32%	3.81%	3.30%	201.89%	2.49%

[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 November 2023)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank of Australia	CBA	Financials	7.28
QBE Insurance	QBE	Financials	6.02
Rio Tinto	RIO	Materials	5.97
CSL	CSL	Health Care	5.95
Cochlear	COH	Health Care	5.83
Macquarie	MQG	Financials	5.10
Transurban	TCL	Industrials	5.00
Altium	ALU	Information Technology	4.94
Woodside Energy	WDS	Energy	4.71
Wesfarmers	WES	Consumer Discretionary	3.89
Total equity weighting			96.91
Total cash weighting			3.09

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

TOP 3 CONTRIBUTORS AND DETRACTORS

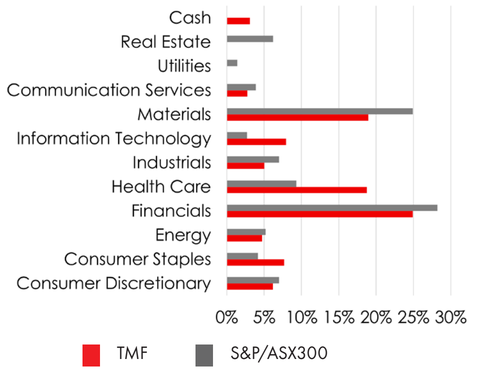
CONTRIBUTORS

Altium	The share price outperformed after reaffirming their short and medium-term targets.
Cochlear	The share price rose after a period of underperformance.
Transurban Group	The share price rose after bond yields fell.

DETRACTORS

Treasury Wine Estates	The share price fell after completing an equity raising during the month.
AMP	The share price fell after net interest margins deteriorated more than expected.
IGO	The share price followed the lithium price lower.

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ ASX300 (%)	ACTIVE (%)	# STOCKS
ASX 1 -20	51.6	60.9	-9.3	13
ASX 21 -50	25.5	16.7	8.9	7
ASX 51 -100	10.2	11.8	-1.5	4
ASX 101 -200	9.4	8.2	1.2	5
ASX 201 -300	0.0	2.5	-2.5	0
Ex S&P/ ASX 300	0.2		0.2	1
Cash	3.1			
Total	100.0			30

CONTACT DETAILS

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PLATFORMS WE ARE ON: Asgard · BT Panorama · Colonial First Wrap · Clearview Wealthsolutions · Investment Exchange (IX) · Clearstream · DASH · HUB24 · Xplore Wealth · Macquarie Wrap · Mason Stevens · MLC/Navigator · Netwealth · North · OneVue · Praemium · Powerwrap

A plunging U.S. Treasury bond yield set the stage for equity market gains in November as investors began factoring in the possibility that interest rates in the U.S. might be cut as early as next year.

The enthusiasm helped the Montgomery Fund (The Fund) return 4.18 per cent in November and a gain of 5.06 per cent for the benchmark S&P/ ASX 300 Accumulation Index. The return of optimism in November has now helped the Australian benchmark eke out a return of 1.14 per cent over 12 months and The Fund a marginally lower 0.91 per cent return. If rate hikes give way to cuts, it is reasonable to expect equity market gains to continue.

According to CME's FedWatch Tool, markets are currently pricing in a greater-than-50 per cent chance that benchmark U.S. interest rates will fall more than 125 basis points by next December.

The optimism, however, belies the fact many economic indicators, including the Leading Economic Index (LEIs), Purchasing Managers' Index (PMIs), yield curve, Gross Domestic Income (GDI), tax revenues, corporate profits, money supply, the savings rate, intermodal rail, and home affordability, appear to be in recession already.

Perversely, as often happens in markets, bad news is good news because bad news means interest rate cuts.

We cannot say whether the extent of interest rate cuts currently expected by the market will transpire, but we do believe economic weakness is sufficient to warrant a belief that determined or forceful interest rate hikes are a thing of the past.

Perhaps counterintuitively, a weaker economy is better for equities because it implies higher interest rates persist for a shorter period of time. The alternative 'higher-for-longer' scenario is less constructive for equities because it delays the sort of animal spirits that see Price-to-earnings ratios expand.

Portfolio adjustments and changes

Altium Ltd (ASX:ALU)

The investment team increased the Fund's weighting to Altium after the recent Annual General Meeting (AGM), at which the company's revenue and earnings guidance for the current financial year were reaffirmed and the revenue target for FY26 was upgraded to $500 million. This target was expected to require 100,000 subscribers, but the recent surge in higher-value subscribers – particularly contracts with large enterprises – has management anticipating target revenues will be achieved with 75,000 to 90,000 subscribers.

Following the upgrades, the Altium share price outperformed, becoming The Fund's top performer in November.

Meanwhile, trust in management has increased, and the business is generating strong momentum post-COVID-19. We are comfortable with the increased position and look forward to February 2024, when management will update the market with its half-year results and progress towards its exciting longer-term goals.

Altium was one of The Fund's top three positive contributors to performance.

ResMed Inc (ASX:RMD)

We have also chosen to increase the portfolio's weighting to ResMed at the end of November due to the easing of recent margin pressure hitherto suffered by the company.

In contrast to expectations of an adverse impact from the increasing awareness of weight loss drugs such as Ozempic, mid-double-digit revenue growth last quarter was evidence of healthy demand for the company's sleep apnoea masks and devices. ResMed's Software-as-a-Service (SaaS) division has also maintained growth momentum, aided by the acquisition of MEDIFOX DAN, a German software solutions provider for out-of-hospital care settings.

Since August, the emerging popularity of weight-loss drugs has resulted in significant share price falls for companies believed to be adversely impacted by their advent. ResMed's share price had fallen to levels last seen during the COVID-19 pandemic – when revenue and earnings were both at least 40 per cent lower. And the investment team believes ResMed's addressable market has not shrunk materially.

Philips, one of ResMed's larger competitors, suffered a product recall in 2021 and was fined US$479 million after its sleep apnoea machines triggered over 6,000 complaints and found to have directly caused over 40 deaths. In November, Philips was in the news again after the Food and Drug Administration (FDA) issued a press release warning that its sleep apnoea devices can overheat. Although this did not generate another product recall, it is considered a welcome tailwind for ResMed.

AMP Ltd (ASX:AMP)

AMP's September 2023 quarterly report highlighted some positive aspects of its corporate recovery. The company's North platform received strong inflows, and the sale of AMP Capital assets to Dexus was finalised. The AMP Bank update in September noted the Australian mortgage lending environment was extremely competitive and that the Calendar 2023 Year Net Interest Margin (NIM) was expected to be below its initial guidance of 1.30 to 1.35 per cent.

Fast forward to November, and the company released another update on AMP Bank noting only nominal growth is expected in C24, while NIM for C23 had deteriorated to 1.25 per cent and will remain under pressure in C24. Meanwhile, the company's newly-formed business bank division will cost an additional $60 million and will not add to earnings until 2027. A further update revealed the company doubled its provisioning from $50 million to $100 million for the legal stoush with its advisers over its Buyer of Last Resort (BOLR) agreements.

Amid a decline in business performance and the consumption of precious capital in an environment of rising costs, our timeframe for AMP's corporate recovery is nearing its end. We do expect the settlement of the BOLR class action for $100 million will enable the company to return the last tranche of surplus capital of $350 million to shareholders. The investment team is looking to deploy this capital in other opportunities with greater upside potential. AMP was one of the top three detractors to performance in November.

Telstra Ltd (ASX:TLS)

The Fund's position in Telstra has been questioned ever since management announced that it would cease further monetisation of its infrastructure assets. The investment team have been progressively selling down The Fund's position since August despite the small intra-month rise in share price resulting from the nationwide Optus network outage. Telstra did reveal they subsequently gained market share, but these events are not sustainable, usually not repeatable, nor material enough to warrant a change in the investment thesis.

Contributors and detractors

Amid the Fund's top three performers was Cochlear Ltd (ASX:COH). After reporting strong growth in August, Cochlear's share price surged to all-time highs but fell away in the following weeks from both profit-taking and higher bond yields. The share price, however, recovered strongly in November after an investor day, at which key points about the medium-term company strategy were reinforced.

Cochlear have always had a strong presence in the paediatrics segment, but a large opportunity looms in the under-penetrated adult and senior severe hearing loss market.

After middle age, hearing tends to deteriorate gradually. According to the World Health Organisation, one in three people over 65 are affected by hearing loss. Meanwhile, studies have shown that hearing loss is the single largest modifiable risk factor for dementia and that the global cost of unaddressed hearing loss is over US$980 billion annually.

With most baby boomers now over 65, this represents a growing market segment for Cochlear but one that has proven to be difficult to crack. Management hypothesises that the biggest barrier is the general population does not view hearing loss in later life as a serious medical condition despite numerous studies suggesting otherwise. Furthermore, people have very low levels of awareness that a cochlear implant is a potential treatment option for hearing loss.

Fortunately, this is changing with the growing trend to "healthy ageing" driving consumers to strive to maintain their wellbeing for longer.

With the widespread usage of connected devices resulting in the digital savvy senior, education and awareness around hearing loss is also growing. The industry has experienced growth in this segment, and it now represents 37 per cent of all Cochlear surgeries (of which Cochlear commands approximately 60 per cent market share). The company has also reported increases in its referral pathway from the hearing aid channel.

Cochlear has historically been managed very well with consistent double-digit revenue and profit growth, with a strong dividend payout ratio and increasing research and development expenditure to develop new products. While we are pleased with recent progress, we are more excited about the future of Cochlear.

Transurban Ltd (ASX:TCL)

As one of our previous stock stories highlighted, Transurban represents one of our larger portfolio weights. With Transurban being a bond proxy, the position suffered as bond yields rose. After bond yields fell materially in November, the share price recovered.

Depending on the toll road asset in question, CPI-linked toll increases sometimes take up to 18 months to implement. Australian inflation is still at elevated levels, and even though revenue grew at the last result, material upside remains, thanks to growing traffic volumes from strong migration numbers and solid car sales.

The team's investment thesis remains intact, and portfolio positioning remains overweight.

Each month there are companies whose share prices perform less well. These are the detractors for November.

Treasury Wine Estates (ASX:TWE)

As outlined in our October monthly report, Treasury Wine Estates acquired DAOU Vineyards, a U.S. luxury wine producer. The company funded the acquisition through a fully underwritten A$825 million entitlement offer, a A$157 million placement of TWE shares issued to existing owners of DAOU and US$311 million of debt. The institutional component was completed at the end of October, while the retail component was completed in late November.

With the share price trading below the issue price of $10.80 per share, management announced that the retail acceptance rate was only 23 per cent meaning the remaining stock was taken up by the underwriters and sub-underwriters. Consequently, the 'overhang' meant the share price languished at these lower levels at the end of the month, making Treasury Wine Estates the largest detractor to performance.

Nevertheless, we remain positive about Treasury Wine Estates despite this short-term underperformance and have reweighted some of our position, given the upside potential of a highly earnings accretive acquisition, the continued strength of the Penfolds brand despite difficult operating conditions and a review of Chinese tariffs on Australian-made wine.

IGO Ltd (ASX:IGO)

Lithium miners have endured a tough few months as commodity prices have fallen over 70 per cent since June. Margins have been squeezed across the entire industry as demand for lithium softens on lower sales of electric vehicles and slower economic growth, especially in China.

We still believe lithium demand will grow materially in the medium term, and IGO provides the portfolio with exposure to Greenbushes, the largest and lowest cost spodumene mine in the world, operated by one its largest lithium companies. Kwinana Train 1 production of lithium hydroxide has been ramping up, but slower than expectations. Despite lower commodity prices, the balance sheet is in great shape with a net cash position, and operations are still generating strong free cash flow.

With lithium prices displaying no sign of bottoming in November, the IGO position was a bottom three contributor to performance for the month. We have trimmed our IGO position to reflect our cautious approach and reduce the risk of further loss of capital.

Conclusion

We remain optimistic about the outlook for Australian equities after a difficult two years, thanks to rising interest rates and fears of recession. The market tends to fear the possibility of recessions and then celebrate their arrival, looking through them to their eventual end. We don't have any reason to believe a recession in Australia – if one were to transpire – would produce a different outcome. The end of rate rises should eventually translate to rising multiples and more attractive returns.