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
$336.3M

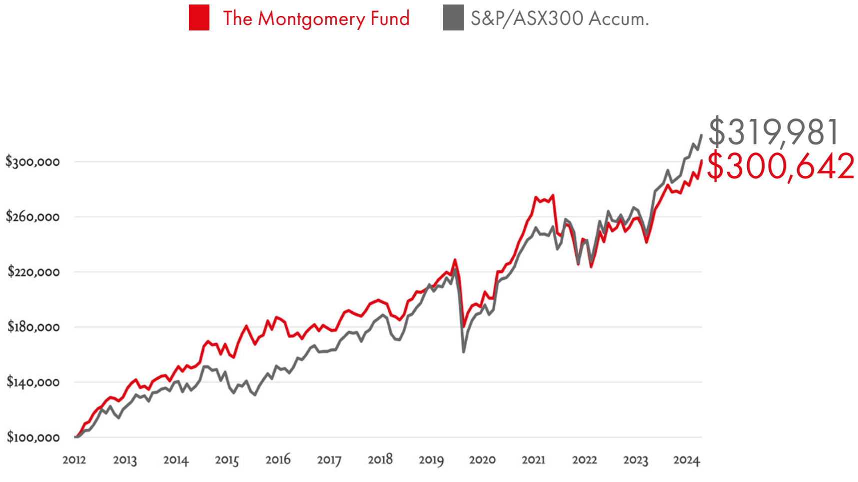
MANAGEMENT FEES AND COSTS
1.36% per annum[1]

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 2024	11.4223	7.87%
December 2023	2.1568	1.51%
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%

PORTFOLIO PERFORMANCE

(to 30 November 2024, 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	4.46%	6.35%	7.95%	19.53%	3.54%	6.46%	6.73%	7.18%	200.64%	9.37%
S&P/ASX 300 ACCUM. INDEX	3.68%	5.48%	11.34%	23.22%	9.12%	8.20%	9.19%	9.08%	219.98%	9.93%
OUT/UNDER PERFORMANCE	0.78%	0.87%	-3.39%	-3.69%	-5.58%	-1.74%	-2.46%	-1.90%	-19.34%	-0.56%

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]	4.46%	6.35%	7.95%	19.53%	8.12%	9.73%	11.38%	12.28%	587.80%	10.22%
S&P/ASX 300 ACCUM. INDEX	3.68%	5.48%	11.34%	23.22%	9.12%	8.20%	9.19%	9.08%	360.24%	8.01%
OUT/UNDER PERFORMANCE	0.78%	0.87%	-3.39%	-3.69%	-1.00%	1.53%	2.19%	3.20%	227.56%	2.21%

[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 2024)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank of Australia	CBA	Financials	8.23
QBE Insurance Group	QBE	Financials	6.38
Rio Tinto Ltd	RIO	Materials	6.04
Cochlear Ltd	COH	Health Care	5.67
Macquarie Group	MQG	Financials	5.20
Xero Ltd	XRO	Information Technology	4.93
ASX Ltd	ASX	Financials	4.47
ResMed	RMD	Health Care	4.22
Wesfarmers Ltd	WES	Consumer Discretionary	4.03
CSL Ltd	CSL	Health Care	3.95
Total equity weighting			97.65
Total cash weighting			2.35

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

TOP 3 CONTRIBUTORS AND DETRACTORS

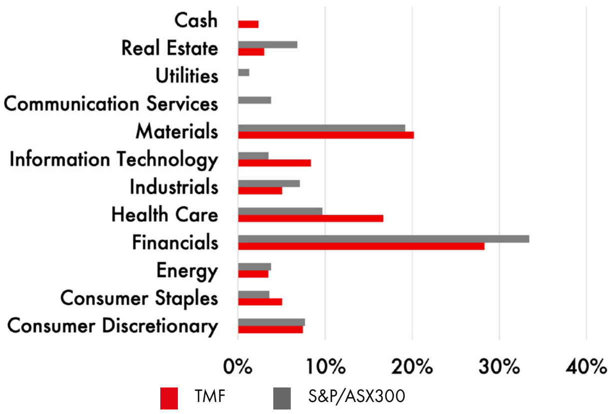
CONTRIBUTORS

QBE Insurance	The share price rose after a positive trading update.
Xero	The share price rose after announcing continued achievement to its Rule of 40 objective.
TechnologyOne	The share price rose after reporting continued UK growth.

DETRACTORS

Pilbara Minerals	The share price fell due to MSCI rebalancing.
BHP	The share price fell after a period of outperformance.
CSL	The share price fell due to concerns over its vaccine business after the U.S. election.

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ ASX300 (%)	ACTIVE (%)	# STOCKS
ASX 1 -20	50.1	61.0	-10.9	12
ASX 21-50	28.0	17.1	11.0	7
ASX 51 -100	8.6	12.2	-3.7	3
ASX 101 -200	5.9	7.5	-1.6	3
ASX 201 -300	5.0	2.2	2.8	3
Ex S&P/ ASX 300	0.0		0.0	0
Cash	2.4			
Total	100.			28

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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

The Montgomery Fund (The Fund) returned 4.46 per cent for November 2024, outperforming the S&P/ASX 300 Accumulation Index by 0.78 per cent.

Strong updates from portfolio companies assisted returns, especially those announced by QBE, TechnologyOne and Xero, the latter two being overweight positions.

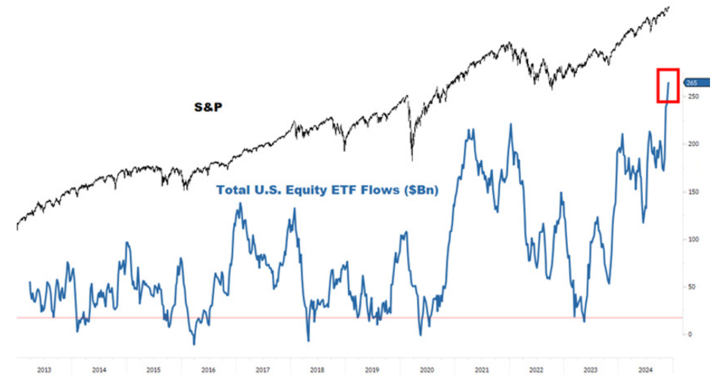
The Trump bump

Globally, markets rebounded strongly in November, driven by Donald Trump's U.S. election victory. Given Trump's preference for tax cuts, as well as his pro-growth and pro-America support for business, investors viewed his election win favourably and drove the S&P500 Index to record highs.

The world is faring well, and in the U.S., whose stock market now accounts for 75 per cent of the MSCI World Index, earnings are growing, the U.S. economy is robust and corporate profit margins are healthy.

Indeed, something of a love affair with the U.S. has gripped the world, and flows into U.S. index funds (stock market exchange-traded funds) have hit all-time highs.

Figure 1. Inflows into U.S. stock market exchange-traded funds hit a record.



Source: Macrocharts

The U.S. technology companies driving markets higher are seriously extraordinary businesses reflecting some fundamental truths about the U.S. versus the rest of the world.

These truths include America being the largest economy in the world (and more resilient because exports account for only 12 per cent of Gross Domestic Product (GDP)), having the most desirable demographics of any developed nation, the most productive labour force, the most arable land of any country, and being the world's largest exporter of agricultural commodities. It is also the largest producer and exporter of oil and gas. Producing 20 million barrels per day, the U.S. is the world's largest oil producer and exporter, with Saudi Arabia ranking number two with 12 million barrels per day.

Having the deepest capital markets and some of the best tertiary institutions in the world has helped the U.S. become the world leader in research and development (reportedly spending US$879 billion last year – more than the next five countries combined), which, in turn, has put the U.S. at the forefront of technical innovation.

The businesses that have emerged are the world's largest and have demonstrated the extraordinary ability to increase their returns on equity as they grow their equity base. That's akin to a bank account earning higher and higher interest rates as its balance rises. Such businesses have broken the preconceived limits of the microeconomics taught at business schools for decades.

The only issue with the above thesis as a trigger for investing is that it has been true for a very long time. It was true when the S&P 500 was lower; it will be true when the S&P500 is higher, and it will remain valid after the stock market, inevitably, declines.

Such theses are not helpful for tactical investing. In other words, you can't time investments based on the U.S., being great. For now, however, that is precisely what investors are doing.

Are valuations stretched?

Whenever markets hit new highs, a conga line of commentators appear to decry the rally and the investors fuelling it. A common line currently being trotted out is that markets are expensive as the CAPE (Cyclically Adjusted Price Earnings) Shiller ratio reveals.

Figure 2. CAPE Shiller Ratio for S&P500

Source: Multpl.com

Before selling up and heading for the hills, it is vital to make some observations.

First, the ratio's creator, Robert Shiller himself, says the ratio is useless for predicting crashes.

Second, when the S&P 500 Index hit a previous all-time high, back in August 1997, the market continued to rally for two and a half years.

Third, the CAPE Shiller ratio takes the last ten years of inflation-adjusted earnings and compares those earnings to the current price. But in the last ten years, we have had a notorious 'black swan' event, the COVID pandemic, that depressed earnings, bringing down the ten-year average of earnings and consequently driving the CAPE ratio higher than it otherwise would be.

Finally, the S&P500 is currently and unusually dominated by several companies enjoying extraordinary popularity thanks to AI. Remove those seven companies and the S&P493 CAPE ratio would be considerably lower.

The other point to remember is that company earnings growth is accelerating. For Quarter 3 of 2024, 75 per cent of S&P 500 companies reported a positive earnings per share (EPS) surprise and 61 per cent of S&P 500 companies reported a positive revenue surprise. Meanwhile overall growth is 5.8 per cent, well above the 4.2 per cent consensus expected by analysts. At 5.8 per cent, the growth rate for the quarter marks the fifth straight quarter of year-over-year earnings growth for the index.

I remind investors we expected 2024 to be a good year for equities. Provided the base ingredients remain – those being positive economic growth and disinflation, 2025 could be another memorably good year for equity investors. This may be especially true if enthusiasm around Trump's policies turn into evidence of mild inflation and stronger economic growth.

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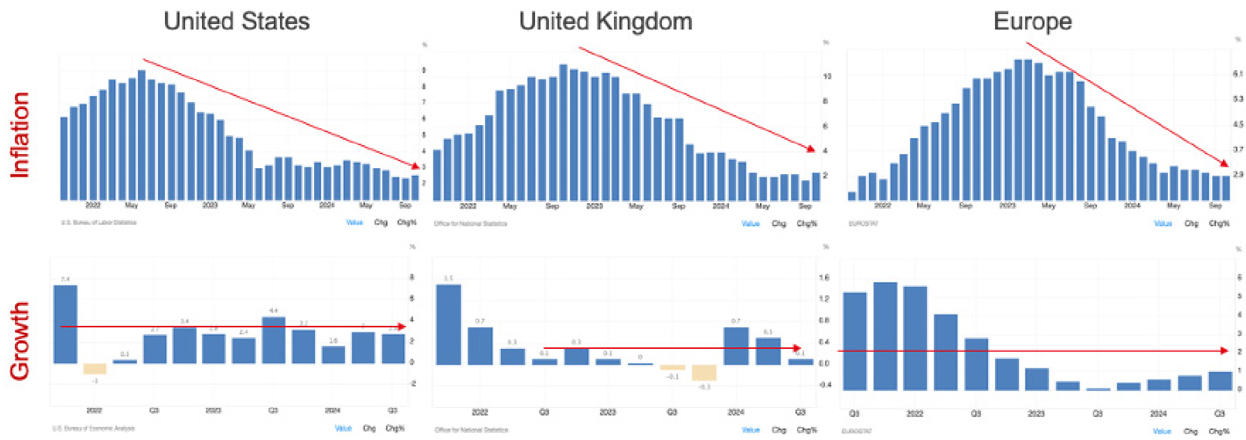
Figure 3. GDP growth and disinflation



Trump's tariffs may stimulate faster economic growth in the U.S. if they support businesses to front-run them by ordering inventory ahead of their imposition.

U.S. businesses may also sponsor workers ahead of restrictions on immigration, fuelling stronger employment data. And keep in mind tariffs are one off changes.

Producing an extra couple of billion barrels of oil a day will also help lower inflation, and if this can coincide with accelerating GDP, equity markets should be content in 2025.

The Fund's exposures are well balanced, and the Australian Eagle investment team remains optimistic that some of the positive changes taking place in portfolio stocks are being recognised by the broader market.

Portfolio changes

The Fund increased positions in Commonwealth Bank of Australia (ASX:CBA), Dexus (ASX:DXS), SILEX Systems (ASX:SLX) and TechnologyOne Ltd (ASX:TNE) and initiated a new position in Web Travel Group (ASX:WEB).

The Fund decreased exposure to BHP Group (ASX:BHP), Transurban (ASX:TCL), Macquarie Group (ASX:MQG) and Treasury Wine Estates (ASX:TWE).

Prior to its demerger from Webjet Group (ASX:WJL), the WebBeds B2B platform, now under the control of separately listed Web Travel Group (ASX:WEB), was built internally from scratch. This platform generated a significant and growing source of revenue and profit for the group by providing an innovative way for the accommodation and travel service providers to distribute their inventory and services to travel agents, tour operators and other travel sellers.

The Fund initiated its holdings in Web Travel Group after its 2025 half-year financial report revealed a 25 per cent growth in Total Transaction Value (TTV). Revenue margins have settled at 6.5 per cent and are forecast to remain at this level for the foreseeable future.

After the demerger, some accounting and margin issues emerged, but they have been resolved and are one-off in nature. Therefore, they were not impediments to investing in Web Travel Group.

The company's balance sheet is in excellent shape following the demerger, and management has announced a $150 million on-market share buyback to mitigate the dilution of shareholders from convertible notes that mature in 2026.

We see limited downside risk given the share price is currently trading at just 13 times earnings multiple valuation, which is low considering the current growth rate and dominant market position.

Considering their successful track record of gaining market share, we have confidence management can continue to do so, making their Financial Year 2030 TTV target of $10 billion achievable. As the company's fundamental performance moves towards targeted levels, this should increase earnings and the market valuation.

Top three contributors

QBE Insurance Group (ASX:QBE) – QBE's share price rose following a positive trading update. The company's recent divestment of its Middle Market segment has improved the quality of its portfolio, as the disastrous North American hurricane season produced no significant rise in catastrophe claims. Gross written premiums are still increasing, while investment book returns are also benefitting from elevated short-term bond yields.

Xero (ASX:XRO) – Xero's share price rose after a strong half-year financial result that showcased strong revenue growth and cost controls. These factors enabled the company to achieve the Rule of 40 (a principle that states a software company's combined revenue growth rate and profit margin should equal or exceed 40 per cent) for the second consecutive report. Management's turnaround plan has gained traction, with pleasing progress towards its 3x3 strategy of focusing on three key product areas in its three most important markets.

TechnologyOne (ASX:TNE) – After upgrading guidance a few months ago, TechnologyOne's 2024 Financial Year Report revealed an acceleration in Annualised Recurring Revenue (ARR) growth in the U.K. Traditionally dominant in the local government sector, management unveiled the strategic acquisition of CourseLoop to further consolidate and accelerate recent market share gains in the education sector.

Major detractors

Pilbara Minerals (ASX:PLS) – Pilbara's share price fell as the company was impacted by MSCI rebalancing. Removal of the company from the MSCI Australia Index promoted index fund selling. However, the company remains sound with low-cost spodumene production and a strong balance sheet.

BHP Group (ASX:BHP) – BHP's share price fell throughout the month despite the iron ore price remaining above US$100 per tonne for most of the month. China's latest stimulus packages, directed towards supporting the struggling domestic residential property sector, have not met investor expectations.

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CSL (ASX:CSL) – The share price fell after Donald Trump's picked Robert F. Kennedy Jr. as his Secretary of the Department of Health and Human Services. Kennedy is a known vaccine sceptic. CSL's vaccine division, Seqirus, represents less than 15 per cent of revenue and only generates revenue from flu vaccines, not COVID-19 vaccines.

Final thought

Inevitably, there will be challenges along the way. However, as this month's results demonstrate, the Fund's portfolio has been thoughtfully constructed and remains diligently managed by the investment team with a focus on long-term outperformance.