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
$328.3M

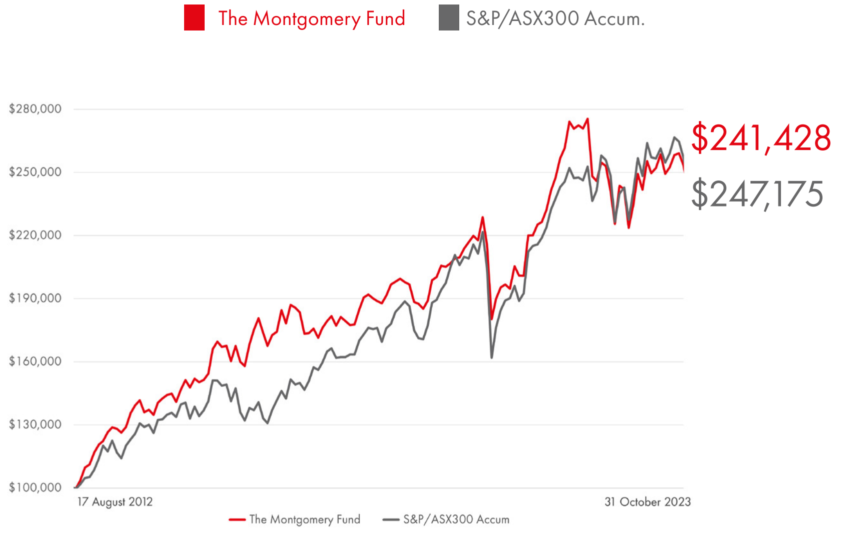
MANAGEMENT FEES AND COSTS
1.36% per annum[1]

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 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 31 October 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	-4.70%	-6.51%	-6.65%	2.91%	6.32%	5.08%	4.85%	5.47%	141.43%	8.19%
S&P/ASX 300 ACCUM. INDEX	-3.80%	-7.29%	-5.41%	2.51%	8.68%	7.15%	7.73%	6.57%	147.17%	8.41%
OUT/UNDER PERFORMANCE	-0.90%	0.78%	-1.24%	0.40%	-2.36%	-2.07%	-2.88%	-1.10%	-5.74%	-0.22%
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.										
AUSTRALIAN EAGLE COMPOSITE[3]	-4.70%	-6.51%	-6.65%	2.91%	9.10%	10.79%	11.66%	9.88%	452.33%	9.56%
S&P/ASX 300 ACCUM. INDEX	-3.80%	-7.29%	-5.41%	2.51%	8.68%	7.15%	7.73%	6.57%	255.52%	7.01%
OUT/UNDER PERFORMANCE	-0.90%	0.78%	-1.24%	0.40%	0.42%	3.64%	3.93%	3.31%	196.81%	2.55%

[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 31 October 2023)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank of Australia	CBA	Financials	7.12
QBE Insurance Group Ltd	QBE	Financials	6.18
CSL Ltd	CSL	Health Care	6.04
Rio Tinto Ltd	RIO	Materials	5.96
Cochlear Ltd	COH	Health Care	5.72
Macquarie Group Ltd	MQG	Financials	5.02
Woodside Energy Group Ltd	WDS	Energy	4.99
Transurban Group	TCL	Industrials	4.91
Altium Ltd	ALU	Information Technology	4.48
Wesfarmers Ltd	WES	Consumer Discretionary	3.86
Total equity weighting			96.87
Total cash weighting			3.13

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

TOP 3 CONTRIBUTORS AND DETRACTORS

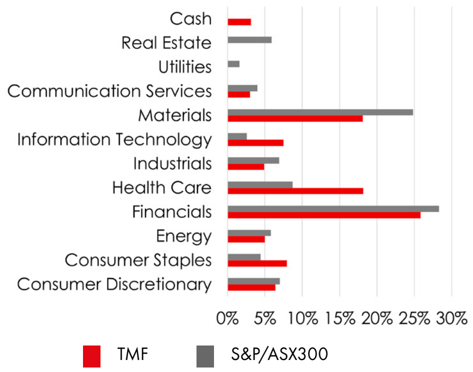
CONTRIBUTORS

Rio Tinto	The share price followed the iron ore price higher throughout the month.
Fortescue Metals Group	The share price outperformed on a rising iron ore price.
QBE Insurance Group	The share price outperformed as short-term bond yields remained elevated while other insurers reported continued premium increases.

DETRACTORS

IGO	The share price fell after revealing production issues and lower realised commodity prices.
AMP	The share price underperformed after its bank revealed continued margin pressure.
Telix Pharmaceuticals	The share price fell after the market was disappointed with its revenue growth trajectory.

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ ASX300 (%)	ACTIVE (%)	# STOCKS
ASX 1 -20	51.5	61.4	-9.9	13
ASX 21 -50	24.9	16.8	8.1	7
ASX 51 -100	10.5	11.7	-1.2	4
ASX 101 -200	9.7	7.9	1.9	5
ASX 201 -300	0.0	2.2	-2.2	0
Ex S&P/ ASX 300	0.3		0.3	1
Cash	3.1			
Total	100.0			30

CONTACT DETAILS

INVESTORS

Toby Roberts
t 02 8046 5017
e troberts@montinvest.com

David Buckland
t 02 8046 5004
e dbuckland@montinvest.com

ADVISERS, RESEARCHERS AND PLATFORMS

Scott Phillips
States – National
m 0417 529 890
e sphillips@montinvest.com

David Denby
States – VIC, SA & TAS
m 0455 086 484
e ddenby@montinvest.com

Michael Gollagher
States – QLD
m 0409 771 306
e mgollagher@montinvest.com

Dean Curnow
States – NSW, ACT & WA
m 0405 033 849
e dcurnow@montinvest.com

October was volatile for equity markets globally, and Australia wasn't immune. While The Montgomery Fund (The Fund) declined 4.70 per cent for the month of October, it remains 0.40 per cent above the benchmark the S&P/ ASX 300 Accumulation Index over the twelve months to the end of October (encompassing an entire 12-month period since Australian Eagle assumed the reins of The Fund) and 0.78 per cent above the benchmark over the three months to the end of October.

Elsewhere in October, the U.S. S&P500 fell over six per cent from its intra-month high to its subsequent low and ended the month down 2.2 per cent. The technology-laden NASDAQ likewise experienced a large intra-month swing, first rallying 3.3 per cent, then declining almost eight per cent, before ending the month down 2.8 per cent. The Australian market, represented by the S&P/ASX 300 Accumulation Index fell heavily, declining 3.8 per cent in October.

This downward trend can primarily be attributed to the increase in 10-year bond yields, which led to another month of Price-to-Earnings (P/E) compression. Negative sentiment was also driven by a shift in expectations from Reserve Bank of Australia (RBA) rate cuts to the possibility of future rate hikes.

Over the past six months, Australia's 10-year bond yield has risen by approximately 160 basis points to 4.92 per cent. Importantly, a rise in 'real' yields (bond yield less inflation) explains the majority of the increase. In the U.S., real yields have climbed to levels not seen since 2009. In Australia, recent surprises in inflation have led the RBA to hike by 0.25 per cent – the 13th hike in 18 months – to 4.35 per cent.

Fuelled by geopolitical uncertainties arising from the escalating conflict in the Middle East, gold emerged as the top-performing sector in October, with an impressive 8.7 per cent gain. This performance was noteworthy given the typical underperformance of gold stocks during periods of rising real yields.

Conversely, energy stocks underperformed by 1.4 per cent despite concerns about potential supply risks and an oil premium. Technology (-7.4 per cent) and health (-7.1 per cent) sectors suffered the most significant declines, as these growth sectors were negatively impacted by the increase in real yields. Technology, with a forward P/E ratio of nearly 75 times earnings, faces the risk of further P/E contraction. Health sector stocks also experienced a decline, with concerns about the negative impact of GLP-1s contributing to the sector's underperformance.

Lithium stocks had a challenging month, led by a 45 per cent drop in Liontown Resources following Albemarle's withdrawal from their takeover bid. Other ASX 100 lithium stocks also declined by over 10 per cent in October and we discuss IGO below.

According to analysts, November historically ranks as the second-best month for U.S. equity returns, following July.

Top portfolio contributors

Rio Tinto Ltd (ASX:RIO) – Rio Tinto was The Fund's top contributor to performance as the Chinese government announced additional spending to help the economy reach its goal of five per cent growth for 2023. China's spending was targeted at infrastructure, funded by over 1 trillion Yuan in newly issued sovereign debt. After falling in the first half of the month, the iron ore price rallied, leading the big miners higher on the back of the Chinese policy statement.

Fortescue Metals Group Ltd (ASX:FMG) – As mentioned for Rio Tinto, the Australian iron ore miners all rose in response to the Chinese stimulus announcement. The Fund has an underweight position in Fortescue as the Chairman and largest shareholder, Andrew Forrest, has signalled his attention has been drawn somewhat away from the core iron ore operations and more towards renewable energy and future-facing minerals. Despite this, the iron ore division is still one of the lowest-cost operations in the world and highly profitable at current iron ore prices.

Given The Fund remains underweight iron ore versus the index, due to a modest holding in BHP, we have chosen to maintain our portfolio weights in both Rio Tinto and Fortescue until we see any further catalysts to warrant changes.

QBE Insurance Group Ltd (ASX:QBE) – Continued market volatility from rising bond yields provided a tailwind to insurers like QBE. Their US$27 billion investment book, invested mostly in short-term bonds, is a beneficiary of higher bond yields, resulting in the QBE share price holding up in difficult market conditions. Other multinational insurers recently reported continued high single-digit insurance premium growth, which provided comfort that the most recent update from QBE management remained applicable.

Rising bond yields are traditionally negative for equity markets and while we are bottom-up fundamental stock pickers, The Fund's position in QBE provides some form of stability in a volatile environment. QBE remains a high conviction holding as the company continues to display strong fundamentals and earnings growth.

Detractors

AMP Ltd (ASX:AMP) – AMP's third quarter report provided an update on the broader Australian financial sector, revealing that net interest margin remained under pressure, consistent with its larger Bank peers. The $255 milion on-market buyback has also concluded and we await an update on the next stage of AMP's capital management plans, which is contingent on the Buyer of Last Resort class action settlement. This case entered mediation in November, and we will reassess our holding after the verdict is released.

The company also announced that Chinese regulatory bodies have given the green light to transfer their holding in China Life AMP Asset Management (CLAMP) internally within AMP. This transaction will be completed on 30 November 2023, and AMP will receive the remaining $50 million of the $225 million base purchase price from Dexus. This closes a long and drawn-out chapter in the company's history as management looks to move on to the next phase of its recovery.

We have reweighted our AMP position back to model weight as the fundamentals suggest the company's turnaround is progressing in the right direction.

IGO Ltd (ASX: IGO) – The September quarterly report painted a fairly bleak picture for the broader lithium industry despite record quarterly production at the Greenbushes mine, which IGO holds a 25 per cent share of through a joint venture with Tianqi Lithium.

Demand for spodumene has been falling due to oversupply, and IGO has decided to defer some product shipments for the December 2023 quarter to be stockpiled and sold when a recovery in demand results in stronger pricing.

Investment Manager Montgomery Investment Management Pty Ltd | ABN 73 139 161 701 | AFSL 354 564 | www.montinvest.com | E: office@montinvest.com
Responsible Entity Fundhost Limited | ABN 69 092 517 087 | AFSL 233 045 | T: 02 8223 5400 | www.fundhost.com.au | E: admin@fundhost.com.au

Pleasingly, management has worked to reduce debt at every opportunity. The company's balance sheet is healthy, supported by increasing dividends from a ramp-up in activity from its joint venture. A solid balance sheet provides comfort during commodity price downturns and allows management to act if opportunities emerge. Despite the share price falling during the month, we have maintained a steady holding, pending further information surrounding the lithium industry and broader economic conditions.

Telix Pharmaceuticals Ltd (ASX:TLX) – The share price fell despite the company reporting its fourth consecutive quarter of growing positive cash flow and 11 per cent revenue growth on June 2023 quarter numbers. As Telix continues to ramp up distribution and take market share from incumbents, gross margins have remained stable, giving investors confidence that the company can grow sustainably.

The company is preparing submissions to the U.S. Food and Drug Administration (FDA) for brain and renal cancer imaging agents. It has signalled an incremental increase in expenditure to prepare for the commercial launch of these two additional products. Given the binary nature of these submissions to the FDA and prevailing market conditions, we have kept our holding steady pending further information released by Telix in the next few quarters.

Portfolio changes

When inflation runs rampant, as it has over the last two years, gold is traditionally seen as a haven. The Fund's gold position has been relatively successful due to Newmont Corporation's (ASX:NEM) takeover of Newcrest Mining, however we have chosen to reduce gold exposure by selling a portion of Newmont and initiating a small position in Evolution Mining (ASX:EVN).

Readers of our previous reports will remember our original investment thesis for Newcrest Mining was based on growing copper production. The successful Newmont takeover has effectively diluted the combined company's copper profile, and we have chosen to replace some of that with Evolution Mining, a relatively smaller gold and copper miner.

In much the same way that Cadia mine was central to the success of Newcrest Mining, Evolution has a similarly world-class gold and copper mine in Queensland. With a mine life at least to 2040, Ernest Henry is also one of the lowest-cost mines in Australia.

With Ernest Henry providing a stable foundation for group production, Evolution also has other smaller assets that provide alternatives should conditions prove favourable. Red Lake is a Canadian asset Evolution Mining acquired in 2019, which has caused the company a few issues. However, green shoots are appearing with both production and costs moving in the right direction and resulting in a significant improvement for Financial Year 2024 production guidance.

The Fund's investment process focuses on unappreciated change, and if improvements in Red Lake continue on the right trajectory, we believe the fundamentals of the company will strengthen and provide a strong platform for future organic growth.

Treasury Wine Estates Ltd (ASX:TWE) – A strong competitive advantage is a core requirement for the investment team and TWE's Penfolds brand is a privileged asset that fits the bill nicely. Treasury Wine Estate's management of Penfolds has been excellent, especially considering the operational challenges they encountered in the last three years.

Management has found a way to bypass crippling Chinese tariffs with a "Country-Of-Origin" strategy producing Penfolds wines in China, France, the U.S. and Australia and overcoming geopolitical tensions.

With a continued thawing of Sino-Australian relations, China has indicated they are now reviewing the tariffs on Australian-made wine, which could take up to five months to remove. Management has already started to allocate ex-China Penfolds inventory to be sold in China if and when the review concludes favourably.

Although Penfolds is important, management has indicated they want to build a global portfolio of world-class luxury wine brands. The company acquired Frank Family Vineyards in November 2021, a high-profit margin luxury Californian wine company that has been fully integrated with highly accretive earnings to the group.

More recently, management has acquired DAOU Vineyards, another high-end U.S. wine producer. Also slated to be highly earnings accretive, this move remains consistent with the strategy to build market share in the global luxury wine segment.

As a result, we have increased our position in Treasury Wine Estates to reflect our trust and optimism about the company's medium-term future.

Telstra Ltd (ASX:TLS) – Another hallmark of our investment process is a clear thesis for initiating a position. The trigger to invest makes the withdrawal process easier because we will know it is time to exit when this reason is invalidated.

Due to Telstra formerly being a government-owned organisation, the infrastructure assets of Telstra were always underappreciated and somewhat hidden on the balance sheet. In 2020, after a downturn due to the NBN and COVID-19, previous management embarked on a turnaround strategy – T22 – to monetise assets.

A non-controlling 49 per cent stake in its mobile towers company, InfraCo Towers, was sold for $2.8 billion in 2021, valuing the Towers business at 28x EV/EBITDA. This compared favourably to the entire Telstra group's valuation of around 7x EV/EBITDA. Subsequently, the proceeds were used to pay down some debt and the remainder was returned to shareholders through capital management initiatives.

Success should have kickstarted a flurry of monetising Telstra's remaining infrastructure assets. While the position has been profitable, we have been disappointed with the recent announcement to replace monetisation with retaining all other assets, which no longer validates our original thesis.