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
$552.1M

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

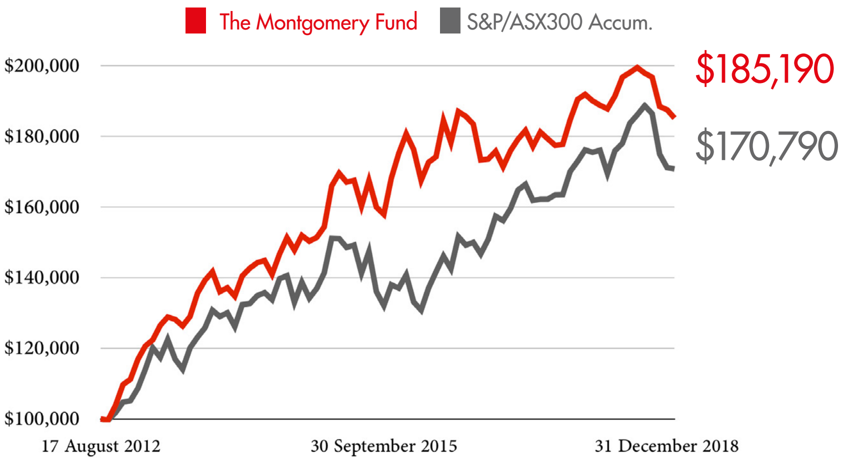
FINANCIAL YEAR RETURNS

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%
Since Inception**	10.2%	8.8%

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

**Compound annual returns

PERFORMANCE GRAPH



PORTFOLIO PERFORMANCE

(to 31 December 2018, after all fees)

	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	1.74%	-3.01%	**-1.27%**	-0.23%	-1.04%
3 months	1.66%	-7.54%	**-5.88%**	-8.41%	2.53%
6 months	1.52%	-8.03%	**-6.51%**	-7.03%	0.52%
12 months	9.11%	-12.63%	**-3.52%**	-3.06%	-0.46%
3 years (p.a.)	5.27%	-4.45%	**0.82%**	6.65%	-5.83%
5 years (p.a.)	5.69%	0.50%	**6.19%**	5.60%	0.59%
Since inception#	49.41%	35.78%	**85.19%**	70.79%	14.40%
Compound annual return (since inception)#	6.51%	3.65%	**10.16%**	8.76%	1.40%

 # 17 August 2012

FUND COMMENTARY

After the somewhat slow, but still positive, September quarter, the December 2018 quarter saw the Australian equity market fall sharply, with the S&P/ASX 300 Accumulation Index declining by 8.4 per cent. In comparison, The Montgomery Fund (The Fund) fell by 5.9 per cent delivering a relative outperformance of 2.5 per cent for the quarter. Our average cash position of 16 per cent during the quarter helped the relative performance by approximately 1.1 per cent while stock selection contributed approximately 1.4 per cent of relative performance.

In a tough quarter, the top three positive contributors' in The Fund's portfolio were Trade Me Group, Navitas and Spark New Zealand with the former two companies both receiving take-over proposals from private equity. For Trade Me Group, it seems like the proposal from Apax will go ahead as the board has recommended the offer and the competing bidder Hellman & Friedman has decided to drop out of the process.

The Navitas situation is still uncertain with the board having rejected the proposal from BGH Capital after having presented the market with an updated long-term business plan. We continue to believe that there is value to be crystallised from Navitas, either in the short-term through a concluded take-over or in the long-term with improved earnings growth from additional university contracts. Spark New Zealand performed well on the back of the market realising that the benefits of the restructuring program are coming through and also starting to become excited about the potential new revenue streams that the transition to 5G technology will entail.

Continued on the next page…

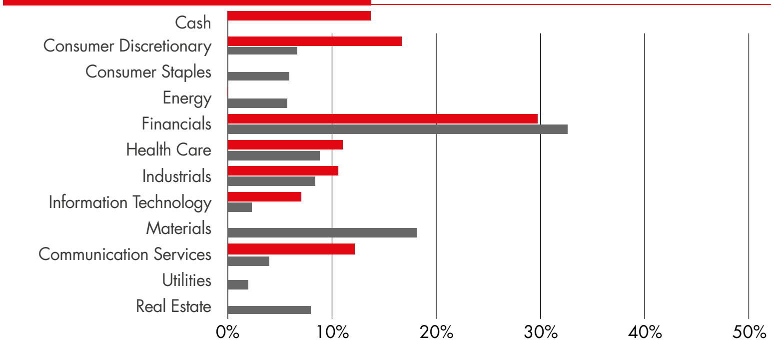
TOP COMPLETED HOLDINGS* (TCH)

(at 31 December 2018, out of 27 holdings)

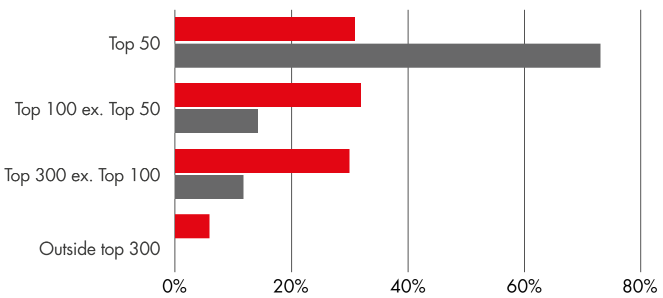
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
National Australia Bank	12.1	N/A	10.3	5.74
Aristocrat Leisure	37.6	141.5	15.9	5.71
Link Administration Holdings	14.3	29.3	14.7	5.25
Spark New Zealand	26.2	69.6	17.2	5.24
Ramsay Health Care	23.2	130.0	20.6	5.10
Pendal Group	22.8	-18.2	14.1	4.81
Medibank Private	24.9	-25.7	15.7	4.72
Westpac Banking Corp	13.0	N/A	10.7	4.68
Challenger	10.1	N/A	13.5	4.51
Telstra Corp	22.8	108.7	12.5	4.40
TCH AVERAGE	20.7	62.2	14.5	
MARKET AVERAGE	17.3	63.0	18.6	
Total equity weighting				86.92
Total cash weighting				13.08

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

INDUSTRY EXPOSURE



MARKET CAPITALISATION EXPOSURE



TMF S&P/ASX300

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

The three weakest performers were Aristocrat Leisure, SEEK and Healius (the new name for Primary Health Care). Aristocrat fell on the announcement that new business development cost will be higher than the market anticipated. We had suspected this to be the case and slightly reduced our position in advance. Longer term, we see this as a positive and have increased our position more recently. Healius share price fell on worries over the healthcare sector, a Fair Work decision impacting its Victorian pathology business and market caution over the success of the relatively new CEO's turnaround program. On the 2nd of January, the largest shareholder in Healius, Jangho, presented Healius with a take-over proposal at a 33 per cent premium to the last share price. The board of Healius has subsequently rejected the offer but we believe that Jangho's interest remains and the possibility that both parties engage is high. Regardless of this, we have a high level of confidence in the management's ability to execute on their turnaround program and see good value at the current level. SEEK was impacted by general anxiety regarding the outlook for the Australian economy. While employment statistics are holding firm, they are generally a lagging indicator. SEEK is continuing to add value added services which should assist long-term growth.

Portfolio Changes

As mentioned in the September 2018 Qaurterly report, Speedcast was a company that we were paying particular attention to. Soon after, we took the decision to exit the position and this turned out to be a good decision as the share price declined significantly during November and December. We continue to have Speedcast on our radar as it is a reasonably high-quality company that we would like to own at the right point in time and at the right price.

We exited our small position in Ausdrill and this was primarily driven by input from our quantitative model which ranked Ausdrill in the bottom decile of those ASX companies on our watchlist. The quantitative model is only one of the inputs in our investment process, but it has historically proven itself accurate in identifying a warning signal for those companies in advance of severe share price weakness.

On the opposite side, The Fund initiated positions in four companies. As these positions are not yet fully established and we are still active in the market, we are unable to name them but will seek to do so in the next quarterly report.

Fund Positioning

With the significant negative market move in the December 2018 quarter, The Fund took the opportunity to increase its market exposure by deploying some additional capital as valuations are starting to appear more reasonable. Approximately half of the deployed capital was allocated towards existing holdings with the rest spread across the four new investments mentioned previously.

After some capital deployment, The Fund holds a cash weighting of 13 per cent which is around the middle of its expected range. In addition, we have Trade Me Group under takeover and indicative takeover offers for both Navitas and Healius. On a combined basis, these three companies account for over ten per cent of the portfolio. Portfolio holdings continue to be skewed towards companies that we anticipate will weather difficult conditions well as we continue to see risks to the domestic economy.

The largest sectoral exposures in The Fund at the end of the quarter were financials, at around 29 per cent with banks making up 10 per cent of The Fund, and consumer discretionary at around 17 per cent. It should be noted that the consumer discretionary holdings are skewed towards education through IDP and Navitas and gambling through Aristocrat Leisure and our exposure to traditional retail companies is nil.

Business in Focus – Codan

Today's business is focused on one of the smaller positions in The Fund but nonetheless one of the companies that we consider one of the most interesting.

Codan (ASX: CDA) is a technology company based in Adelaide with market cap of around $500 million and is up 25 per cent since the position was established in The Fund in mid-2017.

Despite its relatively small market capitalisation, Codan is the clear leader in the metal detection market and has a ground-breaking technology that can significantly expand its market share in another area – location tracking in underground mines.

Codan's divisions:

- Minelab – Minelab is the clear world wide market leader in the metal detection space. The metal detection market can be broken down into recreational (coins and treasure etc.), gold and mine detection. Codan is the only company active in all three areas and this means they are able to spread Research and Development expenditure across a much larger sales base than competitors. Furthermore, they are spending more on R&D than the rest of the industry combined. Codan is particularly dominant in the Gold sector and we see this as a growth sector as more and more geographies in the world are opened up to prospecting.
- Minetec – Minetec is a business that is looking to commercialise a technology initially developed by CSIRO used for location tracking in underground mines. What makes us excited about this is the current very conservative working practices in the underground mining space where successful automation can lead to significant cost savings and productivity enhancements. Precise location tracking is the enabler for automation as we have seen in surface mining recently. Minetec also has an exclusive relationship with Caterpillar (CAT US) which is the largest supplier of mining equipment in the world. This means Minetec has an established path to market and will not have to build up their own distribution organisation. We believe that Codan, through Minetec has a big opportunity to grow in the underground mining sector with relatively minimal competition.
- The third division, Radio Communications was established by Codan more than 50 years ago. They are a supplier to primarily defence and law enforcement and other government service providers of land mobile radio and long-range communication devices. The market position is tier-two but with a clear focus on competing on price, Codan are not trying to go head to head with tier one companies like Motorola and Raytheon.

It is quite rare to find technology companies in Australia with clear market leadership positions, admittedly in two of its three divsions, but Codan is one of them. Despite the solid share price performance over recent years, we continue to believe the market is not fully pricing in the future prospects of Codan. While it remains a core holding in The Fund, the position size is a bit less than we would prefer, due to liquidity constraints

Currently, The Montgomery Fund has 13 per cent of its portfolio in the safety of cash and we have three companies - Trade Me Group, Navitas and Healius under takeover or indicative takeover. While it is impossible to forecast how 2019 will play out, we believe some high-quality businesses will likely surface at cheap prices, and we will be alerting you to these opportunities as they arise.

Interim Distribution

For the 6 months to 31 December 2018 The Fund paid a distribution of 2.3155 cents per unit, and so after ending the 2018 calendar year with a unit price of $1.3165 per unit, we commence the 2019 calendar year with a unit price of $1.2933 per unit.