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
$362.0M

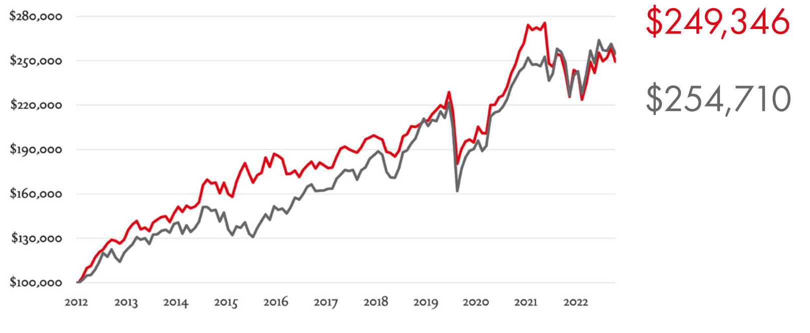
MANAGEMENT FEES AND COSTS
1.36% per annum[1]

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 (%)
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
June 2018	11.2554	7.55

PORTFOLIO PERFORMANCE

(to 31 May 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	-3.59%	-0.13%	0.04%	3.23%	8.47%	4.85%	4.40%	6.88%	149.35%	8.84%
S&P/ASX 300 ACCUM. INDEX	-2.53%	-0.96%	-0.80%	2.37%	11.33%	7.43%	8.27%	8.10%	154.71%	9.06%
OUT/UNDER PERFORMANCE	-1.06%	0.83%	0.84%	0.86%	-2.86%	-2.58%	-3.87%	-1.22%	-5.36%	-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.

	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]	-3.59%	-0.13%	0.04%	5.19%	12.99%	10.28%	13.02%	11.32%	470.45%	9.98%
S&P/ASX 300 ACCUM. INDEX	-2.53%	-0.96%	-0.80%	2.37%	11.33%	7.43%	8.27%	8.10%	266.36%	7.35%
OUT/UNDER PERFORMANCE	-1.06%	0.83%	0.84%	2.82%	1.66%	2.85%	4.75%	3.22%	204.09%	2.63%

[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 May 2023)

COMPANY NAME	ASX CODE	SECTOR	WEIGHT (%)
Commonwealth Bank of Australia	CBA	Financials	6.91
CSL	CSL	Health Care	6.04
Rio Tinto	RIO	Materials	6.02
QBE Insurance Group	QBE	Financials	5.98
Cochlear	COH	Health Care	5.65
Newcrest Mining	NCM	Materials	5.44
Woodside Energy Group	WDS	Energy	5.44
Transurban Group	TCL	Industrials	5.15
Macquarie Group	MQG	Financials	4.93
Altium	ALU	Information Technology	4.55
Total equity weighting			97.63
Total cash weighting			2.37

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

TOP 3 CONTRIBUTORS AND DETRACTORS

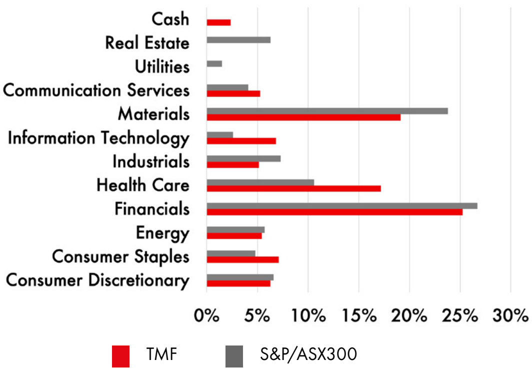
CONTRIBUTORS

Xero	The share price rose after the CEO reiterated her commitment to reducing costs and pursuing disciplined growth.
CSL	The share price continued to outperform after a positive HY23 report.
Woodside Energy	The share price rose as the petroleum tax in the Australian budget was less than expected.

DETRACTORS

Newcrest Mining	The share price followed the gold and copper price lower.
Treasury Wine Estates	The share price underperformed after management revealed deteriorating performance in its premium and commercial wines.
Elders	The share price fell on a disappointing result, suffering from higher costs and lower livestock prices.

INDUSTRY EXPOSURE



MARKET CAPITALISATION

	TMF (%)	S&P/ ASX300 (%)	ACTIVE (%)	# STOCKS
S&P/ASX 1-20	55.9%	60.1%	-4.1%	13
S&P/ASX 21-50	21.7%	17.3%	4.4%	6
S&P/ASX 51-100	9.6%	12.0%	-2.3%	3
S&P/ASX 101-200	9.7%	8.0%	1.8%	7
S&P/ASX 201-300	0.0%	2.8%	-2.8%	0
Ex S&P/ASX 300	0.6%		0.6%	1
Cash	2.4%			
Total	100.0%			

CONTACT DETAILS

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Amid heightened volatility, The Montgomery Fund (The Fund) declined by 3.59 per cent in May. Profit-taking in higher-quality banks and miners drove the ASX lower. The benchmark S&P/ASX 300 Accumulation Index fell 2.53 per cent.

At the time of writing, volatility remains a feature of markets with The Fund rising 1.87 per cent in the first five days of June.

Over the three months and six months to 31 May 2023, The Fund has outperformed its benchmark by 0.83 per cent and 0.84 per cent, respectively.

The investment team remains excited by the underappreciated growth prospects of The Fund's current holdings.

Global markets remain volatile. In the U.S., despite the fastest pace of rate hikes in history, the economy remains stubbornly robust, with unemployment for example, remaining near 53-year lows, and suggesting further rate rises are possible and likely.

Following nervousness during the month about the U.S. debt ceiling, the last week of May saw the Nasdaq rise significantly on the back of surprisingly strong Artificial Intelligence (AI) chip demand. With a dearth of AI-related stocks in Australia, the Nasdaq strength did not migrate locally.

Stubbornly high inflation and relatively low domestic unemployment have translated to anxiety about the future direction of official interest rates, manifesting in a slowing economy, poor company trading updates and a volatile market. Consequently, the Australian market, as measured by the S&P/ASX 200 Accumulation Index, fell over two per cent in May.

Retailers, including Wesfarmers, Dusk, Michael Hill, Adairs, Best and Less and Universal Stores have provided bleak prognoses for retail conditions as well as reporting margin pressure from stubbornly high costs and aggressive promotional activity by competitors.

We remain wary of discretionary retailers, having experienced periods in the past during which a combination of price to earnings (P/E) de-ratings and declining earnings has resulted in 30-50 per cent share price declines.

The big banks reported mixed results. Due to extremely intense competition for mortgages, net interest margins have not risen as they typically do when official interest rates rise. Both the Commonwealth Bank (ASX:CBA) and the National Australia Bank (ASX:NAB) have retreated from the mortgage refinancing war, announcing they won't offer cashback incentives after June 2023. Surprisingly, the big banks reported minimal changes to their bad debt provisions.

The most meaningful contributors to The Fund's May returns were Xero Ltd (ASX:XRO), CSL Ltd (ASX:CSL), and Woodside Energy Ltd (ASX:WDS).

This month's stock focus, published below, is Xero, in which The Fund has increased its allocation again.

After a positive half-year report in February, CSL continued to outperform the market through May. A lack of plasma donations during the COVID-19 pandemic caused the company challenges; however, the end of the pandemic and returning mobility has translated to record plasma collection levels for CSL.

CSL also reported the integration and cost synergies of its recent Vifor Pharma acquisition remain on track.

Woodside Energy was a strong contributor to performance in May despite the oil price falling US$9 during the month to US$68 per barrel. Investors approved of the Federal Government's May Budget, which revealed a smaller-than-expected increase to the Petroleum Resource Rent Tax. With its revenue generated in U.S. dollars, Woodside's share price was also supported by a falling Australian dollar.

The largest detractor to May performance was Newcrest Mining (ASX:NCM). Newcrest entered a binding scheme implementation deed with Newmont Corporation after the board of directors unanimously recommended their takeover proposal. Despite this, Newcrest's share price followed gold lower. Given the implementation deed and underappreciated low-cost copper production profile, we remain positive on Newcrest Mining and see limited downside from current levels.

Elders Ltd (ASX:ELD) also underperformed after announcing a disappointing half-year report to March 2023. Despite generating revenue growth, the company suffered higher costs and unfavourable weather, resulting in profits falling 45 per cent. We believe it will take some years to revive earnings. We have exited our position in Elders.

Treasury Wine Estates (ASX:TWE) fell after management's trading update, indicating falling volumes in their Commercial and Premium segments. Management has promised to conduct a review of their operations and even explore the divestment of selected brands in a bid to reset the business for increased efficiency. The current share price does not appear to have priced-in a potential reopening of Australian wine imports by China. This is despite a thawing of strained relations and the recent lifting of bans on other previously prohibited Australian exports such as timber and coal. TWE's flagship luxury brand, Penfolds, continues to grow volumes under its multi-country-of-origin strategy.

The Fund has made a new investment in Deterra Royalties Ltd (ASX:DRR) and Telix Pharmaceuticals Ltd (ASX:TLX). Both are small positions for now but may increase.

Deterra Royalties is a mining royalty company that was spun out of Iluka Resources Ltd (ASX:ILU) in 2020. The business's main asset is Mining Area C (MAC), an iron ore mine operated by BHP in the Pilbara region of Western Australia. The royalty agreement for MAC involves quarterly payments of 1.232 per cent of revenue as well as one-off payments of A$1 million per dry metric tonne increase in annual production capacity. South Flank, part of MAC, is BHP's newest iron ore mine, which achieved its first production in May 2021. Production is projected to rise from 111 million tonnes in FY22 to 145 million tonnes per annum in FY24, representing significant revenue growth for Deterra regardless of the iron ore price. As China's reopening after COVID-19 has so far been underwhelming and the world passes through a period of increased uncertainty, Deterra provides iron ore exposure to the portfolio with much less volatility than a traditional iron ore company.

Telix Pharmaceuticals is a cancer imaging and therapy solutions company with multiple products. The company is currently distributing a product called Illuccix, an innovative solution designed to make detecting prostate cancer cells easier for oncologists. Sales of Illuccix only commenced in the June 2022 quarter, and revenue has already reached $100 million in the March 2023 quarter alone. More importantly, the past two-quarters have been cashflow positive, validating management's ability to take an idea, chaperone it through clinical trials, regulatory approvals, and launch the product globally. While only one product has been launched, management is developing five others employing similar technology. These are at various stages of testing or trials. We will continue to monitor Illuccix as well as the development of Telix's other products and are excited about the company's compelling products and its potential contribution to returns.

Costa Group (ASX:CGC) is another recent addition to the portfolio and we increased our weight after the company's Annual General Meeting and trading update in May. Management gave a very positive update, predicting the challenging weather conditions of three consecutive La Nina events have passed and that an El Nino will develop later in the year, increasing the yield and quality of their Australian crops. Costs and labour issues are also easing after a difficult FY22. Finally, the company's citrus category shows signs of improvement after suffering from poor-quality produce due to wet weather. Costa Group has been remarkably resilient despite these less-than-favourable weather cycles. After doubling the footprint since the IPO, we believe shareholders are now set to benefit as conditions become more favourable.

Finally, The Fund also exited its position in Incitec Pivot (ASX:IPL). We have been gradually reducing the weighting of the position since management announced a record result on the back of higher urea and di-ammonium phosphate prices at the end of last year. Management sought to reward shareholders for a successful year by announcing a $400 million on-market buyback and revealed plans to demerge the fertiliser business to achieve greater valuations for assets of the group. We waited six months on these developments but have only seen diplomatic corporate jargon and no progress.

Xero Ltd (ASX:XRO)

Keen ASX technology company observers would have spotted Xero's shares rise from its IPO price of less than $1.00 in 2012 to over $40 in early 2014. Less than six months later, the share price fell below $15. The initial share price rise was fuelled by optimism about Xero's prospects for subscriber growth even though the corporate strategy for growth had not been established. It was a classic demonstration of the fickleness of investor enthusiasm and lack of due diligence.

What remained, however was the disruptive nature of Xero's cloud-based accounting software.

The Xero share price continued to trade in the low to mid-teens for over two years until management embarked on a data-sharing agreement with Australia's leading business bank, National Australia Bank. A win for all stakeholders, NAB obtained instant access to verified client financial records (with client permission) and Xero customers benefitted from streamlined bank services integration, which enabled 24-hour approval of small business loans, among other benefits.

Subscriber growth flourished in the subsequent years as the ecosystem grew, dominating the Australian and New Zealand market while also expanding in the U.K. and the U.S.

In 2018, the founder of Xero, Rod Drury, resigned and appointed a former Microsoft and Apple executive, Steve Vamos, as CEO. Armed with over 30 years of Australian technology experience, there was an expectation that Vamos would guide the company through its next growth phase. However, Vamos issued two successive convertible notes and used a small portion of the proceeds to acquire unproven technology companies. Both the convertible notes and acquisitions resulted in the serious destruction of shareholder value.

The subsequent resignation of Vamos and appointment of Ms Sukhinder Singh Cassidy as CEO in late 2022 put Xero back on the radar and in The Fund. Cassidy's turnaround strategy, presented in early March 2023, focused on cutting costs to achieve a 75 per cent cost-to-revenue ratio in FY24, while pursuing a more balanced approach to growth. Cassidy also signalled a fresh start with the immediate write-off of a dubious prior acquisition.

More recently, during the May 2023 results announcement, the company broadcast progress towards its cost-cutting target while reporting satisfactory subscriber and revenue growth.

Cassidy also introduced the "Rule of 40". This rule is popular with subscription-based technology companies and states that a healthy Software as a service (SaaS) company has a combined growth rate and profit margin of 40 per cent or more. If Xero can consistently achieve its Rule of 40, it will represent significant progress.

On this news we increased The Fund's allocation to Xero.