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
$575.2M

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

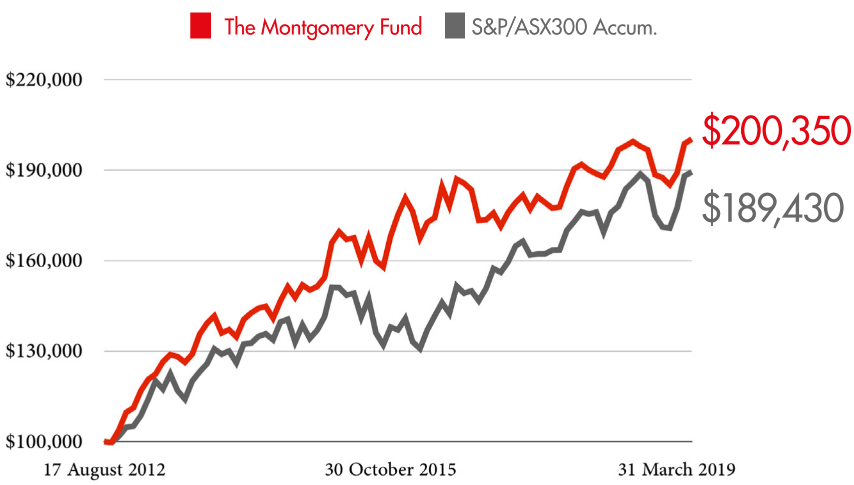
FINANCIAL YEAR RETURNS

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**	11.1%	10.1%

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

**Compound annual returns

PERFORMANCE GRAPH



PORTFOLIO PERFORMANCE

(to 31 March 2019, after all fees)

	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	0.81%	**0.81%**	0.73%	0.08%
3 months	0.00%	8.19%	**8.19%**	10.92%	-2.73%
6 months	1.66%	0.17%	**1.83%**	1.59%	0.24%
12 months	9.41%	-2.74%	**6.67%**	11.74%	-5.07%
3 years (p.a.)	5.50%	-0.42%	**5.08%**	11.39%	-6.31%
5 years (p.a.)	5.53%	1.50%	**7.03%**	7.39%	-0.36%
Since inception#	49.41%	50.94%	**100.35%**	89.43%	10.92%
Compound annual return (since inception)#	6.26%	4.81%	**11.07%**	10.14%	0.93%

\# *17 August 2012*

FUND COMMENTARY

After the sharp market declines seen in the final quarter of 2018, the first quarter of 2019 saw a sudden reversal, with the ASX/S&P300 Accumulation Index returning an impressive 10.9 per cent for the three months, bringing it back to levels similar to those seen in September.

The Montgomery Fund (the Fund) also enjoyed a strong quarter, returning 8.2 per cent for the period. While this was less than the return achieved by the overall market, we were pleased with this result and with the performance of portfolio companies.

As many investors will know, there are some important structural differences between the Fund and the overall market, including our willingness to hold cash when valuations are expensive, and our reluctance to invest in cyclical resources companies, which we generally regard as being of lower quality. Much of the strength in the overall market in the March quarter was attributed to a strong rally in the materials sector, which rose roughly twice as fast as the rest of the market.

The Fund's reluctance to invest in this sector accounted for more than 100 per cent of the gap between the benchmark return and the Fund's return, meaning that the Fund performed better than the non-materials parts of the market from which it is drawn, more than overcoming the "cash drag" that arises on the Fund's cash holdings when markets are rising strongly.

Continued on the next page...

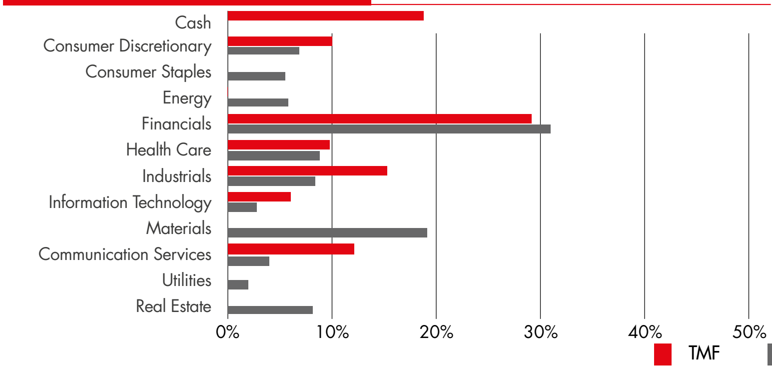
TOP COMPLETED HOLDINGS* (TCH)

(at 31 March 2019, out of 26 holdings)

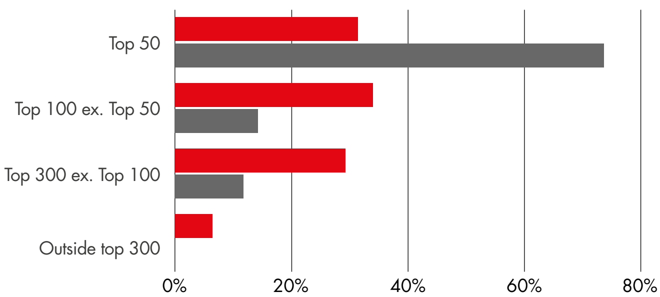
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
Spark New Zealand	26.3	104.3	17.4	6.21
Telstra Corp	20.4	112.1	15.1	5.32
Atlas Arteria	2.2	85.6	24.0	4.82
Ramsay Health Care	22.4	130.0	22.0	4.79
Medibank Private	22.6	-25.7	18.4	4.62
Westpac Banking	13.0	N/A	12.0	4.38
Seek	14.2	57.7	31.1	4.37
National Australia Bank	12.1	N/A	10.8	4.17
Pendal Group	22.8	-18.2	18.3	4.14
Aristocrat Leisure	37.6	141.5	19.1	4.03
TCH AVERAGE	19.4	73.4	18.8	
MARKET AVERAGE	17.3	76.2	18.9	
Total equity weighting				81.64
Total cash weighting				18.36

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

INDUSTRY EXPOSURE



MARKET CAPITALISATION EXPOSURE



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

During the December quarter, as prices were falling, the Fund deployed a significant part of the available cash, reducing its cash weight to around 13 per cent, from a high of around 24 per cent earlier in the year. With markets rallying quickly back to the previous (elevated) valuation levels, this process has begun to reverse, and the Fund's cash weighting has increased to above 18 per cent. This will almost certainly rise a little further, as some of the Fund's holdings are in companies that have been the subject of takeover offers (Navitas and Trade Me), and as those offers draw to completion they will convert to cash. For all practical purposes, they are already cash, as the offer price is a fixed cash amount in both cases.

While the recent strength in equity markets is good news from an investment returns perspective, it is less encouraging in terms of the potential for further upside from here. Accordingly, we approach the market with a level of caution, and are seeking to position the Fund away from names that have been particular beneficiaries of recent market exuberance. In some cases, we see valuations at eye-watering levels, and the risk of serious loss of capital in these cases is very real.

Portfolio Changes

The March quarter saw one notable exit from the Fund's portfolio: REA Group, which had been a long-term holding and successful investment for the Fund. Our analysis of the Australian residential property market has led us to think that there are some significant risks to REA's earnings in the coming years. One risk is related to REA's ability to pass on double-digit price rises in a market where prices are falling and REA's partners – the real estate agents – are feeling considerable pressure. Another risk is the potential for turnover (and therefore listings) to decline materially as confidence leaves the market, again impacting the economics of real estate agents.

While we consider REA Group to be an excellent quality business, we are concerned that not enough weight is ascribed to the medium-term downside risks in REA's market valuation, and so have sold the position.

There were several additions to the portfolio over the quarter, including small positions in enterprise systems company, Citadel (ASX: CGL) and biotechnology company Avita Medical (ASX: AVH), which has developed a technology that can speed the recovery of burns victims and other patients in need of skin grafts. Also added to the portfolio during the quarter was a position in Macquarie Group. More on this later.

Fund Positioning

As noted above, with the market returning to the September 2018 valuation levels, we have returned to our September 2018 levels of caution. While we have been able to find some interesting new positions to add to the Fund's portfolio, overall, the Fund's cash weighting continues to rise as other positions are lightened. We note that some parts of the market – and companies with high and reliable rates of growth in particular – have become very stretched in terms of valuation. Accordingly, the Fund currently is tilted more towards lower-beta names with less exposure to the economic cycle. These names will likely provide less excitement in the event that the market continues to run hard, but also less excitement in the event that the market again turns South.

Business in Focus – Macquarie Group

Macquarie Group (ASX: MQG) has a long track record of profitability and growth in Australia and will be well-known to many investors. What may not be as well-known is the extent to which Macquarie has transformed itself over the years from an Australian-focused and largely transactional business into a global success story, earning mostly recurring income streams and with a majority of its staff and 67 per cent of its income outside Australia.

Prior to the GFC Macquarie was largely a transactional business earning "lumpy" income from businesses like Corporate Finance (M&A advice) and Derivatives. Perhaps unsurprisingly, these businesses suffered a material setback following the GFC and MQG's earnings fell sharply. In more recent years the business has delivered a growing return on equity while steadily increasing its equity base, suggesting attractive rates of return on incremental equity.

More importantly, MQG has demonstrated an ability to innovate and transform itself to take advantage of market opportunities as they arise. We believe that MQG benefits from an ability to leverage its expertise and relationships to develop new income streams and evolve in response to a changing market landscape.

To the extent that it can sustain this corporate competency, MQG is likely to be able to achieve continued healthy growth, and do so for some time, having the benefit of an almost unlimited global opportunity set.

Currently, market expectations for MQG earnings growth are relatively subdued, and we believe that there is scope for the company to surprise on the upside in the years ahead, presenting an attractive risk/return trade off at the current price.