

MONTGOMERY SMALL COMPANIES FUND

ARSN 635 229 533

GENERAL PURPOSE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2024

Directors' Report

The directors of Fundhost Limited, the Responsible Entity of Montgomery Small Companies Fund (the "Fund"), present their report together with the financial report of the Fund for the year ended 30 June 2024.

Responsible Entity

The registered office and principal place of business of the Responsible Entity is:

Suite 15.01, Level 15
10 Spring Street
Sydney NSW 2000

Directors

The names of the directors of the Responsible Entity in office at any time during or since the end of the year and up to the date of this report are:

Valerie Anne Monge
Drew Wilson
Robert H Nagel
Paul Ernest Dortkamp

Directors have been in office since the start of the year to the date of this report unless otherwise stated.

Review and results of operations

During the year, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's constitution.

The results of the operations of the Fund are disclosed in the Statement of Comprehensive Income of this financial report.

	Year ended 30 June	
	2024	2023
	\$'000	\$'000
Net profit	35,592	16,824
Distributions to unitholders	395	1,098
Distributions payable	395	1,098

Significant changes in state of affairs

No significant changes in the Fund's state of affairs occurred during the financial year ended 30 June 2024.

Principal activities

The principal activity of the Fund during the financial year was the investment and management of securities in accordance with its investment objectives and guidelines as set out in the Product Disclosure Statement (PDS) and in accordance with the provisions of the Constitution.

The Fund did not have any employees during the financial year (2023: nil).

No significant change in the nature of these activities occurred during the financial year (2023: nil).

Events subsequent to the balance date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future years other than those items disclosed throughout the financial report.

Likely developments

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Likely developments in the operations of the Fund and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Fund.

Directors' Report (cont'd)

Interests in the Fund

The movement in units on issue in the Fund during the year and the number of units in the Fund as at the end of the financial year are disclosed in Note 3 of the financial report.

The value of the Fund's assets and liabilities is disclosed in the Statement of Financial Position in accordance with the accounting policies set out in Note 1 of the financial report.

Fees paid to and interests held in the Fund by the Responsible Entity

Fees paid to the Responsible Entity out of Fund property during the year are disclosed in Note 9(a) of the financial report.

The number of interests in the Fund held by the Responsible Entity as at the end of the year are disclosed in Note 9(c) of the financial report.

No fees were paid out of Fund property to the directors of the Responsible Entity during the year.

Environmental regulation

The Fund's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Options

No options over issued units or interests in the Fund were granted during or since the end of the financial year and there were no options granted to the Responsible Entity.

Indemnities and insurance premiums for officers or auditors

No indemnities have been given or insurance premiums paid by the Fund, during or since the end of the financial year, for any person who is or has been an officer or auditor of the Fund.

To the extent permitted by law, the Responsible Entity has agreed to indemnify its auditors, Ernst & Young, as part of terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

Proceedings on behalf of the Fund

No person has applied for leave of Court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is a party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings.

The Fund was not a party to any such proceedings during the financial year.

Rounding

The Fund is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument class order 2016/191 applies. Accordingly, amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise indicated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 3.

Signed in accordance with a resolution of the Board of Directors:



Drew Wilson
Director

Dated this 18th day of September 2024

Auditor's Independence Declaration

Statement of Comprehensive Income
For the year ended 30 June 2024

	Notes	2024 \$'000	2023 \$'000
Investment income			
Dividend and distribution income		3,928	2,729
Interest income from financial assets at fair value		363	290
Net gains on financial assets at fair value through profit or loss		36,543	15,979
Total net investment income		<u>40,834</u>	<u>18,998</u>
Expenses			
Responsible Entity fees	2	299	237
Management fees	2	1,978	1,567
Transaction fees		434	314
Performance fees	2	2,461	-
Other expenses		70	56
Total expenses		<u>5,242</u>	<u>2,174</u>
Net profit		<u>35,592</u>	<u>16,824</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>35,592</u>	<u>16,824</u>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes to the financial statements.

Montgomery Small Companies Fund - ARSN 635 229 533

Statement of Financial Position
For the year ended 30 June 2024

	Notes	2024 \$'000	2023 \$'000
Assets			
Cash and cash equivalents	8(a)	11,240	9,068
Financial assets at fair value through profit or loss	7	212,442	151,523
Receivables	5	1,633	1,168
Total assets		<u>225,315</u>	<u>161,759</u>
Liabilities			
Payables	6	3,695	1,410
Distribution payable	4	395	1,098
Total liabilities		<u>4,090</u>	<u>2,508</u>
Net assets		<u>221,225</u>	<u>159,251</u>
Total equity		<u>221,225</u>	<u>159,251</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes to the financial statements.

Montgomery Small Companies Fund - ARSN 635 229 533

**Statement of Changes in Equity
For the year ended 30 June 2024**

	Notes	2024 \$'000	2023 \$'000
Opening balance		159,251	128,167
Comprehensive income for the year			
Net profit		35,592	16,824
Other comprehensive income		-	-
Total comprehensive income for the year		<u>35,592</u>	<u>16,824</u>
Transactions with unitholders			
Applications		51,002	31,529
Redemptions		(24,634)	(17,594)
Distributions to unitholders	4	(395)	(1,098)
Distributions reinvested		409	1,423
		<u>26,382</u>	<u>14,260</u>
Closing balance at 30 June	3	<u>221,225</u>	<u>159,251</u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes to the financial statements.

Montgomery Small Companies Fund - ARSN 635 229 533

Statement of Cash Flows
For the year ended 30 June 2024

	Notes	2024 \$'000	2023 \$'000
Cash flows from operating activities			
Dividends received		3,772	2,852
Interest received		361	260
Management fees paid		(2,231)	(1,773)
Other expenses paid		(488)	(353)
Proceeds from sale of financial assets at fair value through profit or loss		75,415	46,725
Payment for purchase of financial assets at fair value through profit or loss		(100,307)	(64,171)
Net cash outflow from operating activities	8(b)	<u>(23,478)</u>	<u>(16,460)</u>
Cash flows from financing activities			
Proceeds from issue of units		50,919	31,633
Payments for redemption of units		(24,580)	(17,622)
Distributions paid		(689)	(1,909)
Net cash inflow from financing activities		<u>25,650</u>	<u>12,102</u>
Net increase / (decrease) in cash held		2,172	(4,358)
Cash and cash equivalents at the beginning of the year		9,068	13,426
Cash and cash equivalents at the end of the year	8(a)	<u>11,240</u>	<u>9,068</u>
Non-cash investing and financing activities			
Re-investment of distributions		<u>409</u>	<u>1,423</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes to the financial statements.

**Notes to the Financial Statements
For the year ended 30 June 2024**

Note 1. Statement of Material Accounting Policies

This financial report covers Montgomery Small Companies Fund (the "Fund") as an individual entity.

The Fund is a registered investment scheme under the Corporations Act 2001. The financial report of the Fund is for the year ended 30 June 2024. The Fund was constituted as a registered scheme on 30 August 2019 with Australian Securities & Investments Commission ("ASIC").

The financial report was approved by the Board of Directors of the Responsible Entity on 18 September 2024. The Directors have the power to amend and reissue the financial report.

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), Australian Accounting Interpretations, and the Corporations Act 2001.

The material accounting policies applied in the preparation of these financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following notes.

On the face of the Statement of Financial Position all assets and liabilities are presented in decreasing order of liquidity and not distinguished between current and non-current. All of the Fund's assets and liabilities are held for the purpose of being traded or are expected to be realised within 12 months.

The Fund is a for-profit unit trust for the purpose of preparing the financial report.

The Fund is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument class order 2016/191 applies. Accordingly, amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise indicated.

(i) Compliance with International Financial Reporting Standards (IFRS)

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

(ii) Use of estimates and judgements

The making of judgments, estimates and assumptions is a necessary part of the financial reporting process and these judgments, estimates or assumptions can have a significant effect on the reported amounts of the financial report. Estimates and assumptions are determined based on information available at the time of reporting the financial report and actual results may differ from these estimates and assumptions. Had different estimates and assumptions been adopted, this may have had a significant impact on the financial report. Significant accounting estimates, judgments and assumptions are re-evaluated at each balance date in light of historical experience and changes to reasonable expectations of future events. Revisions to accounting estimates are recognised in the period which estimate is revised in future period affected. Significant accounting judgments, estimates and assumptions include but are not limited to:

• Fair value measurement of investments in financial instruments

The majority of the Fund's investments are listed equities measured at fair value through profit or loss. Where available, quoted market prices for the same or similar instrument are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Judgment is applied in selecting valuation techniques and setting valuation assumptions and inputs. Further details on the determination of fair value of financial assets and derivative financial instruments set out in Note 1(a).

a. Financial Instruments

(i) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date. Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(ii) Classification

In accordance with AASB 9, the Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets discussed below.

Financial Assets

The Fund classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The entity's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

**Notes to the Financial Statements
For the year ended 30 June 2024**

Note 1. Statement of Material Accounting Policies (cont'd)

a. Financial Instruments (cont'd)

(ii) Classification (cont'd)

Financial assets measured at fair value through profit or loss (FVPL)

A financial asset is measured at fair value through profit or loss if:

- Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding;
- It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The equity securities are mandatorily classified as fair value through profit or loss.

In applying that classification, a financial asset or financial liability is considered to be held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial liabilities measured at FVPL

A financial liability is measured at FVPL if it meets the definition of held for trading. Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Fund that are not designated as hedging instruments in hedge relationships as defined.

The derivatives are mandatorily classified as fair value through profit or loss.

(iii) Measurement

• *Financial assets and liabilities at fair value through profit or loss*

Financial assets and liabilities at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Comprehensive Income.

• *Fair value in an active market*

The fair value of financial assets and liabilities traded in active markets are based on their quoted market prices at the Statement of Financial Position date without any deduction for estimated future selling costs. Financial assets are priced at bid prices, while financial liabilities are priced at current asking prices. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

• *Fair value in an inactive or unquoted market*

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the balance date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

b. Impairment of assets

AASB 9 requires the Fund to record an allowance for expected credit losses (ECLs) for all loans and other financial assets not held at fair value through profit and loss.

**Notes to the Financial Statements
For the year ended 30 June 2024**

Note 1. Statement of Material Accounting Policies (cont'd)

b. Impairment of assets (cont'd)

The Fund holds trade receivables with no significant financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply the simplified approach for expected credit losses (ECL) under AASB 9 to all its financial assets held at amortised cost and receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

c. Investment income and expenses

Unrealised gains and losses on revaluation of investments to fair value, are recognised in the Statement of Comprehensive Income. Realised gains and losses on sale are recognised as investment income in the Statement of Comprehensive Income. Gross proceeds from sale of investments are disclosed in the Statement of Cash Flows.

Dividend income is recognised on a receivable basis on the date the shares are quoted ex-dividend. Distributions from property trusts and unit trusts are recognised as income in the Statement of Comprehensive Income when declared.

Interest income and expenses are recognised in the Statement of Comprehensive Income for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through the profit or loss is also recognised in the Statement of Comprehensive Income.

All expenses including management fees and performance fees are recognised on an accrual basis in the Statement of Comprehensive Income.

d. Foreign currency translation

(i) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Australian dollars at the exchange rate at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined. The foreign exchange gains and losses resulting from these translations are recognised in the Statement of Comprehensive Income.

The Fund does not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss in the Statement of Comprehensive Income.

e. Performance fees

The Fund's managers are also entitled to a performance fee when the investment performance of the Fund has exceeded the hurdle, being the performance of the S&P/ASX Small Ordinaries Accumulation Index. This is provided the "high watermark" has been exceeded. The method of calculating the fee is detailed in the Constitution and summarised in the current PDS.

f. Management fees

In accordance with the Constitution, the Fund's managers are entitled to a management fee of 1.18% per annum of the value of the Fund payable on a monthly basis for managing the assets of the Fund. There is also an expense recovery of up to 0.04% per annum of net assets.

g. Income tax

Under current legislation, the Fund is not subject to income tax since the Fund elected into the AMIT tax regime and unitholders will be attributed the taxable income of the Fund.

h. Distributions

Distributions are at the discretion of the Fund. A distribution to the Fund's unitholders is accounted for as a deduction from equity. Distributions to unitholders comprise the net income of the Fund. The distributions (if any) are payable or attributable at the end of June each year.

i. Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as audit fees, custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 75% (55% on Responsible Entity fees) hence investment management fees, administration fees, custodial fees and other expenses have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

**Notes to the Financial Statements
For the year ended 30 June 2024**

Note 1. Statement of Material Accounting Policies (cont'd)

j. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and at call deposits with banks or financial institutions, investments in money market instruments with original maturities of less than three months and net of bank overdrafts. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

k. Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

l. Payables

Trade payables and other accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services. The distribution amount payable to unitholders as at the reporting date is recognised separately on the Statement of Financial Position when declared by the Fund and remain unpaid as at year end.

m. Due from/to brokers

Amounts due from/to brokers represent payables for securities purchased and receivables for securities sold that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and normally settled within three business days.

n. Equity

Quantitative information about the Fund's capital is provided in the Statement of Changes in Equity. The units are entitled to distributions when declared and to payment of a proportionate share of the Fund's net asset value on the redemption date or upon winding up of the Fund. A reconciliation of the number of units outstanding at the beginning and the end of each reporting period is provided in Note 3.

o. Exit price

The unit exit price is calculated in accordance with the Constitution of the Fund and is determined by the value of the assets of the Fund less its liabilities adjusted for estimated transaction costs, divided by the number of units on issue.

p. Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. No exit fees are charged. Unit redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue at or immediately prior to close of business each day.

q. New standards and interpretations adopted

Since 1 July 2023, the Fund has adopted all mandatory standards and amendments of Australian Accounting Standards. Adoption of these standards and amendments did not have a material impact on the Fund's financial results or reporting.

r. New standards and interpretations not yet adopted

Australian Accounting Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2024 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

AASB 18 Presentation and Disclosures in Financial Statements

AASB 18 Presentation and Disclosures in Financial Statements was issued by the Australian Standards Board in June 2024. AASB 18 is effective on January 1, 2027, and is required to be applied retrospectively to comparative periods presented, with early adoption permitted. AASB 18, upon adoption replaces AASB 101 - Presentation of Financial Statements.

AASB 18 sets out new requirements focused on improving financial reporting by:

- requiring additional defined structure to the statement of profit or loss (i.e. consolidated statement of income), to reduce diversity in the reporting, by requiring five categories (operating, investing, financing, income taxes and discontinued operations) and defined subtotals and totals (operating income, income before financing, income taxes and net income).
- requiring disclosures in the notes to the financial statements about management-defined performance measures (i.e. non-AASB measures), and
- adding new principles for aggregation and disaggregation of information in the primary statements and notes.

AASB 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss', due to the classification of certain income and expense items between the five categories of the consolidated income statement. It might also change what an entity reports as operating activities, investing activities and financing activities within the statement of cash flows, due to the change in classification of certain cash flow items between these three categories of the cash flows statement. Funds are currently assessing the impact of adopting AASB 18.

**Notes to the Financial Statements
For the year ended 30 June 2024**

Note 2. Expenses

The amounts paid or due and payable to the Fund's managers in accordance with the Constitution were:

	2024	2023
	\$'000	\$'000
Responsible Entity fees	299	237
Management fees	1,978	1,567
Performance fees	2,461	-
	<u>4,738</u>	<u>1,804</u>

Note 3. Equity

Under AASB 132 Financial instruments: Presentation, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. As the Fund met all the criteria, the Fund's units have been classified as equity.

Movements in the number of units and equity during the year were as follows:

	2024	2023	2024	2023
	Units '000	Units '000	\$'000	\$'000
Opening balance at 1 July	141,231	127,331	159,251	128,167
Units issued during the year	40,010	28,245	51,002	31,529
Units redeemed during the year	(19,555)	(15,759)	(24,634)	(17,594)
Distribution reinvested	363	1,414	409	1,423
Distributions to unitholders	-	-	(395)	(1,098)
Total comprehensive income for the year	-	-	35,592	16,824
Closing balance 30 June	<u>162,049</u>	<u>141,231</u>	<u>221,225</u>	<u>159,251</u>

Note 4. Distributions to unitholders

	2024	2023
	\$'000	\$'000
Distribution payable	395	1,098
	CPU	CPU
Distribution cents per unit	0.2438	0.7777

Note 5. Receivables

	2024	2023
	\$'000	\$'000
Reduced input tax credits receivable	55	39
Accrued interest - cash at bank	36	33
Dividends and distributions receivable	292	149
Amounts receivable on investments sold	1,013	794
Applications to be processed	237	153
	<u>1,633</u>	<u>1,168</u>

Note 6. Payables

	2024	2023
	\$'000	\$'000
Responsible Entity fees payable	28	20
Management fees payable	187	134
Recoverable expenses payable	38	34
Amounts owing on investments purchased	926	1,221
Performance fee payable	2,461	-
Redemptions payable	55	1
	<u>3,695</u>	<u>1,410</u>

Note 7. Financial assets at fair value through profit or loss

	2024	2023
	\$'000	\$'000
Listed equity securities	212,192	151,023
Unlisted equity security	250	500
	<u>212,442</u>	<u>151,523</u>

**Notes to the Financial Statements
For the year ended 30 June 2024**

Note 8. Cash flow information

	2024	2023
	\$'000	\$'000
a. Reconciliation of cash and cash equivalents		
Cash balance comprises:		
Cash at bank	11,240	9,068
	<hr/>	<hr/>
	2024	2023
	\$'000	\$'000
b. Reconciliation of net profit to cash flows from operating activities		
Net profit	35,592	16,824
Proceeds from sale of financial assets at fair value through profit or loss	75,415	46,725
Payment for purchase of financial assets at fair value through profit or loss	(100,306)	(64,171)
Net gains on financial assets at fair value through profit or loss	(36,543)	(15,978)
Changes in assets and liabilities:		
Net change in receivables	(161)	118
Net change in payables	2,525	22
Net cash outflow from operating activities	<hr/> (23,478) <hr/>	<hr/> (16,460) <hr/>

Non-cash items relating to reinvestment of distributions paid are included in Note 3. There were no other non-cash items.

Note 9. Related Party Disclosures

a. Fundhost Limited - fees

Fundhost Limited (ACN 092 517 087) as Responsible Entity of Montgomery Small Companies Fund provides services to the Fund in accordance with the Fund's Constitution. Transactions with the Responsible Entity have taken place at arm's length.

During the year the following amounts were paid to the Responsible Entity:

	2024	2023
	\$	\$
Responsible Entity fees	299,084	236,861
	<hr/>	<hr/>

The amounts due and payable at 30 June to the Responsible Entity in accordance with the Constitution were:

	2024	2023
	\$	\$
Responsible Entity fees	28,278	20,227
	<hr/>	<hr/>

b. Montgomery Lucent Investment Management Pty Limited - fees

Montgomery Lucent Investment Management Pty Limited (ABN 58 635 052 176), as Investment Manager of Montgomery Small Companies Fund, provides services to the Fund in accordance with the Fund's Constitution. Transactions with the Investment Manager have taken place at arm's length.

During the year the following amounts were paid to the Investment Manager:

	2024	2023
	\$	\$
Management fees	1,978,449	1,566,844
	<hr/>	<hr/>

The amounts due and payable at 30 June to the Investment Manager in accordance with the Constitution were:

	2024	2023
	\$	\$
Management fees	187,060	133,804
Performance fees	2,460,923	-
	<hr/>	<hr/>

**Notes to the Financial Statements
For the year ended 30 June 2024**

Note 9. Related Party Disclosures (cont'd)

c. Fundhost Limited - Key Management Personnel

Fundhost Limited as Responsible Entity and Montgomery Lucent Investment Management Pty Limited as Investment Manager are considered key management personnel. The Fund does not employ personnel in its own right.

The Directors of Fundhost Limited, the Responsible Entity, during the year were:

Valerie Anne Monge
Drew Wilson
Robert H Nagel
Paul Ernest Dortkamp

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the year (2023: nil).

Units held in the Montgomery Small Companies Fund by the Responsible Entity and by Directors and their respective related parties in aggregate were:

Unitholder	Number of units held (Units)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Fund (\$)
2024					
Fundhost Limited	109	0.0001	0.74	-	0.27
2023					
Fundhost Limited	109	0.0001	2.74	-	0.84

Key management personnel are paid by Fundhost Limited. Payments made from the Fund to Fundhost Limited do not include any amounts attributable to the compensation of key management personnel.

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting year (2023: nil).

There are no post-employment benefits paid to a director or key management personnel of the Responsible Entity (2023: nil).

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the year and there were no material contracts involving directors' interests existing at year end.

d. Montgomery Lucent Investment Management Pty Limited - Key Management Personnel

The Directors of Montgomery Lucent Investment Management Pty Limited during the year were:

Gary Rollo
Dominic Rose
Roger Montgomery
David Buckland

Units held in Montgomery Small Companies Fund by Montgomery Lucent Investment Management Pty Limited, its Directors and their respective related parties in aggregate were:

Unitholder	Number of units held (Units)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Fund (\$)
2024					
DMR Super Fund	278,444	0.17	22,840	-	679
Rose Family Trust	23,740	0.01	587	(61,969)	58
Rollo Super Fund	462,669	0.29	3,169	-	1,128
Investors Advantage Pty Ltd	569,327	0.35	3,900	-	1,388
2023					
DMR Super Fund	255,604	0.18	6,477	-	1,988
Rose Family Trust	85,122	0.06	3,162	(39,683)	662
Rollo Super Fund	459,500	0.33	11,643	-	3,574
Investors Advantage Pty Ltd	565,427	0.40	14,326	-	4,398

**Notes to the Financial Statements
For the year ended 30 June 2024**

Note 10. Auditor's remuneration

	2024	2023
Amounts received or due and receivable by EY for:	\$	\$
Audit and review of the financial reports of the Fund	19,878	19,299
Tax services	4,690	4,510
Compliance plan audit	4,609	4,475
	<u>29,177</u>	<u>28,284</u>

Note 11. Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's PDS and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the investment management team at Montgomery Lucent Investment Management Pty Limited.

The Fund uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of price risks.

Compliance with the Fund's PDS is reported to the Fundhost Limited Board on a monthly basis.

a. Market risk

(i) Price risk

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. Investments are classified on the Statement of Financial Position as financial assets held at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Investment Manager mitigates this price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the PDS.

The Fund is exposed, particularly through its equity portfolio, to market risks influencing investment valuations. These market risks include changes in a company's internal operations or management, economic factors and also relate to changes in taxation policy, monetary policy, interest rates and statutory requirements.

The table below summarises the impact of an increase/decrease in the market value of the share portfolio on the Fund's equity at 30 June and profit from operating activities. The analysis is based on the assumptions that the security prices increased/decreased by 10% with all other variables held constant and that the fair value of the Fund's portfolio moved according to this.

	Impact on net profit		Equity	
	Higher/(Lower)		Higher/(Lower)	
	2024	2023	2024	2023
	\$'000	\$'000	\$'000	\$'000
Market value changes				
Share portfolio value +10%	21,219	15,102	21,219	15,102
Share portfolio value -10%	(21,219)	(15,102)	(21,219)	(15,102)

(ii) Interest rate risk

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing level of market interest rates on its financial position and cash flows.

The Fund's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets, is as follows on the next page.

Notes to the Financial Statements
For the year ended 30 June 2024

Note 11. Financial risk management (cont'd)

a. Market risk

(ii) Interest rate risk (cont'd)

	Weighted Average Effective Interest		Floating Interest Rate		Non Interest Bearing		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
	%	%	\$'000		\$'000		\$'000	
Financial Assets:								
Cash and cash equivalents	3.77	2.48	11,240	9,068	-	-	11,240	9,068
Financial assets at fair value through profit or loss			-	-	212,442	151,523	212,442	151,523
Receivables			-	-	1,633	1,168	1,633	1,168
Total Financial Assets			11,240	9,068	214,075	152,691	225,315	161,759
Financial Liabilities (excluding unitholder funds):								
Payables			-	-	3,695	1,410	3,695	1,410
Distribution payable			-	-	395	1,098	395	1,098
Total Financial Liabilities			-	-	4,090	2,508	4,090	2,508
Net exposure			11,240	9,068	209,985	150,183	221,225	159,251

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Fund's profit is affected through the impact on floating rate borrowings, as follows:

	Increase/decrease in basis points	Effect on profit \$'000
2024		
Australian Dollar	+100	637
	(100)	412
2023		
Australian Dollar	+100	479
	(100)	298

(iii) Foreign exchange risk

The Fund holds monetary assets denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates.

The Fund invests in overseas stock exchanges, giving the Fund exposure to exchange risk. This risk is managed by strategically setting the Fund's foreign currency exposure to reflect the Investment Manager's medium to long term expectations within the mandate as set out in the PDS. However, for accounting purposes, the Fund does not designate any derivatives as hedges in a hedging relationship, and hence these derivative financial instruments are classified as at fair value through profit or loss.

b. Liquidity risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemption of its redeemable units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's Constitution.

Notes to the Financial Statements
For the year ended 30 June 2024

Note 11. Financial risk management (cont'd)

b. Liquidity risk (cont'd)

All financial liabilities have maturity terms within a month.

The liquidity risks associated with the need to satisfy unitholders' requests for redemptions are mitigated by maintaining a constant pool of cash to satisfy usual levels of demand. The Fund's policy is to hold 0% to 30% of net assets in cash.

Normally once Fundhost Limited decides the unitholder can withdraw their money, it takes 5 business days to process the request (although the Constitution for the Fund allows a reasonable period, which could be longer), and funds are then paid to the unitholder in accordance with instructions.

The Fund manages its net assets as capital. The amount of net assets can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

The Fund monitors the level of monthly applications and redemptions relative to the liquid assets in the Fund. During the year, the Fund's strategy was to hold at least 80% of the net assets in liquid investments. Liquid assets include cash and cash equivalents and listed equities.

The Fund invests mostly in Australian listed companies.

c. Credit risk

Credit risk primarily arises from investments in debt securities and from trading derivative products. The Fund's exposure to credit risk arises from potential default of the counterpart, with a maximum exposure equal to the carrying amount of the financial assets. Other credit risk arises from cash and cash equivalents with banks and amounts due from brokers. At 30 June 2024 and 30 June 2023, all receivables, amounts due from brokers, cash and cash equivalents with banks with a credit rating of A-1 or higher are either callable on demand or due to be settled within 6 months. Management considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund. The Fund does not invest in derivative products.

The carrying amount of financial assets approximates fair value as at the reporting date.

The Fund trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Fund's policy to securitise its trade and other receivables.

Note 12. Fair value of financial instruments

Financial instruments carried at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

Level 1: Valued using quoted prices in active markets for identical assets or liabilities. These quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Valued using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), including: quoted prices in active markets for similar assets or liabilities, quoted prices in markets in which there are few transactions for identical or similar assets or liabilities, and other inputs that are not quoted prices but are observable for the asset or liability. The prices for the Fund are based on redemption unit prices quoted by the investment or trustee.

Level 3: Valued in whole or in part using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Unobservable inputs are determined based on the best information available, which might include the Fund's own data, reflecting the Fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Valuation techniques are used to the extent that observable inputs are not available.

**Notes to the Financial Statements
For the year ended 30 June 2024**

Note 12. Fair value of financial instruments (cont'd)

The following table shows an analysis of financial instruments at the balance sheet date, recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
30 June 2024				
Listed equity securities	212,192	-	-	212,192
Unlisted equity security	-	-	250	250
Total	212,192	-	250	212,442
30 June 2023				
Listed equity securities	151,023	-	-	151,023
Unlisted equity security	-	-	500	500
Total	151,023	-	500	151,523

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within level 3 between the beginning and the end of the reporting year.

	Level 3 2024	Level 3 2023
	\$'000	\$'000
Opening balance	500	500
Total unrealised gains recognised in profit and loss	(250)	-
Closing balance	250	500

Level 3 investments comprise:

\$250,000 of unlisted equity in RCS Technologies Pty Ltd.

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting year. There were no movements between level 1, 2 or 3 during the year (2023: nil).

Valuation process for Level 3 valuations and sensitivity analysis of the significant unobservable inputs

Valuation of level 3 securities is performed monthly. Unlisted equity securities are initially valued at cost, with adjustments to the market value of the unlisted equity securities made through valuation techniques adopted by the Investment Manager.

The Valuation Committee considers the valuations and valuation methodologies applied to the relevant securities, and reviews available security-specific and general market information in order to make a fair value determination.

Securities which are fair-valued are monitored and reviewed to ensure their value remains in line with the statement of valuation principles as set out in the fair value policy of the Investment Manager. Any stale prices are monitored monthly to assess whether a fair value re-measurement is required.

Valuation techniques are set out in the pricing policy of the Investment Manager and can include liquidity discounting.

The table below discloses the valuation technique used in the valuation for Level 3 investments and quantifies the effect of significant unobservable inputs used to value investments that fall in this category.

		Valuation technique	Unobservable input	Range of input	Sensitivity used	Effect on fair value +/-
	\$'000					\$'000
Fair Value as at 30 June 2024						
Unlisted equity security	250	Recent transaction method	Recent transaction price	0.41	+/-10%	25/(25)
Fair Value as at 30 June 2023						
Unlisted equity security	500	Recent transaction method	Recent transaction price	0.41	+/-10%	50/(50)

Note 13. Commitments and contingencies

There were no commitments nor contingent asset and liabilities at 30 June 2024 (2023: nil).

Note 14. Events subsequent to balance date

Other than the items disclosed throughout this financial report, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operation of the Fund, the results of those operations, or the state of affairs of the entity in future financial years.

Montgomery Small Companies Fund - ARSN 635 229 533

Directors' Declaration

In accordance with a resolution of the Directors of the Responsible Entity of Montgomery Small Companies Fund (the "Fund"), I state that:

In the opinion of the Directors:

- (a) The financial statements and notes are prepared in accordance with the *Corporations Act 2001*, including:
 - i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - ii) giving a true and fair view of the Fund's financial position as at 30 June 2024 and of its performance for the year ended on that date;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1;
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Drew Wilson
Director
Sydney
Dated this 18th day of September 2024