



# MONTGOMERY SMALL COMPANIES FUND

## INVESTMENT REPORT & FACT SHEET

### FUND OVERVIEW

Montgomery Lucent's investment philosophy is guided by fundamental research and analysis. Small market capitalisation companies are relatively under-researched and when markets misprice securities, this creates investment opportunities.

The Montgomery Small Companies Fund (The Fund) typically invests in a portfolio of 30 to 50 high quality, undervalued small and emerging companies with strong growth potential. The Fund will focus on investing in companies outside of the ASX 100 and across the New Zealand stock market, while being able to invest up to

10% of the portfolio in pre-IPO opportunities.

We are searching for companies likely to benefit from secular trends, industry change and with substantial competitive advantages. With a "lifecycle approach" to sizing the portfolio positions depending on whether they are an early stage, emerging, developed or a core investment, The Fund is designed to be as agile as the remarkable small companies that it invests in. This is a long-only portfolio.

### FUND FACTS

#### INVESTMENT MANAGER

Montgomery Lucent Investment Management Pty Limited

#### OBJECTIVE

The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over a rolling 5 year period.

#### BENCHMARK

S&P/ASX Small Ordinaries Accumulation Index

#### FUND CONSTRUCTION

The Fund's Small Cap portfolio will typically comprise 30-50 high quality stocks listed on the ASX and/or NZSX. Cash typically ranges around 10%.

#### APIR

FHT3726AU

#### PORTFOLIO MANAGERS

Gary Rollo  
Dominic Rose

#### RECOMMENDED INVESTMENT TIMEFRAME

5 years

#### MINIMUM INITIAL INVESTMENT

\$25,000

#### INCEPTION DATE

20 SEPTEMBER 2019

#### FUND SIZE

\$179.3M

#### MANAGEMENT FEES AND COSTS

1.23% per annum\*, which includes a management fee of 1.03% per annum.

\* Includes the Responsible Entities fees, Montgomery's fees, custody fees, ordinary and abnormal expenses and any indirect costs

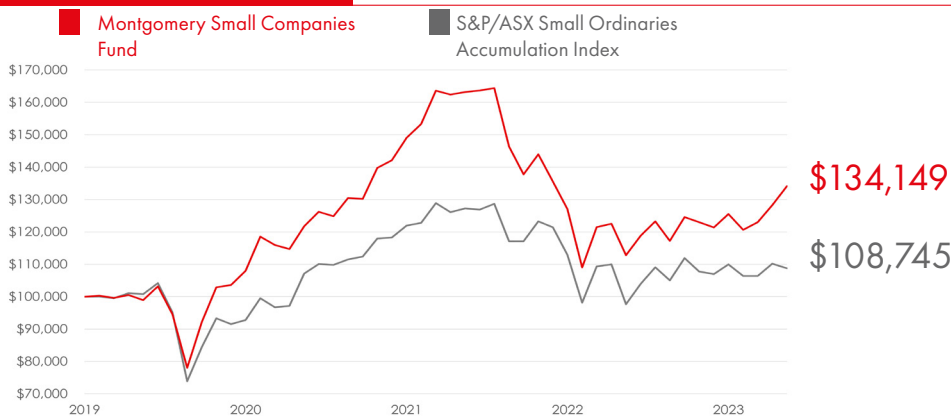
#### PERFORMANCE FEES

17.94% of the amount by which The Fund outperforms its Benchmark, after other fees and expenses have been deducted and achieves positive performance.

#### APPLICATION & REDEMPTION PRICES

[www.montinvest.com/our-funds/montgomery-small-companies-fund/](http://www.montinvest.com/our-funds/montgomery-small-companies-fund/)

### PERFORMANCE GRAPH



### PORTFOLIO PERFORMANCE

(to 31 August 2023, after all fees)

	INCOME	CAPITAL GROWTH	MONTGOMERY SMALL COMPANIES FUND	S&P/ASX SMALL ORDINARIES ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	4.59%	<b>4.59%</b>	-1.31%	5.90%
3 months	0.70%	10.49%	<b>11.19%</b>	2.22%	8.97%
6 months	0.68%	8.39%	<b>9.07%</b>	0.90%	8.17%
12 months	0.69%	8.81%	<b>9.50%</b>	-1.12%	10.62%
3 years (p.a.)	3.08%	1.13%	<b>4.21%</b>	3.00%	1.21%
Since inception#	11.29%	22.86%	<b>34.15%</b>	8.74%	25.41%
Compound annual return (since inception)#	2.75%	4.98%	<b>7.73%</b>	2.15%	5.58%

# Inception: 20 September 2019

Past performance is not indicative of future performance



## TOP COMPLETED HOLDINGS\* (TCH)

(as at 31 August 2023 showing top 5 of 47 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
Bapcor	ASX:BAP	<a href="https://www.bapcor.com.au/">https://www.bapcor.com.au/</a>
HUB24	ASX:HUB	<a href="https://www.hub24.com.au/">https://www.hub24.com.au/</a>
IPH Limited	ASX:IPH	<a href="https://www.iphltd.com.au/">https://www.iphltd.com.au/</a>
Smartgroup Corporation Ltd	ASX:SIQ	<a href="https://www.smartgroup.com.au/">https://www.smartgroup.com.au/</a>
Seven Group Holdings Ltd	ASX:SVW	<a href="https://sevengroup.com.au/">https://sevengroup.com.au/</a>

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

Total equity weighting 94.00%

Total cash weighting 6.00%

## TOP 3 CONTRIBUTORS AND DETRACTORS

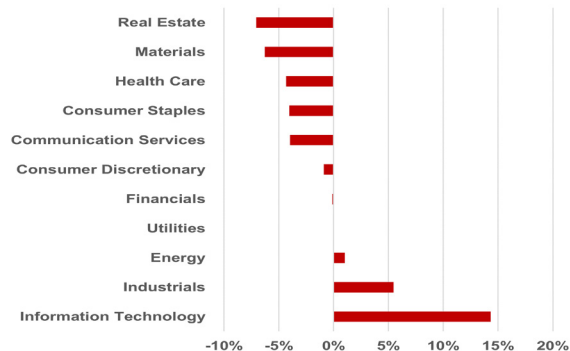
### CONTRIBUTORS

Aussie Broadband	Shares rallied on a solid result and outlook
Audinate Group	Shares rallied on strong earnings beat and consensus upgrades
Megaport	Shares rallied on strong earnings beat and consensus upgrades

### DETRACTORS

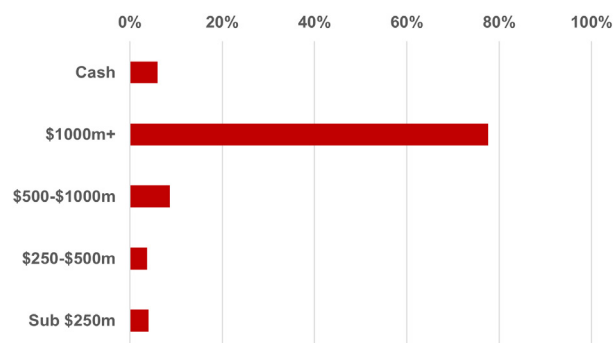
Pinnacle Investment Management Group	Shares gave up some recent gains
IMDEX	Shares fell on weaker earnings result and consensus downgrades
Rex Minerals	Share price suffered as it raised capital during the month

## GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK



■ Montgomery Small Companies Fund

## MARKET CAPITALISATION EXPOSURE



## CONTACT DETAILS

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PLATFORMS WE ARE ON: Netwealth (IDPS and Super/Pension) = Wealth02/uXchange = BT Wrap = BT Panorama = HUB24 (IDPS and Super) = Ausmaq = Macquarie Wrap = Asgard = Proemium IDPS = Mason Stevens = FirstWrap = AMP North = MLC Wrap

# 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. This report was prepared by Montgomery Lucent Investment Management Pty Limited, (ABN 58 635 052 176, Authorised Representative No. 001277163) (Montgomery) the investment manager of the Montgomery Small Companies Fund. The responsible entity of the Fund is Fundhost Limited (ABN 69 092 517 087) (AFSL No: 233 045) (Fundhost). This document has been prepared for the purpose of providing general information, without taking account your particular objectives, financial circumstances or needs. You should obtain and consider a copy of the Product Disclosure Statement (PDS) relating to the Fund before making a decision to invest. The PDS and Target Market Determination (TMD) are available here: <https://fundhost.com.au/fund/montgomery-small-companies-fund/> While the information in this document has been prepared with all reasonable care, neither Fundhost nor Montgomery makes any representation or warranty as to the accuracy or completeness of any statement in this document including any forecasts. Neither Fundhost nor Montgomery guarantees the performance of the Fund or the repayment of any investor's capital. To the extent permitted by law, neither Fundhost nor Montgomery, including their employees, consultants, advisers, officers or authorised representatives, are liable for any loss or damage arising as a result of reliance placed on the contents of this document. Past performance is not indicative of future performance.



The Montgomery Small Companies Fund (the Fund) returned 4.59 per cent, net of fees, in August versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which declined by 1.31 per cent. Since inception (20 September 2019), the Fund has increased by 34.15 per cent, outperforming the benchmark by 25.41 per cent, after fees and expenses.

The largest positive contributors for August included Aussie Broadband (ASX:ABB), Audinate Group (ASX:AD8) and Megaport (ASX:MP1). Aussie Broadband shares gained after the company delivered a FY23 operating result that outperformed expectations and a FY24 outlook supportive of existing consensus forecasts. Consensus calls for Aussie Broadband to grow at 15-20 per cent per annum over the next 3 years. Prior to these results that growth was priced at around 7.5x EV/EBITDA, which is cheap relative to the market priced on over 10x and growing at nowhere near that rate. Hence, Aussie Broadband's share price lifted in response.

Audinate Group's results reminded investors that it has what they crave, scalable growth with a long runway ahead. Audinate Group's results were good – revenue came in around 8 per cent stronger than expected and earnings were over 30 per cent better (law of small numbers). That scale of outperformance versus expectations in just one operating half-year caused consensus to reset earnings expectations for the next 3 years some 15-30 per cent higher, driving the share price up 48 per cent for the month.

Megaport's shares have outperformed the market considerably since April when the company announced it was resetting its cost base, cutting capex and raising prices in response to changing market conditions. Megaport's results contained a FY24 profit outlook around 15 per cent higher than market expectations as the impact of those changes grow the top line faster and resonate down to profits stronger than expected. Megaport's share price has now tripled since April.

The largest detractors from performance included IMDEX (ASX:IMD), Pinnacle Investment Management Group (ASX:PNI) and Rex Minerals (ASX:RXM). IMDEX's FY23 result disappointed the market with higher than anticipated cost growth across both the core business and the newly acquired Devico unit driving an earnings miss and a cut to medium-term forecasts. IMDEX continues to invest in future growth initiatives which we believe set the business up well for when industry conditions improve. Pinnacle Investment Management Group is a Fund Manager distribution business with a long growth runway and impressive future earnings growth potential. Pinnacle Investment Management Group's shares had run strongly into the results as investors hoped for early signs of a rebound in investor inflows across its stable of Fund Manager partners. Pinnacle Investment Management Group's FY23 results were fine, but its outlook failed to confirm that fund inflow conditions had yet returned to growth. Our view is that fund inflows can turn quickly and Pinnacle Investment Management Group is very well positioned for when it does. Rex Minerals is a junior copper developer, a commodity exposure that we like. However, it is an early stage company and as such it represents a small holding in the Fund. Rex Minerals' share price suffered as it raised capital during the month as it sought to progress the

development of its Hillside copper project, based in South Australia. Rex Minerals is in the process of looking for partners to help develop what we think will be a significant scale long life copper mine and so we expect more news on these plans in the near future.

### Macro, earnings season, outlook and positioning

Global equities softened in August, giving back some recent gains with the interest rate outlook continuing to dictate market sentiment. U.S. inflation data appears to be heading in the right direction (albeit at a slow pace) and the labour market there remains strong, and this combination is supportive of the view the U.S. hiking cycle may be coming to an end but rates will stay higher for longer. U.S. bond market pricing keeps pushing out rate cut expectations.

Markets are also focused on China, where the economic data has been consistently softer than expected for some time as the weight of issues observed around indebtedness and falling prices in the Chinese property market take their toll on economic activity levels. Investors expect China to provide support for its economy but there are questions about how any stimulus may work without adding to the problems of excess housing supply and debt in the Chinese property market.

Domestically, the macro data appeared supportive of the view that we are at peak rates. Inflation and jobs data are softening, albeit inflation remains too high, whilst the employment market remains very strong, so there is more wood to chop here, but the interest rate axe may already be sharp enough.

Our focus in August was reporting season and we have been busy deciphering the immense volume of companies releasing their Fiscal 2023 results and Fiscal 2024 outlook messaging. Against expectations for an impending earnings recession driven by slowing demand and rising cost pressures, 2023 results were better than feared although share price responses were certainly volatile. The uncertain economic backdrop saw less companies willing to provide earnings outlook guidance at this juncture with investors having to wait until the AGM season in October/November 2023 for further trading updates.

The work to get the portfolio match fit for reporting season paid off with the majority of the portfolio investments delivering strong operational performance, although we certainly didn't get them all right. This translated to strong broad based price performance for portfolio investments in the month, with positive returns observed in every sector relative to the market driven by stock selection. The Fund had 2 times the numbers of winners as losers, and our winners went up 2 times what our losers detracted, on average. The heavy lifting was done by our approach to the battleground sectors – growth and consumer.

Growth stocks did well through reporting season provided they could demonstrate that costs were appropriately set for the economic conditions of the day and that future growth optionality was very much preserved or indeed being pursued, but profitably so. The Fund held a number of these types of investments where management delivered a better near-term profit and stronger growth outlooks than the market expected.



Such stocks got strongly rewarded as in our view many of these stocks don't have the correct valuations for the growth they offer.

The Consumer Discretionary sector performed well during results season as a combination of better than expected (albeit backward looking) sales and investors underweight positioning drove share prices. This is a sector where the Fund holds an underweight position, but the exposure it does hold is heavily skewed to stocks we believe have significant growth optionality but that is just not in the price. Here the bottom-up stock-picking approach paid off with a combination of stronger than expected earnings outcomes, outlooks, and subsequent stock price re-rating.

Stock picking in Telco's, financials, and even in REITs also added to the Fund returns this month, but so did avoiding stocks that didn't do well. A special mention goes to Iress, a stock the Fund does **not** own. It has been a small cap portfolio stalwart for many for a long time. But its in a tough spot. It is a stock with a high valuation, but no growth and huge calls on capital – 100 per cent dividend payout of free cashflow, heavily indebted, buyback, M&A strategy (to try to grow) and an aging product portfolio in dire need of investment (tech debt). This is all on top of a business that is struggling, its earnings reports have so many adjustments each year it is difficult to understand the true earnings power of the business. Iress investors are no doubt still trying to work that out! The risk reward still looks skewed to the downside, earnings are too hard to call, valuation remains high, the balance sheet is poor and all the fundamental problems from underinvestment remain – not an example of the undervalued growth optionality we are looking to invest in.

We have taken advantage of the new information and stock price volatility that earnings season brings, changing the portfolio line up to keep it match fit for what comes next. We believe the portfolio is well balanced to cope with the macro environment we see, uncertainty yes, but the scale of that diminishing, and it remains full of bottom-up stock specific decisions that we have strong due diligence on, and we think are undervalued and many where consensus earnings expectations are just too low. A solid position to be in. We look forward to reporting on the progress of these investments in the months ahead.

