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

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

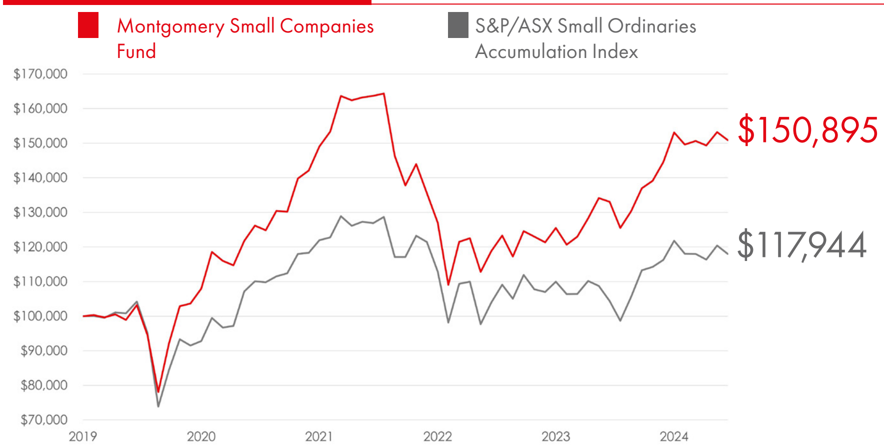
FUND SIZE
$225.7M

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/

PERFORMANCE GRAPH



PORTFOLIO PERFORMANCE

(to 31 August 2024, after all fees)

	INCOME	CAPITAL GROWTH	MONTGOMERY SMALL COMPANIES FUND	S&P/ASX SMALL ORDINARIES ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	-1.52%	**-1.52%**	-2.02%	0.50%
3 months	0.18%	0.00%	**0.18%**	-0.01%	0.19%
6 months	0.18%	4.23%	**4.41%**	1.52%	2.89%
12 months	0.20%	12.28%	**12.48%**	8.51%	3.97%
3 years (p.a.)	0.78%	-3.45%	**-2.67%**	-2.90%	0.23%
4 years (p.a.)	2.35%	3.87%	**6.22%**	4.35%	1.87%
Since inception#	11.53%	39.36%	**50.89%**	17.99%	32.90%
Compound annual return (since inception)#	2.23%	6.44%	**8.67%**	3.40%	5.27%

Inception: 20 September 2019 | Past performance is not indicative of future performance

TOP COMPLETED HOLDINGS* (TCH)

(as at 31 August 2024 showing top 5 of 48 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
GQG Partners	ASX:GQG	https://gqg.com/
HUB24	ASX:HUB	https://www.hub24.com.au/
Ingenia Communities	ASX:INA	https://www.ingeniacommunities.com.au/
Ramelius Resources	ASX:RMS	https://www.rameliusresources.com.au/
Zip Co	ASX:ZIP	https://zip.co/

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

Total equity weighting	93.87%
Total cash weighting	6.13%

TOP 3 CONTRIBUTORS AND DETRACTORS

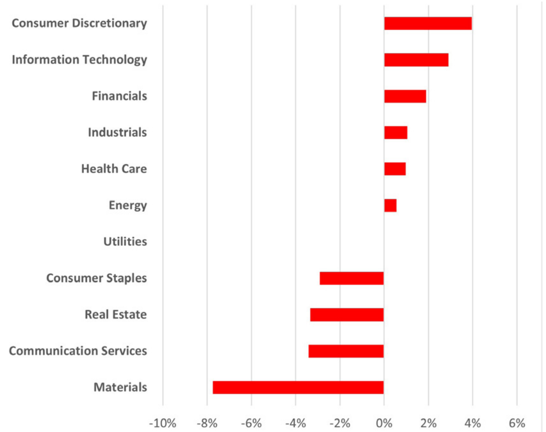
CONTRIBUTORS

Clarity Pharmaceuticals	The Food and Drug Administration provided fast track designation.
Superloop	Company reported strong results and an upbeat outlook.
Zip Co	Zip Co is back, and it's funded for growth.

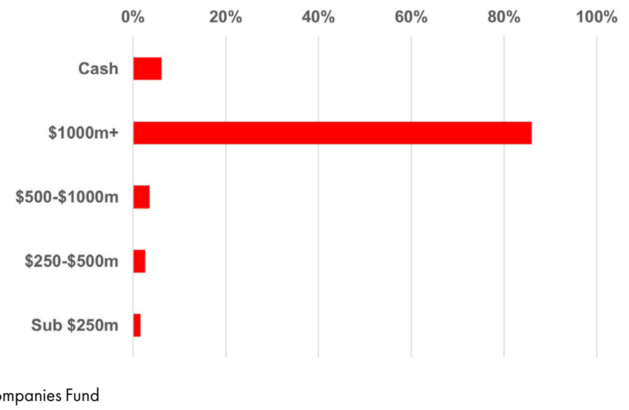
DETRACTORS

Audinate	FY25 is not a growth year.
Johns Lyng Group	The company is not growing as fast as expected.
RED5	Higher costs eat into FY25 profit expectations.

GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK



MARKET CAPITALISATION EXPOSURE



CONTACT DETAILS

INVESTORS

Toby Roberts
t 02 8046 5017
e troberts@montinvest.com

David Buckland
t 02 8046 5004
e dbuckland@montinvest.com

ADVISERS, RESEARCHERS AND PLATFORMS

Scott Phillips
States – National
m 0417 529 890
e sphillips@montinvest.com

David Denby
States – VIC, SA & TAS
m 0455 086 484
e ddenby@montinvest.com

Michael Gollagher
States – QLD
m 0409 771 306
e mgollagher@montinvest.com

Dean Curnow
States – NSW, ACT & WA
m 0405 033 849
e dcurnow@montinvest.com

PLATFORMS WE ARE ON: Asgard ◦ BT Panorama ◦ Clearstream ◦ Colonial First Wrap ◦ DASH ◦ HUB24 ◦ IOOF eXpand ◦ Macquarie Wrap ◦ Mason Stevens ◦ MLC/Navigator ◦ Netwealth ◦ North ◦ Powerwrap ◦ Praemium ◦ Xplore Wealth

For the month of August, the Montgomery Small Companies Fund (the Fund) declined by 1.52 per cent, net of fees, versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which declined by 2.02 per cent. Since inception (20 September 2019), the Fund has increased by 50.89 per cent, outperforming the benchmark by 32.90 per cent, after all fees and expenses.

During August, the reporting season saw outcomes that were generally better than feared across the small cap market, with technology and consumer discretionary the standout sectors, whereas resources and energy lagged. Small cap structural growth companies displayed ongoing strong earnings growth profiles and were generally rewarded by the market with multiple expansion perhaps a more prevalent feature than earnings upgrades.

Investor positioning ahead of results was broadly underweight discretionary retailers, due to the fears of macroeconomic headwinds from higher interest rates, cost of living pressures and rising costs like wages, utilities and rents. Notwithstanding these pressures, most small cap retailers delivered solid results with stronger-than-expected gross margins and good cost control. Trading updates were solid, with investor attention now turning towards the potential positive impacts of recent tax cuts and domestic interest rate cuts next year.

Largely buoyant global commodity prices meant resources and energy companies results were solid, but resources share prices continued to underperform industrials, largely on macroeconomic concerns around China's soft economic growth outlook, which continued to show signs of deterioration during August.

The largest positive contributors for August included Clarity Pharmaceuticals (ASX:CU6), Superloop (ASX:SLC), and ZIP (ASX:ZIP).

Clarity Pharmaceuticals is a radio-pharmaceutical developer based on their proprietary IP that enables the potential advantage of copper based radio-isotopes for use in targeting diagnostics and therapies in prostate cancer. Clarity's shares rose 13.5 per cent in the month (up 285 per cent year to date) as the market appreciated the U.S. Food and Drug Administration (FDA) granting Clarity's Cu64-SAR-bisPSMA a fast track designation for PET scans targeting a specific subset of patients with suspected metastasis from PSMA positive prostate cancer lesions. The FDA acknowledges a specific unmet clinical need in the current diagnostic capabilities of the market. Clarity's solution has the potential to address this gap, which is why the FDA has granted the designation. In practice, the designation allows Clarity to submit trial data on an as completed basis (as they go), and that the FDA will prioritise assessment of that data. A queue skipping type advantage.

Superloop shares continued their strong performance as its FY24 results were well received by investors. Superloop's earnings beat already upgraded expectations, and the consensus lifted its earnings for FY25 and beyond. Much will depend on the porting of the Origin Energy (ASX:ORG) customer base (150,000 broadband subscribers) from rival Aussie Broadband (ASX:ABB) occurring on time, and the ability of Superloop to onboard new Origin Energy customers as seamlessly as expected. There is a potentially long runway of growth for Superloop inside the Origin Energy customer base, with Origin Energy itself identifying a 600,000 broadband subscriber base target in the medium term. A target, that if achieved, is not, in our view, forecast into Superloop's earnings outlook or priced into its valuation.

ZIP is back. ZIP had a (very) tough couple of years right-sizing and reshaping its business from the short run loss making strategy of land grabbing Buy Now Pay Later (BNPL) market share as markets formed in the U.S., UK and elsewhere. Unfortunately, just as ZIP had committed itself to funding this growth opportunity, the market climate changed significantly with the sharp rise of global inflation lifting the cost of debt and curbing consumer demand.

Fast forward three years and ZIP now has a new(ish) management team installed with some wins on the board; expansion territories outside of the U.S. have been closed; and the cost structure and balance sheet issues have been addressed. ZIP now finds itself focused on highly profitable growth with strong market share in Australia and a profitable earlier stage strong market position in the U.S. with considerable growth optionality. Having completed an equity raise in July 2024, ZIP's balance sheet is now appropriately funded to enjoy growth in what looks like an under-penetrated BNPL market formation event in the U.S. Same strategy as last time, but better funded, leaner cost base, profitably positioned (as opposed to loss making) and likely fewer competitors trying to fight for market position. ZIP have the track record of being able to build a BNPL business without incurring unacceptable credit losses and look better positioned to prosecute the U.S. growth opportunity this time.

The largest detractors from performance included Audinate (ASX:AD8), Johns Lyng Group (ASX:JLG) and RED5 (ASX:RED).

All 3 of our detractors during this results period had one thing in common – they all lowered earnings expectations for Fiscal 2025.

Audinate (ASX:AD8) is a high growth market leading Audio Visual (AV) networking technology company benefiting from growth as the market moves from analogue to digital. The business and management have a strong track record of growth delivery. Audinate was, however, a beneficiary of the after-effects of the semiconductor industry supply chain shortfalls of 2022 and 2023, with revenue growth surging on a mix of supply resumption, pricing power and client over-ordering in response to industry conditions – this growth acceleration drove Audinate's shares to all-time high of $23.50 earlier this year. Consequently, we'd sold a big chunk of our Audinate position on fears that the market was pricing in levels of growth that we didn't think could be sustained. The subsequent sell-off post those peaks brought the share price back into interesting territory for us, and we subsequently started dipping our toe back in the water. However, in early August, Audinate warned that its market growth expectations for FY25 needed to be rebased, not to a low growth year but a no growth year and the shares were punished accordingly. Ouch, that toe got stubbed! One of the key observations of reporting season is the market has little tolerance for reset or rebase years, even in businesses with a prior track record of out-performance.

Johns Lyng Group (ASX:JLG), the insurance remediation and repairs business, is another stock that we like for its growth optionality, but has also had some questions rightly being asked about the level of future growth rates as operational execution hadn't met investor expectations over the past couple of years as the business came off the workload highs from flood catastrophe related insurance recovery work. Again, thankfully, our positioning here was smaller than we'd normally expect as we waited for execution and potential growth driver clarity from the FY24 results. This was obtained from the need to invest for future growth, compressing FY25 Australian margins and earning expectations in the process. Johns Lyng Group's shares responded negatively as investors showed no tolerance for operational or earnings shortfalls during this reporting season.

Continues on next page...

RED5's (ASX:RED) share price fell 13 per cent in August. FY24 gold production and operational metrics were reported in July (resources stocks provide quarterly reports) and so the FY24 financial outcomes were largely known and well received at the time. It was managements guidance for production and costs for FY25 that were new news, and specifically cost growth that surprised the market. A higher cost structure at one of RED5's shorter mine life assets lead to a 15 per cent decline in FY25 earnings before interest, taxes, depreciation, and amortization (EBITDA) expectations for the group, taking the share price down with it. Gold exposure has added value to the portfolio over the past year, and we think it should continue to do so over the coming year as high gold prices, industry cost inflation drivers (notwithstanding the stock specific news at RED5) now moderating, and this should give rise to good free cashflow characteristics. Industry consolidation also appears to have lifted a notch or two, with likely more ahead as the industry set up of a scarcity of growth optionality in high free cashflow generative mature portfolios leads to well-funded players seeking to acquire growth.

Reporting season is over and our ideas hopper and the to do list has grown. We detect management teams having feared and set the business up for weaker economic times are now looking ahead again. Seeking to prepare their businesses for future opportunities with less trepidation of the next macroeconomic datapoint and an economist predicting another (yet to arrive/just around the corner) recession. It's more a business as normal approach than we have observed for the past 5 years, and we suspect business as usual investing climate will follow on too.