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

RECOMMENDED INVESTMENT TIMEFRAME
5 years

MINIMUM INITIAL INVESTMENT
$25,000

INCEPTION DATE
20 SEPTEMBER 2019

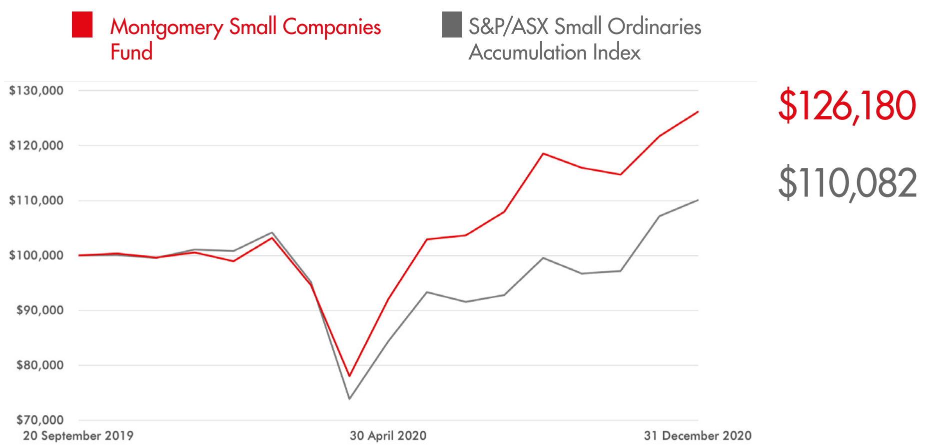
FUND SIZE
$64.2M

MANAGEMENT FEE
1.23% per annum, which includes a management fee of 1.03% per annum. Both figures are GST inclusive and net of RITC.

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



CONTACT DETAILS

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PORTFOLIO PERFORMANCE

(to 31 December 2020, after all fees)

	INCOME	CAPITAL GROWTH	MONTGOMERY SMALL COMPANIES FUND	S&P/ASX SMALL ORDINARIES ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	3.65%	3.65%	2.76%	0.89%
3 months	0.00%	8.80%	8.80%	13.83%	-5.03%
6 months	0.00%	21.76%	21.76%	20.28%	1.48%
12 months	0.00%	27.53%	27.53%	9.21%	18.32%
Since inception#	0.00%	26.18%	26.18%	10.08%	16.10%
Compound annual return (since inception)#	0.00%	19.90%	19.90%	7.79%	12.11%

Inception: 20 September 2019

FUND COMMENTARY

December 2020 saw continued optimism associated with a vaccine for COVID-19, a new US fiscal stimulus package worth US$920 billion finally passing Congress and the Senate, and a last-minute Brexit deal getting over the line. These positive developments countered rapidly rising global COVID-19 cases, particularly in the US and the UK where further mobility restrictions are being reintroduced to protect health systems from becoming dangerously overstretched. For now, the stock market appears to be discounting a successful vaccine roll out program and a solid economic recovery in 2021. Consequently, news flow relating to the pace and effectiveness of the vaccine will be critical for the market's direction over the coming months.

The Montgomery Small Companies Fund (the Fund) returned 3.65 per cent, net of fees, in December versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which increased by 2.76 per cent. Since inception (20 September 2019), the Fund has increased 26.18 per cent, outperforming the benchmark by over 16 per cent, after all fees and expenses.

December winners and losers

For the month of December the largest positive contributors to performance included City Chic Collective (ASX:CCX), EML Payments (ASX:EML) and Mineral Resources (ASX:MIN). CCX rallied on the back of the acquisition of the e-commerce and wholesale assets of Evans, a leading UK plus-size apparel brand. We view the deal as highly strategic, providing a platform to launch into the £5 billion UK market, whilst adding a strong brand to the portfolio with a significant and loyal customer base that is accustomed to shopping online. Importantly, after funding the £23 million Evans purchase, CCX will retain $80 million cash leaving ample capacity for further on strategy acquisitions. EML shares climbed on no new news, most likely as investors look to increase exposure to the 'reopening trade'. We remain attracted to EML's earnings recovery prospects, as well as the strong growth potential of the reloadable cards segment – it remains a business with a long runway of profitable growth ahead.

MIN's outperformance was attributable to the surging iron ore price (driven by strong Chinese demand coupled with ongoing supply disruptions) and improved investor sentiment towards battery minerals and resources more broadly. As recently outlined ('Our top picks in the mining services space', December 7), we rate MIN management highly and back them to execute growth plans targeting a more than four-fold expansion of their iron ore operations. With its world class Wodgina Lithium asset and downstream processing infrastructure development we also believe MIN is well positioned to benefit from a demand recovery in electric battery minerals, an attractive long-term 'green' theme.

The largest detractors from performance included Appen (ASX:APX), Tyro Payments (ASX:TYR) and Webjet (ASX:WEB). APX slumped on an earnings guidance downgrade as it is not seeing its usual second half uptick in major client workflows, citing COVID-19 disruptions. Although we like the business, and its unique exposure to play the rise in artificial intelligence deployments, we exited our remaining position. TYR sold off despite continuing to report encouraging weekly data which supports a solid sales recovery. We suspect the weakness relates to market fears over increasing competition following a deal struck between one of the big four banks and an international terminal provider. We took a conservative stance and materially reduced our TYR holding – and will attempt to learn more about the changed competitive landscape to better assess the risk-reward.

Continued on the next page..

TOP COMPLETED HOLDINGS* (TCH)

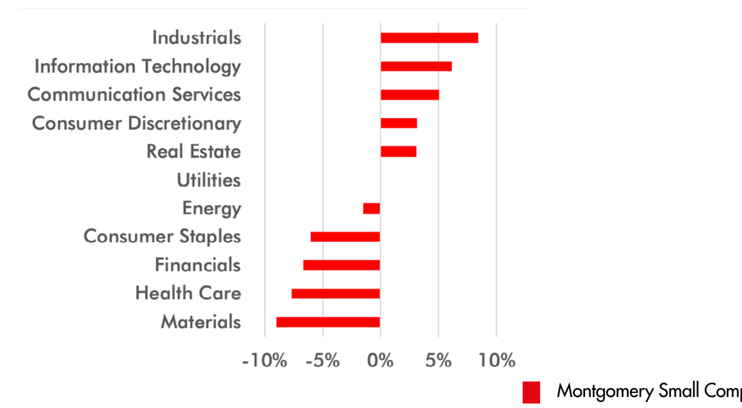
(as at 31 December 2020 showing top 5 of 50 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
Alliance Aviation Services	ASX:AQZ	https://www.allianceairlines.com.au/
City Chic Collective	ASX:CCX	https://www.citychiccollective.com.au/
EML Payments	ASX:EML	https://www.emlpayments.com/
Macquarie Telecom Group	ASX:MAQ	https://macquarietelecom.com/
Uniti Group	ASX:UWL	https://unitigrouplimited.com/

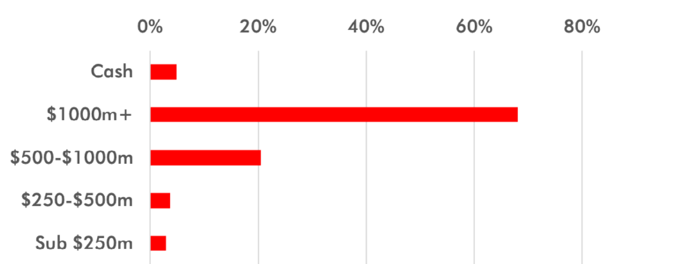
Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.

Total equity weighting	95.17%
Total cash weighting	4.83%

GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK



MARKET CAPITALISATION EXPOSURE



PLATFORMS WE ARE ON: Netwealth (IDPS and Super/Pension) uXchange BT Wrap BT Panorama HUB24 (IDPS and Super) Ausmaq Macquarie Wrap

WEB saw some profit taking after Sydney's COVID-19 outbreak resulted in Australian state borders closing once again. The timing of the recent outbreak was unfortunate, impacting the key domestic summer holiday period. We quickly trimmed our WEB position to de-risk. Notwithstanding this recent setback, we continue to like WEB as a vaccine-earnings recovery story and expect solid market share gains over the medium-term.

Montgomery Small Companies Fund positioning

Goodbye 2020, Hello 2021. Whilst last year was a good year for fund returns, we, like most, are happy to see it in the rear-view mirror. So, what are we thinking for 2021? We enter 2021 playing five big themes in the portfolio.

Cloud – Cloud has changed the unit economics of technology; no longer do you need to have a scale business to amortise the high cost and heavy upfront investment the technology architectures of the past demanded. And that changes the game for the innovators in our Small Company investment universe. Cloud technology tools now deliver "big company IT capability" providing small innovative companies a competitive weapon with which to wrestle market share from stagnant market incumbents, too big to change but no longer too big to lose. We are in year 5 of what we consider to be a 20-year investment theme, and the Fund remains well positioned in quality, high growth cloud technology plays.

Sustainable income – As the global monetary and fiscal policy response to COVID-19 drove global interest rates lower, the valuation framework accorded to quality growth stocks experienced a material uplift. Rates lower, asset prices up. Not so for many income generating assets, such as REIT stocks. The income profile of the underlying assets these REITs own got smacked by the pandemic. Today the median yield for REITs in the Small Ordinaries Index is 6.0 per cent for FY22, versus Australian Government 10-year bond yields at 1.0 per cent. That is a big spread, and way bigger than normal. We think that spread will compress when certainty of income generation from the assets these REITs own – office blocks, retail malls, petrol stations, industrial buildings, telecom exchanges etc – settles down to a post-COVID rhythm. We think a vaccine will go a long way to delivering the income certainty yield hungry investors crave. That certainty should bring the uplift we are looking for to the valuation framework accorded to these yield assets, responding to those lower long-term rates, compressing yields, narrowing that spread to the long-term government bond rate. The Montgomery Small Companies Fund is well positioned towards this theme.

Economic reopening – Sectors that have been shuttered due to COVID-19 are staged to re-open - travel, transport, hospitality, media, education and internationally exposed businesses. The Fund has invested in stocks we expect to emerge from COVID-19 stronger - companies where good management teams have been busy improving their competitive position. These businesses are poised to accelerate market share gains, building bigger moats. Never let a good crisis go to waste.

Strength and stimulus – All that money has to go somewhere – in Australia that is commodities, consumption and housing. Australia's mineral suite endowment is unrivalled; accelerating global growth and a medium-term bout of global synchronised nation building sees a voracious appetite for our commodities and a robust pricing environment across the commodity complex. That's good for the economy generally, and obviously great for domestic miners and their suppliers. We own domestic miners across multiple commodities, and more mining service companies, all of which have great balance sheets, low valuations and are strongly cash generative. We also expect Australia's appetite for housing in a lower interest rate environment to be as voracious as that commodity complex above. We see house price strength and don't expect Australia to miss this opportunity to pour more concrete as close to the coast as possible. The Montgomery Small Companies Fund is positioned in many stocks we expect to benefit from rising housing activity and household consumption, from mortgage brokers, building materials, home builders and select retailers – we are looking to capitalise on this area of expected cyclical strength within our domestic economy.

De-carbonisation – It's happening. And it's got a huge boost from COVID-19 related stimulus and from recent global regulatory and political developments. Europe now sells more Electric Vehicles (EV) than China, and governments there, with a deep need to stimulate their economies, are turning to "green" stimulus, including support for the transition away from ICE vehicles (internal combustion engine) to those without carbon emissions. Specifically, those based around electric power trains, as it is the most well-developed scale technology to solve for regulation pushing for the decarbonisation of the Western Automotive fleet. Car Original Equipment Manufacturers are responding to regulatory change and consumer appetite by launching many new car models based on EV, not ICE, platforms. The US, under a Biden presidency, is also expected to have a more supportive climate change agenda. Lithium, nickel, copper and rare earths are all key feedstock inputs into components required for EVs, and Australia is blessed (again) with a suite of resource assets to deliver those, to a market hungry for a supply chain independent of China. We also expect to see WA emerge as a key feedstock provider and downstream value add processor. The Montgomery Small Companies Fund is well positioned in WA miners of some of these key feedstock commodities to benefit from what we see as a long-term growth theme as the developed world de-carbonises it transport networks.