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
$149.2M

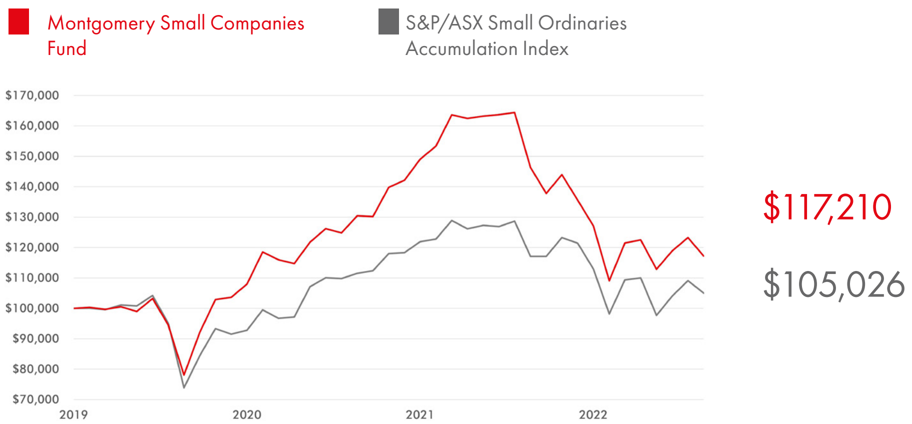
MANAGEMENT FEES AND COSTS
1.23% per annum*, which includes a management fee of 1.03% per annum.

*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 December 2022, after all fees)

	INCOME	CAPITAL GROWTH	MONTGOMERY SMALL COMPANIES FUND	S&P/ASX SMALL ORDINARIES ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	-4.91%	**-4.91%**	-3.73%	-1.18%
3 months	0.00%	3.89%	**3.89%**	7.54%	-3.65%
6 months	0.00%	7.49%	**7.49%**	7.03%	0.46%
12 months	1.68%	-30.38%	**-28.70%**	-18.38%	-10.32%
3 years (p.a.)	3.42%	2.39%	**5.81%**	1.38%	4.43%
Since inception#	10.51%	6.70%	**17.21%**	5.03%	12.18%
Compound annual return (since inception)#	3.09%	1.87%	**4.96%**	1.51%	3.45%

Inception: 20 September 2019

TOP COMPLETED HOLDINGS* (TCH)

(as at 31 December 2022 showing top 5 of 50 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
AUB Group	ASX:AUB	https://www.aubgroup.com.au/
Bapcor	ASX:BAP	https://www.bapcor.com.au/
Hub24	ASX:HUB	https://www.hub24.com.au/
Johns Lyng Group	ASX:JLG	https://www.johnslyng.com.au/
Seven Group Holdings	ASX:SVW	https://www.sevengroup.com.au/

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

Total equity weighting	91.32%
Total cash weighting	8.68%

TOP 3 CONTRIBUTORS AND DETRACTORS

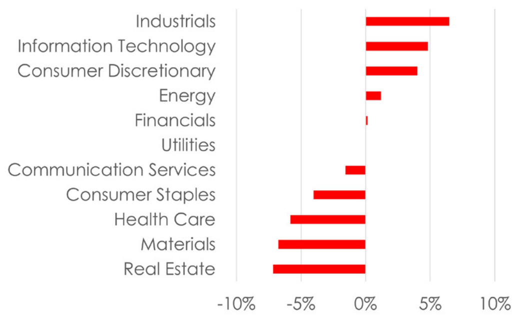
CONTRIBUTORS

Aeris Resources	Shares gained on improved copper sentiment on China reopening
RED 5	Shares gained on improved gold sentiment on weaker USD
Ramelius Resources	Shares gained on improved gold sentiment on weaker USD

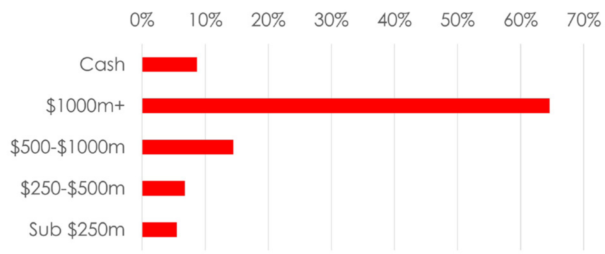
DETRACTORS

Allkem	Shares fell as investors took profits in lithium stocks
Johns Lyng Group	Shares fell on news of further Director selling
Symbio Holdings	Shares fell after the company issued a profit warning

GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK



MARKET CAPITALISATION EXPOSURE



Montgomery Small Companies Fund

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: Netwealth (IDPS and Super/Pension) Wealth02/uXchange BT Wrap BT Panorama HUB24 (IDPS and Super) Ausmaq Macquarie Wrap Asgard Praemium IDPS Mason Stevens FirstWrap AMP North MLC Wrap

The Montgomery Small Companies Fund (the Fund) declined 4.91 per cent, net of fees, in December versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which declined by 3.73 per cent. Since inception (20 September 2019), the Fund has increased by 17.21 per cent, outperforming the benchmark by 12.18 per cent.

The largest positive contributors for December included Aeris Resources (ASX:AIS), RED 5 (ASX:RED) and Ramelius Resources (ASX:RMS). AIS shares rallied on improved investor appetite for copper as China abandons its zero-COVID policies and reopens its economy after almost three years. Further, following BHP Group's (ASX:BHP) recent acquisition of OZ Minerals (ASX:OZL) for A$9.6 billion, only a handful of ASX-listed copper producers remain, with AIS being the most leveraged to higher copper prices (as a relatively small, high-cost producer). Both RED and RMS shares gained on the stronger gold price while the RED investment case also de-risked with commercial production declared at its King of the Hills gold mine located in Western Australia.

The largest detractors from performance included Allkem (ASX:AKE), Johns Lyng Group (ASX:JLG) and Symbio Holdings (ASX:SYM). AKE shares pulled back, along with the broader lithium sector, as investors took profits after a period of strong gains with the catalyst to sell seemingly triggered by softer benchmark lithium prices and growing concerns around the near-term sustainability of EV demand. We recently shifted our EV exposure to an underweight portfolio position, locking in profits and reinvesting the proceeds into copper and gold producers which had underperformed the lithium sector. JLG shares were sold off after investors voiced their displeasure with further disclosed Director selling, despite the company reaffirming FY23 earnings guidance. We would also prefer to see insiders remaining fully invested until JLG delivers the promised benefits of the transformative Restoration Experts acquisition.

SYM shares were aggressively sold after the company disappointingly delivered a material profit warning late in the month, having previously reaffirmed earnings guidance at the November AGM. Although 1Q FY23 trading was reportedly in-line with internal expectations, 2Q FY23 was adversely impacted by a surprise return of excess phone number inventory by US-based technology clients looking to reduce costs, along with further delays in new customer onboarding. Cost mitigation is underway, however it will not be enough to offset lower than expected revenue, resulting in a 25 per cent FY23 EBITDA downgrade at the mid-point. The key surprise for investors was the revelation that recent strength in the Australian business potentially included some COVID-19 demand pull-forward with an unquantified volume of unused phone numbers. Management now has a job to do restoring investor confidence in their ability to execute the growth strategy. Importantly, the balance sheet remains in a net cash position and the current valuation implies the market is ascribing very little future success.

Macro and markets

Global equities sold off in December, capping off a challenging year for investors as markets grappled with rapid rate hikes as central banks scrambled to combat wide-spread inflationary pressures, pandemic disruptions and the Ukraine war. Indeed, 2022 was a year most investors (including ourselves) would rather forget...the S&P 500 shed 19.4 per cent during 2022 while the tech-heavy NASDAQ tumbled 33.1 per cent, marking their worst yearly performances since the 2008 financial crisis and ending a three year winning streak. Our beloved Aussie Small Caps benchmark fell 18.4 per cent with Small Industrials down 24.2 per cent and Small Resources off 8.4 per cent.

Despite data released during December confirming a slowing US economy, the tight labour market remains a key challenge for the US Federal Reserve which remains hawkish and firmly focused on 'getting the job done' when it comes to bringing inflation back towards the 2 per cent long-run target zone...so it seems investors hoping for a 'Fed pivot' may have to wait a little longer.

What did arrive sooner than most had expected was China's abandonment of its stringent zero-COVID policies during December, with the country reopening its economy and pivoting towards living with the virus. The initial wave of infections (China is no longer releasing infections data) may place some near-term pressure on global supply chains, however reopening should be supportive for global growth and particularly commodities over the medium-term. Domestically, the Australian economy continues to show resilience with labour markets also very tight, however, all eyes remain on the wave of fixed-rate mortgages set to switch to variable-rate (ramping up from March/April 2023) which should dampen consumption activity and may see the Reserve Bank pause in terms of its official cash rate tightening schedule.

Outlook and positioning

With 2022 in the rear-view mirror, investors can now look forward to what opportunities and threats 2023 may present. Equity strategists we follow appear to be in either one of two camps; those calling for a US recession (likely starting 2Q/3Q CY2023) where unemployment rises, inflation cools and the Federal Reserve pivots later in the calendar year, resulting in lower interest rates by year end (our guess would be this is now the consensus view). The alternative camp sees the Fed successfully engineering a soft economic landing whereby the US narrowly avoids a recession, however economic growth under this scenario will likely remain below trend given higher for longer rates would be required to combat sticky wage inflation. Either way, it may take a few months before it becomes clear which scenario is correct, and this means markets could be volatile and choppy over the near-term. As we have mentioned many times before, we don't pretend to be macro specialists – we try not to make big macro bets because we think these forces are too hard to accurately and repeatably call.

Portfolio positioning – considering the macro uncertainty we have attempted to construct a portfolio which should perform relatively well under various scenarios. Importantly, we remain nimble and ready to respond as and when market conditions change. We continue to favour companies with earnings resilience ahead of a potential economic slowdown, with strong balance sheet positions and preferably growth potential independent of the cycle. We remain wary of the mature domestic retailers considering the impending consumption headwinds from tightening interest rates. We continue to like secular themes such as global energy security and decarbonisation, with the outlook for resources further supported by China's economic reopening. Cash levels of around 8 per cent provide us with ample firepower to prosecute against attractive investment opportunities presented by market volatility.

Finally, we would like to thank our investors for your continued support during the year. Whilst we are disappointed with performance over 2022, we remain excited about our prospects for 2023. The near-term outlook may be murky, however market sentiment is already very bearish and we do know that sentiment can turn very quickly and when it does, great returns can be generated. You can be sure that we will stay active and do our very best to take advantage of the most compelling opportunities when they come our way.