



# 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 "lifecyle 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

\$190.5M

#### 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

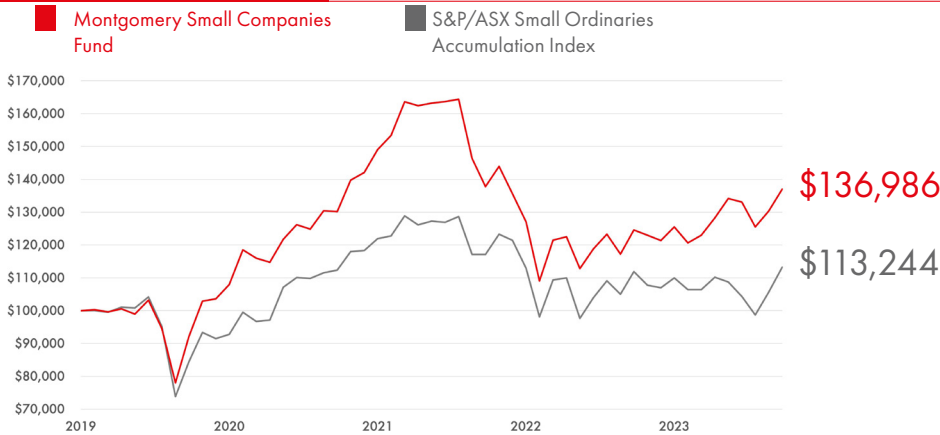
#### PERFORMANCE FEES

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 December 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%	5.11%	<b>5.11%</b>	7.23%	-2.12%
3 months	0.00%	2.94%	<b>2.94%</b>	8.52%	-5.58%
6 months	0.00%	11.38%	<b>11.38%</b>	6.42%	4.96%
12 months	0.72%	16.15%	<b>16.87%</b>	7.82%	9.05%
3 years (p.a.)	2.90%	-0.12%	<b>2.78%</b>	0.95%	1.83%
Since inception#	11.29%	25.70%	<b>36.99%</b>	13.24%	23.75%
Compound annual return (since inception)#	2.53%	5.10%	<b>7.63%</b>	2.95%	4.68%

# Inception: 20 September 2019

Past performance is not indicative of future performance



## TOP COMPLETED HOLDINGS\* (TCH)

(as at 31 December 2023 showing top 5 of 50 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
Aussie Broadband	ASX:ABB	<a href="http://www.aussiebroadband.com.au/">http://www.aussiebroadband.com.au/</a>
Bapcor	ASX:BAP	<a href="http://www.bapcor.com.au/">http://www.bapcor.com.au/</a>
Gold Road Resources	ASX:GOR	<a href="https://goldroad.com.au/">https://goldroad.com.au/</a>
HUB24	ASX:HUB	<a href="http://www.hub24.com.au/">http://www.hub24.com.au/</a>
Pinnacle Investment Management Group	ASX: PNI	<a href="https://pinnacleinvestment.com/">https://pinnacleinvestment.com/</a>

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

Total equity weighting	97.45%
Total cash weighting	2.55%

## TOP 3 CONTRIBUTORS AND DETRACTORS

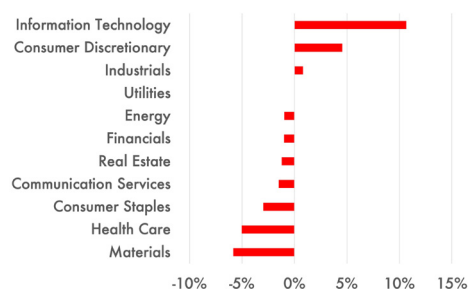
### CONTRIBUTORS

Alliance Aviation	Shares rallied after AGM confirmed consensus
Lovisa Holdings	Shares rallied on improved global macro sentiment
Seven Group Holdings	Shares continued to rally after November's upgrade

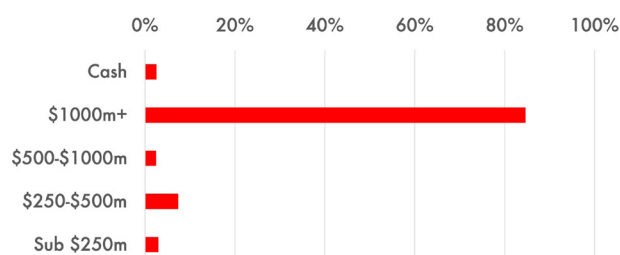
### DETRACTORS

IPH	Shares underperformed risk-on rally, plus stronger AUD/USD
Hansen	Shares underperformed risk-on rally
Red 5	Shares consolidated recent strength

## GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK



## MARKET CAPITALISATION EXPOSURE



■ Montgomery Small Companies Fund

## CONTACT DETAILS

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**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

# 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) increased 5.11 per cent, net of fees, in December versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which increased by 7.23 per cent. Since inception (20 September 2019), the Fund has increased by 36.99 per cent, outperforming the benchmark by 23.75 per cent, after all fees and expenses.

Global equities continued to rally hard into year end, propelled by growing investor confidence around a potential 'Fed pivot' sometime in 2024 with recent economic data supporting the view that the battle against inflation is being won (albeit not over just yet) without driving the U.S. economy into a so-called 'hard landing.' Throughout most of 2023 markets were positioned for a bearish scenario so the better outlook delivered a robust 'risk-on' rally with investors rotating out of defensive stocks into more economically sensitive companies, many of which were under-owned and/or heavily short. Despite being quite active in managing the portfolio shape to benefit from improved sentiment, we couldn't keep up with December's 7.2 per cent benchmark gain, closing out the 2023 calendar year with portfolio outperformance of 9 per cent.

The largest positive contributors for December included Alliance Aviation (ASX:AQZ), Lovisa Holdings (ASX:LOV), and Seven Group Holdings (ASX:SVW). Alliance Aviation shares rallied after management confirmed at the November Annual General Meeting (AGM) that they are comfortable with consensus expectations for FY24 pre-tax profit to grow 47 per cent to c.\$84 million. The significant capital investment in fleet expansion made over the past three years supports a strong medium-term growth outlook which we feel remains underappreciated by the market (Alliance Aviation is trading at just 4.7x FY24 EBITDA). Lovisa shares ran on the back of improved investor sentiment towards the global macro outlook, as well as on news of the company opening its first jewellery store in China which has the potential to be a very large market opportunity. Although Lovisa shares trade at a premium multiple, we believe this is justified by the excellent store economics and very large store roll-out potential. Seven Group Holdings shares continued to power ahead following on from the November AGM earnings upgrade. Seven Group Holdings provides investors with exposure to a number of attractive themes, such as domestic mining production volumes, infrastructure and residential construction activity, as well as energy. With the stock approaching fair value, we sold into recent strength and reduced our portfolio position.

The largest detractors from performance included IPH Ltd (ASX:IPH), Hansen (ASX:HSN) and Red 5 (ASX:RED). IPH shares underperformance was likely due to the negative earnings translation impact from the appreciating Aussie dollar (the company bills many global clients in U.S. dollars) and the market's rotation out of defensive businesses and into more macro sensitive ones. Although we view valuation as cheap for the earnings quality (14x FY24 P/E) we fear the stock may be lacking near-term catalysts to drive a re-rate.

Hansen shares failed to join in on the market rally despite no new stock specific news, potentially also reflecting the market's rotation out of defensive earnings names. Valuation remains appealing (9.5x FY24 EBITDA) with an acquisition possibly required to drive a multiple re-rate. Red 5 shares gave back some recent gains yet remain strongly up over the year.

With 2023 now behind us, investors can look forward into 2024 and the set-up for small caps looks particularly attractive, from our perspective. At the macro level, monetary policy settings across many developed economies appear sufficiently restrictive to bring inflation down towards target rates without causing unwanted spikes in unemployment or credit crunches. Economists continue to debate whether indeed the U.S. economy will dip into recession during 2024, although the current consensus view seems to be that any potential recession will most likely be relatively short and shallow, and the Federal Reserve has ample room to pivot towards easier monetary policy if required. The bond market might be aggressive in its expectations for rate cuts on timing, but the direction of travels looks right.

Against this macro backdrop, we think the outlook for small caps in 2024 appears bright, with small caps having lagged the broader market recovery and continuing to offer stronger growth at cheaper valuations relative to their more mature large cap counterparts. Further, earlier stage companies have greater ability to innovate and take market share which tends to see them outperform cyclical upturns. Markets may remain volatile as investors assess the economic data, looking for confirmation that the rate hiking cycle is in fact over and when we might see policy easing, and how corporate earnings fare along the way. Our aim is to stay nimble and seek out the best risk-adjusted, undervalued opportunities where the drivers of change and earnings power have upcoming catalysts to drive a shift in valuation, thereby delivering performance for our investors.

Finally, we would like to thank our investors for your continued support during the year and after delivering a 16.87 per cent return in calendar 2023, we look forward to working hard with the objective of delivering strong investment outcomes during 2024 and beyond.

