



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

\$157.8M

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

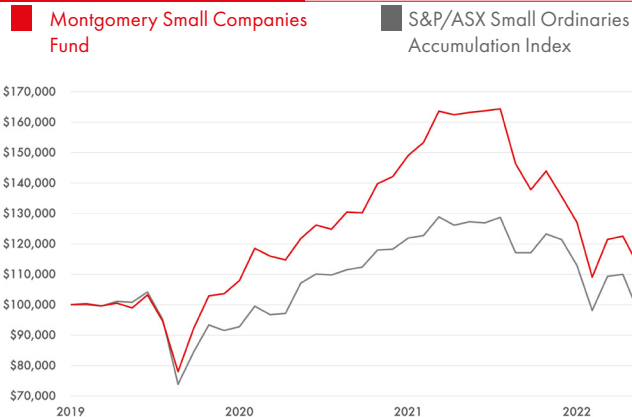
PERFORMANCE FEES

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



\$122,995

\$107,772

PORTFOLIO PERFORMANCE

(to 28 February 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%	-1.26%	-1.26%	-3.70%	2.44%
3 months	0.00%	-0.22%	-0.22%	-1.21%	0.99%
6 months	0.00%	0.39%	0.39%	-2.01%	2.40%
12 months	2.01%	-12.74%	-10.73%	-7.97%	-2.76%
3 years (p.a.)	3.57%	5.59%	9.16%	4.24%	4.92%
Since inception#	10.51%	12.49%	23.00%	7.77%	15.23%
Compound annual return (since inception)#	2.95%	3.25%	6.20%	2.20%	4.00%

Inception: 20 September 2019

Past performance is not indicative of future performance



TOP COMPLETED HOLDINGS* (TCH)

(as at 28 February 2023 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://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	92.97%
Total cash weighting	7.03%

TOP 3 CONTRIBUTORS AND DETRACTORS

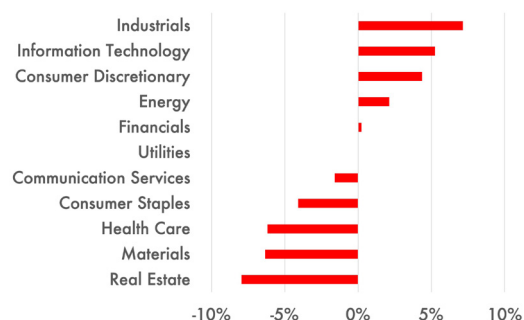
CONTRIBUTORS

AUB Group	Beats expectations and upgrades outlook
Hub24	Beats expectations and upgrades outlook
Johns Lyng Group	Upgrades outlook and relief rally

DETRACTORS

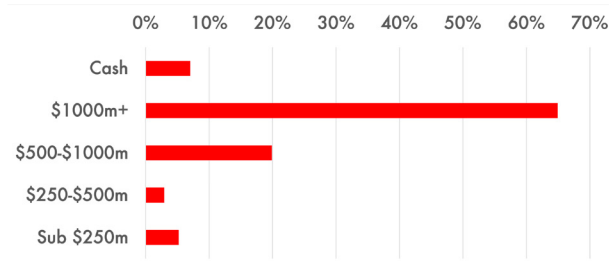
Hansen Technologies Limited	Weaker 1H implies strong 2H needed
Ingenia Communities Group	Lowered outlook for the year on poor construction execution
Red 5 Limited	Capital raise to fully fund mine ramp up

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) Wealth2/uXchange BT Wrap BT Panorama HUB24 (IDPS and Super) Ausmaq Macquarie Wrap Asgard Premium 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) declined 1.26 per cent, net of fees, in February versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which declined by 3.70 per cent. Since inception (20 September 2019), the Fund has increased by 23.00 per cent, outperforming the benchmark by 15.23 per cent, after fees and expenses.

Earnings season was the biggest influence on the share prices of the top winners and losers in the Fund for the month. The largest positive contributors for February included AUB Group (ASX:AUB), HUB24 (ASX:HUB) and Johns Lyng Group (ASX:JLG).

AUB's shares rallied on a result that beat already raised expectations, driven by better-than-expected performance of AUB's Tysers acquisition and its core business benefitting from strong insurance and market fundamentals. Management also laid out their expectations for better operating performance ahead, and as a result analysts lifted earnings expectations some 4-6 per cent over the next couple of years, and their price targets by 11 per cent.

HUB24 continued to demonstrate that rare quality which is often underappreciated by markets. It has a business model that has a clear structural growth runway and that provides the platform to significantly surprise to the upside in terms of its earnings power, this time through stronger margins orchestrating an earnings upside event some 5-6 per cent ahead of expectations for the December 2022 half-year. Analysts responded lifting consensus forecasts some 4-6 per cent over the next 2 years.

JLG's 1H results revealed strength of its near-term earnings power and management upgraded its guidance for the year by 5.5 per cent. 1H Earnings were driven by strong volumes of CAT work (work funded by insurers to repair post catastrophic weather events), and stronger performance of its recently acquired U.S. asset offsetting losses in its commercial contracting business (that JLG is shutting). Strong business fundamentals now revealed, on top of weak sentiment meant JLG's share price bounced in response.

The largest detractors from performance included Hansen Technologies (ASX:HSN), Ingenia (ASX:INA), and RED5 (ASX:RED).

HSN's shares suffered from a weak first half result, albeit it was hardly unexpected given management's previous outlook commentary included a view that it would take until the full year to have passed on sufficient price rises to offset wage rises in its business. However, added to that was the news that profit dense upfront licence revenue, which can be lumpy, was modestly lower and cashflows were weaker than normal too, and the shares sold off in response. INA lowered its guidance for full year home settlements and with it earnings for the year. Weather and trade availability were blamed for their contract builder's timescale to complete slipping further. Management also reported that they are starting to see some buyer hesitancy emerging in their retirement living home sales end market, albeit they are selling everything they can complete and have almost zero inventory available. INA's management have done a great job at assembling an enviable asset position (the sites on which to build these seniors communities are hard to come by) but a poor job of then executing a build-out strategy, in the face of the current construction sector supply constraints. RED shares underperformed as the company raised capital to fund working capital shortfall as the large King of the Hills gold mine in Western Australia is brought from development project to operating mine.

Results season learnings

The prevailing weak macro and sentiment meant the market was braced for a weaker than usual reporting season, there tends to be higher "misses" versus expectations as those expectations are set by humans (analysts) who struggle to assimilate the impact of soft top-down macro into their bottom-up micro earnings expectations until "instructed" to do so by management.

This was one of those reporting seasons.

In our discussions with management teams, cost inflation and economic slowdown concerns were front of mind. On costs, frequent mentions of limited labour availability and wage inflation of 5 per cent+ but the more optimistic suggest they feel that perhaps the worst is now behind us, let's see. Travel costs bit hard, as pent-up travel occurred, but high unit costs now appear to be influencing future plans. On the plus side cost containment is now underway, and supply chain constraints, specifically in-bound freight costs, are easing. We'd expect a future cashflow benefit as safety stock holdings now unwind as supply chain performance returns to normal.

On the demand side, consumer facing businesses are either seeing slowing demand or are anticipating it. These businesses are acutely aware of the impact of higher interest rates and cost of living pressures could have on their demand profile and have made their plans accordingly. Demand from Corporate Australia remains more solid, although the cost containment responding to significant inflation in wages and other fixed costs is impacting discretionary spend intentions – notably travel and media. Resource companies and those in their supply chains continue to see strong prices and demand, China re-opening often cited as a reason for optimism. Financials and REITs are adjusting to the sharp pace of interest rate rises, re-calibrating the risks in their lending books and their cost of capital in their profit and loss statements.

Outlook and positioning

We aren't macro experts but view that the Macro debate has moved to its next stage – markets are trying to refine their view of where the peak rates are and when, as opposed to being fearful that the rate regime was miles away from where it needed to be. We are now trading in 25 basis points +/- rates scenarios. So we consider that we may be at a very volatile data driven, tipping point of the economic cycle, flip flopping between pessimism that we aren't there yet and optimism that we can see the peak and after that it's a downhill run to economies operating their full potential again. We don't know when flip turns to flop, but know that we want to run a balanced portfolio, keeping our eye on investments that do well in either scenario, but specifically on those whose valuation regimes have been most compressed by the macro uncertainty, which we do know will pass.

Our current positioning has Energy and base metals as our favoured commodity exposures, as the supply side in these sectors look constrained, compared to the near term demand expansion we see on China re-opening (energy and base) and a longer term price premia arriving to stimulate supply growth necessary to accommodate de-carbonisation (base). We are reluctant to take the many no/low growth domestic consumption exposures ahead of a potential consumption slowdown, notwithstanding many of these companies are planning for it. However as Mike Tyson put it "Everyone has a plan until they get punched in the mouth". If its Tyson out there these stocks will get hurt. It may of course be a wet paper bag but why does that mean these stocks do well? We see negative asymmetry here.

Management at growth stocks are now largely adjusting to the message in their share prices that investors want to see restraint and growth optionality preserved for another day. We see opportunity here, as we observe there is no investor discussion about the earnings power of these businesses in a future horizon that extends beyond the end of the next period's earnings and valuation regimes have compressed to reflect that. We know that the extent of the valuation regime shift is considerable as investors lower/raise (pessimism/optimism) their earnings horizons on these stocks, the job of work is to identify those stocks that have the fundamentals in place to do well when that time comes. Today we hold a balance of defensive growth, and some select structural growers whom we view their valuation regimes to be already considerably compressed.



Aside from being under-weight domestic consumption exposure we continue to hold underweight positioning in Financials (old world fund managers) and REITs (landlord type rent collectors), and saw little during reporting season that shifted our thinking here. Reporting season brought its usual gold mine of new information to work through, and now with the initial market reaction to new information largely behind us the task is to work through the list of new ideas and prospects that the combination of new information and share price reaction has brought.

