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
$159.4M

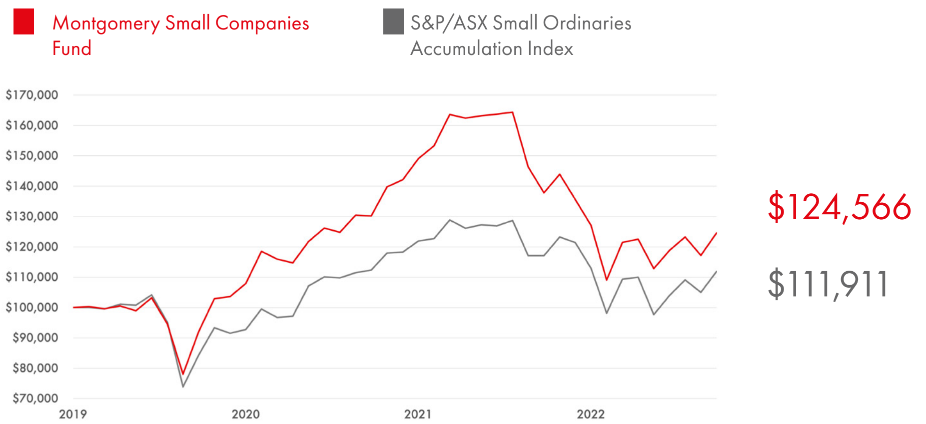
MANAGEMENT FEES AND COSTS
1.23% per annum*, which includes a management fee of 1.03% per annum.

*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 January 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%	6.28%	**6.28%**	6.56%	-0.28%
3 months	0.00%	4.82%	**4.82%**	7.64%	-2.82%
6 months	0.00%	2.54%	**2.54%**	2.34%	0.20%
12 months	1.89%	-16.78%	**-14.89%**	-4.44%	-10.45%
3 years (p.a.)	3.29%	3.19%	**6.48%**	2.41%	4.07%
Since inception#	10.51%	14.06%	**24.57%**	11.91%	12.66%
Compound annual return (since inception)#	3.01%	3.74%	**6.75%**	3.40%	3.35%

Inception: 20 September 2019

TOP COMPLETED HOLDINGS* (TCH)

(as at 31 January 2023 showing top 5 of 49 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/
IDP Education	ASX:IEL	https://www.idp.com/australia/
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	92.01%
Total cash weighting	7.99%

TOP 3 CONTRIBUTORS AND DETRACTORS

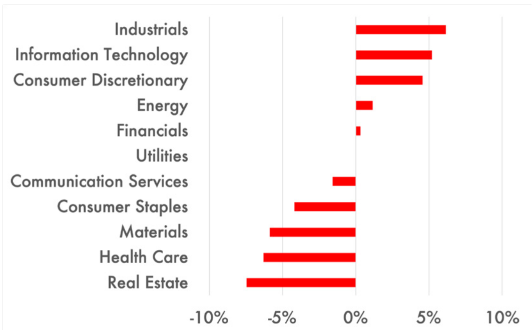
CONTRIBUTORS

ARB Corporation	Shares rallied on improved investor sentiment towards consumer discretionary stocks
IDP Education	Shares rallied on the China reopening thematic
Pinnacle Investment Management	Shares rallied as investors looked to add risk positions to their portfolios

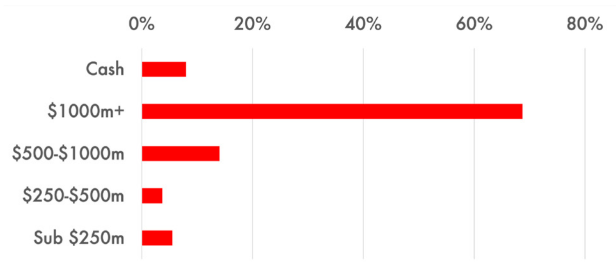
DETRACTORS

Johns Lyng Group	Shares remain 'sin binned' after recent Director selling
Macquarie Telecom Group	Shares gave back recent gains on no new news and light volumes
Megport	Shares sold off after trading update disappointed the market

GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK



MARKET CAPITALISATION EXPOSURE



Montgomery Small Companies Fund

CONTACT DETAILS

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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) returned 6.28 per cent, net of fees, in January versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which increased by 6.56 per cent. Since inception (20 September 2019), the Fund has increased by 24.57 per cent, outperforming the benchmark by 12.66 per cent, after fees and expenses.

The largest positive contributors for January included ARB Corporation (ASX:ARB), IDP Education (ASX:IEL) and Pinnacle Investment Management (ASX:PNI). ARB shares rallied on improved investor sentiment towards the consumer discretionary sector based on recent domestic and overseas economic data which remains remarkably resilient. Since month end, the company released a market update highlighting a solid sequential sales recovery during 2QFY23 and management's positive near-term outlook based on the strong order book, new product pipeline and offshore expansion strategy. Whilst macro risks certainly remain, ARB is a high-quality company with significant medium-term growth potential trading at a discount to history which suggests to us that much uncertainty is already in the price.

China's reopening propelled IEL's shares higher with the company set to benefit from the return of Chinese students to its key destination markets of Australia, Canada and the UK. Indeed, in late January China's Education Department directed all Chinese students enrolled in Western universities to book flights and get back to face-to-face studies before the new academic year begins, warning that online academic degrees and diplomas will no longer be recognised in China. IEL remains an attractive structural growth story with a strong market position and balance sheet optionality – whilst not cheap on near-term earnings, we see value looking further out.

PNI is a 'high beta' stock which did its job in the portfolio by outperforming during January's risk-on market rally. Last year was a tough year for the fund manager with weak sentiment and markets impacting assets under management and flows. Further, the company continues to invest in 'horizon two' initiatives which provides higher operating leverage to a potential market recovery. We don't know if markets will improve during 2023 but we do know that PNI remains particularly well placed when they do.

The largest detractors from performance included Johns Lyng Group (ASX:JLG), Macquarie Telecom Group (ASX:MAQ) and Megport (ASX:MP1). JLG shares remain in the 'sin bin' after numerous Director sell-downs. To win investors back we think management need to provide firmer evidence that the (US based) Restoration Experts acquisition is as transformative as promised. Hopefully we will see this at the upcoming interim results. MAQ shares gave back recent gains during January on no new news and on very light volume. MP1 shares sold off after the company's 2QFY23 global update disappointed the market. Although 1H23 revenue and EBITDA came in-line with consensus, evidence of weak front-end sales execution continued, management called out a longer sales cycle given the macro backdrop. On the plus side MP1 delivered a series of initiatives that improve the Company's journey to cashflow breakeven (price rises, capex cycle ending and direct cost reductions), although the market didn't initially appear to pay any attention to this, which we think counts in the end.

Macro, outlook and positioning

Global markets rallied strongly in January, recovering from their fall in December, and investor's defensive positioning amplified the rally as cash on the sidelines was put to work. US macro data appears to be supportive that the heavy lifting on US rate rises is done and whilst the Fed's outlook is for more rate rises these will be in more palatable 25 basis point clips as evidence of declining inflationary expectations is now being observed and recognised by Fed Chair Powell. The narrative around US inflation is changing from way too high, to previous rate rises are starting to have an impact, inflation is falling but it will take time to get it back to its target range of around 2 per cent. US reporting season is underway and corporate earnings, which the market is fearful will be under pressure from the weaker macro, have so far proved more resilient than expected. Corporates appear quick and ready to cut headcount and costs in response to the weaker conditions. Domestically as we write the RBA has lifted its cash rate by 25 basis points, but Governor Lowe's address has proved sufficiently hawkish to see economists add another rate rise or two to their outlooks. The Australian consumer has been spending strongly so far, but with interest rates heading into restrictive territory we expect to see an impact in the year ahead.

Outside of the outlook for inflation, China's re-opening from its zero covid policy is a significant theme for markets. Commodity prices and commodity equities (miners) have responded positively in anticipation of China's demand resumption to something more normal. We expect this theme to be a dominant one in the months ahead, with resource sector sentiment and stocks to be buffeted between the extremes of demand taking time to recover due to COVID infection supply chain impacts at one end and the euphoria over the strength of pent-up demand on the other.

The Australian earnings season is upon us. Given the macro backdrop we expect the battleground sectors this reporting season to be Consumer, Growth and REITs.

Consumer: We expect the market to enjoy the backward-looking earnings from the strong demand experienced by domestic consumer related stocks in late-2022, but we are fearful of the near-term earnings as the impact of rate rises and cost of living are scheduled to bite harder in 2023 than they did in 2022, particularly as the domestic re-opening pent up demand/revenge spending party comes to an end. If you are a CEO running a retailer or consumer facing business you already know that you face a demand headwind, but you have no certainty how that will unfold and impact your business. That's a difficult environment to provide an outlook that the market will welcome and so we remain cautious here. We have some exposure to overseas consumer growth names, but limited exposure to low growth domestic retailers.

Growth: Growth stocks have been punished in 2022 as growth drivers weakened and valuation regimes were impacted by the dramatic rise in interest rates. In response many growth companies have started work re-calibrating their cost bases in the face of near-term weaker macro delivering a slower growth outlook. With cost adjustment comes more earnings certainty whilst preserving that optionality for future growth. As the interest rate cycle approaches its peak we'd expect stronger investor interest in this cohort of stocks, and whether that happens in 2023 or beyond is not yet clear, but we don't think these stocks will face the sentiment headwinds they did in 2022. Our positioning here is across the spectrum, as we hold some lower growth defensive stocks that should prove resilient to slowing economic backdrop, and we also hold some higher growth stocks that we think are attractively priced for their growth that at some point we expect the market to appreciate.

REITs: The asset portfolios of the rent collectors face higher funding costs from rising interest rates, with the impact of a weak macro on their property portfolio. This of course the market knows, but we think will take time to work through in terms of lower property valuations and we don't expect the operational performance of the assets in CY2H22 to alter that debate. We have an under-weight to the REIT sector, and we don't hold any of the rent collectors type stocks that we think are subject to considerable asset revaluation headwinds, instead owning stocks in niche segments where the management team operate the assets as a business and exert more control over costs and investments.

We look forward to the news flow intensity and share price volatility that earnings season always brings, as we have cash to put to work in stocks we like the look of for the medium term but may have earnings or outlook headwinds, and we will report back as always at the end of the month.