



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%.

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FHT3726AU

PORTFOLIO MANAGERS

Gary Rollo
Dominic Rose

RECOMMENDED INVESTMENT TIMEFRAME

5 years

MINIMUM INITIAL INVESTMENT

\$25,000

INCEPTION DATE

20 SEPTEMBER 2019

FUND SIZE

\$166.3M

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

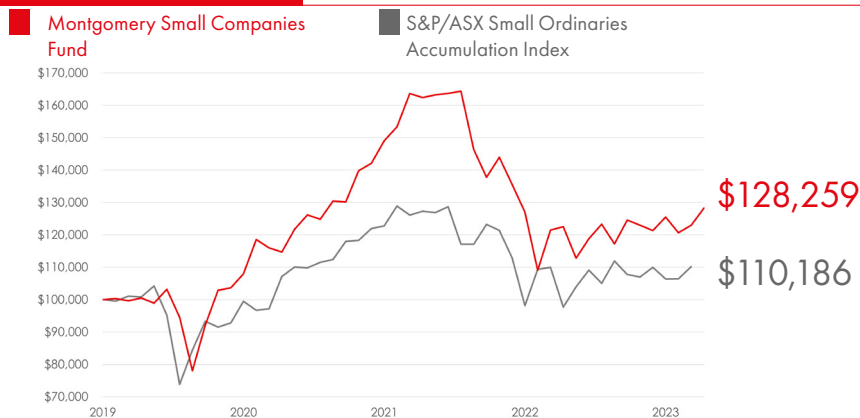
PERFORMANCE FEES

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 July 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%	4.28%	4.28%	3.54%	0.74%
3 months	0.67%	1.51%	2.18%	0.20%	1.98%
6 months	0.68%	2.29%	2.97%	-1.54%	4.51%
12 months	0.69%	4.89%	5.58%	0.77%	4.81%
3 years (p.a.)	3.37%	2.54%	5.91%	5.89%	0.02%
Since inception#	11.29%	16.97%	28.26%	10.19%	18.07%
Compound annual return (since inception)#	2.81%	3.85%	6.66%	2.54%	4.12%

Inception: 20 September 2019

Past performance is not indicative of future performance



TOP COMPLETED HOLDINGS* (TCH)

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

COMPANY NAME	TICKER	COMPANY WEBSITE
Alliance Aviation Services	ASX:AQZ	https://www.allianceairlines.com.au/
Bapcor	ASX:BAP	https://www.bapcor.com.au/
HUB24	ASX:HUB	https://www.hub24.com.au/
Macquarie Group	ASX:MAQ	https://www.macquarie.com.au/
Megaport	ASX:MP1	https://www.megaport.com/

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

Total equity weighting	95.27%
Total cash weighting	4.73%

TOP 3 CONTRIBUTORS AND DETRACTORS

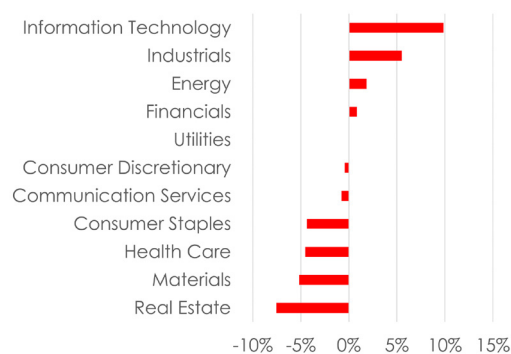
CONTRIBUTORS

Megaport	Rallied on earnings upgrade
Alliance Aviation Services	Rallied on earnings upgrade
Symbio Holdings	Rallied on no new news

DETRACTORS

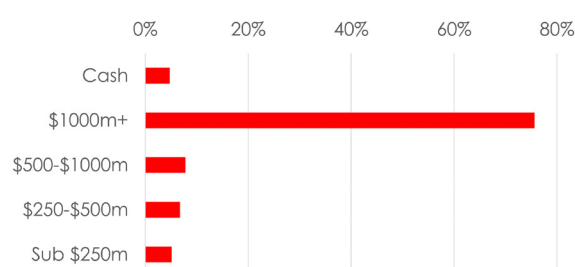
Præmium	Sold off on weaker industry dynamics
Aeris Resources	Sold off on expected weak mine production expectations
Allkem	Sold off on no new news

GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK



■ Montgomery Small Companies Fund

MARKET CAPITALISATION EXPOSURE



CONTACT DETAILS

INVESTORS

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ADVISERS, RESEARCHERS AND PLATFORMS

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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 = Præmium 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) returned 4.28 per cent, net of fees, in July versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which increased by 3.54 per cent. Since inception (20 September 2019), the Fund has increased by 28.26 per cent, outperforming the benchmark by 18.07 per cent, after fees and expenses.

The largest positive contributors for June included Alliance Aviation Services (ASX:AQZ), Megaport (ASX:MP1) and Symbio Holdings (ASX:SYM). AQZ shares rallied after the company upgraded FY23 earnings guidance (by 8 per cent at the midpoint) on the back of stronger flying activity during 2H23 as additional aircraft were deployed into service under the multi-year fleet expansion program. We continue to see upside to consensus earnings expectations as AQZ's expanded fleet gets put to work and the higher profitability from these new assets becomes visible.

MP1's June 2023 quarterly update was well received by investors, confirming a solid end to FY23 and a stronger than expected FY24 outlook. Importantly, the company delivered a maiden positive free cashflow result in the June 2023 quarter driven by demand growth, stronger pricing, cost outs and lower capex. Management signalled FY24 will likely exceed previous earnings guidance with more detail to be provided at the August results. MP1's new CEO will now lay out the company's medium-term sales execution plan to capitalise on its first mover market leadership position into an attractive growing end market for cloud connectivity.

During the month SYM shares rallied on no company specific news, although since month end the company confirmed that it has received a non-binding indicative bid from Superloop (ASX:SLC) valuing the company at \$243 million equivalent to \$2.85 per share. The cash and scrip offer implies a 26 per cent premium to the pre-bid close and at a low 7x FY24 EBITDA multiple. Our initial take is that the offer is opportunistically timed and materially undervalues the company. Arguably SYM's earnings are at a trough as it funds the costs of its Asian expansion strategy with little to show from an earnings perspective yet. It is far from obvious how a 7x multiple adequately compensates investors for the value of that Asian growth option, or potential synergies from this proposed combination.

The largest detractors from performance included Aeris Resources (ASX:AIS), Allkem (ASX:AKE) and Praemium (ASX:PPS). AIS shares sold off after the company warned operational issues will result in a FY23 earnings & cashflow miss. A series of seismic events at AIS's Jaguar underground mine led to a shortfall in production in the quarter, and the tough decision was taken to place that asset on care and maintenance, with the associated cash costs. It's no longer clear how AIS's balance sheet can fund the transformational production growth and mine life extension event that the Constellation discovery at Tritton allows, and we decided to exit our small position.

AKE remains under take-over offer from US Lithium producer Livent (NYS:LTHM). However, its share price responded to negative sentiment on the underlying Lithium commodity realised pricing observed across the Australian Lithium producer sector during this

quarterly reporting period. Operationally, AKE looks well positioned going into the December 2023 half-year, with the potential catalyst for the share price re-rating from the proposed take-over transaction closing, or another bidder emerging.

PPS shares continue to languish, weighed down by the prevailing soft wealth management platform inflow environment. The company remains strongly leveraged to a potential recovery in investor sentiment and the company valuation looks attractive.

Macro, outlook and positioning

Global equities rallied in July after the US inflation print came in softer than expected, supporting the view that the rate hiking cycle may be coming to an end. Slowing inflation without a material rise in unemployment (evidenced so far) provides hope in a soft-landing scenario for the US economy which appears to be gaining acceptance - replacing expectation of a small backward step in GDP with a small forward one instead. However, evidence of Labour market strength also signals less need to cut official cash rates down the track to provide support for the economy flagging under the burden of higher rates.

Here in Australia, the economic outlook looks less certain considering the potential negative impact of the 'mortgage cliff' on discretionary consumption and several headwinds to seeing the same slowing of inflation here in Australia - rising rents from a structural housing shortage, rising wages from industry award determinations and rising power costs reflecting expected rising energy feedstock and infrastructure costs. With August results season now upon us, investor focus shifts towards corporate earnings and outlook statements where expectations and market positioning will be measured against the hard data.

The largest areas of market weakness here in Small Cap Australia in response to the prevailing macro conditions has been in Growth and Consumer discretionary stocks. Our focus has been to pore over these opportunities and decide which ones and when to invest. We've opted to position the portfolio to benefit from improving operational performance of the growth stocks as they reap the rewards from a period of self-help as management cut costs, reduce capex, raise prices and prioritise profits and cashflows over the delivery of near-term growth. Higher growth optionality remains on the table, but for a future date.

We have looked at the discretionary consumer space, and generally we have concluded that the valuation optionality there is not so strong, and we are not being compensated for the uncertainty arising from earnings outcomes that look very difficult to predict as these businesses grapple with uncertainty over demand, yet considerable certainty surrounds rising key cost inputs such as rent and labour.

We look forward to reporting back what we learn through reporting season.

