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

RECOMMENDED INVESTMENT TIMEFRAME
5 years

MINIMUM INITIAL INVESTMENT
$25,000

INCEPTION DATE
20 SEPTEMBER 2019

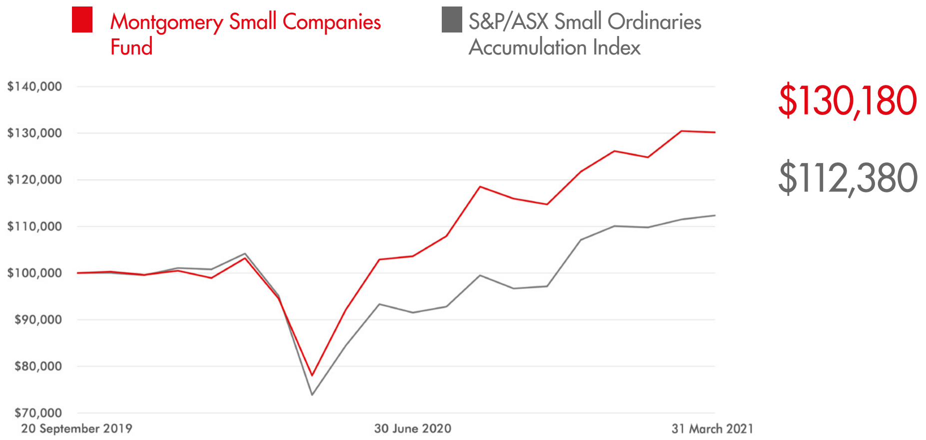
FUND SIZE
$77.4M

MANAGEMENT FEE
1.23% per annum, which includes a management fee of 1.03% per annum.
Both figures are GST inclusive and net of RITC.

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



CONTACT DETAILS

INVESTORS
Toby Robberts
t 02 8046 5017
e troberts@montinvest.com

ADVISERS, RESEARCHERS AND PLATFORMS
Scott Phillips (NSW)
e sphillips@montinvest.com
Dean Curnow (NSW, ACT, WA)
e dcurnow@montinvest.com
David Denby (VIC,SA)
e ddenby@montinvest.com
Michael Gollagher (QLD)
e mgollagher@montinvest.com

PORTFOLIO PERFORMANCE

(to 31 March 2021, after all fees)

	INCOME	CAPITAL GROWTH	MONTGOMERY SMALL COMPANIES FUND	S&P/ASX SMALL ORDINARIES ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	-0.21%	-0.21%	0.79%	-1.00%
3 months	0.00%	3.17%	3.17%	2.09%	1.08%
6 months	0.00%	12.25%	12.25%	16.20%	-3.95%
12 months	0.00%	66.81%	66.81%	52.15%	14.66%
Since inception#	0.00%	30.18%	30.18%	12.38%	17.80%
Compound annual return (since inception)#	0.00%	18.84%	18.84%	7.94%	10.90%

Inception: 20 September 2019

FUND COMMENTARY

The conclusion of results season saw investor attention pivot towards macro themes which ultimately dominated the narrative and direction of global equities in March. Markets reached new highs on the improving backdrop with expectations steadily building for a sharp global economic recovery, underpinned by vaccine optimism and highly accommodative fiscal and monetary policies worldwide. Countries well progressed with their inoculation programs have reported material declines in COVID-19 infections and hospitalisations, paving the way for an economic reopening. And the recovery has been confirmed by some encouraging recent economic data points, particularly out of the US and domestically, where consumption patterns, house prices and employment markets are all trending in the right direction. However, investor enthusiasm has been tempered by runaway inflation fears which could potentially prompt policy makers to taper rates too soon. Although central banks continue to dismiss these concerns as premature, the bond markets have repositioned for a higher rate environment.

The Montgomery Small Companies Fund (the Fund) returned negative 0.21 per cent, net of fees, in March versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which increased by 0.79 per cent. Since inception (20 September 2019), the Fund has increased 30.18 per cent, outperforming the benchmark by 17.80 per cent, after all fees and expenses.

March winners and losers

For the month of March, the largest positive contributors to performance included Airtasker (ASX:ART), Ramelius Resources (ASX:RMS) and Uniti Group (ASX:UWL). ART made a stellar ASX debut, finishing up more than 60 per cent on its first day of trading and doubling from its IPO offer price on day two, far exceeding our most optimistic expectations. Although we remain attracted to ART's highly scalable online marketplace business model and see upside potential from global expansion initiatives, we decided to exit our position based on valuation grounds - at the current c.$500 million market cap (roughly double the implied IPO valuation), we felt much of the upside was being appropriately priced in by the market.

RMS shares rallied strongly on no new news, recovering much of the lost ground from February - perhaps reflecting some investor bargain hunting. RMS remains one of our preferred gold exposures with a portfolio of well-managed, cash generative assets and a strong balance sheet which offers organic and inorganic optionality. UWL's recent strong positive share price momentum continued during March - we believe investors are increasingly appreciating the company's latent earnings power as well as the strategic value of its telco network, particularly to large pension funds seeking long-life assets in a low growth, low return world. We continue to view UWL as a growth telco valued more like a mature operator - if the market won't close this valuation gap, we suspect private players will and we are positioned to benefit from that.

The largest detractors from performance included Aeris Resources (ASX:AIS), Alliance Aviation Services (ASX:AQZ) and Cashrewards (ASX:CRW). AIS shares consolidated in March after a spike in the prior month, consistent with the performance of the commodity sector more broadly.

Continued on the next page…

TOP COMPLETED HOLDINGS* (TCH)

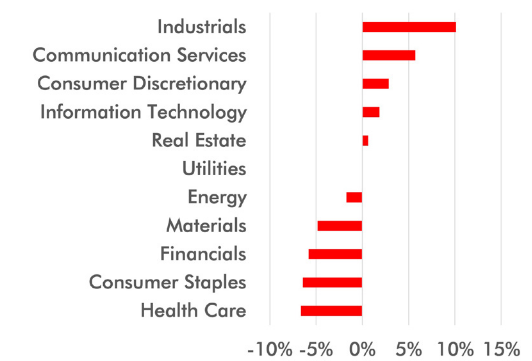
(as at 31 March 2021 showing top 5 of 50 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
Alliance Aviation Services	ASX:AQZ	https://www.allianceairlines.com.au/
City Chic Collective	ASX:CCX	https://www.citychiccollective.com.au/
EML Payments	ASX:EML	https://www.emlpayments.com/
Macquarie Telecom Group	ASX:MAQ	https://macquarietelecom.com/
Uniti Group	ASX:UWL	https://unitigrouplimited.com/

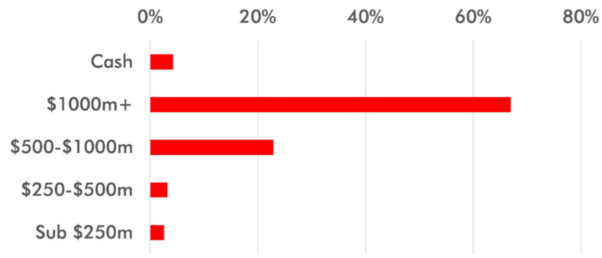
**Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.*

Total equity weighting	95.70%
Total cash weighting	4.30%

GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK



MARKET CAPITALISATION EXPOSURE



Montgomery Small Companies Fund

PLATFORMS WE ARE ON: Netwealth (IDPS and Super/Pension) uXchange BT Wrap BT Panorama HUB24 (IDPS and Super) Ausmaq Macquarie Wrap

In our view, AIS provides an attractive play on both gold and copper with material upside valuation potential as investor awareness continues to develop. AQZ shares also experienced some profit taking post a solid recent run. Our conviction in the AQZ equity story remains high - we see AQZ as an aircraft infrastructure business rather than an airline (evidenced by its far superior returns on capital employed) and management have once again demonstrated their ability to seize an opportunity presented by a severe market dislocation event, buying aircraft at cents in the dollar and contracting to airline customers looking to address their structural cost base issues. Valuation remains way too cheap for the growth, in our view.

CRW shares weakened further in March despite no new developments. We caught up with management post February results and came away feeling that the investment case remains firmly intact. The recently listed cashback company is doing exactly what it said it would do - strategically deploying IPO funds to accelerate customer acquisition, increase transaction frequency, grow brand awareness and enhance the technology platform to improve scalability. Cashback penetration within Australia remains comparably low while the structural shift of consumption towards online should prove a strong tailwind. Near-term catalysts for the stock include an anticipated recovery in travel sector activity and an update on its strategic relationship with ANZ (19 per cent CRW shareholder) which could deliver a step-change in customer volumes and materially better unit economics.

Montgomery Small Companies Fund positioning

As the outlook continues to evolve, we remain active and pragmatic towards generating returns, positioning the portfolio to benefit from a number of attractive themes, some of which are structural in nature and therefore expected to play out over the next five to seven years (like cloud), while others are more tactical with a shorter duration (eg the vaccine reopening trade). Regardless, we are always seeking to identify businesses with a sustainable competitive advantage which they can exploit and take meaningful market share, enabling them to outperform over the medium-term horizon.

The key themes we favour right now are discussed below:

Cloud – We believe innovation lives in Small Caps thanks largely to Cloud which has changed the unit economics of technology; no longer do you need to have a scale business to amortise the high cost and heavy upfront investment the technology architectures of the past demanded. And that changes the game for the innovators in our Small Company investment universe. Cloud technology tools now deliver "big company IT capability" to smaller innovative companies, representing a competitive weapon with which to wrestle market share from stagnant market incumbents, too big to change but no longer too big to lose. We are in year 5 of what we consider to be a 20-year investment theme, and the Fund remains well positioned in quality, high growth cloud technology plays.

Sustainable income – We typically shy away from investing in passive rent collectors such as REITs, preferring to allocate capital towards innovative Small Cap managers with their destinies in their own hands. However, we believe the pandemic has presented a tactical opportunity within the REIT sector too good to ignore; the potential to benefit from spread compression (valuation uplift) as certainty of income generation improves across the underlying asset classes, such as office blocks, retail malls and industrial buildings. Listed REITs continue to yield significantly more than recent implied private market transactions (and Australian Government 10-year bond yields more broadly) which suggests a disconnect between the stock market and the 'real world.' We see scope for the vaccine and the improving domestic economic backdrop to deliver the income certainty yield hungry investors are looking for. That certainty should drive an uplift to the valuation framework accorded to these yield assets, compressing yields and narrowing spreads. The Montgomery Small Companies Fund is well positioned to capture this valuation event.

Economic reopening – The arrival of the COVID-19 vaccine should be a major catalyst for sectors that have been shuttered due to the pandemic, paving the way for a staged reopening - travel, transport, hospitality, media, education and internationally exposed businesses. Rather than simply buying the absolutely worst businesses most impacted for a normalisation scenario, The Fund has preferred to invest in companies we expect to emerge from COVID-19 stronger - those where good management teams have been busy improving their competitive position. These businesses are poised to accelerate market share gains, building bigger moats. Never let a good crisis go to waste.

Strength and stimulus – All that money has to go somewhere – in Australia that is commodities, consumption and housing. Australia's mineral suite endowment is unrivalled; accelerating global growth and a medium-term bout of global synchronised nation building sees a voracious appetite for our commodities and a robust pricing environment across the commodity complex. That's good for the economy generally, and obviously great for domestic miners and their suppliers. We own domestic miners across multiple commodities, and also mining service companies, all of which have great balance sheets, low valuations and are strongly cash generative. We also expect Australia's appetite for housing in a lower interest rate environment to be as voracious as that commodity complex above. We see house price strength and don't expect Australia to miss this opportunity to pour more concrete as close to the coast as possible. The Montgomery Small Companies Fund is positioned in many stocks we expect to benefit from rising housing activity and household consumption, from mortgage brokers, building materials, home builders and select retailers – we are looking to capitalise on this area of expected cyclical strength within our domestic economy. Again, we typically favour advantaged businesses with a competitive edge enabling them to outperform the cyclical upturn.

De-carbonisation – It's happening. And it's got a huge boost from COVID-19 related stimulus and from recent global regulatory and political developments. Europe now sells more Electric Vehicles (EV) than China, and governments there, with a deep need to stimulate their economies, are turning to "green" stimulus, including support for the transition away from ICE vehicles (internal combustion engine) to those without carbon emissions. Specifically, those based around electric power trains, as it is the most well-developed scale technology to solve for regulation pushing for the decarbonisation of the Western Automotive fleet. Car Original Equipment Manufacturers are responding to this regulatory change and consumer appetite by launching many new car models based on EV, not ICE, platforms. The US, under a Biden presidency, is also expected to have a more supportive climate change agenda. Lithium, nickel, copper and rare earths are all key feedstock inputs into the components required for EVs, and Australia is blessed (again) with a suite of resource assets to deliver those, to a market hungry for a supply chain independent of China. We also expect to see WA emerge as a key feedstock provider and downstream value add processor. The Montgomery Small Companies Fund is well positioned in WA miners of some of these key feedstock commodities to benefit from what we see as a long-term growth theme as the developed world de-carbonises it transport networks.