# 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

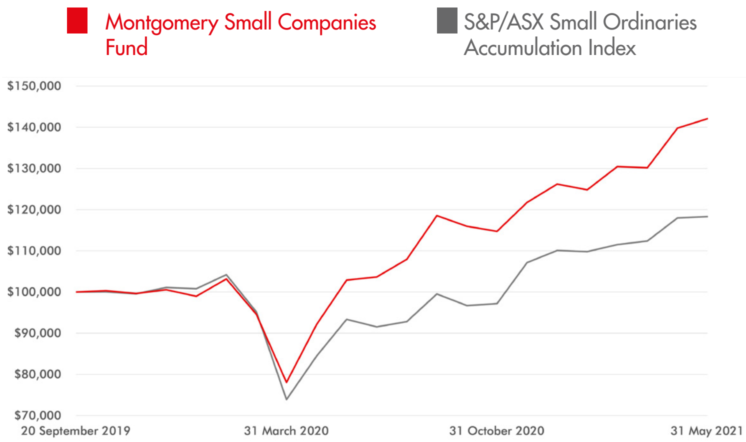
### FUND SIZE
$94.4M

### MANAGEMENT FEES AND COSTS
1.25% 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




$142,100

$118,291

## CONTACT DETAILS


### INVESTORS
Toby Roberts
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 May 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% | 1.67% | **1.67%** | 0.27% | 1.40% |
| 3 months | 0.00% | 8.93% | **8.93%** | 6.09% | 2.84% |
| 6 months | 0.00% | 16.72% | **16.72%** | 10.42% | 6.30% |
| 12 months | 0.00% | 38.11% | **38.11%** | 26.73% | 11.38% |
| Since inception# | 0.00% | 42.10% | **42.10%** | 18.29% | 23.81% |
| Compound annual return (since inception)# | 0.00% | 23.04% | **23.04%** | 10.42% | 12.62% |

# Inception: 20 September 2019

## FUND COMMENTARY

The Montgomery Small Companies Fund (the Fund) returned 1.67 per cent, net of fees, in May versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which increased by 0.27 per cent. Since inception (20 September 2019), the Fund has increased 42.10 per cent, outperforming the benchmark by 23.81 per cent, after all expenses.

The largest positive contributors for May included Aeris Resources (ASX:AIS), Corporate Travel Management (ASX:CTD) and Uniti Group (ASX:UWL). AIS is a gold and copper producer; it rallied as investors chased copper production exposure to capture value from rising copper prices now reflecting the improving medium-term fundamentals for the red metal driven by growing demand and constrained supply. Copper is shaping up as one of the best ways to play the electric vehicle (EV) thematic; EVs typically contain triple the unit copper intensity per vehicle when compared to today's internal combustion engine vehicles, to say nothing for the incremental copper needed for charging infrastructure to support them. Whilst markets see the demand side for copper structurally flexing upward, the supply side is dominated by a dearth of world class copper discoveries over the last decade with current production experiencing declining grades and associated rising unit costs. AIS remains one of a small handful of Australian listed copper producers; and with a market capitalisation of $300 million, copper production of 23,000 tonnes per annum and the Cracow gold asset, this could be a stock for the bottom drawer. CTD shares bounced on growing vaccine optimism, particularly around the company's key US and UK markets where domestic travel restrictions have eased thanks to well progressed inoculation programs. Recent US travel data indicates a strong recovery back to pre-pandemic levels for July bookings, led by domestic leisure with corporate activity widely expected to follow as workers return to offices after their northern hemisphere summer break. Uniti Group (ASX:UWL) shares continued to march higher, propelled by a couple of bullish broker initiation reports and ahead of potential index inclusion (S&P/ASX 200). We like UWL's growth strategy challenging the "lazy incumbent" NBN for market share, a well-trodden path to success in Small Cap telcos, and the company's long-life infrastructure assets that produce annuity cashflow streams increasingly coveted by large institutional investors and pension funds in a low growth, low interest rate world.

The largest detractors from performance included EML Payments (ASX:EML), MNF Group (ASX:MNF) and Sezzle Inc. (ASX:SZL). EML shares were savaged after the company revealed that its recently acquired Prepaid Financial Services (PFS) business had received a letter from its regulator, the Central Bank of Ireland, raising significant concerns relating to anti-money laundering / counter terrorism compliance. Externalities like these bring material uncertainty and risk to the investment thesis with share prices often quickly discounting worst case scenarios. EML's stock fell 46 per cent on the day of the update wiping $850 million off its market capitalisation. Notwithstanding the serious nature of the Regulator's concerns, our view was the market's reaction appeared excessive, particularly compared to the $252 million consideration EML paid for PFS (excludes a performance based earn-out of up to $110 million which could be at risk). Weighing up the risk-reward, we took advantage of the sell-off and added to our position.

Continued on the next page…

## TOP COMPLETED HOLDINGS* (TCH)

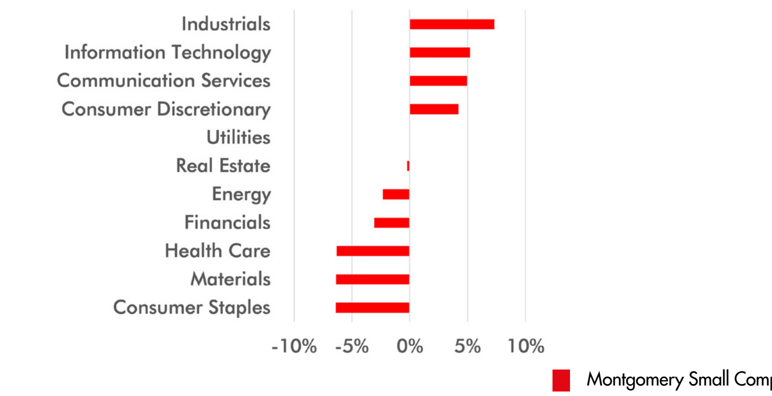
(as at 31 May 2021 showing top 5 of 50 holdings, in alphabetical order)

| COMPANY NAME | TICKER | COMPANY WEBSITE |
|---|---|---|
| Alliance Aviation Services | ASX:AQZ | https://www.allianceairlines.com.au/ |
| Bingo Industries | ASX:BIN | https://www.bingoindustries.com.au/ |
| EML Payments | ASX:EML | https://www.emlpayments.com/ |
| Macquarie Telecom Group | ASX:MAQ | https://macquarietelecom.com/ |
| Megaport | ASX:MP1 | https://www.megaport.com/ |

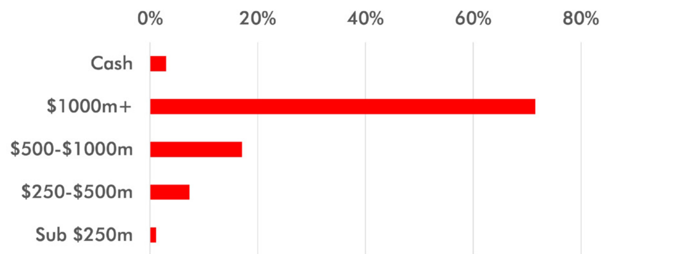
*Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.*

| | |
|---|---|
| Total equity weighting | 96.99% |
| Total cash weighting | 3.01% |

## GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK




## MARKET CAPITALISATION EXPOSURE




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

EML has a long history operating within highly regulated markets and we expect the company to work through the issues with the Regulator, likely resulting in higher compliance costs and potentially a fine. If we are right, the stock is way too cheap at these prices. SZL shares softened in tandem with Buy Now Pay Later (BNPL) peers and the global technology sector more broadly. Investor appetite for loss making companies has notably waned in recent months and we have adjusted our portfolio shape accordingly. However, we have retained our SZL holding as we rate management highly and see the company as well positioned to capitalise on a rapid BNPL market formation event within the US.

MNF's stock price has been a dog, underperforming our benchmark by 28 per cent in the last 12 months (and the rest of the portfolio by even more). But we think it's about to have its day in the sun, and so we have used the recent weakness to top our holding up. Why the continued patience? MNF is a resilient business with a net cash balance sheet and harbours a competitive advantage in a rapidly growing subsector of the lazy telecom sector via its CPaaS product offering, which unlocks access to the telecom sector for big brand names, like Zoom, Uber and Microsoft Teams, that need to embed call functionality into their offering. In our view MNF offers above market level profit growth potential, with below market level risk, at a valuation regime that's a 25 per cent discount to market settings. So, we bought more, but we accept it is time for management to deliver, and so it's on a short leash.

**Market commentary**

Global equities generally finished higher for the month of May, backing up from a very strong April performance. Markets continue to balance a stronger than expected US economic recovery and vaccine optimism against inflationary fears which could in the medium-term spell the end of easy monetary policies. However, Central Banker comments remained dovish in their posturing, pointing towards the transitory nature of prevailing inflationary forces and the considerable gap to full employment, while bond market volatility remained benign.

Our domestic economy continues to benefit from robust commodity prices, a buoyant housing market and our closed border policy trapping spending in Australia and so domestic consumption patterns remain healthy. The downside of the closed border policy is now manifesting as serious labour shortages in those cyclically super-charged sectors such as mining, construction, retail and hospitality. As such the investor debate about the dreaded "i-word", inflation, has now turned from theoretical to practical as it now has a data backdrop of rising costs and wages to procrastinate over. Australia's slow vaccine rollout progress suggests to us that these effects may be amplified in our economy and are unlikely to dissipate unless the immigration taps are turned on again, whenever that may be. The inflation debate fuelled by evidence of labour cost rises will be with us for some time yet.

Whilst the macro doesn't govern our decision-making, we like to pick stocks at a micro-level that have a positive runway on delivering on our stock level investment thesis, we do pay attention. We see it as our job to deliver performance whatever the macro weather conditions, but in a bottom-up stock level way. Our portfolio shape now has more positive cyclicality to it, certainly more than this time last year, as we are seeking to take advantage of the best opportunities we can find in our small cap investment universe.