



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 "lifecyle 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

\$156.3M

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

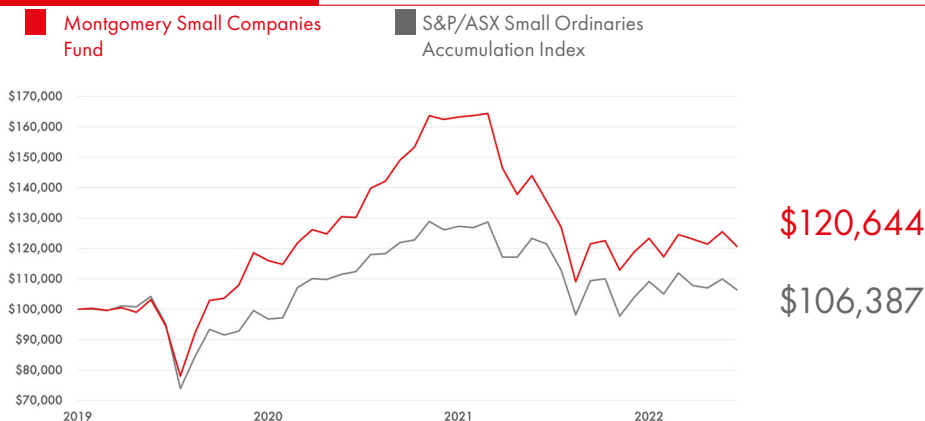
PERFORMANCE FEES

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 May 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%	-3.88%	-3.88%	-3.26%	-0.62%
3 months	0.00%	-1.91%	-1.91%	-1.29%	-0.62%
6 months	0.00%	-2.13%	-2.13%	-2.48%	0.35%
12 months	2.18%	-7.21%	-5.03%	-5.77%	0.74%
3 years (p.a.)	3.29%	2.16%	5.45%	4.46%	0.99%
Since inception#	10.51%	10.13%	20.64%	6.39%	14.25%
Compound annual return (since inception)#	2.74%	2.47%	5.21%	1.69%	3.52%

Inception: 20 September 2019

Past performance is not indicative of future performance



TOP COMPLETED HOLDINGS* (TCH)

(as at 31 May 2023 showing top 5 of 48 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
Alliance Aviation Services	ASX:AQZ	https://www.allianceairlines.com.au/
AUB Group	ASX:AUB	https://www.aubgroup.com.au/
Bapcor	ASX:BAP	https://www.bapcor.com.au/
Johns Lyng Group	ASX:JLG	https://johnslyng.com.au/
National Storage REIT	ASX:NSR	https://www.nationalstorageinvest.com.au

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

Total equity weighting	93.21%
Total cash weighting	6.79%

TOP 3 CONTRIBUTORS AND DETRACTORS

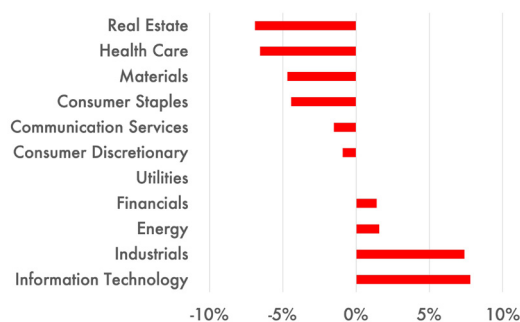
CONTRIBUTORS

Megaport	Rallied on cost cuts and new CEO
Hansen Technologies	Rallied on no new news
Allkem	Rallied on merger proposal

DETRACTORS

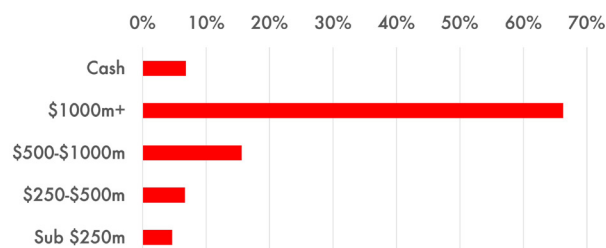
IDP Education	Sold off on emerging competitive threats
Hub24	Sold off on weaker fund flows
Super Retail Group	Sold off on weakening domestic consumption signals

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) Wealth02/uXchange BT Wrap BT Panorama HUB24 (IDPS and Super) Ausmaq Macquarie Wrap Asgard Praemium 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 3.88 per cent, net of fees, in May versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which declined by 3.26 per cent. Since inception (20 September 2019), the Fund has increased by 20.64 per cent, outperforming the benchmark by 14.25 per cent.

The largest positive contributors for May included Allkem (ASX:AKE), Megaport (ASX:MP1) and Hansen Technologies (ASX:HSN). Allkem shares lifted after the company announced a proposed merger with Livent Corp (NYSE:LTHM) to create a top three global lithium chemicals producer. The strategic rationale for the all-stock merger of equals centres around accelerating development and expansion plans of the combined group, increasing vertical integration and targeting material operating synergies. Given the proposed deal metrics appear to favour Livent shareholders, the Allkem Board will have to convince the market of its merits and may have to put the company in play. We continue to view Allkem as undervalued considering its significant scale and low position on the cost curve. Megaport shares rallied as investors warmed to a combination of cost control that preserves Megaport's future growth optionality against a weaker macro backdrop and the new CEO's strategy to improve sales execution, which has been poor for some time. Hansen Technologies shares gained on no new company specific news, likely reflecting its relatively defensive and visible cashflows against an uncertain macro backdrop and recent share price weakness. The shares remain undervalued in our view with delivery of earnings expectations potentially enough to drive a re-rating. A higher valuation would also help management's stated acquisition strategy.

The largest detractors from performance included HUB24 (ASX:HUB), IDP Education (ASX:IEL) and Super Retail Group (ASX:SUL). HUB24 shares faced selling pressure on the soft near-term outlook for platform inflows, potentially compounded by the announcement of a relatively small acquisition which will initially be earnings per share dilutive – not what the short-term focused market we are in right now wants to see. We remain attracted to HUB24's strong growth potential when equity market sentiment eventually improves, underpinned by its leading-edge platform technology and structural tailwinds as advisers migrate away from aligned groups towards independents. IDP Education shares were sold off following Canada's decision to allow competing English Language Test providers to enter its student visa market. Although we like IDP Education's longer-term structural growth story, increasing competitive dynamics will likely continue weighing on the shares and the relatively high multiple demands near term growth certainty is delivered – so we decided to exit our position. Super Retail Group shares suffered from pronounced selling pressure across the broader discretionary retail sector after a string of listed peers downgraded earnings guidance due to softer sales and rising operating costs.

The Australian consumer downturn has now arrived and is starting to bite into the earnings of the consumer sector. Super Retail Group will certainly not be immune to this weaker consumer backdrop, however we believe much of this is already captured in near-term earnings forecasts and the strong balance sheet provides optionality for capital management.

Macro and outlook

Global macro data now points to decelerating inflation. This raises the question of how much more interest rate medicine is needed to bring inflation back into the target range. Evidence is growing of the cumulative slowing impact of rate rises on Western Economies to date, but also that labour demand remains stubbornly strong fuelling wage inflation that is incompatible with stated inflation targets. Economists consider that rates are now in restrictive territory and given there is a significant lag between rate rises and their impact, we are now in the rate rise doldrums, a fraught period where we wait to see if enough has been done or we need just a little bit more. Markets currently swing either way with the release of each macro data point that is seen as either supportive or contradictory. Volatile.

Volatility brings opportunity, as well as the need for caution. Small cap stocks have materially under-performed large caps through 2022 and calendar year to date, with the growth stock area of the small cap market bearing the brunt of that sell off. It consequently now trades at valuation profiles that we think are attractive. And there are signs the market may be starting to look beyond the coming weaker macro environment and consider what may be interesting investments (if and) when we get through to the other side. We have observed the market reward select small cap growth stocks for cutting costs, particularly growth expenditure, deferring capex and instituting price rises, effectively preserving future growth optionality. Our job is to make sure that we continue to find those stocks whose fundamentals offer confidence of being able to grow strongly tomorrow where the valuation regime does not price that.

