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
$156.4M

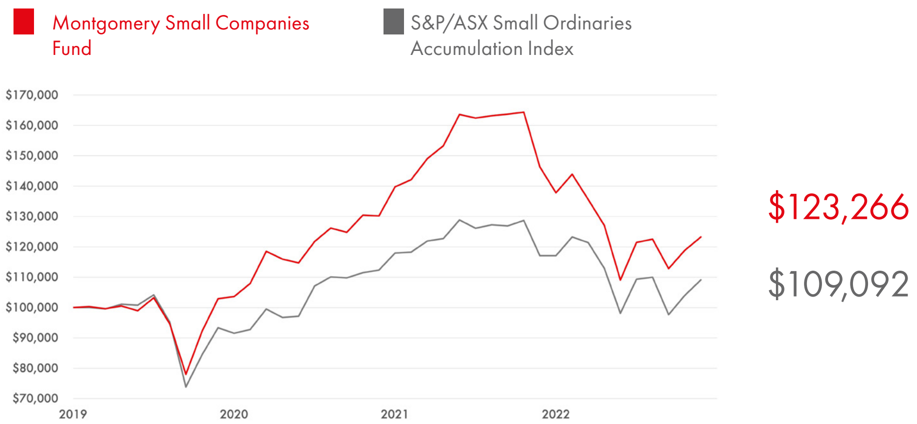
MANAGEMENT FEES AND COSTS
1.23% per annum*, which includes a management fee of 1.03% per annum.

*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 30 November 2022, after all fees)

	INCOME	CAPITAL GROWTH	MONTGOMERY SMALL COMPANIES FUND	S&P/ASX SMALL ORDINARIES ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	3.73%	**3.73%**	4.92%	-1.19%
3 months	0.00%	0.61%	**0.61%**	-0.81%	1.42%
6 months	2.18%	-5.15%	**-2.97%**	-3.37%	0.40%
12 months	1.69%	-26.38%	**-24.69%**	-14.02%	-10.67%
3 years (p.a.)	3.37%	3.66%	**7.03%**	2.57%	4.46%
Since inception#	10.51%	12.76%	**23.27%**	9.09%	14.18%
Compound annual return (since inception)#	3.18%	3.59%	**6.77%**	2.76%	4.01%

Inception: 20 September 2019

TOP COMPLETED HOLDINGS* (TCH)

(as at 30 November 2022 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/
Johns Lyng Group	ASX:JLG	https://www.johnslyng.com.au/
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	91.35%
Total cash weighting	8.65%

TOP 3 CONTRIBUTORS AND DETRACTORS

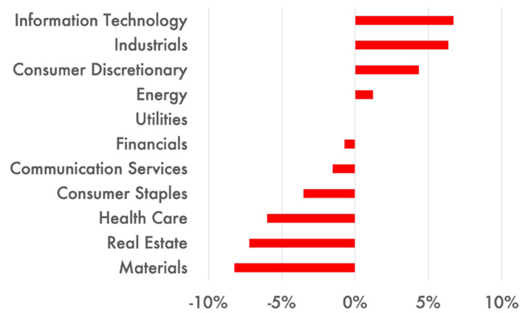
CONTRIBUTORS

Aeris Resources	Investor appetite for Copper equities grows on China re-opening
Johns Lyng Group	AGM update re-affirms positive outlook
Rex Minerals	Investor appetite for Copper equities grows on China re-opening

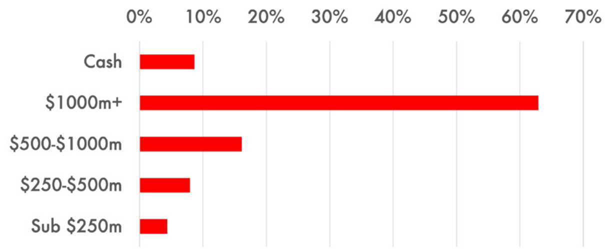
DETRACTORS

City Chic Collective	AGM update signals weaker than expected trading conditions
Alliance Aviation	Shares sold off on no new news
Symbio Holdings	Shares sold off on no new news

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 3.73 per cent, net of fees, in November versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which increased by 4.92 per cent. Since inception (20 September 2019), the Fund has increased by 23.27 per cent, outperforming the benchmark by 14.18 per cent, after fees and expenses.

The largest positive contributors for November included Aeris Resources (ASX:AIS), Johns Lyng Group (ASX:JLG) and Rex Minerals (ASX:RXM). AIS and RXM are both Copper stocks, AIS is a producer and RXM a developer. Investor sentiment and appetite for Copper related equities improved considerably in the past four weeks. As uncertainty around the extent of inflationary headwinds facing Western Economies dissipates, so does the downside of potential recession outcomes, and with that the risk around Copper demand and its price. Dr Copper. In addition, investors see Copper as a great way to play China re-opening, as economic and social stresses from its zero COVID policy bring into question how much longer it can be sustained for. Thirdly BHP's proposed acquisition of Oz Minerals (ASX:OZL) and the embedded Copper price assumption required to support the price paid reminded investors of the scarcity and medium to long term prospects for the red metal as the world de-carbonises. Both AIS and RXM were two of the largest detractors last month, illustrating the impact of sentiment changes in markets today. JLG's AGM re-affirmed near term growth expectations and medium to long term strategy outlook, and that was enough to see the stock do well in November.

The largest detractors from performance included plus sized fast fashion retailer City Chic Collective (ASX:CCX), Alliance Aviation (ASX:AQZ) and Symbio Holdings (ASX:SYM). CCX's AGM update disappointed the market on a number of fronts. Caught with too much inventory to buffer supply chain disruptions, management were forced to clear stock to improve the balance sheet position as the global consumer backdrop deteriorated and industry-wide discounting gathered pace. The net impact was a significant gross margin decline, much worse than market expectations. We'd bought a small position as we thought much of the near-term issues were factored into the share price and that the company was unlikely to raise fresh equity capital given it was converting excess inventory into cash, while the medium-term growth opportunity remains intact. Clearly we were too early and underestimated the market's lack of patience with near-term earnings misses.

AQZ & SYM both had AGMs in November, both updated the market with loosely described expected financial outcomes for the year and these were in-line with consensus near term earnings expectations for the businesses. These stocks are two of the less liquid names in our portfolio, and at times of market uncertainty, less liquid shares can see their prices drift. We have high conviction as the future earnings power and stock performance drivers for both businesses, given time and more stable markets we expect investors will too and drive a significant re-rating in both stocks.

Macro, markets, outlook and positioning

October US CPI data came in under expectations adding to signs that upside risk in US inflation (the market's current greatest fear) appears to be dissipating. How long inflation stays high and monetary policy stays restrictive to return inflation expectations to acceptable levels, whilst still problematic for markets, is better news than inflation continuing to surprise on the upside and so globally Equities rallied as Bond Yields fell. China's zero COVID policy is now stirring broader social unrest, which markets took as a good sign that the unsustainability of such a policy will ultimately bring it to an end, and that this process has now started.

Domestically our RBA gave us a 25 basis point cash rate rise as expected in early November (cash rate is now 2.85 per cent), whilst we, the RBA and the market all expect more rate rises to come as inflation remains too high here in Australia. However, the market welcomed the signal that the RBA wants to wait to see the impact of prior rapid rate rises, and is signalling that 25 basis point steps are more suitable that the 50 basis point leaps we have seen earlier this year. The Australian labour market remains strong, wage rises are ticking through, housing is soft but not as yet falling off a cliff (much to many forecasters dismay). Domestic consumption is moderating, but remains high. The acid test for the Australian consumer remains early 2023 when the combination of utility/energy costs, general cost of living expense and interest rate impact on mortgages all bite hard into currently elevated spend levels that are draining excess savings.

Collectively the macro data provided some small early signs of future economic stabilisation both here and overseas, yes the near term will see economic deterioration, that's why markets are already lower, but some signs that inflation forces may have peaked implies the next move in inflation may be lower and on a trend toward a more favourable equilibrium. This data was enough to see equity markets perform as investors appear to be generally defensively positioned.

Portfolio and positioning wise the main change we made this month is to move to an outright underweight position in the battery EV resource material space, replacing that with a move to overweight in Base Metals. Lithium out, Copper in.

Lithium stocks have performed well over the past 18 months, reacting to a steady stream of positive industry fundamentals driving the commodity price for Lithium based feedstocks some 10-20x from the lows of late 2020/early 2021, alongside growing pools of ideological ESG investment funds being deployed. Consequently, analysts have lifted earnings forecasts for Lithium producers dramatically and Lithium stocks share prices, and valuation regimes have followed reflecting this strong backdrop.

In addition, this has all occurred during a period of heightened economic uncertainty in markets, despite their previous volatile history Lithium stocks have been a beacon of relative certainty, especially when compared to more cyclically sensitive commodities, like copper. As a result, there probably isn't a fund manager or retail investor on the planet that doesn't know about EVs and Lithium stocks. And so the Lithium sector looks a crowded trade, now there is nothing wrong with that provided the conditions that brought the crowd there are sustained or better yet elongated or amplified to keep the crowd from turning. And so we think that any change in conditions could leave Lithium stocks vulnerable in our view. And in our view there are some emerging questions about how Lithium industry demand side fundamentals may evolve into 2023, albeit the long term fundamentals remain attractive. And we think it's better to take an underweight view as the market works out how it feels about these potentially changing conditions.

On the other hand Copper has had a lousy 2022. Despite having its own de-carbonisation drivers – copper will see considerable demand from electrification – the copper price has had a tough year, driven by near term demand fears from weakening global economic conditions, Chinese property market bust and China's zero COVID policy. As copper prices toiled in 2022, so have the copper equities. And in our view these have become attractively priced, but in need of a catalyst. We think catalysts are potentially here in that some of these 2022 headwinds for copper will ease and possibly to turn into tailwinds. Consequently, we view copper as an attractive commodity, with stabilising near term demand fundamentals, and strong long term demand from de-carbonisation, on top of a medium term weak supply side growth, the medium to long term price conditions for copper do look strong. We'd expect attractively priced copper equities to respond positively to that change.

Equity market investment choices from a copper producer point of view are limited, we hold AIS and have added Sandfire (ASX:SFR) early in November. Both look attractively priced, after poor equity performance in 2022. With BHP's proposed acquisition of the ASX's pure play copper producer of choice Oz Minerals (ASX:OZL) with a market cap (pre BHP bid) of $6.2 billion, that's a lot of pure play copper money looking for a home, particularly the next name on the list, from an acceptable quality perspective, is SFR, which at $2.3 billion market cap it could be a bit of squeeze!