



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

\$46.1M

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.

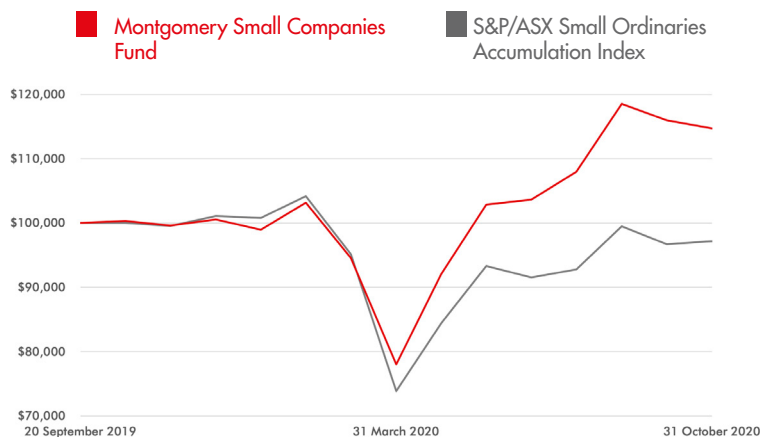
PERFORMANCE FEES

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 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 Gallagher (QLD)
e mgallagher@montinvest.com

PORTFOLIO PERFORMANCE

(to 31 October 2020, after all fees)

	INCOME	CAPITAL GROWTH	MONTGOMERY SMALL COMPANIES FUND	S&P/ASX SMALL ORDINARIES ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	-1.08%	-1.08%	0.46%	-1.54%
3 months	0.00%	6.27%	6.27%	4.69%	1.58%
6 months	0.00%	24.59%	24.59%	15.10%	9.49%
12 months	0.00%	15.15%	15.15%	-2.40%	17.55%
Since inception#	0.00%	14.72%	14.72%	-2.85%	17.57%
Compound annual return (since inception)#	0.00%	13.12%	13.12%	-2.56%	15.68%

Inception: 20 September 2019



FUND COMMENTARY

The Montgomery Small Companies Fund (the Fund) declined by 1.08 per cent, net of fees in October versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which increased by 0.46 per cent. Since inception (20 September 2019), the Fund has increased 14.72 per cent, outperforming the benchmark (-2.85 per cent) by over 17.5 per cent, after all expenses.

The largest positive contributors for October included Adairs (ASX:ADH), Bapcor (ASX:BAP) and Pental (ASX:PDL). ADH delivered a strong Annual General Meeting trading update (Adairs sales up 22 per cent FY21 to date with gross margins expanding 600 basis points), well ahead of market expectations. The business is benefiting from improved consumer sentiment, the shift in consumption towards homewares and supportive fiscal stimulus. Although we expect growth to moderate, we see upside to consensus earnings and the shares appear cheap for the quality and growth on offer. BAP also released a strong 1Q FY21 trading update (27 per cent sales growth), highlighting the resilience of the aftermarket auto parts sector with tailwinds coming from elevated used car sales volumes. Conditions look good for the summer driving season in Australia with our international borders closed. PDL rallied on the back of a positive September quarterly update which showcased robust net inflows and strong investment performance across both Pental Australia and their international business, JO Hambro.

The largest detractors from performance included City Chic Collective (ASX:CCX), Corporate Travel Management (ASX:CTD) and Megaport (ASX:MP1). CCX sold off on no news, likely reflecting profit-taking across e-commerce peers as investors weighed up strong yet decelerating growth rates with longer-term structural tailwinds.

CCX remains a high conviction position so we took advantage of weaker prices and added to our holding. CTD saw some profit taking as sentiment towards reopening trades soured from rising overseas COVID-19 cases and looming European lockdowns. MP1 provided a softer than expected 1Q FY21 trading update; although operational metrics showed good sequential momentum. For a confluence of one-off reasons this failed to translate into meaningful revenue growth. We think the outlook for the business remains robust with MP1 well positioned to capitalise on the multi-year structural shift towards cloud computing.

Market commentary

October was a volatile month for global equities, with early strength spurred on by a combination of vaccine optimism and expectations of a significant additional US stimulus package. We then saw a broad-based sell off on US election uncertainty, US failure to agree to a stimulus deal and rapidly rising overseas COVID-19 infections prompting further lockdowns in Europe. These are big externalities that cause significant swings in sentiment, and as a result markets are volatile. It's clear that COVID-19 has a firm grip on developed Northern Hemisphere economies, but with vaccine news expected in the next few months we expect more volatility ahead. Domestically the picture is a lot more certain; our COVID-19 situation appears under control and the reasons for sustaining domestic border closure lose intensity with each passing day. The Federal Budget came out with a highly expansionary agenda and the Reserve Bank of Australia signalled further monetary easing to support an economic recovery.

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TOP COMPLETED HOLDINGS* (TCH)

(as at 31 October 2020 showing top 5 of 48 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
Bapcor	ASX:BAP	https://www.bapcor.com.au/
City Chic Collective	ASX:CCX	https://www.citychic.com.au/
Ingenia Communities Group	ASX:INA	https://www.ingeniacommunities.com.au/
Macquarie Telecom Group	ASX:MAQ	https://macquarietelecom.com/
Tyro Payments	ASX:TYR	https://www.tyro.com/

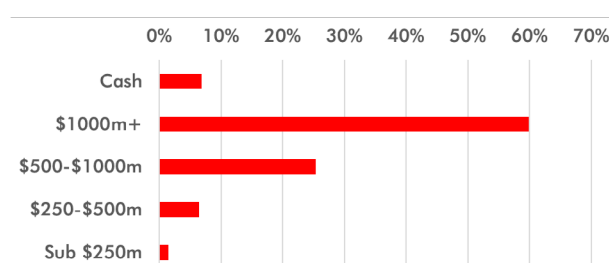
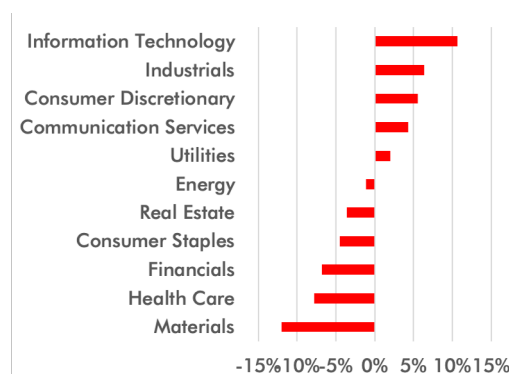
*Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.

Total equity weighting 93.15%

Total cash weighting 6.85%

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

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. 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.



Montgomery Lucent Investment Management Pty Limited | ABN 58 635 052 176 | AFSL 354 564 | www.montinvest.com | E: office@montinvest.com
Responsible Entity Fundhost Limited | ABN 69 092 517 087 | AFSL 233 045 | T: 02 8223 5400 | www.fundhost.com.au | E: admin@fundhost.com.au

There is growing evidence that Corporate Australia has fared way better than feared from the March 2020 pandemic lows, and the policy setters and decision makers have suitable support in place and options to extend that support as required. Health and economic flexibility wise, we are the envy of the World. At a company level, Annual General Meeting trading updates are generally better than expected, driving solid earnings upgrades, however we have observed good news was often sold as investors locked in profits, rather than held course on improving domestic fundamentals. October was also a very busy month for IPO roadshows as bankers rush to get their deals away before the Christmas shutdown period (the busiest we've seen in our careers). Most offerings have been relatively small and hotly contested.

Perspective, positioning and outlook

The Fund's underperformance for the month was our first this calendar year. Whilst we don't run the Fund on a month by month basis, we do pay attention to what's working, what's not and ask ourselves why. Particularly during periods where there could be a significant market rotation going on and being driven by an anticipated change in the fundamentals ahead, like there is today. We have been steadily growing the Fund's exposure to those areas of the economy that will benefit from a domestic re-opening and from sustained (for longer than expected) stimulus, moving some capital from some of those structural growth winners that has driven the Fund outperformance to date. We've been making that move since late June; it's a balancing act, one foot in structural growth that market conditions suggest will do the medium to long term portfolio heavy lifting, whilst growing the number of toes exposed to a short but likely sharp tactical re-opening event. We came in behind performance wise this month, but our conviction has grown on the direction the Fund is taking.

On tactical re-opening positioning Australia's success at managing COVID-19 likely means that international travel could be largely off the agenda for many Australians for not just this year but next. Just how and when does Australia re-connect with the rest of the World? Tomorrow's problem. Today we can see "stronger for longer" as likely for domestic consumption beneficiaries – retail, auto, hospitality, domestic tourism and travel; hence we continue to tactically add to our exposures here. But we have also maintained our portfolio shape – a core of resilient stocks that win no matter what happens with COVID-19, and an engine room of structural market share growers that will deliver over the medium term, to complement that tactical portfolio shift to increasing opening-up exposure.

For our Adviser readership The Fund became available on BT Panorama, BT Wrap, HUB24 and Macquarie Wrap during the month. If you need any assistance please contact our Distribution team.

