



# 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

\$37.7M

#### 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.

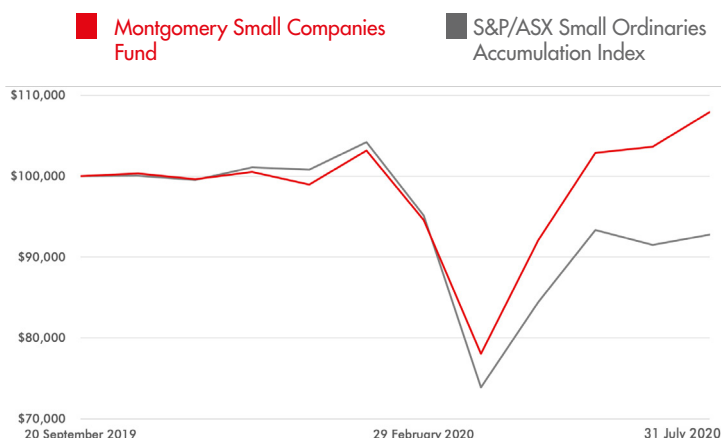
#### PERFORMANCE FEES

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/](http://www.montinvest.com/our-funds/montgomery-small-companies-fund/)

### PERFORMANCE GRAPH



### CONTACT DETAILS

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### PORTFOLIO PERFORMANCE

(to 31 July 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%	4.17%	4.17%	1.39%	2.78%
3 months	0.00%	17.24%	17.24%	9.94%	7.30%
6 months	0.00%	4.62%	4.62%	-10.95%	15.57%
Since inception#	0.00%	7.95%	7.95%	-7.21%	15.16%

# Inception: 20 September 2019



## FUND COMMENTARY

The Montgomery Small Companies Fund (the Fund) returned 4.17 per cent, net of fees in July versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which increased by 1.39 per cent. Since inception (20 September 2019), the Fund has increased 7.95 per cent, outperforming the benchmark by 15.16 per cent, after all expenses.

The largest positive contributors for July included Marley Spoon (ASX:MMM), NEXTDC (ASX:NXT) and Pinnacle Investment Management (ASX:PNI). MMM provided a positive trading update (129 per cent Q2 revenue growth, positive operating EBITDA) with full year earnings guidance materially upgraded (to at least 70 per cent revenue growth) as COVID-19 has accelerated the adoption of online grocery shopping. NXT shares rallied on news of material customer contract commitments, highlighting the strong underlying demand for premium datacentre services as cloud migration and working from home trends gather pace. Investors welcomed a better than expected update from PNI which flagged c.\$26 million of performance fees (\$6.7 million PNI share) earned in FY20, driving solid upgrades to broker forecasts.

The largest detractors from performance included Adbri (ASX:ABC), Bingo Industries (ASX:BIN) and Pro Medicus (ASX:PME). ABC shares slumped when it warned that a key lime customer would not be renewing its supply contract next year. With questions around the balance sheet impact and macro backdrop, we decided to exit our position and move on. BIN underperformed on no news, however sentiment around the near-term construction cycle has soured. PME gave back some of its recent gains, potentially reflecting market concerns around restricted physical access to hospitals which continue to battle the virus. We expect the longer-term fundamentals to remain intact and will look for more colour from their FY20 results.

Pleasingly, July was another month where the Fund had many more winners winning bigger than the fewer losers in the portfolio that on average lost a lot less. Our portfolio shape, skewed to positive structural trends is doing the heavy lifting; more on that below.

### Market commentary

Markets managed to grind higher in July, although volatility remained elevated as investors weighed up better than feared US earnings for Q2 and further

government stimulus support against risks of a second wave of COVID-19 infections. Domestically, our government announced a \$20 billion extension to its JobKeeper/JobSeeker program, easing concerns about the impending "fiscal cliff" and boosting consumption expectations for the six months to March 2021. Thematically, the best performing sectors in Small Caps were consumer discretionary, resources and technology with REITS clear laggards. Commodity prices remained strong in July with gold reaching new highs, iron ore above \$110 per tonne and a solid bounce in base metals. Although the AUD did appreciate against the greenback, many domestic resource producers are cash printing machines at current prices. Capital raising activity was buoyant over the month, particularly in the technology sector where numerous operators tapped the equity market to capitalise on accelerating structural digital trends. We looked at many, participated in some and expect lots more of these opportunities to materialise over the coming months. A target rich environment.

### Outlook

August results season is upon us, and with the recent increased disclosure we have had from many companies due to COVID-19 updates and capital raises, there is probably a lot less unknowns about F20 earnings than we would normally see. Nevertheless, visibility is going to be low and we don't expect many companies will provide year-forward earnings guidance in this environment (and who would believe them if they did?). It's more important than normal to focus on companies with their destiny in their own hands, independent of the strength of the economic cycle. And this is exactly how our portfolio is set today, choc-a-bloc full of market share takers driven by some of the structural tailwinds of global digital economic transformation that we highlighted in our recent Annual Letter.

We hold a strong core of stocks that we expect to do well in the aftermath of COVID-19, datacentres, cloud technology players, growth telecom, e-commerce, and other structural growers, and a select group of cyclicals with leading competitive positions and improving prospects. These are backed up with a material chunk of gold miners generating large cashflows assisted by the strong gold price environment. We exited July with 8.6 per cent cash, and we will look to put more of that to work as selected opportunities become available during the results season.

## TOP COMPLETED HOLDINGS\* (TCH)

(as at 31 July 2020 showing top 5 of 45 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
Appen	ASX:APX	<a href="https://appen.com/">https://appen.com/</a>
Bapcor	ASX:BAP	<a href="https://www.bapcor.com.au/">https://www.bapcor.com.au/</a>
Macquarie Telecom Group	ASX:MAQ	<a href="https://macquarietelecom.com/">https://macquarietelecom.com/</a>
Megaport	ASX:MP1	<a href="https://www.megaport.com/">https://www.megaport.com/</a>
Uniti Group	ASX:UWL	<a href="https://investors.unitiwireless.com/">https://investors.unitiwireless.com/</a>

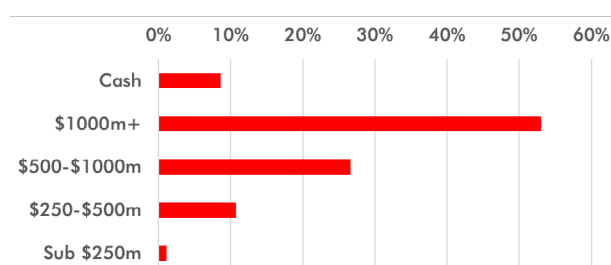
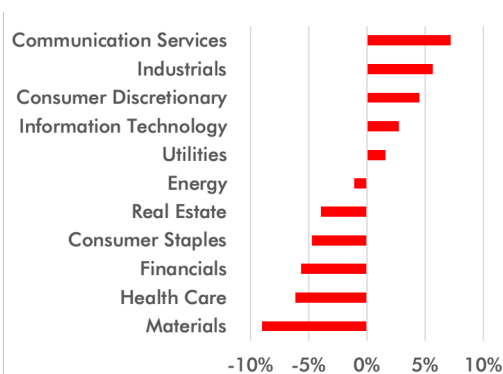
\*Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.

Total equity weighting 91.42%

Total cash weighting 8.58%

## GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK

## MARKET CAPITALISATION EXPOSURE



■ Montgomery Small Companies Fund

PLATFORMS WE ARE ON: Netwealth (IDPS and Super/Pension) ⇌ uXchange

# 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.

