



# 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

\$42.4M

#### 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.

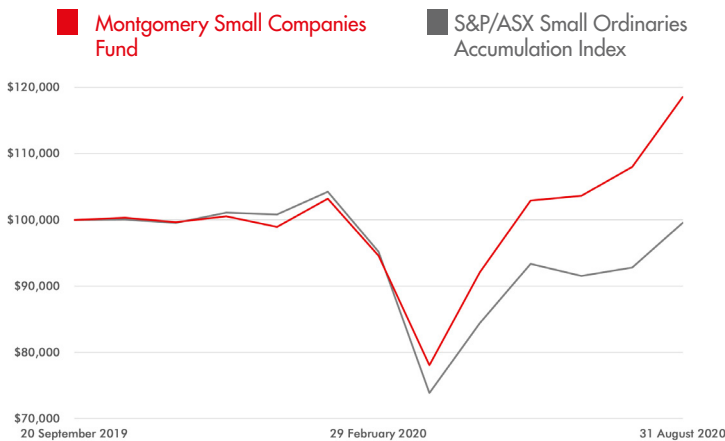
#### PERFORMANCE FEES

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 August 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%	9.81%	9.81%	7.24%	2.57%
3 months	0.00%	15.21%	15.21%	6.61%	8.60%
6 months	0.00%	25.36%	25.36%	4.58%	20.78%
Since inception#	0.00%	18.54%	18.54%	-0.49%	19.03%

# Inception: 20 September 2019



## FUND COMMENTARY

The Montgomery Small Companies Fund (the Fund) returned 9.81 per cent, net of fees in August versus the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, which increased by 7.24 per cent. Since inception (20 September 2019), the Fund has increased 18.54 per cent, outperforming the benchmark (-0.49 per cent) by over 19 per cent, after all expenses.

The largest positive contributors for August included Corporate Travel Management (ASX:CTD), Megaport (ASX:MP1) and PointsBet Holdings (ASX:PBH). CTD bounced hard on a materially better than expected FY20 operating result, driven by a higher base load of essential travel activity and lower costs. Strong cashflows were also a feature, challenging the well publicised short thesis and positioning the company well for a recovery. MP1 shares responded positively on the announcement of a new product launch in Q2 FY21 (Megaport Virtual Edge) and that it will be sold directly by the telecom networking giant Cisco. PBH soared on news of a 5-year media partnership with NBC Universal whereby PBH will become the official sports betting partner of NBC Sports which boasts the largest sports audience of any US media company (over 184 million viewers). This could be transformational for PBH in achieving its aspiration to build a strong market share position in the newly legalised US online sports betting market.

The largest detractors from performance included Cooper Energy (ASX:COE), Saracen Minerals (ASX:SAR) and Uniti Group (ASX:UWL). COE remains in a holding pattern until it rectifies its operational challenges at the Sole Gas Project. Whilst frustrating, we expect these issues to be ultimately resolved which should drive a re-rate in the stock. SAR gave back some of July's strong gains, broadly tracking movements in the gold price dynamic. UWL softened as investors digest the material Opticomm (ASX:OPC) merger and await a regulatory policy update.

### Market commentary

Global markets rallied strongly in August with the S&P 500 reaching record highs and continued outperformance from the Mega Cap Tech players. The Fed came out with new messaging, now targeting average inflation of 2 per cent over time, providing some scope to let inflation run ahead in order to drive better employment outcomes. This lower for longer interest rate scenario adds support to equity valuations in our view. Domestically, earnings were firmly in focus with FY20 results generally better

than feared. Tech and retail were the standout performers while the most heavily shorted stocks also materially outperformed. Resources lagged Industrials, largely driven by weakness in gold. The volatility created by the massive volume of earnings announcements released over a condensed two-week period created a target rich environment for active managers, and we took advantage of numerous opportunities which we believe will deliver strong returns for investors over time.

### Our perspective and outlook

Pre results season the press was awash with quotes from fund managers talking about how bad results were going to be. If one thing was certain going into the results season it was that everyone already knew that. In any case the profitability of a company at the bottom of a pandemic hole is a (useless) backward-looking valuation perspective for the forward-looking discounting machine that is the market. And the key takeaway from results season was that corporates weathered the COVID-19 storm well, exiting the shutdown driven economic crunch point with much improved cost structures and stronger balance sheets. Both of these factors will likely be critical in providing flexibility to handle what comes next, both in terms of potentially weaker demand but also to take advantage of growth opportunities if they come along too. Consequently, the market ripped in response, up 7.2 per cent in the month.

Whilst we retain our skew toward structural growers (there are some cracking growth stories in our portfolio), we have altered the line-up. We have sold down positions of some of our big winners and added a few select "damaged growers" into the mix. These are stocks that we'd normally expect to have their growth destiny in their own hands, but have had that growth optionality abruptly removed or impaired by the arrival of the hopefully "once in a 100 year event" that is COVID-19. This adjustment allows the portfolio to be more balanced to the potential COVID-19 vaccine arrival event likely to dominate news headlines over the coming months. A vaccine should allow investors to contemplate what beyond tomorrow looks like, and as you'd expect we are looking ahead altering our portfolio shape to benefit from that in a balanced way.

We put cash to work during results season and exited August with 6.3 per cent cash, which provides enough firepower for opportunities (results season has topped up the ideas list), including a rich diet of IPO's that we expect to arise in the next few weeks.

## TOP COMPLETED HOLDINGS\* (TCH)

(as at 31 August 2020 showing top 5 of 48 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>
City Chic Collective	ASX:CCX	<a href="https://www.citychic.com.au/">https://www.citychic.com.au/</a>
Macquarie Telecom Group	ASX:MAQ	<a href="https://macquarietelecom.com/">https://macquarietelecom.com/</a>
National Storage REIT	ASX:NSR	<a href="https://nationalstorage.com.au/">https://nationalstorage.com.au/</a>

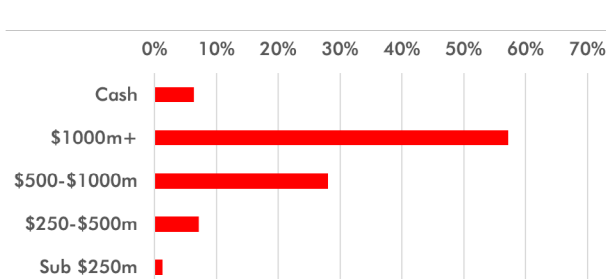
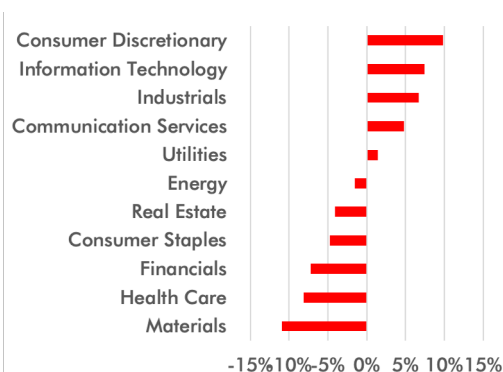
\*Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.

Total equity weighting 93.68%

Total cash weighting 6.32%

## 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.

