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%.

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RECOMMENDED INVESTMENT TIMEFRAME
5 years

MINIMUM INITIAL INVESTMENT
$25,000

INCEPTION DATE
20 SEPTEMBER 2019

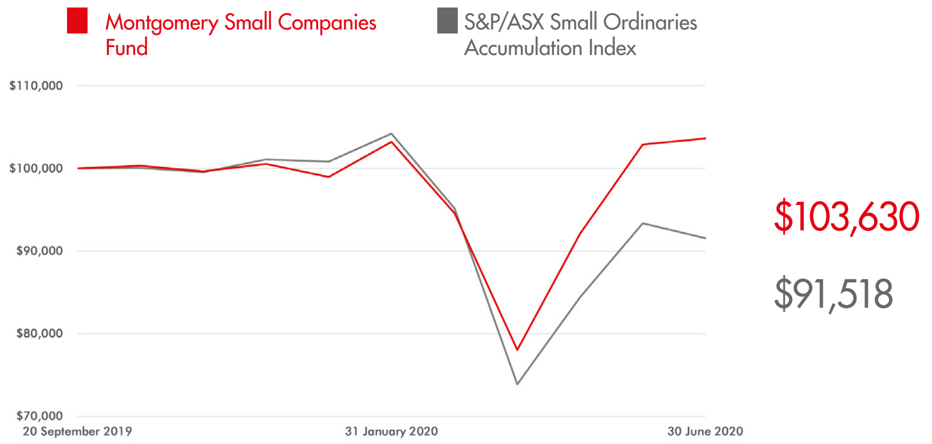
FUND SIZE
$33.5M

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

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PORTFOLIO PERFORMANCE

(to 30 June 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%	0.72%	**0.72%**	-1.95%	2.67%
3 months	0.00%	32.79%	**32.79%**	23.90%	8.89%
6 months	0.00%	4.74%	**4.74%**	-9.21%	13.95%
Since inception#	0.00%	3.63%	**3.63%**	-8.48%	12.11%

Inception: 20 September 2019

FUND COMMENTARY

It's been an extraordinary retracement rally from the March lows. Investors continue to grapple with the ongoing risks of economic fallout of COVID-19, including a second wave, but must weigh this up against the positive long-term asset valuation impact of a "lot lower for a lot longer" outlook for global interest rates. It's volatile for sure, but it's a target rich environment, and we are taking aim in a very disciplined way.

At a company level and reflecting the much stronger COVID-19 position Australia is in when compared to the rest of the world, there have been many reports of a stronger than expected recovery as lockdown restrictions eased. We also saw the structural winners win big, with widespread confirmation of accelerating global mega trends with cloud technology migration, e-commerce and digital payments further reinforcing our conviction in the outlook for the technology sector.

The Montgomery Small Companies Fund (the Fund) returned 0.72 per cent, net of fees in June versus the benchmark, the S&P/ASX Small Ordinaries Accumulation index, which declined by 1.95 per cent. Since inception (20 September 2019), the Fund has increased 3.63 per cent, outperforming the benchmark by 12.11 per cent, after all fees and expenses.

June winners and losers

For the month of June the largest positive contributors to performance included Infigen Energy (ASX:IFN), Kogan.com (ASX:KGN) and Macquarie Telecom Group (ASX:MAQ). IFN is the target of M&A from two offshore players; and it's a shame it took an M&A event from external parties to liberate value in IFN. We'd have much preferred to stay the course and extract the value of IFN's growth strategy from its green energy portfolio, but that is the way it goes sometimes. We have sold our position and moved on.

KGN and MAQ shares re-rated as investors sought ways to play the beneficiaries of accelerating e-commerce and cloud megatrends here in Australia. KGN delivered an exceptionally strong trading update; April and May sales more than doubled driven by a surge of online retail demand that saw record new subscribers join the platform. The market also backed KGN's M&A optionality with the company raising equity for potential acquisitions.

MAQ upgraded its capacity expansion plans, reflecting a strengthening outlook for premium datacentre services driven by accelerating cloud demand. Despite the share price re-rating, we continue to view the company as undervalued for its growth and visible long term cashflow potential. We've published a video blog on our MAQ investment thesis which can be viewed here.

The largest detractors from performance included EML Payments (ASX:EML), Megaport (ASX:MP1) and Uniti Group (UWL:ASX). EML gave back some of its recent strong gains, likely on fears of the impact of a second wave of infections emerging on EML's earnings recovery trajectory, given its exposure to retail malls in the US and Europe. We take comfort in the balance sheet strength (net cash) and believe the medium-term structural driver of the digitisation of payments remains intact and the shares represent good value in that context. You can read more on our views on EML on our blog here.

MP1 shares retraced from fresh highs as investors digested a strategic investor sell-down – we consider the company as one of the best cloud plays in the small caps market; the growth runway is large while valuation is yet to fully capture the significant potential. Our colleague Tim Kelley published a blog on MP1 that can be viewed here, we wonder where he got the idea from!

Continued on the next page…

TOP COMPLETED HOLDINGS* (TCH)

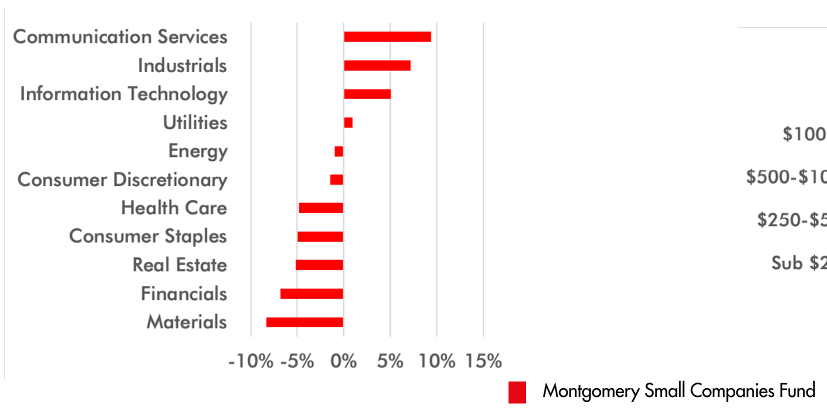
(as at 30 June 2020 showing top 5 of 47 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
Appen	ASX:APX	https://appen.com/
EML Payments	ASX:EML	https://www.emlpayments.com/
Macquarie Telecom Group	ASX:MAQ	https://macquarietelecom.com/
National Storage REIT	ASX:NSR	http://www.nationalstorageinvest.com.au/
Uniti Group	ASX:UWL	https://investors.unitiwireless.com/

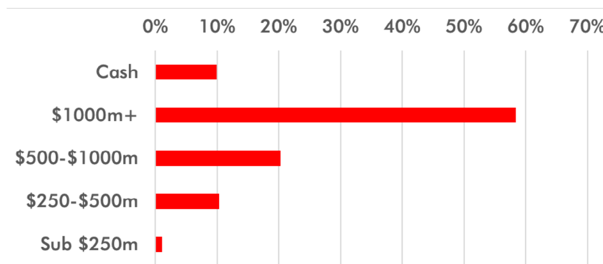
**Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.*

Total equity weighting	90.08%
Total cash weighting	9.92%

GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK



MARKET CAPITALISATION EXPOSURE



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

The UWL share price consolidated following the news of the proposed acquisition of Opticomm (ASX:OPC). A considerable amount of stock was issued to fund the deal and it's a lot for the market to digest all at once. In our view that indigestion will pass and the fundamental investment opportunity of UWL will remain. We like M&A in the telecoms sector, as the synergy potential is very strong, both at the operating asset and overhead levels. From this specific transaction UWL emerges as a billion-dollar market cap growth telco on a sub-market EBITDA multiple. UWL is now of a size that matters to small cap funds, it has growth, leverage to future synergistic M&A and certainty of cashflows at a cheap valuation. We like that.

COVID-19 risk and returns – strong core and taking tactical opportunities

What you are about to read is written with the clarity that comes from the distance of hindsight. We confess to feeling more anxious than the following suggests. We applied our process to the COVID-19 situation, establishing a framework on how to tackle the risks and opportunities that we knew would present, and as you'd expect made a high volume of active decisions. Looking back we made some mistakes, but also made some good decisions specifically recognising the strong value on offer in times of stress in companies, particularly when we were confident that a large margin of safety was being exhibited "on the other side". It was a constant process of reviewing the portfolio for the next piece of information and real-time awareness of our exposures and that drove the outcomes for the June 2020 Quarter.

The "un-impacted" core

We wanted to ensure the bulk of the portfolio was exposed to stocks that could profit or at least weather the storm and come out stronger on the other side. We went into the downturn with a healthy exposure to data centres, growth telcos and structural growth stocks - businesses we are confident can execute their growth strategies independent of the prevailing economic conditions. We added to those, particularly in those global structural growth stocks that saw their share prices smashed, yet their earnings opportunities looked undiminished. We viewed that as a low risk, good return scenario and it stood the Fund in good stead through the bottom and out of the COVID-19 related crash.

The tactical opportunity

Our normal discipline for investing in cyclicals is to find companies that have seen their competitive position improve through the downcycle, ready to take advantage of improving cyclical conditions. Playing to the conditions at hand, the criteria became the ability to make it to the other side and thrive, focused on sectors where we would see stimulus support. To us that meant retail, where we augmented our selection criteria to focus on retailers that had a well-developed, and underappreciated e-commerce capability, or had a market position to justify an investment to improve that. When we started putting bids up in the retail sector on 23 March it certainly didn't feel like a great selection criteria! We stayed the course and got some real bargains. We have written up our view on Retail in a blog here. We maintained the perspective and applied it to the plentiful opportunity in recaps in sectors where we felt comfortable taking the risk. We backed all the capital raise propositions for stocks already in the Fund, and invested in a few others too. All recaps we invested in created value for the Fund.

What we didn't do

The objective through the downcycle was to take advantage of opportunities, but not at the cost of any risk. We didn't push the envelope into travel or media for example. At the time we didn't feel the need to take the additional risk to make the returns. We also stayed away from REITs, which is a big call as it's the biggest sector in our benchmark, and the biggest underweight in the portfolio today. The sector is filled with Retail and Office REIT's, our view is that many of these stocks have been gouging their clients for a long time, and in our experience good businesses are not built on that ethos.

The share prices of these stocks were at levels indicating stress, and the clear potential for a large resetting of the commercial terms between landlord and tenant, so there was some adjustment already in the price. However, these assets face long term headwinds of e-commerce and technology workforce collaboration tools, the scale of which is not yet known, but we suspect is profound, and we have yet to see how the market will price that risk. We have written up our view on how we see the risk reward in REITs in a blog here. There is no rush in our view and so we haven't got involved in the many recapitalisations in the REIT space.

Montgomery Small Companies Fund positioning and outlook

The Fund is currently positioned with an overweight exposure to attractive growth stocks and underweight in cyclical and defensive stocks relative to its benchmark. The fund exited the month with 9.9 per cent cash, and we expect to put some of this to work into current ideas of which there remain plenty in the current market dislocation. We aren't market callers, one way or the other, but we do confess to enjoying the current levels of uncertainty as it allows us to roll up the sleeves, do the work and have the relative returns of the Fund driven by bottom up stock picking.

We have some cyclical exposure in sectors where we can see support, like retail and mining services where recent company reports have remained constructive. We also maintained the Fund's exposure to domestic gold producers, which at prevailing gold price and currency levels are literally cash printing machines which in the volatile uncertain world we are in remains an acceptable investment proposition in our view. But it's our investments in structural growth companies that we expect to do the long-term heavy lifting in the portfolio. These are specifically selected for their ability to grow independently of the prevailing economic cycle - an attribute we feel will continue to be of growing importance for the coming economic conditions.