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

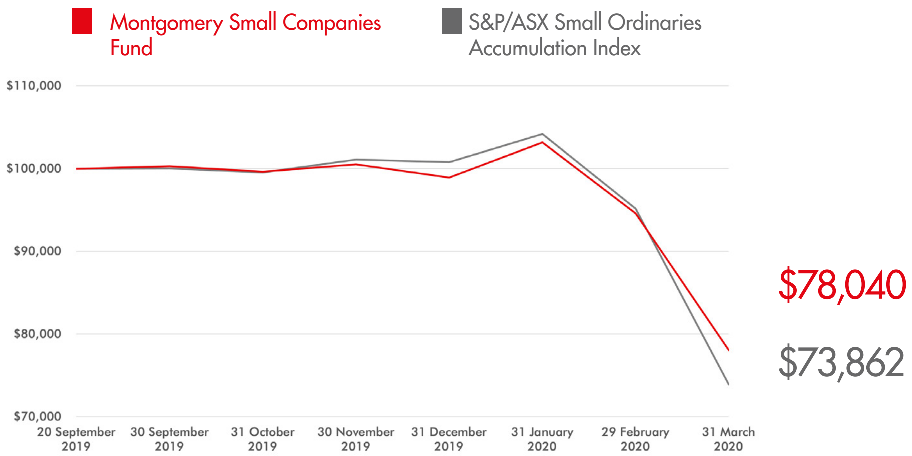
FUND SIZE
$22.2M

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 31 March 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%	-17.47%	-17.47%	-22.38%	4.91%
3 months	0.00%	-21.12%	-21.12%	-26.72%	5.60%
6 months	0.00%	-22.20%	-22.20%	-26.17%	3.97%
Since inception#	0.00%	-21.96%	-21.96%	-26.14%	4.18%

Inception: 20 September 2019

FUND COMMENTARY

Fund Commentary Fund Performance and Drivers

Equities sold off aggressively during March as investors de-risked portfolios in response to a rapid acceleration in global COVID-19 cases and fatalities. Governments around the world enforced various shutdown strategies to flatten the outbreak curve and relieve pressure on healthcare systems. Aggressive loosening of fiscal and monetary policies were subsequently announced to dampen the economic blow which will be severe. The key questions for markets is how long will global economies remain closed for business, and what will demand look like on the other side of the valley?

For the month of March, the Montgomery Small Companies Fund (the Fund) returned negative 17.47 per cent net of fees, versus the benchmark, the S&P/ASX Small Ordinaries Accumulation index, which declined by 22.38 per cent. Since inception (20 September 2019), the Fund has fallen 21.96 per cent, outperforming the benchmark by 4.18 per cent.

The largest positive contributors to performance included MNF Group (ASX:MNF), NEXTDC (ASX:NXT) and Pointsbet Holdings (ASX:PBH). MNF rallied after the company reaffirmed FY20 earnings guidance and noted strong demand for all key products, particularly services associated with video conferencing. NXT also outperformed following confirmation of guidance and increasing demand loads as people work from home. We took advantage of the significant fall in PBH shares as global sports events were suspended, taking the view that the business has significant cash reserves to bunker down and resume expanding once play resumes. We bought the shares with an implied $40 million Enterprise Value at the time of purchase; the prices you find at times of distressed selling.

The largest detractors from performance included Adairs (ASX:ADH), EML Payments (ASX:EML) and Infigen Energy (ASX:IFN). ADH shares were pummelled, along with the broader discretionary retail sector, as investors considered negative near-term impacts from shutdowns and the imminent recession. Having sold down our position early in the month, we topped up slightly at attractive prices towards the end. EML fell largely due to its exposure to European malls which will likely remain shut for some time. Encouragingly, the company repriced and restructured its Prepaid Financial Services (Ireland) Limited (PFS) deal at the end of the month, significantly de-risking the transaction (now zero debt). IFN shares remained under pressure following the Brookfield selldown earlier in the year. We have since topped up our holding in all three stocks, taking advantage of weak prices.

Montgomery Small Companies Fund Positioning

The March quarter has been extremely challenging for investors and we are always disappointed when the absolute value of the Fund declines. The global macro backdrop remains highly fluid and uncertain and we are yet to form a clear picture around the duration of the shutdowns, the extent of the economic impacts or the effectiveness of the policy responses.

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TOP COMPLETED HOLDINGS* (TCH)

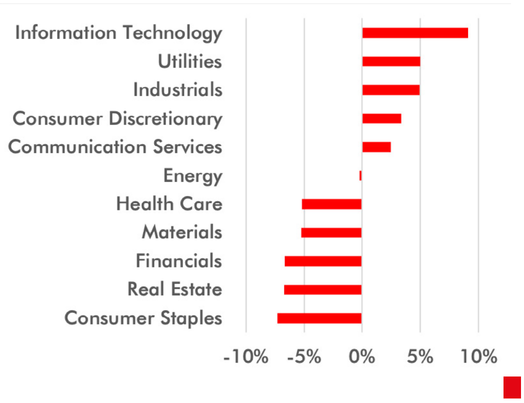
(as at 31 March 2020 showing top 5 of 38 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
Infigen Energy	ASX:IFN	https://www.infigenenergy.com/
Macquarie Telecom Group	ASX:MAQ	https://macquarietelecom.com/
Megaport	ASX:MP1	https://www.megaport.com/
NEXTDC	ASX:NXT	https://www.nextdc.com/
Spark New Zealand	ASX:SPK	https://www.spark.co.nz/

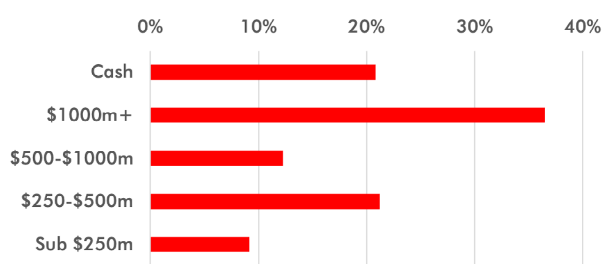
**Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.*

Total equity weighting	79.17%
Total cash weighting	20.83%

GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK



MARKET CAPITALISATION EXPOSURE



PLATFORMS WE ARE ON: N/A

In the coming weeks and months, markets will need to digest a deluge of bad news headlines as COVID-19 fatalities spike, economic data deteriorates and unemployment surges around the world. Markets do attempt to look forward, however such uncertainty will likely mean that volatility will stay elevated. As active managers, we expect market volatility to create individual stock investment opportunities and we will be working as hard as ever to uncover the best risk-reward prospects.

We exited March with nearly 21 per cent cash and we believe the portfolio is relatively well positioned to manage the downturn as we see it today. 36 per cent of the portfolio is invested in companies with a market capitalisation exceeding $1 billion and another 12 per cent is invested in Companies with a market capitalisation above $500 million, while only 9 per cent of The Fund is invested in the sub $250 million market cap bracket.

We will continue to make changes on a dynamic basis, as you would expect us to. We will undoubtedly have investments that will have problems that we haven't foreseen, but overall, we feel the portfolio is now positioned to take advantage of the many opportunities that are being presented. We have the cash firepower and flexibility to make those decisions when the time comes.

Some of the significant investment exposures include:

- Cash 21 per cent;
- Telecoms & Datacentres c. 22 per cent. Companies like Spark (ASX:SPK), NEXTDC (ASX:NXT) and Macquarie Telecom (ASX:MAQ) have long life assets, excellent competitive positioning and annuity revenue streams that we expect to continue, largely uninterrupted through a tougher economic period;
- Utilities c. 7 per cent. These assets literally keep the lights on, and whilst we expect there will likely be lower demand for power, and weaker power prices, these businesses have significant long-term asset backing, strong cashflows, resilient capital structures and competitive positions that will not be degraded during a downturn;
- Growth Technology c. 15 per cent. Appen (ASX:APX) is our largest exposure here and we think its business model is particularly well placed considering its crowd workforce is set up remotely, and demand from the big global tech players should hold up relatively well;
- Cyclicals c. 11 per cent. We have reduced our cyclical exposure, retaining small positions in a number of higher quality retailers with strong online presences and mining services companies with strong competitive positions and robust balance sheets. These businesses will no doubt face challenging conditions but are well positioned in their sectors to take share and emerge in stronger competitive positions when conditions change;
- Resources c. 11 per cent, including 5 per cent in Gold. Our resource investments have very strong balance sheet positions (net cash) as well as portfolios of competitive cash generating assets. Our gold miners are generating strong margins and are all Australian based, positioned to generate strong cashflows from the combination of high gold price and weak Australian dollar;
- The balance of The Fund is in REITs and consumer staples or food related stocks.