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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FHT3726AU

RECOMMENDED INVESTMENT TIMEFRAME
5 years

MINIMUM INITIAL INVESTMENT
$25,000

INCEPTION DATE
20 SEPTEMBER 2019

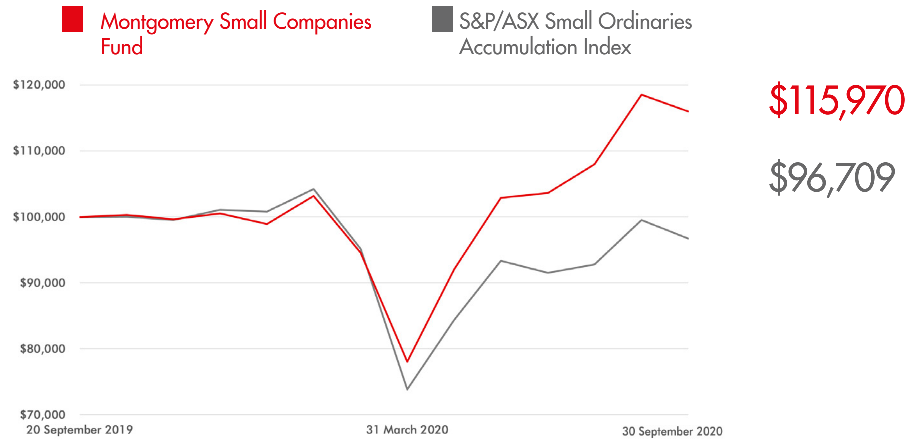
FUND SIZE
$43.7M

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/

PERFORMANCE GRAPH



CONTACT DETAILS

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PORTFOLIO PERFORMANCE

(to 30 September 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%	-2.17%	-2.17%	-2.82%	0.65%
3 months	0.00%	11.91%	11.91%	5.67%	6.24%
6 months	0.00%	48.60%	48.60%	30.93%	17.67%
12 months	0.00%	15.61%	15.61%	-3.33%	18.94%
Since inception#	0.00%	15.97%	15.97%	-3.29%	19.26%
Compound annual return (since inception)#	0.00%	15.48%	15.48%	-3.20%	18.68%

Inception: 20 September 2019

FUND COMMENTARY

September was a volatile month for global equities as investors weighed up rising second wave COVID-19 infections across many nations combined with tighter mobility restrictions against promising prospects of a vaccine and a lower for longer interest rate backdrop. Domestically, the pandemic appears under control with most States recording zero cases of community transition for some time now, allowing domestic borders to re-open. During the month, profits were taken in technology stocks which had materially outperformed since the market lows with some rotation into value and recovery names.

The Montgomery Small Companies Fund (the Fund) returned negative 2.17 per cent, net of fees, in September versus the benchmark, the S&P/ASX Small Ordinaries Accumulation index, which declined by 2.82 per cent. Since inception (20 September 2019), the Fund has increased 15.97 per cent, outperforming the benchmark by 19.26 per cent, after all fees and expenses.

September winners and losers

For the month of September the largest positive contributors to performance included Bigtincan Holdings (ASX:BTH), Corporate Travel Management (ASX:CTD) and Macquarie Telecom Group (ASX:MAQ). BTH rallied despite no new news; we remain excited about the significant growth potential of BTH's enterprise sales enablement software. The market opportunity appears large, and BTH has a demonstrated ability to sell into global multinational clients. We also like the net cash balance sheet position allowing scope for continued growth through selected acquisitions that align with the company's strategy.

CTD shares responded positively to the earnings accretive Travel and Transport Inc (T&T) acquisition which transforms the company's North American business and positions it as the global leader in mid-market corporate travel services. This deal is consistent with our view that CTD's technology advantage positions the company as the natural consolidator within the sector. Another example of technology driving market share changes in a big industry sector.

MAQ bounced back after an ever so brief sell-off; we took advantage of cheaper prices and topped up our position. MAQ remains a high conviction position within the Fund. Demand for premium datacentre services is strong and accelerating as enterprises (both Corporate and Government) embrace cloud technology tools in a digital transformation event that is a long multi-year journey; one where we are a lot closer to the beginning of than the end. Importantly, MAQ is developing its new Sydney datacentre which will see it expand its capacity, over time, from 14MW to around 50MW. Transformational. This expansion can be self-funded, based on our forecasts.

The largest detractors from performance included City Chic Collective (ASX:CCX), Marley Spoon (ASX:MMM) and Sezzle (ASX:SZL). CCX sold off after the company announced it had been outbid by a competing party at the auction for Catherine's (a US retail asset). Although disappointing, we think management showed discipline by not overpaying for the target and we expect more potential deals will come to market based on the challenging conditions for traditional bricks and mortar global retailers. MMM came under some pressure as warrants (instruments that convert to equity) were exercised and subsequently sold into the market. In our view, nothing fundamental has changed with this story - global demand for meal kits remains robust and we see the company being well placed to execute against its strategy.

SZL was weak as sentiment towards the Buy Now Pay Later (BNPL) sector soured as PayPal announced its intentions to introduce a 'pay-in-four' option, priced well below competing offerings. Although competition and pricing remain a key risk for the sector, we believe the market opportunity is very large and rapidly forming and SZL (like the other BNPL pure-plays) brings incremental customer traffic and sales for SME merchants which should, in the long run, underpin attractive unit economics.

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TOP COMPLETED HOLDINGS* (TCH)

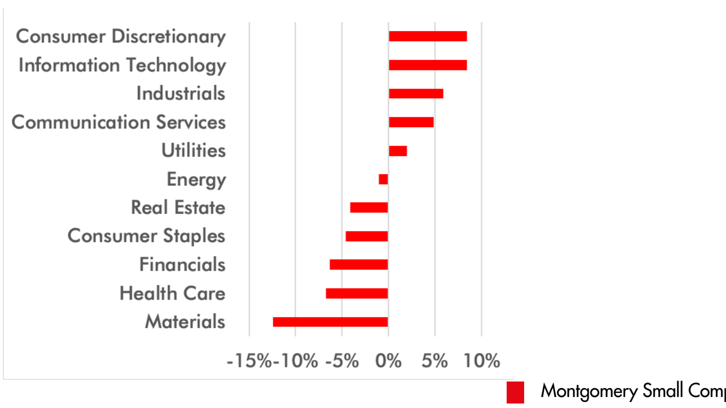
(as at 30 September 2020 showing top 5 of 48 holdings, in alphabetical order)

COMPANY NAME	TICKER	COMPANY WEBSITE
Appen	ASX:APX	https://appen.com/
Bapcor	ASX:BAP	https://www.bapcor.com.au/
City Chic Collective	ASX:CCX	https://www.citychic.com.au/
Corporate Travel Management	ASX:CTD	https://www.travelctm.com/
Macquarie Telecom Group	ASX:MAQ	https://macquarietelecom.com/

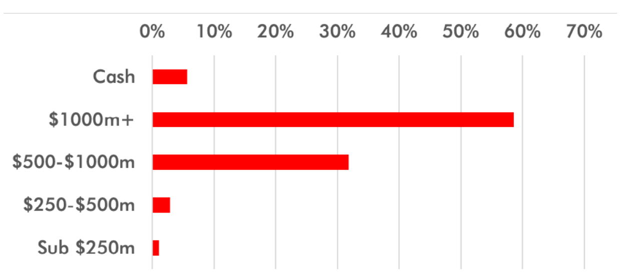
**Top Completed Holdings are businesses we own but are not actively buying or selling at the time of writing.*

Total equity weighting	94.34%
Total cash weighting	5.66%

GICS SECTOR WEIGHTS RELATIVE TO THE BENCHMARK



MARKET CAPITALISATION EXPOSURE



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

Montgomery Small Companies Fund positioning

The market has been through a lot over the past 12 months, (including the Montgomery Small Companies Fund passing the 1-year old mark in late September!). Looking back we took advantage of buying some of the highest quality companies in our investment universe at close to the bottom and, in hindsight, got those at epic prices. However, just as the perception of the fundamental picture has evolved so should our portfolio positioning to make the most of the opportunities that we see today. We maintain our "3 pillar" shape of (1) a core of stocks that are not impacted by COVID-19; (2) exposure to market share winning structural growers; and (3) augmented by the best "tactical" opportunities available. So we have been selling some of our bricks and mortar retail and technology exposures (both big winners in the COVID-19 recovery) and putting that money to work in stocks we see as levered to the next phase of economic "re-opening". Here we have been positioning the Fund to benefit from a resumption in domestic travel and holidays, increased activity in hospitality and a shift from spending on goods and more towards services. We outline these themes below.

Three key growth themes

Cloud

Cloud technology architectures have changed the unit economics of technology. The impact from that change, we believe, is most profound for the relative competitiveness of our small company investment universe. As we have written in past blogs, technology was a competitive weapon historically only available to large companies, because of its heavy upfront investment requirement and high cost to maintain, you needed scale to make the economics of technology work in your favour. Cloud has changed all that. Today Cloud allows businesses big and small to access technology as a service, no upfront capital expenditure, paying only for what you use when you want to use it. That big company scale is no longer an advantage. The game has changed. The keys of the big company IT department are now in the hands of our innovation driven small company universe, and many of them know how to use these tools to test an idea, learn what works and then scale it quickly before these larger less agile incumbents can react. Cloud is a key enabler of market share shift, as those big companies are often too big to change fast enough, but they are no longer too big to lose market share. We are excited about the opportunities that Cloud brings to the fund, and our ability to exploit that.

E-commerce

E-commerce is an exciting global megatrend and there are many ways to play this theme in Australian small caps, from online pure-plays to omni-channel models. The structural migration of retail towards online was already well in train pre-COVID-19, but recent mobility restrictions and the shift in consumption patterns from services to goods have seen it absolutely explode. Interestingly, although physical stores have reopened around the world, online sales remain elevated which suggests that adoption is sticking. The beauty of the online business model is that it is capital light and scales well, providing a real competitive advantage over traditional bricks and mortar retailers. Many of these companies were doing their best to resist online, however they now do so at their peril and are scrambling to catch up on e-commerce investment and capabilities. Online penetration in Australia remains roughly half the developed world average so we think this structural growth theme has many years to play out and we have aligned our portfolio to benefit from this.

Reopening

We have generated some really strong returns recently from investing in some of the working from home beneficiaries, but as global economies reopen further, we think there will be many more sectors which can return to growth and the arrival of a COVID-19 vaccine could be a major catalyst for this. Mobility restrictions drove a huge shift in consumption patterns globally, away from services like travel and hospitality and into goods, particularly homewares. As restrictions ease, some of this spend should be redirected back into services and we want to be positioned for this. The most leveraged plays to a reopening scenario are travel, tourism, hospitality and international education. We favour the companies with the advantaged business models which should emerge from the pandemic in stronger competitive positions, taking share from weakened competitors. They have resized their cost bases and strengthened their balance sheets, placing them as the natural consolidators over coming years.