THE MONTGOMERY FUND

INVESTMENT REPORT & FACT SHEET

FUND OVERVIEW

The Montgomery Fund employs a bottom-up, value style to invest and manage the equity portfolio. The Fund has the ability to retain a cash weighting, with a 'soft' 30 per cent limit, while seeking to identify companies that satisfy three main points of criteria. For inclusion in The Montgomery Fund, a business must be of premium quality, display bright prospects for earnings and growth in intrinsic value, and be available to purchase at a reasonable price.

Pursuant to this objective, The Fund aims to deliver superior positive returns where suitable investment opportunities are abundant, and to preserve capital through cash allocations where suitable investment opportunities are scarce.

FUND FACTS

INVESTMENT MANAGER
Montgomery Investment Management Pty Ltd

OBJECTIVE
The Montgomery Fund aims to outperform the index over a rolling 5-year period.

BENCHMARK
The S&P/ASX 300 Accumulation Index

FUND CONSTRUCTION
The Fund's All Cap portfolio will typically comprise 20-40 high-conviction stocks listed on the ASX and/or NZSX. Cash typically ranges from 0%-30%, but up to 50% in extreme situations.

APIR
FHT0030AU

RECOMMENDED INVESTMENT TIMEFRAME
5 years

MINIMUM INITIAL INVESTMENT
$25,000

INCEPTION DATE
17 AUGUST 2012

FUND SIZE
$541.4M

MANAGEMENT FEE
1.36% per annum, which includes a management fee of 1.18% per annum. Both figures are GST inclusive and net of RITC.

PERFORMANCE FEES
15.38% of the total return of The Fund that is in excess of the Index. No performance fee is payable until any previous periods of underperformance has been made up.

APPLICATION & REDEMPTION PRICES
montinvest.com/tmf

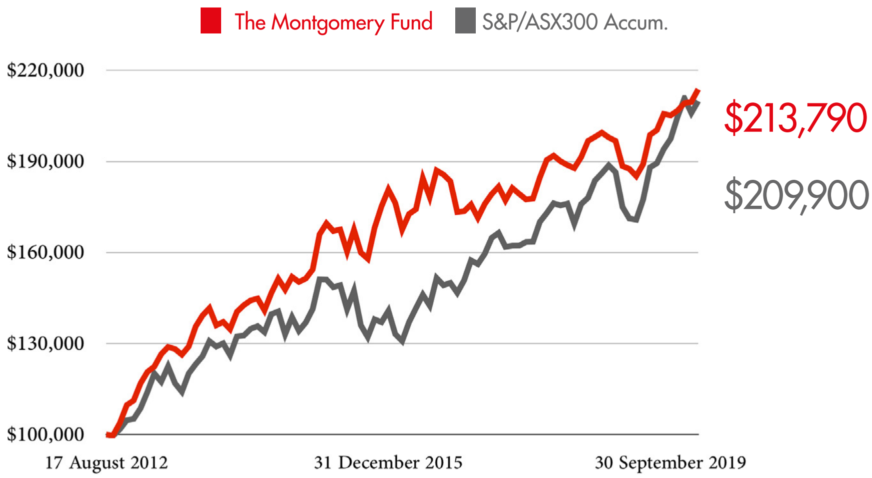
FINANCIAL YEAR RETURNS

FINANCIAL YEAR	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX
2013*	26.3%	14.1%
2014	11.6%	17.3%
2015	13.7%	5.6%
2016	11.2%	0.9%
2017	1.7%	13.8%
2018	9.3%	13.2%
2019	4.4%	11.4%
Since Inception**	11.3%	11.0%

* 2013 is the period 17 August 2012 to 30 June 2013

**Compound annual returns

PERFORMANCE GRAPH



PORTFOLIO PERFORMANCE

(to 30 September 2019, after all fees)

	INCOME	CAPITAL GROWTH	THE MONTGOMERY FUND	S&P/ASX 300 ACCUM. INDEX	OUT/UNDER PERFORMANCE
1 month	0.00%	1.99%	1.99%	1.91%	0.08%
3 months	0.00%	3.40%	3.40%	2.55%	0.85%
6 months	4.47%	2.24%	6.71%	10.80%	-4.09%
12 months	6.12%	2.54%	8.66%	12.57%	-3.91%
3 years (p.a.)	5.16%	0.07%	5.23%	11.85%	-6.62%
5 years (p.a.)	5.84%	1.82%	7.66%	9.55%	-1.89%
Since inception#	55.66%	58.13%	113.79%	109.90%	3.89%
Compound annual return (since inception)#	6.41%	4.85%	11.26%	10.98%	0.28%

17 August 2012

FUND COMMENTARY

Equity markets continued to rise in the third quarter of 2019 although the pace slowed down from the very strong second quarter. The S&P/ASX 300 Accumulation Index increased by 2.55 per cent which can be compared to the 8.1 per cent we saw in the second quarter. There was also significant intra-period volatility with July being up a strong 3.0 per cent before the reporting season started and delivered more negative than positive results which led to a fall of 2.3 per cent in August before September recovered with an increase of 1.9 per cent.

The Montgomery Fund (The Fund) returned 3.40 per cent during the quarter resulting in a relative outperformance of 0.85 per cent for the period despite the "cash drag" of approximately 0.50 per cent from holding on average 21 per cent cash during the quarter. The Fund performed particularly well in August with a relative outperformance of 2.47 per cent. August was when the majority of companies in the market reported results and outlook that was generally more negative than positive.

Indeed, approximately 46 per cent of the companies included in the S&P/ASX 300 index experienced downwards future estimate revisions compared to only 19 per cent which experienced upwards revisions.

The Financial sector was the strongest contributor to the market's performance during the quarter and it was encouraging to see that despite The Fund being structurally underweight the big 4 banks, the Financial sector holdings in The Fund contributed significant positive performance due to its holding in a number of smaller financial firms as well as in Macquarie Group. Healthcare and Information Technology as well as Materials were also sources of positive performance while the Communication Services and Consumer Staples sectors contributed negative relative performance.

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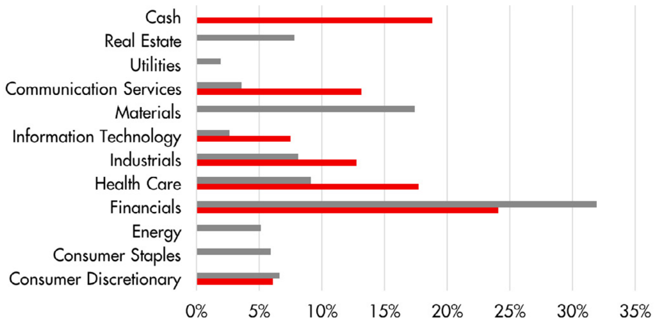
TOP COMPLETED HOLDINGS* (TCH)

(at 30 September 2019, out of 22 holdings)

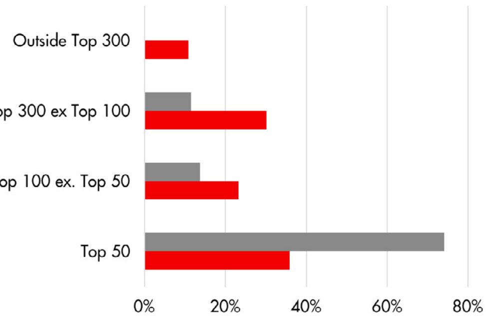
COMPANY NAME	RETURN ON EQUITY (%)	NET DEBT/EQUITY (%)	PRICE/EARNINGS (X)	WEIGHT (%)
Telstra Corp	19.1	114.6	16.6	6.38
Healius	10.1	33.0	18.4	6.30
Ramsay Health Care	26.7	160.4	22.3	6.17
Aristocrat Leisure	38.6	141.5	22.0	6.08
Medibank Private	23.3	-33.9	20.6	6.04
Macquarie Group	9.9	N/A	14.2	5.65
Spark New Zealand	27.6	114.3	19.5	5.38
Avita Medical	5.3	N/A	N/A	5.22
Westpac	11.4	N/A	12.7	4.81
Atlas Arteria	N/A	85.6	32.8	3.75
TCH AVERAGE	19.1	87.9	19.9	
MARKET AVERAGE	15.9	75.4	25.0	
Total equity weighting				81.20
Total cash weighting				18.80

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

INDUSTRY EXPOSURE



MARKET CAPITALISATION EXPOSURE



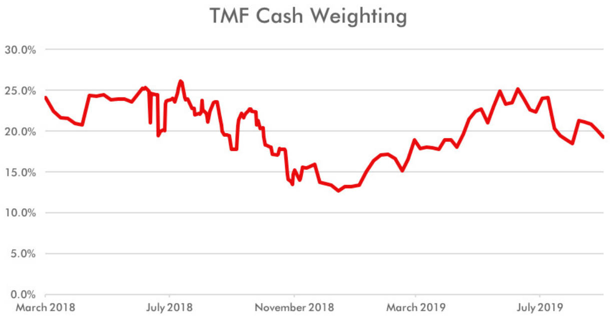
TMF S&P/ASX300

PLATFORMS WE ARE ON: Ausmaq AMP PortfolioCare AMP Summit AMP Wealthview AMP North Asgard BT Wrap BT Panorama Colonial First Wrap Clearview Wealthsolutions Investment Exchange (IX) Federation Accounts HUB24 Linear Managed Accounts Macquarie Wrap MLC Wrap Navigator Netwealth IPDS Netwealth Super OneVue Powerwrap UBS

In terms of the top individual contributors to performance, the relatively new holding of Avita Medical which was described in the last quarterly letter was the largest positive contributor followed by Codan and Link Administration. The three largest negative contributors were Speedcast (which was exited during the quarter), Telstra and Ramsay Healthcare. Overall, the breadth was very encouraging with the number of positive contributors significantly outnumbering the number of negative contributors.

As mentioned in the August letter to investors, The Fund deployed some of its cash balance during August and this continued into September and The Fund ended the quarter with a cash balance of 18.8 per cent compared to 23.5 per cent at the end of June. We continue to take a cautious view of equity markets as valuations are still generally expensive driven by record low interest rates, and macro risks including both geopolitical tensions between nations (US-China trade war, Brexit and Middle East violence to name a few) and internal political turmoil in a number of key countries (Trump impeachment process, Hong Kong protests etc.) remain at an elevated level.

As a reminder, The Fund's cash weighting is dynamically managed according to the relative risk/reward we see in the market and the number of interesting investment opportunities we can find. The development over the last 1.5 years can be seen in this chart:



Source: Montgomery

Portfolio changes

There were a few notable changes in The Fund during the quarter.

The most notable exit was National Australia Bank which The Fund sold out of to make space for two smaller financial firms in Centuria Capital (CNI), and Australian Financial Group (AFG) where we consider the risk/reward equation as more attractive than for NAB.

Centuria Capital is a manager of both unlisted and listed property funds. The underlying assets are generally commercial buildings located outside of the central business district and the company targets assets where they can proactively add value through enhancing and renovating properties rather than being a passive owner. CNI is managed by a management team that we rate as competent and that has a good track record of creating value for shareholders.

AFG is Australia's second largest mortgage broker aggregator (i.e. they provide back-end functions to mortgage brokers and get paid part of broker commissions) and is also a manufacturer of Securitised Mortgage Products. Due to its wholesale funding structure, falling interest rates benefit companies like AFG compared to the banks which are partly funded by retail deposits. While falling interest rates lowers AFG's funding costs, banks which are already paying zero interest on much of their deposit base cannot further reduce their costs to the same extent. This should translate into higher market share or better net interest margins for AFG.

Speedcast and Challenger were both exited after disappointing fundamental developments made us think it is prudent to watch from the side lines for the time being.

Finally, after a reassessment of relative positioning, we decided to concentrate our exposure to the insurance broking industry to Steadfast and hence we exited our Ausbrokers position.

Business in Focus – Spark New Zealand

In our June 2018 quarterly letter to investors, we outlined the reasons we invested in Telstra. Across the Tasman Sea in New Zealand, we have a quite similar company that for some time has been a significant part of The Fund. The company is Spark New Zealand and it shares many characteristics with Telstra but there are also some significant differences.

Similar to Telstra, Spark used to be the State owned telecom monopoly Telecom NZ but with the significant difference that when New Zealand privatized the old Telecom, they split it into two parts, the network owning part that was named Chorus and the retail arm which was named Spark while Telstra still is an integrated company owning both the fixed line network and providing retail services.

Spark has been a top five contributor to return for The Fund on both a one and two year basis as the company has during the last three years gone through a significant restructuring exercise where it reduced its workforce by close to 20 per cent and increased EBITDA margins by 2.9 percentage points from 28.2 per cent to 31.1 per cent, despite total revenues declining by 0.7 per cent.

Despite this strong share price performance, we continue to have a sizeable position in Spark for several reasons:

- As for Telstra, we believe that 5G represents an opportunity for mobile network operators to enlarge the amount that consumers spend on telecom services overall as more and more devices will be connected and talk to each other. In addition to having the largest spectrum footprint in New Zealand, Spark also is the major provider of data centers in the market so should also benefit from the increase in computing demand that the connected devices generate.
- The competitive climate in New Zealand seems to us to be rational and attractive for investors with Spark being the market leader followed by Vodafone NZ as number two and 2Degrees as number three with no signs of any new potential entrants. Vodafone was recently acquired by two private equity firms and will no longer have the same access to content and roaming as when it was part of the wider Vodafone Group. The new CEO of Vodafone NZ came out of Spark and it seems to us that he is primarily focused on internal rationalization modeled on his positive experience from Spark, rather than competing aggressively with Spark. 2Degrees is of marginal profitability and is also unlikely to be able to compete aggressively, meaning that the overall competitive climate seems rather benign and as the market leader, Spark should be able to continue to earn a disproportional share of the total industry profit pool.
- As mentioned above, Spark is the major provider of data centers services in New Zealand and this is a rapidly growing revenue stream for them. Despite strong growth in the last couple of years, we estimate that only about one third of New Zealand companies have transitioned their IT systems to the cloud and that the growth runway for this revenue stream is significant.
- We rate the management team of Spark highly and we see limited risk for operational disappointments given the track record of under-promising and over-delivering that the team has built up over the years.

Spark NZ financial metrics	FY19	FY20
P/E	21.3x	19.0x
EV/EBITDA	9.0x	8.9x
Dividend Yield	5.4%	5.4%
RoE	26.8%	30.8%
ROCE	22.4%	22.9%