

THE MONTGOMERY
FUND



THE MONTGOMERY WAY

JUNE 2018



DISCLAIMER



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AGENDA

Background

1. Philosophy, Performance

Where are we now?

2. Interest rates and asset bubbles

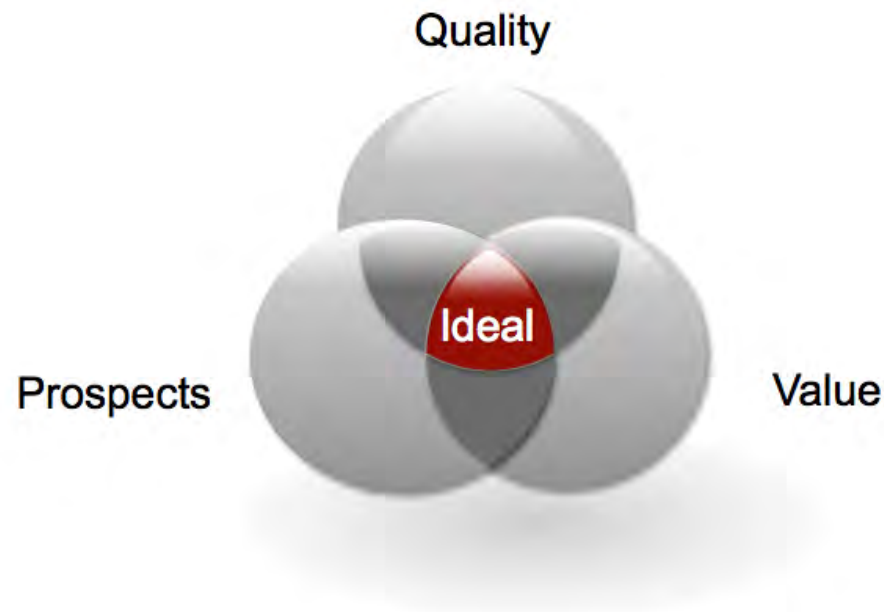
What is changing?

3. Cracks in the crystal

MONTGOMERY INVESTMENT PHILOSOPHY



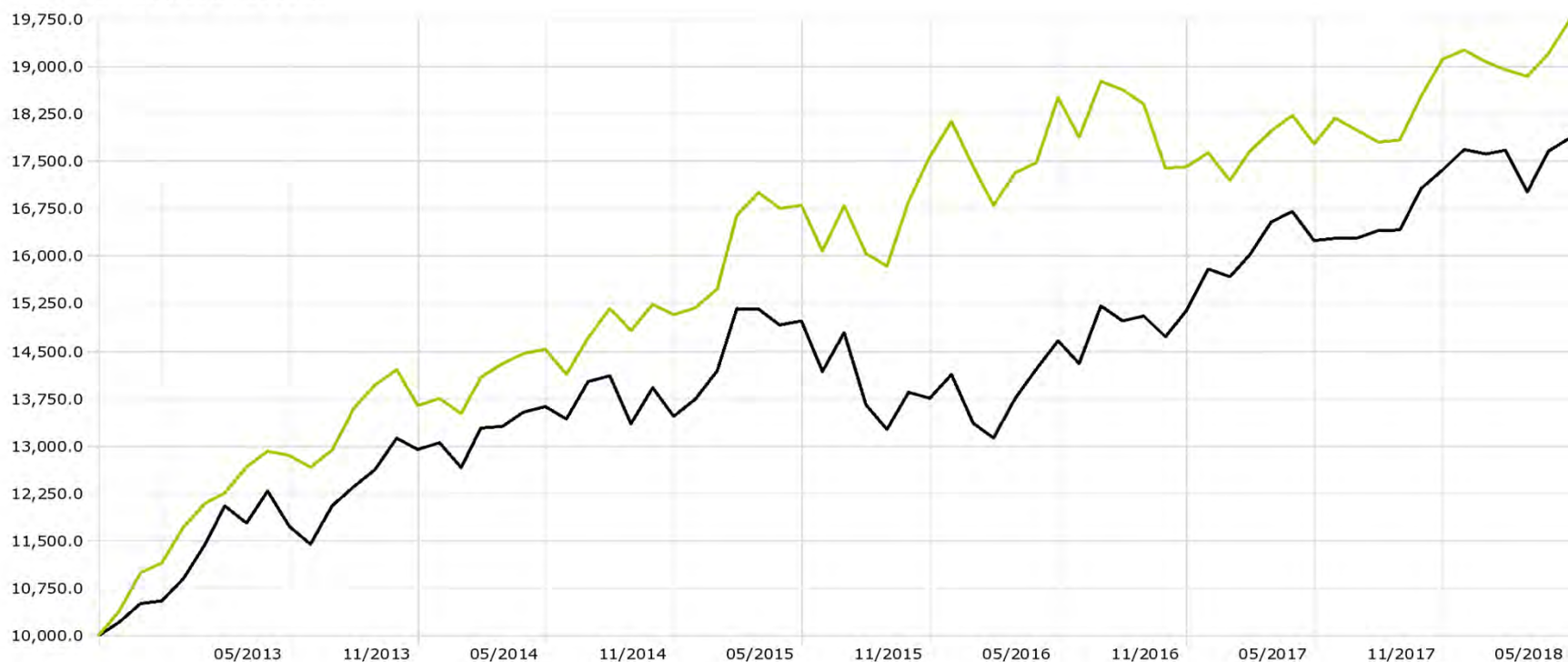
Businesses not stocks. Value not price. Long term value accretion versus short term noise. Companies within a Montgomery portfolio should display The Three P's: **P**remium quality economics, bright **P**rospects, and be available at a **P**rice below our estimate of its intrinsic value. If fewer opportunities are available, we have the flexibility to move into the safety of cash.



MONTGOMERY FUND RELATIVE PERFORMANCE



Time Period: 1/09/2012 to 31/05/2018



— The Montgomery Fund

19,739.1 — S&P/ASX 300 TR

17,871.8

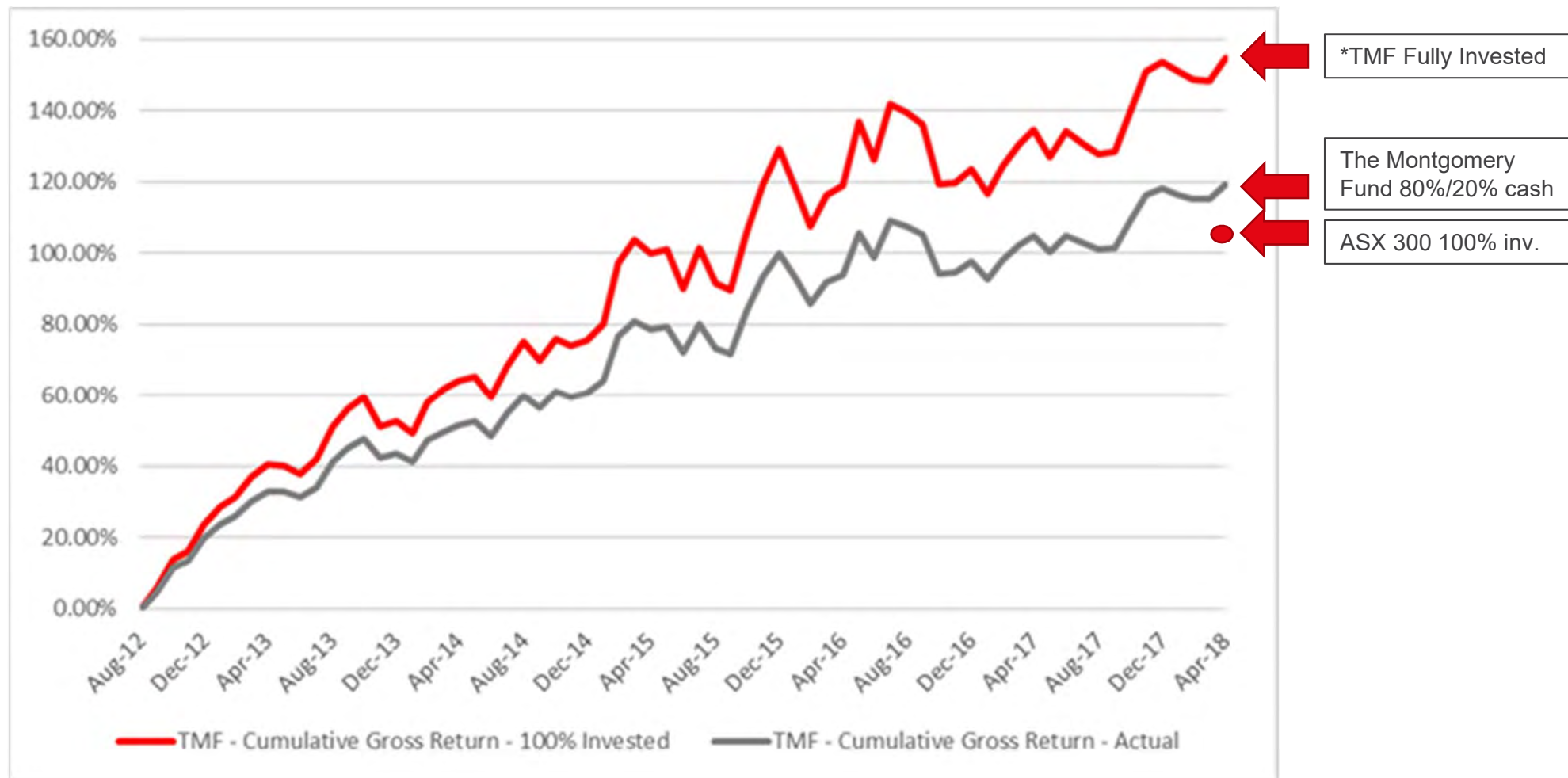
Performance

Time Period: 1/09/2012 to 31/05/2018

	Return	Cumulative Return	Standard Deviation	Excess Return	Beta	Sharpe Ratio (arith)
The Montgomery Fund	12.55	97.39	10.07	1.93	0.83	0.65
S&P/ASX 300 TR	10.63	78.72	11.01	0.00	1.00	0.42

Source: Morningstar Direct

SUPERIOR STOCK SELECTION CAPABILITY



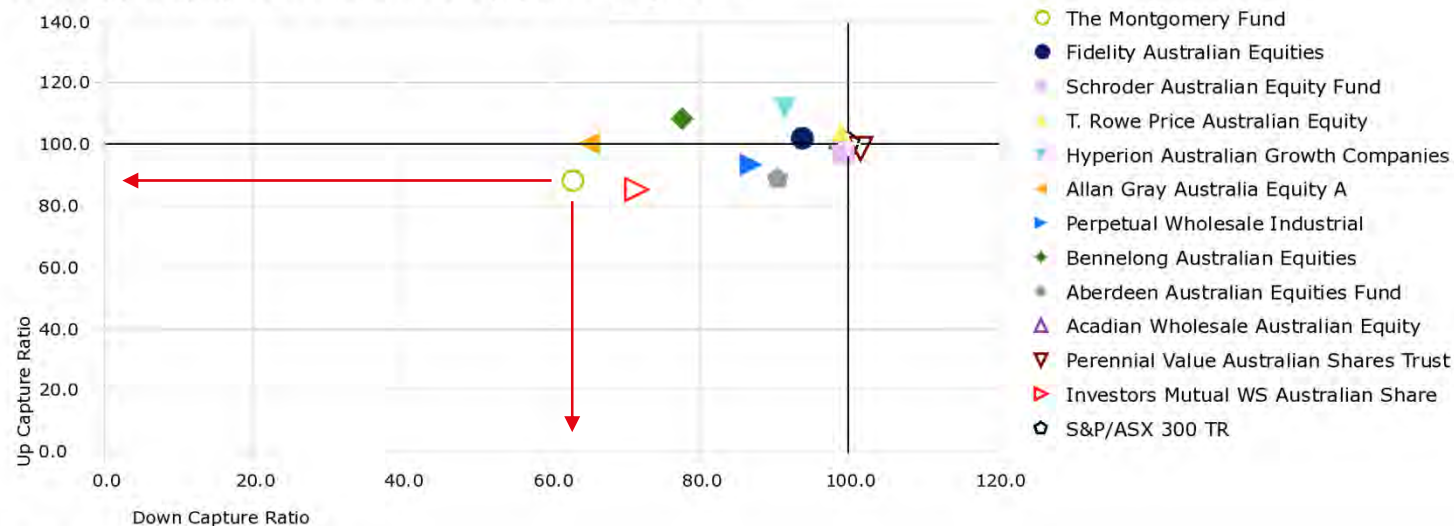
*Hypothetical Return if TMF Fully Invested

MONTGOMERY FUND UPSIDE/DOWNSIDE



Time Period: 1/09/2012 to 31/05/2018

Peer Group (5-95%): Open End Funds - Australia - Equity Australia Large Growth



Market Performance

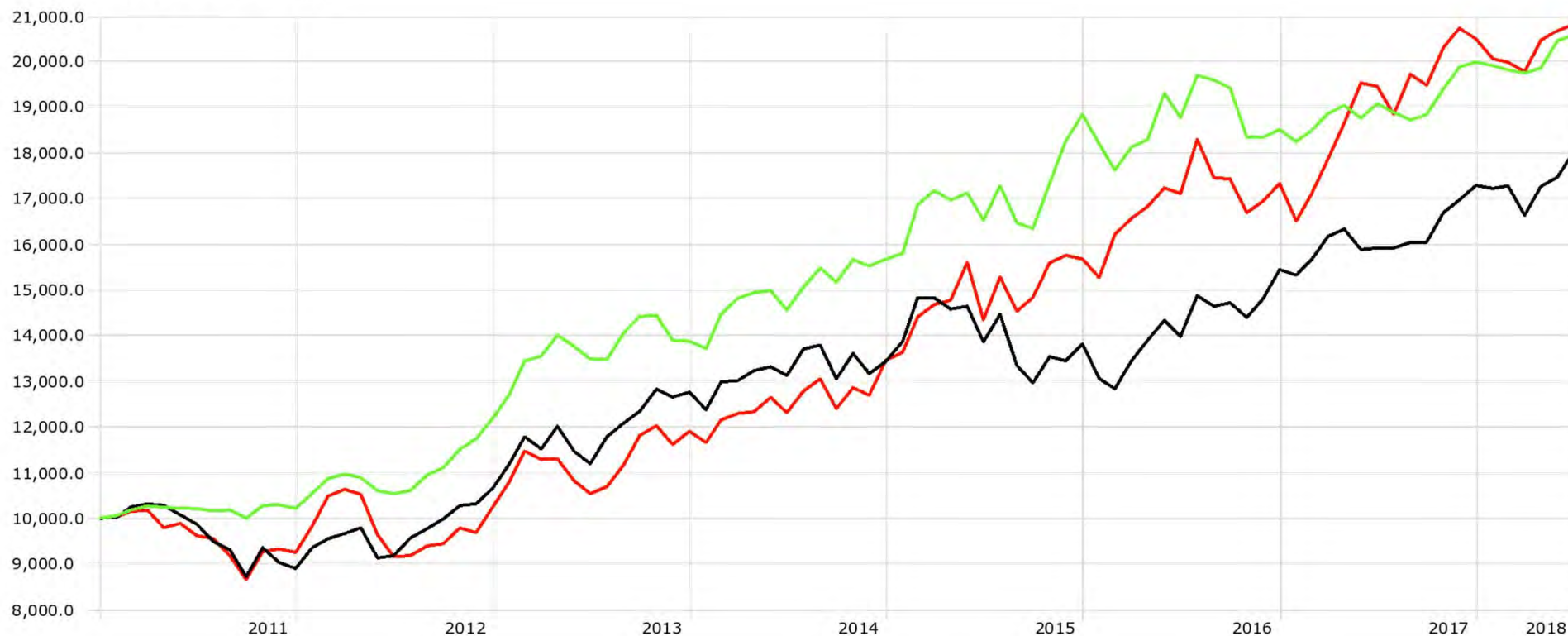
Time Period: 1/09/2012 to 31/05/2018

	Up Period Percent	Down Period Percent	Best Month	Worst Month	Best Quarter	Worst Quarter	Up Capture Ratio	Down Capture Ratio	R2
The Montgomery Fund	65.22	34.78	7.50	-5.53	14.41	-5.45	88.35	62.88	80.86
Fidelity Australian Equities	62.32	37.68	6.77	-7.48	10.35	-5.70	101.63	93.87	98.05
Schroder Australian Equity Fund	62.32	37.68	7.26	-8.41	10.03	-10.16	97.19	99.30	96.49
T. Rowe Price Australian Equity	63.77	36.23	6.85	-7.86	12.14	-7.10	103.35	99.04	97.16
Hyperion Australian Growth Companies	65.22	34.78	10.01	-8.16	17.45	-7.74	111.54	91.50	81.85
Allan Gray Australia Equity A	68.12	31.88	7.46	-8.54	14.90	-9.83	100.36	65.09	81.86
Perpetual Wholesale Industrial	60.87	39.13	6.85	-6.66	11.66	-7.86	93.42	86.80	95.00
Bennelong Australian Equities	65.22	34.78	7.15	-6.78	12.34	-8.68	108.46	77.55	88.97
Aberdeen Australian Equities Fund	62.32	37.68	8.34	-6.94	11.61	-6.39	88.85	90.57	97.46
Acadian Wholesale Australian Equity	66.67	33.33	7.32	-7.22	10.98	-6.14	102.33	99.04	98.71
Perennial Value Australian Shares Trust	59.42	40.58	8.79	-7.53	12.32	-8.29	98.34	101.63	98.23
Investors Mutual WS Australian Share	62.32	37.68	5.49	-6.90	9.69	-5.60	84.91	71.46	97.10
S&P/ASX 300 TR	66.67	33.33	6.92	-7.70	10.31	-6.48	100.00	100.00	100.00
25th Percentile	65.22	40.58	10.65	-6.54	18.30	-8.27	109.10	86.39	81.81
50th Percentile	62.32	37.68	9.55	-7.13	17.47	-9.13	92.65	76.43	79.00
75th Percentile	59.42	34.78	8.19	-8.17	14.70	-11.01	88.39	57.10	76.01

Manager Analysis

Growth of \$10,000

Time Period: 1/01/2011 to 30/06/2018



Montgomery Private Fund

20,572.3 S&P/ASX 300 TR

18,019.2 S&P/ASX 200 Industrials Sector TR AUD

20,819.9

Performance

Time Period: 1/01/2011 to 30/06/2018

	Return	Cumulative Return	Standard Deviation	Excess Return	Sharpe Ratio (arith)	Beta
Montgomery Private Fund	10.10	105.72	8.74	1.93	0.61	0.78
S&P/ASX 300 TR	8.17	80.19	11.30	0.00	0.30	1.00
S&P/ASX 200 Industrials Sector TR AUD	10.27	108.20	12.44	2.10	0.44	0.87

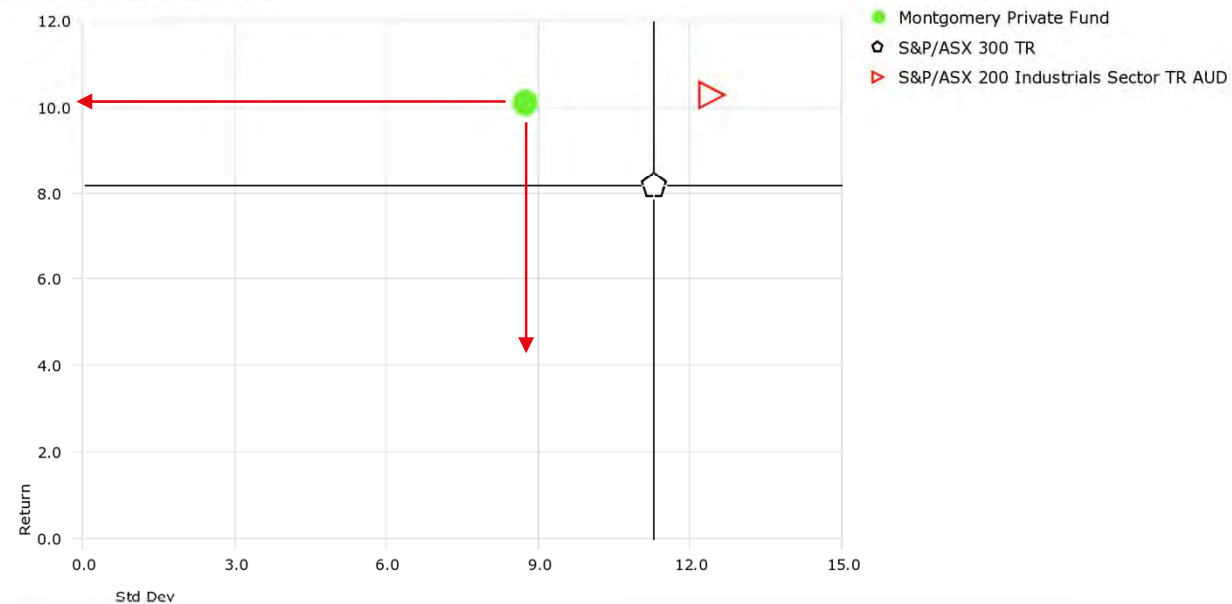
Manager Analysis



Risk-Reward

Time Period: 1/01/2011 to 30/06/2018

Peer Group (5-95%): None - None



Risk

Time Period: 1/07/2015 to 30/06/2018

	Return	Std Dev	Downside Deviation	Alpha	Information Ratio (arith)	Sortino Ratio	Sharpe Ratio (arith)	Tracking Error
Montgomery Private Fund	7.58	9.63	4.96	-0.19	-0.21	0.64	0.57	7.33
S&P/ASX 300 TR	9.14	10.74	0.00	0.00		0.70	0.66	0.00
S&P/ASX 200 Industrials Sector TR AUD	13.23	11.42	5.40	5.82	0.41	1.28	0.98	9.99
25th Percentile								
50th Percentile								
75th Percentile								

Source: Morningstar Direct

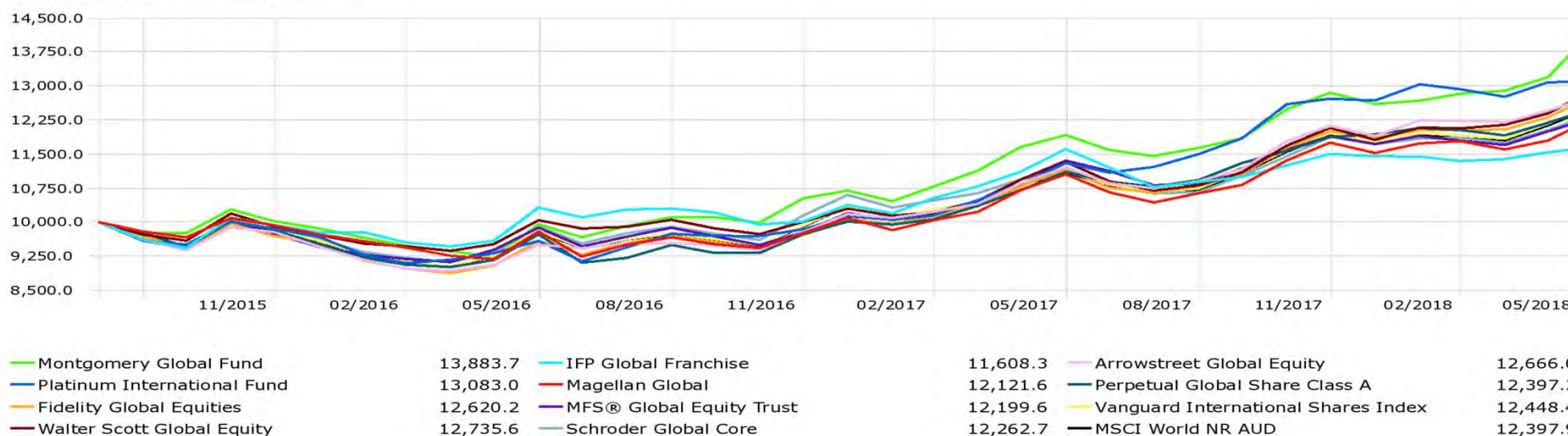
THE MONTGOMERY GLOBAL FUND PERFORMANCE



Manager Analysis

Growth of \$10,000

Time Period: 1/08/2015 to 21/05/2018



Performance

Time Period: 1/08/2015 to 30/04/2018

	Return	Cumulative Return	Excess Return	Beta	Sharpe Ratio (arith)
Montgomery Global Fund	10.59	31.89	3.32	0.82	1.11
IFP Global Franchise	5.33	15.35	-1.94	0.89	0.58
Arrowstreet Global Equity	8.30	24.50	1.02	0.99	0.92
Platinum International Fund	10.25	30.76	2.97	1.06	1.13
Magellan Global	6.19	17.95	-1.09	0.84	0.65
Perpetual Global Share Class A	7.45	21.85	0.18	0.97	0.78
Fidelity Global Equities	7.84	23.08	0.57	1.00	0.82
MFS® Global Equity Trust	6.84	19.94	-0.44	1.00	0.71
Vanguard International Shares Index	7.40	21.70	0.13	1.00	0.77
Walter Scott Global Equity	8.11	23.91	0.83	0.88	0.90
Schroder Global Core	6.94	20.26	-0.33	0.96	0.73
MSCI World NR AUD	7.27	21.29	0.00	1.00	0.76

Source: Morningstar Direct

THE MONTGOMERY GLOBAL FUND PERFORMANCE

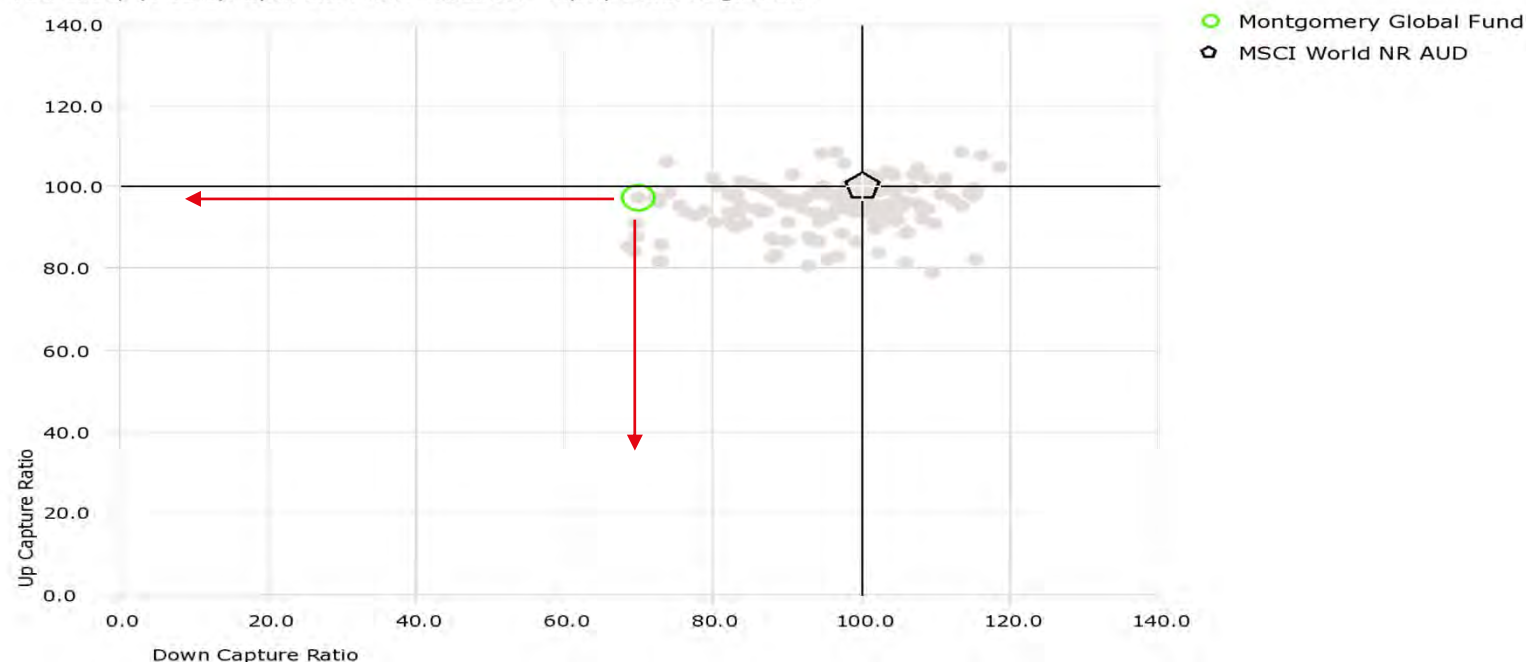


Manager Analysis

Upside-Downside Capture

Time Period: 1/08/2015 to 30/04/2018

Peer Group (5-95%): Open End Funds - Australia - Equity World Large Blend



Market Performance

Time Period: 1/08/2015 to 30/04/2018

	Up Period Percent	Down Period Percent	Best Month	Worst Month	Best Quarter	Worst Quarter	Up Capture Ratio	Down Capture Ratio	R2
Montgomery Global Fund	57.58	42.42	7.80	-2.85	6.36	-5.07	97.31	69.85	82.39
MSCI World NR AUD	51.52	48.48	6.23	-3.80	7.64	-5.75	100.00	100.00	100.00
25th Percentile	54.55	48.48	6.56	-3.82	7.62	-4.61	99.62	104.61	97.79
50th Percentile	51.52	48.48	6.17	-4.25	7.04	-5.73	94.91	98.88	93.55
75th Percentile	51.52	45.45	5.71	-5.32	6.37	-6.54	91.37	87.32	84.24

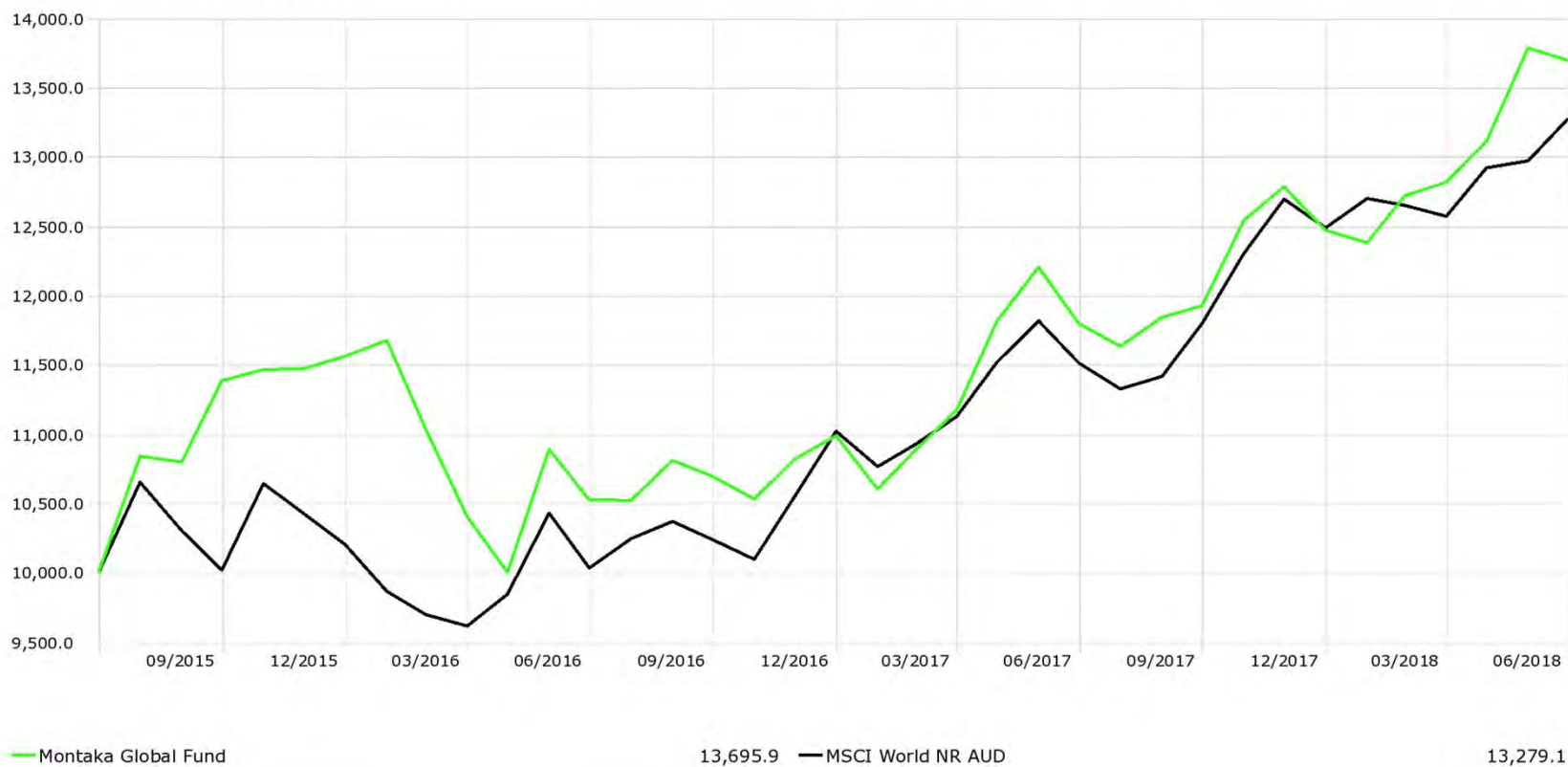
Source: Morningstar Direct

Manager Analysis



Growth of \$10,000

Time Period: 30/06/2015 to 30/06/2018



Performance

Time Period: 1/07/2015 to 30/06/2018

	Return	Cumulative Return	Standard Deviation	Excess Return	Beta	Sharpe Ratio (arith)
Montaka Global Fund	11.05	36.96	12.05	2.57	-0.12	0.86
MSCI World NR AUD	9.91	32.79	10.18	0.00	1.00	0.77

Source: Morningstar Direct

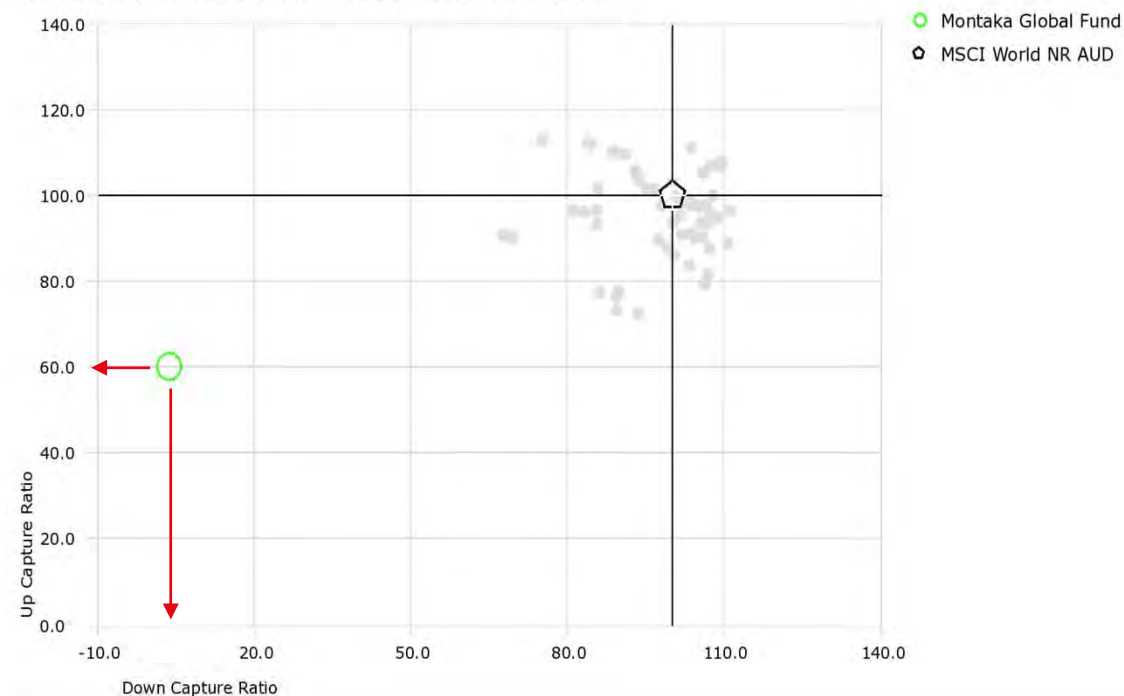
Manager Analysis



Upside-Downside Capture

Time Period: 1/07/2015 to 30/06/2018

Peer Group (5-95%): Open End Funds - Australia - Equity World Large Growth



Market Performance

Time Period: 1/07/2015 to 30/06/2018

	Up Period Percent	Down Period Percent	Best Month	Worst Month	Best Quarter	Worst Quarter	Up Capture Ratio	Down Capture Ratio	R2
Montaka Global Fund	61.11	38.89	8.86	-5.74	13.87	-10.02	60.22	3.69	1.02
MSCI World NR AUD	55.56	44.44	6.54	-3.80	7.64	-5.75	100.00	100.00	100.00
25th Percentile	61.11	44.44	7.39	-4.06	7.61	-3.99	103.25	106.26	91.36
50th Percentile	58.33	41.67	6.94	-4.23	6.91	-6.08	96.08	100.25	89.52
75th Percentile	55.56	38.89	6.45	-5.26	6.55	-6.93	89.56	85.97	82.42

Source: Morningstar Direct

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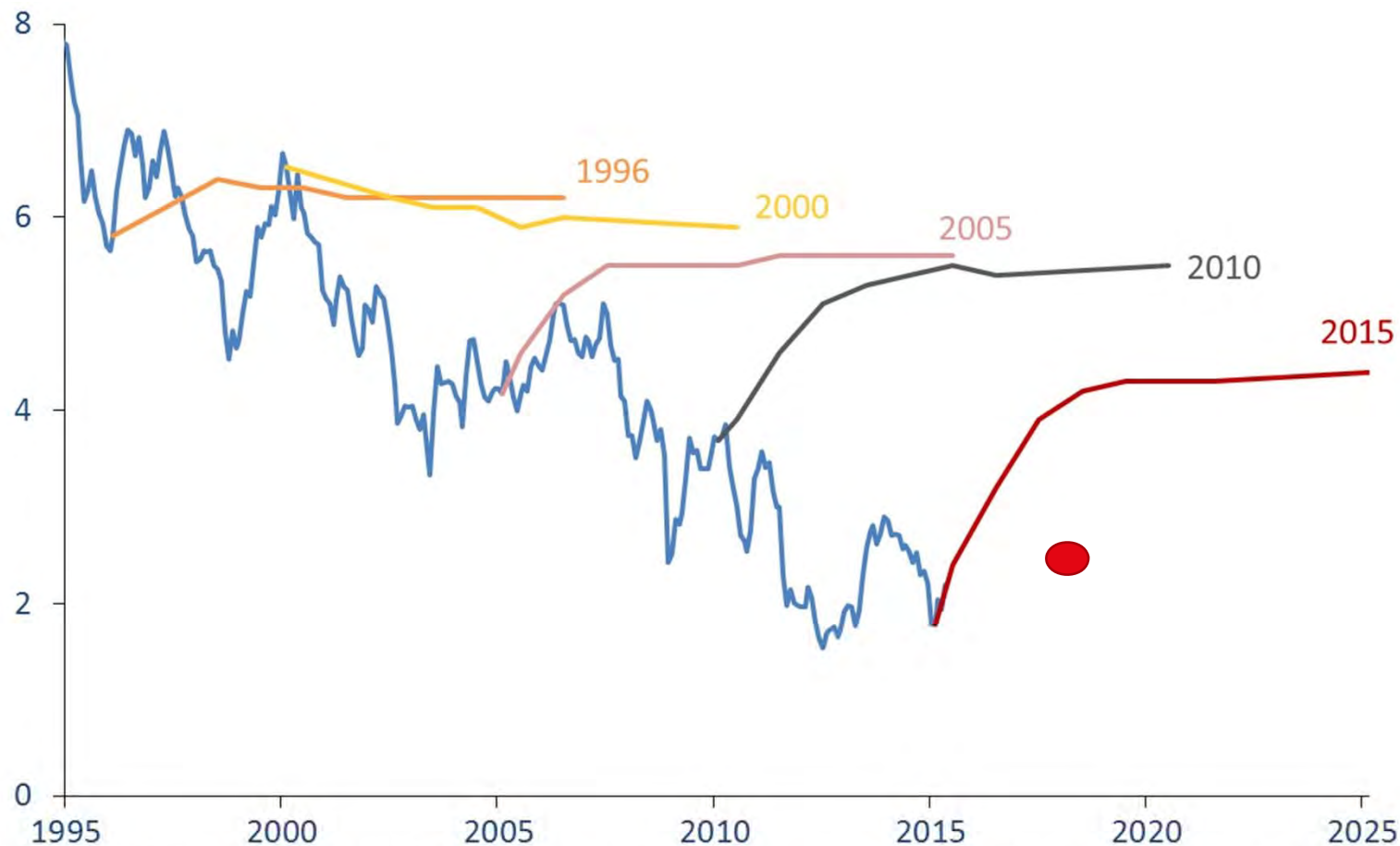
What is changing?

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PREDICTING INTEREST RATES FAILS



50 Blue Chip Economists 10yr bond rate forecast v Actual



Note: Forecasts are those reported by Blue Chip Economic Indicators released in March of the given calendar year, the median of over 50 private-sector economists. Source: Blue Chip Economic Indicators, Aspen Publishers.

US 10YRS



SOURCE: TRADINGECONOMICS.COM | U.S. DEPARTMENT OF THE TREASURY

ASSET INFLATION EVERYWHERE



At \$110.5 million, Basquiat's 'Untitled' beat the price of an Andy Warhol piece to become the most expensive U.S. painting ever auctioned



historic number plate NSW 29 set a new Australian auction record price of \$745,000



British-manufactured 1951 Vincent Black Lightning

Hermes Handbag's Auction Record: \$380K for Croc Skin Purse



ASSET INFLATION EVERYWHERE



The threepenny HMS Vanguard stamp from 1949, which set a new world record of \$67,850 at auction in Otaki last weekend.



Record price for a UK Car
Aston Martin DBR1US\$22.5m



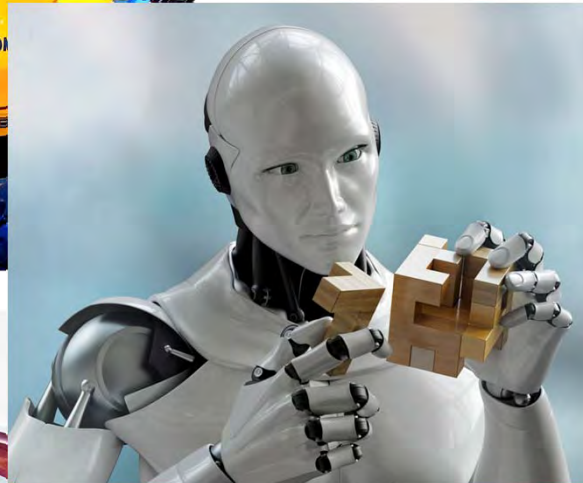
A 10 dukat "Portugalöser", sold for \$179,000 USD – by far a record price ever realized for a coin of the pre-Kingdom Dutch provinces.

TECH EUPHORIA



AlphaZero AI beats champion chess program after teaching itself in four hours

Robots could replace as many as 10,000 jobs at Citi's investment bank



Home / Technology

Nvidia's Role in the Autonomous Driving Race

Nvidia, Intel and others will be big beneficiaries when -- not if -- demand for self-driving cars begins to accelerate.

By **Bret Kenwell**

Jun 1, 2018 2:53 PM EDT



3D Bioprinting Company Expands with New Facility in New Hampshire

Airbnb founders forge ahead in China

HOME / MONEY & CAREER /

Will Tesla's New Truck Change the Roads Forever?

James Derek Sapienza | MORE ARTICLES

January 10, 2018

Advertisement

TECH 17/11/2017 7:34 PM AEDT | Updated 18/11/2017 8:46 AM AEDT

Tesla Unveils World's Fastest Production Car In Surprise Announcement

INNOVATE

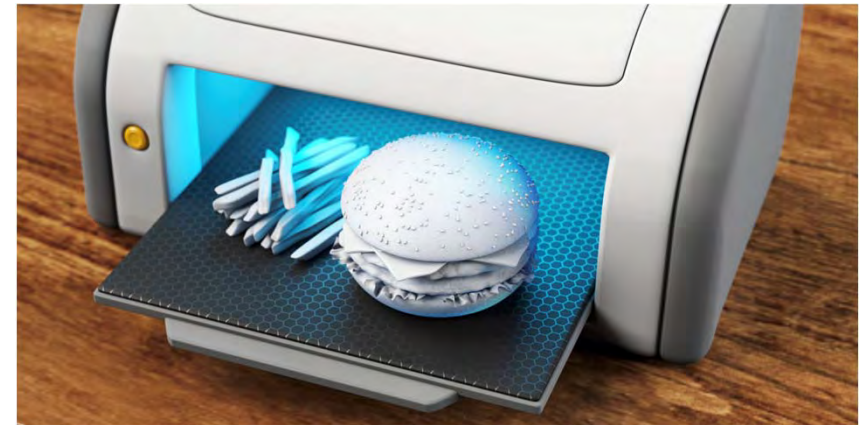
3 Reasons Why the Drone Industry Is Hiring Thousands of New Workers

CAR INDUSTRY

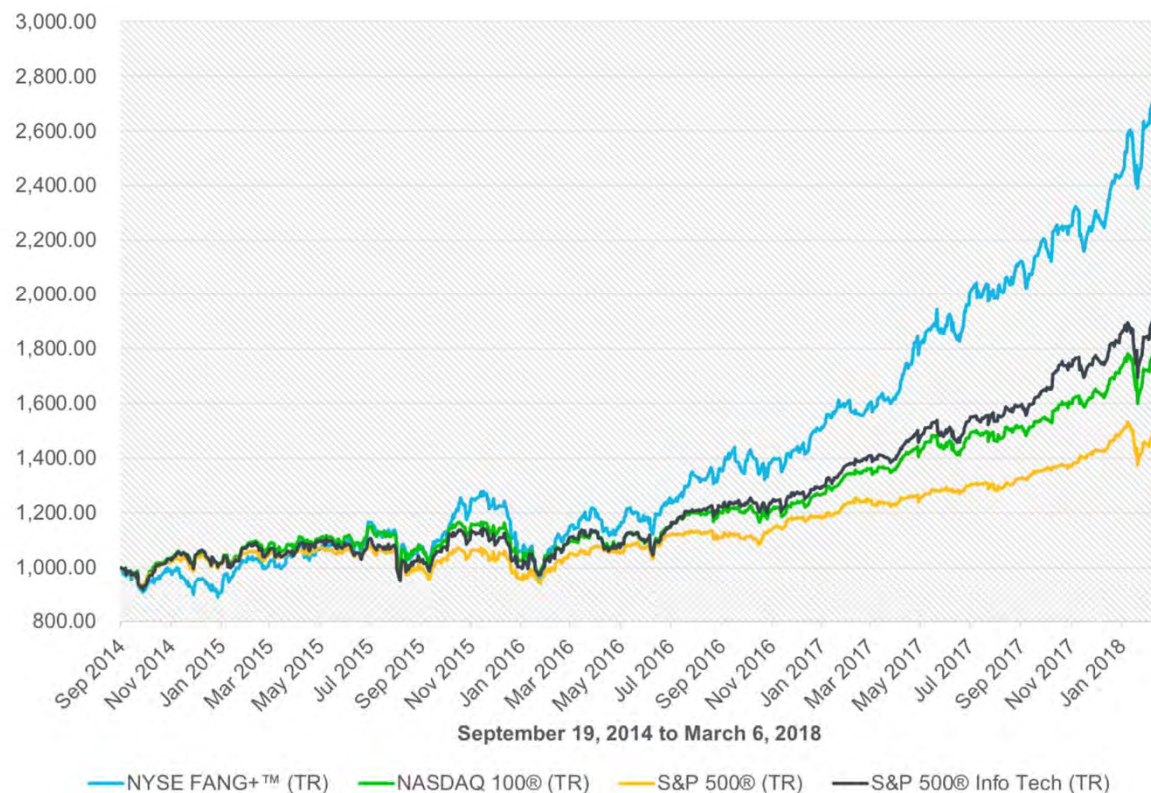
Toyota gets into the smart taxi game, hopes to crush Uber, others

Can the giant automaker use this new taxi venture to help fast-forward autonomous driving technology?

BY KYLE HYATT / MARCH 9, 2018 10:34 AM PST



TECH EUPHORIA



(Hypothetical performance using backtested data)

Based on back-tested performance data, the combination of stocks in the NYSE FANG+ Index have returned a 33.5% annualized total return from September 19, 2014 to March 6, 2018, as compared to 17.7% for the NASDAQ-100®, 11.5% for the S&P 500® and 20.1% for the S&P 500® Information Technology Index.

30x
Facebook
(FB)

17x
Apple
(AAPL)

198x
Amazon
(AMZN)

251x
Netflix
(NFLX)

43x
Google
(GOOGL)

46x
Alibaba
(BABA)

25x
Baidu
(BIDU)

47x
NVIDIA
(NVDA)

∞
Tesla
(TSLA)

3031x
Twitter
(TWTR)

Nasdaq 100 Constituents on >200X PE



Combined Market Capitalisation

US\$60.95B + US\$69B + US\$12B = Zero



PRIVATE EQUITY



UBER	Seed Round - Uber
Organization Name	Uber
Announced Date	Aug 8, 2009
Funding Type	Seed
Funding Stage	Seed
Money Raised	\$200K

UBER	Angel Round - Uber
Organization Name	Uber
Announced Date	Oct 15, 2010
Funding Type	Angel
Funding Stage	Seed
Money Raised	\$1.3M
Pre-Money Valuation	\$4M

UBER	Series A - Uber
Organization Name	Uber
Announced Date	Feb 14, 2011
Funding Type	Series A
Funding Stage	Early Stage Venture
Money Raised	\$11M
Pre-Money Valuation	\$49M

UBER	Series B - Uber
Organization Name	Uber
Announced Date	Dec 7, 2011
Closed On Date	Feb 14, 2011
Funding Type	Series B
Funding Stage	Early Stage Venture
Money Raised	\$37M
Pre-Money Valuation	\$300M

UBER	Series C - Uber
Organization Name	Uber
Announced Date	Aug 23, 2013
Funding Type	Series C
Funding Stage	Late Stage Venture
Money Raised	\$363M
Pre-Money Valuation	\$3.5B

UBER	Series D - Uber
Organization Name	Uber
Announced Date	Jun 6, 2014
Funding Type	Series D
Funding Stage	Late Stage Venture
Money Raised	\$1.4B
Pre-Money Valuation	\$17B

UBER	Series E - Uber
Organization Name	Uber
Announced Date	Dec 4, 2014
Funding Type	Series E
Funding Stage	Late Stage Venture
Money Raised	\$1.2B
Pre-Money Valuation	\$40B

UBER	Series E - Uber
Organization Name	Uber
Announced Date	Dec 12, 2014
Funding Type	Series E
Funding Stage	Late Stage Venture
Money Raised	\$600M
Pre-Money Valuation	\$40B

UBER	Series E - Uber
Organization Name	Uber
Announced Date	Feb 18, 2015
Funding Type	Series E
Funding Stage	Late Stage Venture
Money Raised	\$1B
Pre-Money Valuation	\$40B

UBER	Series F - Uber
Organization Name	Uber
Announced Date	Jul 31, 2015
Funding Type	Series F
Funding Stage	Late Stage Venture
Money Raised	\$1B
Pre-Money Valuation	\$50B

UBER	Series G - Uber
Organization Name	Uber
Announced Date	Jun 1, 2016
Funding Type	Series G
Funding Stage	Late Stage Venture
Money Raised	\$3.5B
Pre-Money Valuation	\$59B

UBER	Funding Round - Uber
Organization Name	Uber
Announced Date	Dec 28, 2017
Closed On Date	Jan 18, 2018
Funding Type	Funding Round
Money Raised	\$1.3B
Pre-Money Valuation	\$68.8B

Blockchain Hype like DotCom bubble

Name Change for Long Island Iced Tea Company



“Corporate focus shift towards opportunities strategic to blockchain technologies”.

Blockchain Hype like DotCom bubble

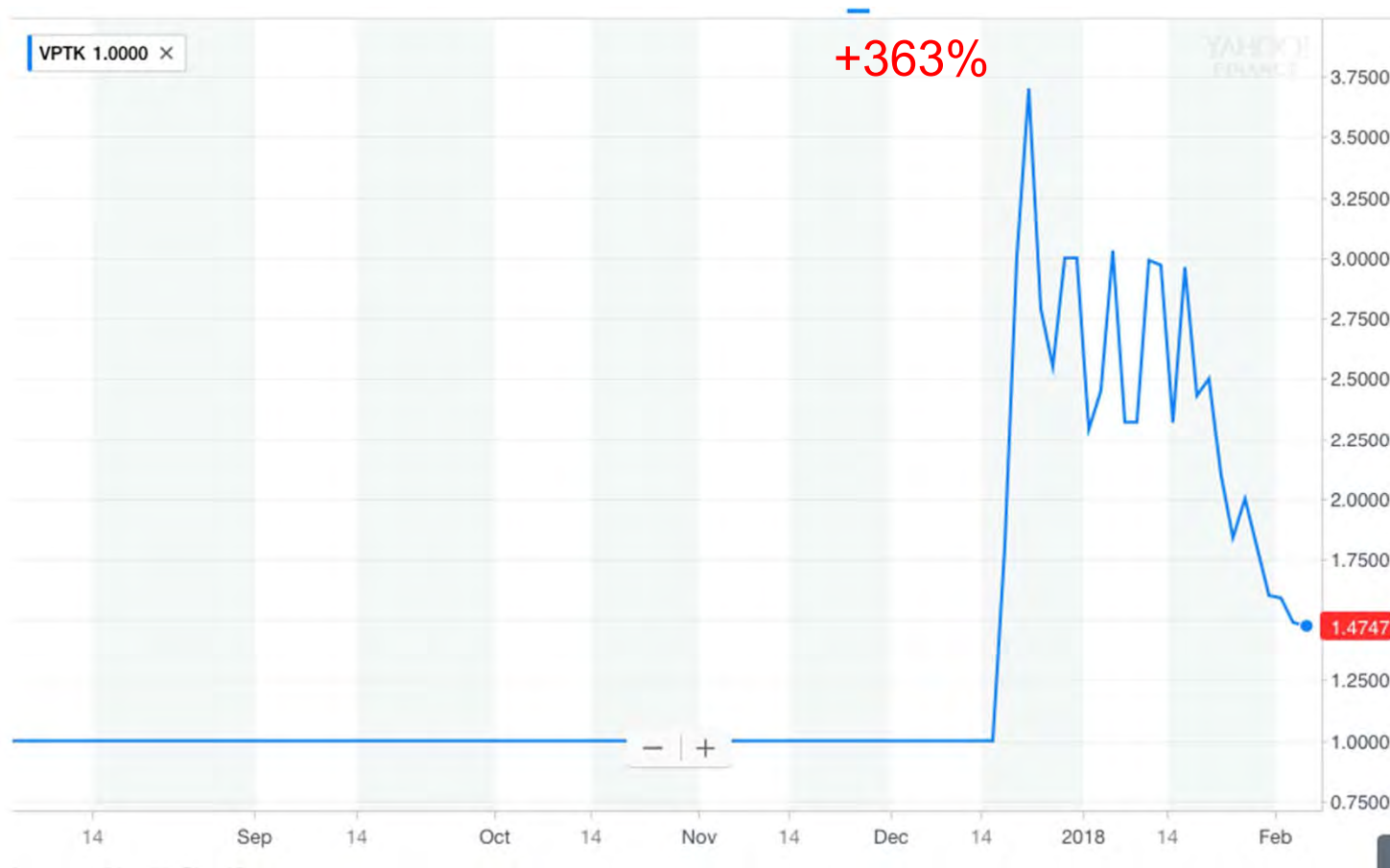
Cryptocurrency launch for Kodak



Kodak announces KodakCoin for blockchain-based photography rights management

Blockchain Hype like DotCom bubble

Vapetek – vapour-like



eCigarette company Vapetek changes name to Nodechain and will explore Bitcoin, Ethereum, and other cryptocurrencies.

Market Observations – Tech Euphoria

Concentration Risk – Seven companies are 50% of NASDAQ 100

NSDQ CO.	Weighting	Cumulative Weighting
Apple Inc	10.851	10.851
Amazon.com Inc	10.03	20.881
Microsoft Corp	9.72	30.601
Facebook Inc	5.479	36.08
Alphabet Inc	4.748	40.828
Alphabet Inc	4.056	44.884
Intel Corp	3.243	48.127
Cisco Systems Inc	2.838	50.965

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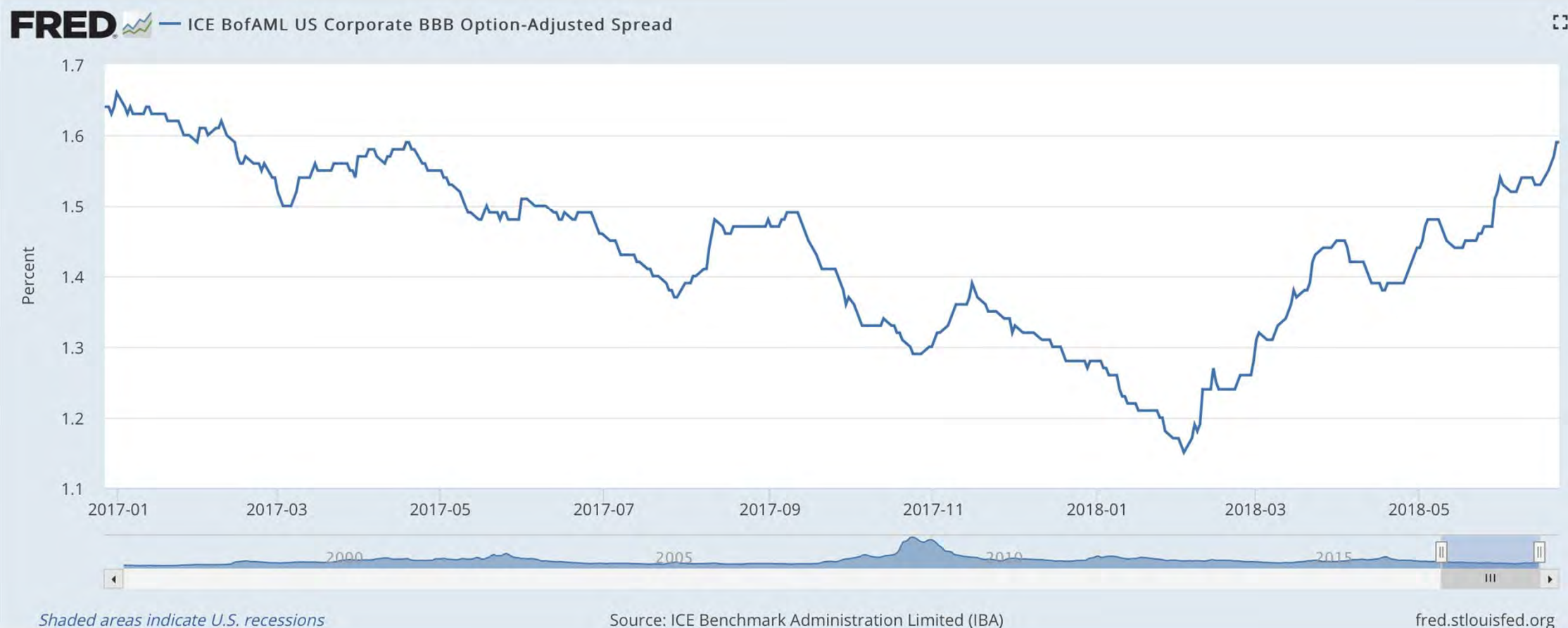
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CORPORATE BOND SPREADS



History Lesson: Credit spreads started widening aggressively in June/July 2007 (1.16% May'07 and 2.12% Nov'07). Equity markets peaked in November 2007 (5 months later).

CAPE RATIO S&P500

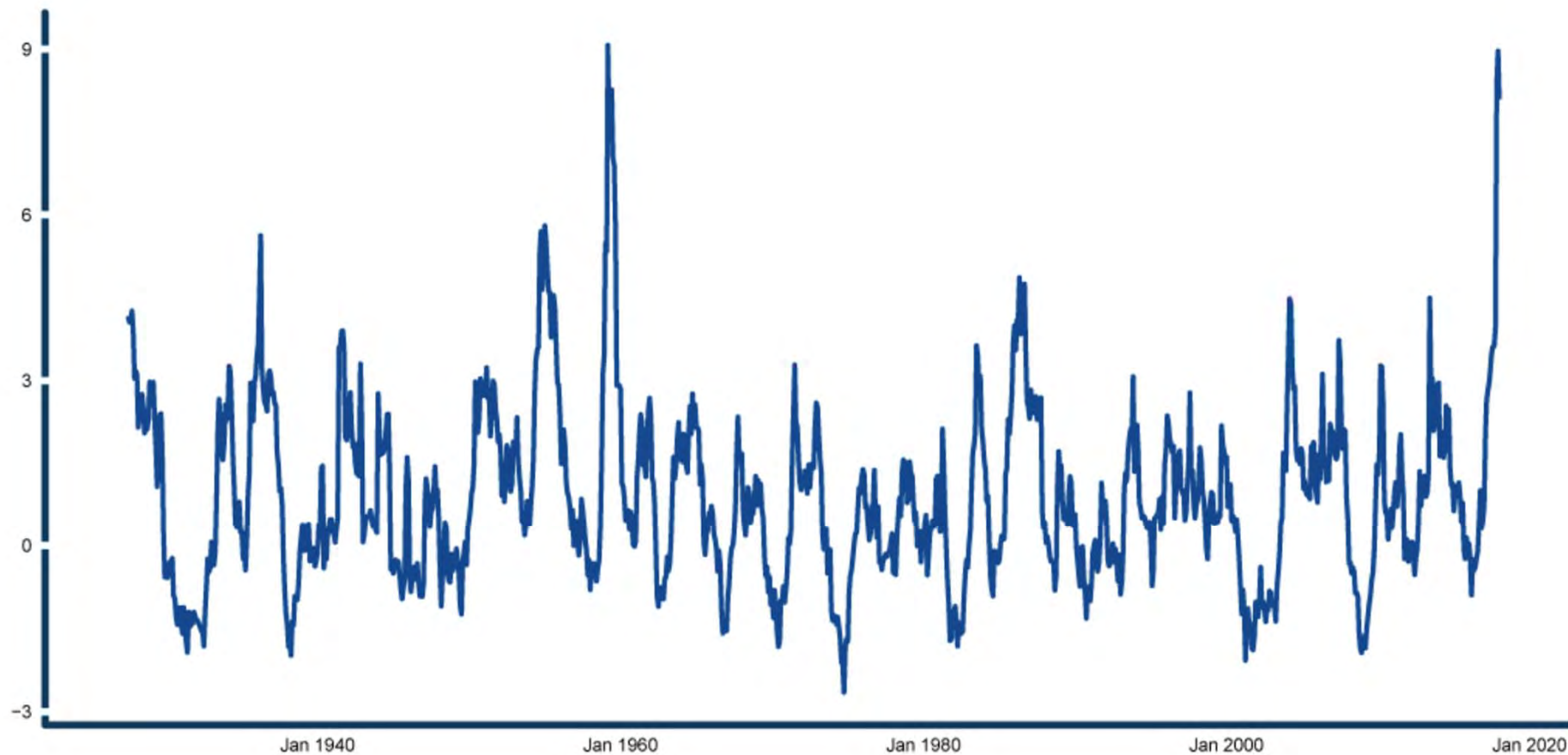


*** Subsequent 10 year annualized return with dividends reinvested**

SHARPE RATIO – PASSIVE'S ABNORMAL RETURNS

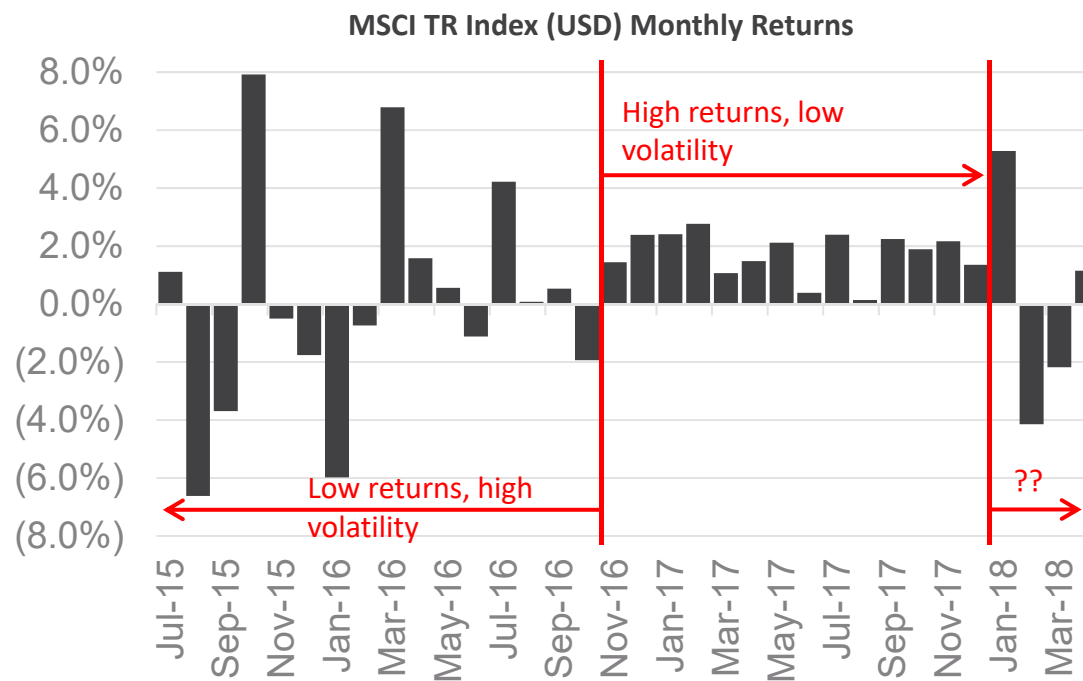


Rolling 12-month annualized Sharpe ratio to Dec 31, 2017



RECENT SHIFT – HIGHER VOL/LOWER RETURNS

RECENT PERIOD OF **HIGH RETURNS AND LOW VOLATILITY** APPEARS TO HAVE ENDED, GIVEN:



Source: Bloomberg

Market Observations –Euphoria Fading



BUSINESS NEWS APRIL 25, 2018 / 11:46 PM / 6 DAYS AGO

Uber suspending Vienna operations after court injunction

Reuters Staff

2 MIN READ



Uber loses EU case against French criminal charges

- France is entitled to bring criminal proceedings against local managers of ride-hailing app Uber for running an illegal taxi service, the EU top court ruled on Tuesday.
- The case concerned Uber's use of unlicensed drivers as part of its UberPOP service in France, which has since been suspended.

Published 4:12 AM ET Tue, 10 April 2018



Google fined record \$3.57 billion by European Union over shopping service

Updated 27 Jun 2017, 10:26pm

Apple agrees to pay Ireland \$15.4 billion in back taxes to appease EU

But the company is still appealing the decision

By Nick Statt | @nickstatt | Dec 4, 2017, 7:19pm EST

POLICY & LAW US & WORLD TECH

The FTC confirms it's investigating Facebook over its privacy practices

By Natt Garun | @nattgarun | Mar 26, 2018, 11:22am EDT

AIRBNB

Illegal Airbnb listings in NYC will now incur hefty fines

21

Governor Cuomo has signed a bill into law that will impose fines up to \$7,500 on users who advertise illegal short-term rentals

By Zoe Rosenberg | @zoe_roseberg | Oct 21, 2016, 5:13pm EDT

Trump continues attacks on Amazon, Washington Post



By Veronica Stracqualursi, CNN

Updated 0838 GMT (1638 HKT) April 1, 2018

NEWS

Manhattan couple hit with \$1M fine for illegal Airbnb listings

The couple is planning

By Ameena Walker | Apr 3, 2018,

NEWS

IBIZA IS CRACKING DOWN ON ACCOMMODATION LISTED ON AIRBNB

The law that affects a number of rental accommodation options will be in effect

PATRICK HINTON | 7 FEBRUARY 2018

Market Observations –Euphoria Fading

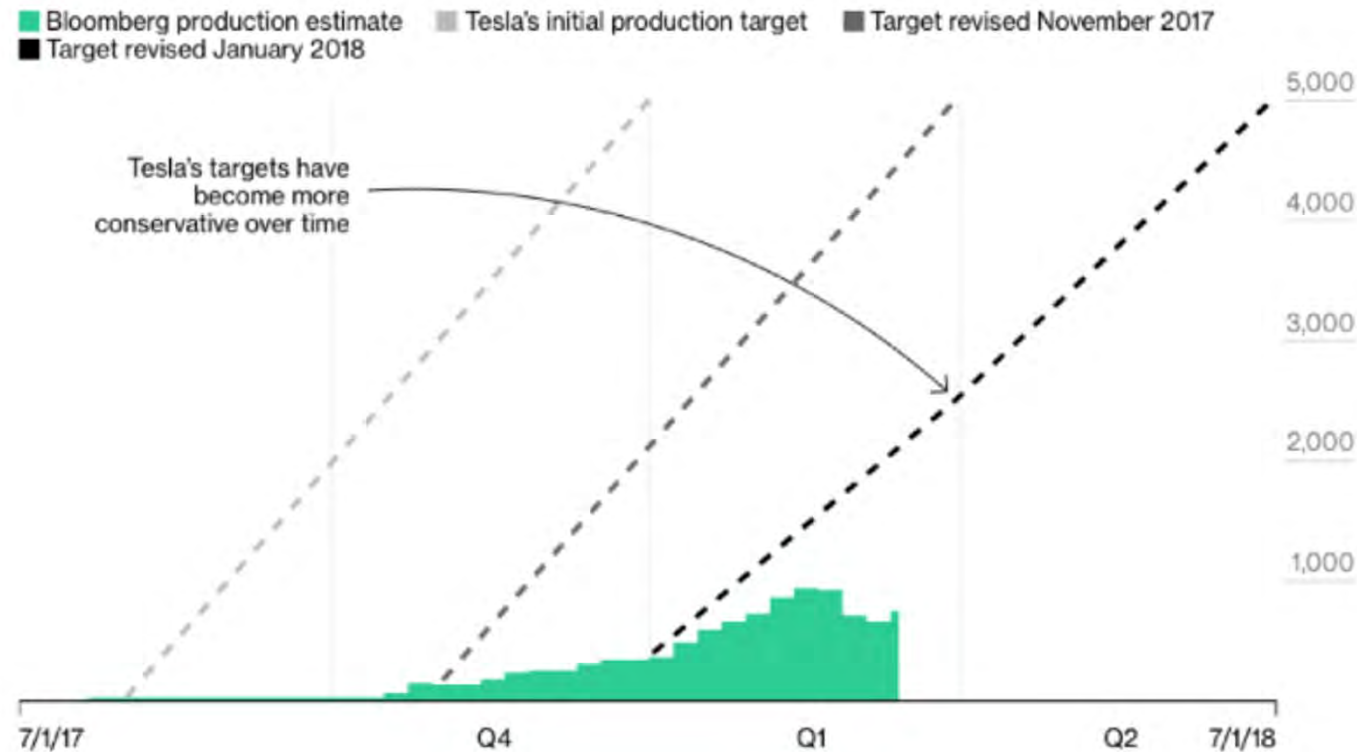
Andrew Leonard, Evgeny Morozov, Bernard Marszalek, Dean Baker, and Andrew Keen criticized the for-profit sector of the sharing economy, writing that sharing economy businesses "extract" profits from their given sector by **"successfully [making] an end run around the existing costs of doing business"** - taxes, regulations, and insurance. Similarly, In the context of online freelancing marketplaces, there have been worries that the sharing economy could result in a 'race to the bottom' in terms of wages and benefits: as millions of new workers from low-income countries come online.

Prime Minister Narendra Modi's **ambitious dream of have all electric vehicles in India by 2030 seems to be facing hurdles** after cab aggregator Ola's electric vehicle project in Nagpur seems to have hit a snag.

Ola launched its electric vehicle project in Nagpur last year with an investment of \$8 million. However, Reuters reports that nine months into the pilot, the program is facing a major roadblock with Ola drivers wanting to return their electric cars and switch back to petrol or diesel variants. Reuters spoke to 20 Ola electric car drivers and reportedly more than a dozen of them have either returned their vehicles already, or are planning to return them.

The reason? High operating expenses and long wait times at charging stations.

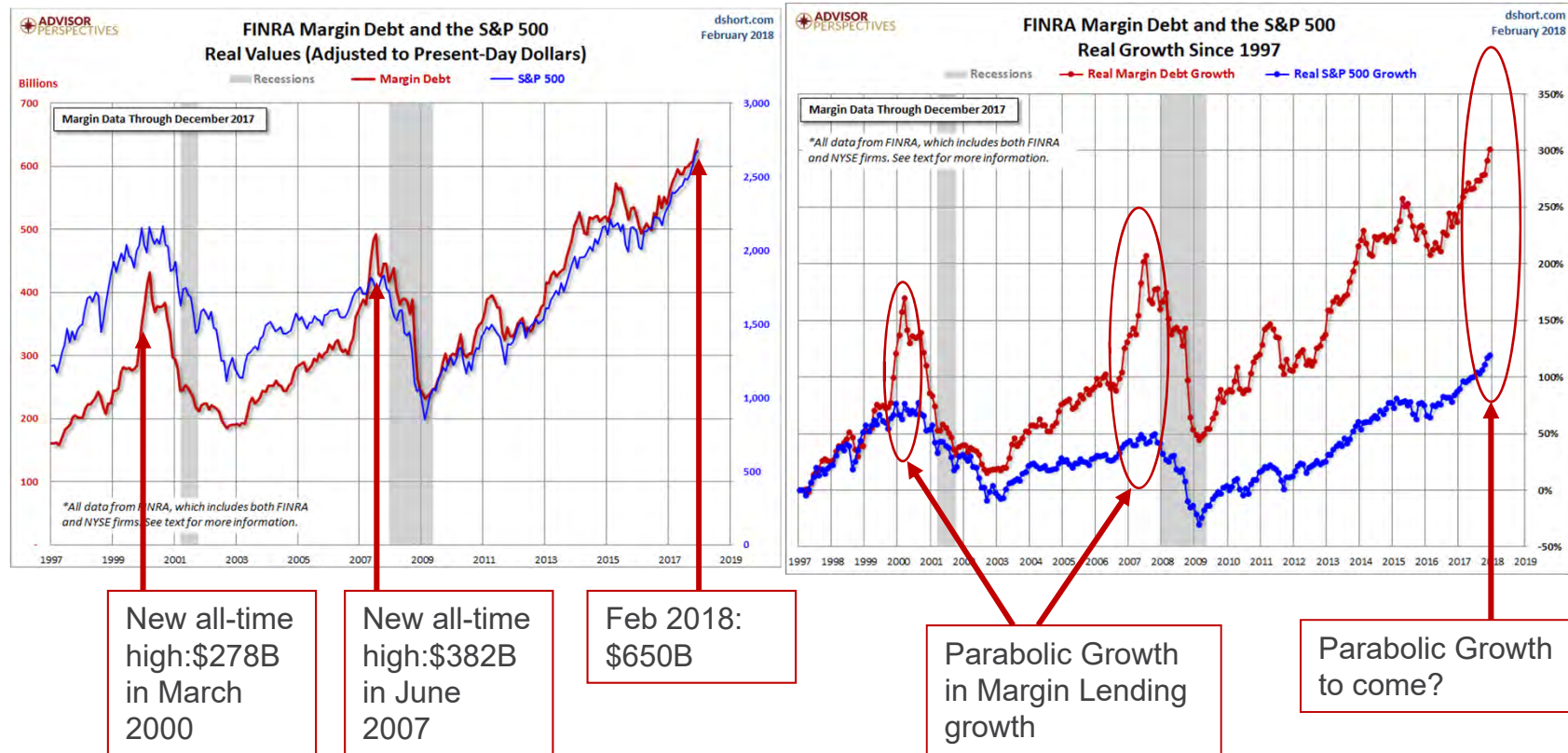
Market Observations –Euphoria Fading



On March 13, Volkswagen (DE:VOWG) AG announced that it secured \$25 billion in battery supplies to begin an aggressive push into electric cars. The automaker plans to equip 16 factories (up from 3 currently) to produce electric vehicles by the end of 2022.

Sources of Volatility – Margin Lending

“The US market is being propelled higher by record levels of margin debt [at \$US650bn in Feb 2018], substantially more than during the peak of the dotcom boom” *BIS*



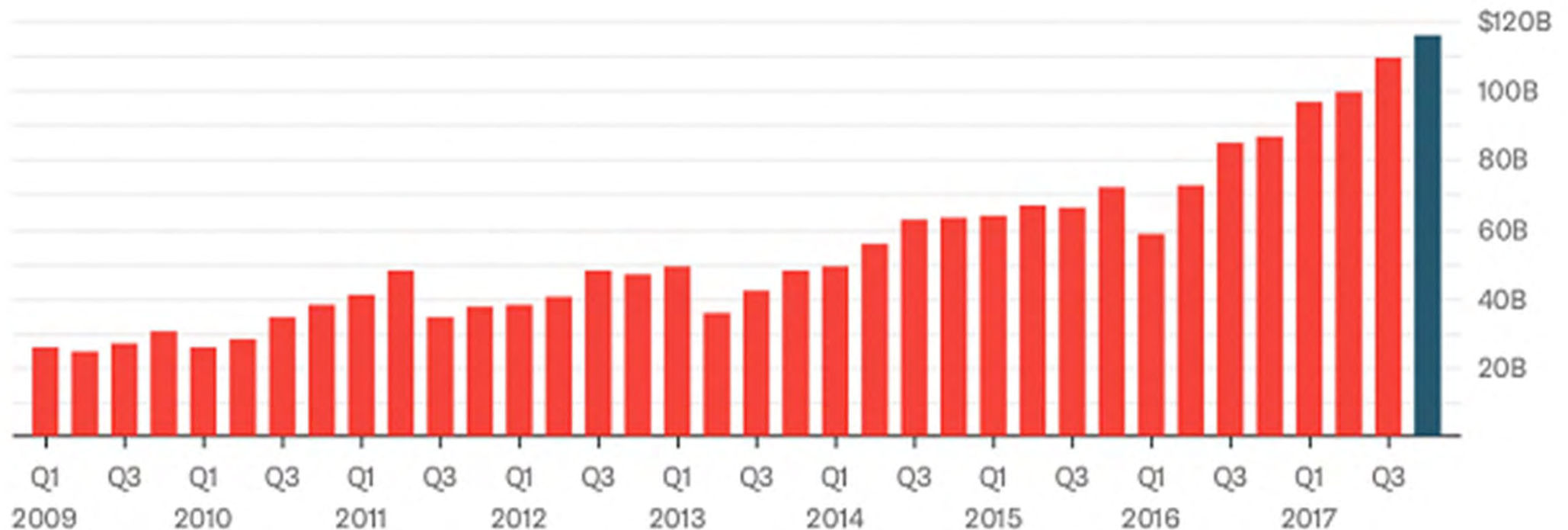
“We are bearish on financial assets as the U.S. economy progresses toward the late cycle, liquidity has been removed, and the markets are pricing in a continuation of recent conditions despite the changing backdrop.”

“2019 is setting up to be a dangerous year, as the fiscal stimulus rolls off while the impact of the Fed’s tightening will be peaking...and...since asset markets lead the economy, for investors the danger is already here.”



BERKSHIRE HATHAWAY CASH ●

An attractive price is “a requirement that proved to be a barrier to virtually all deals we reviewed in 2017.” 2018 Annual report

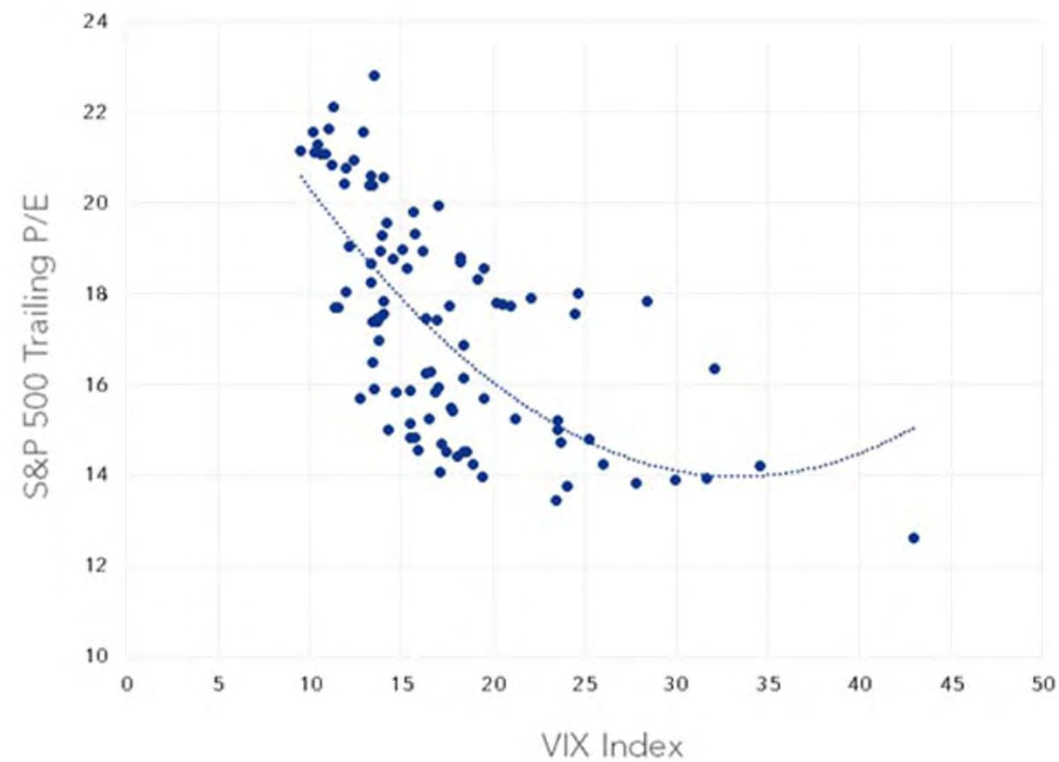


Source: Bloomberg

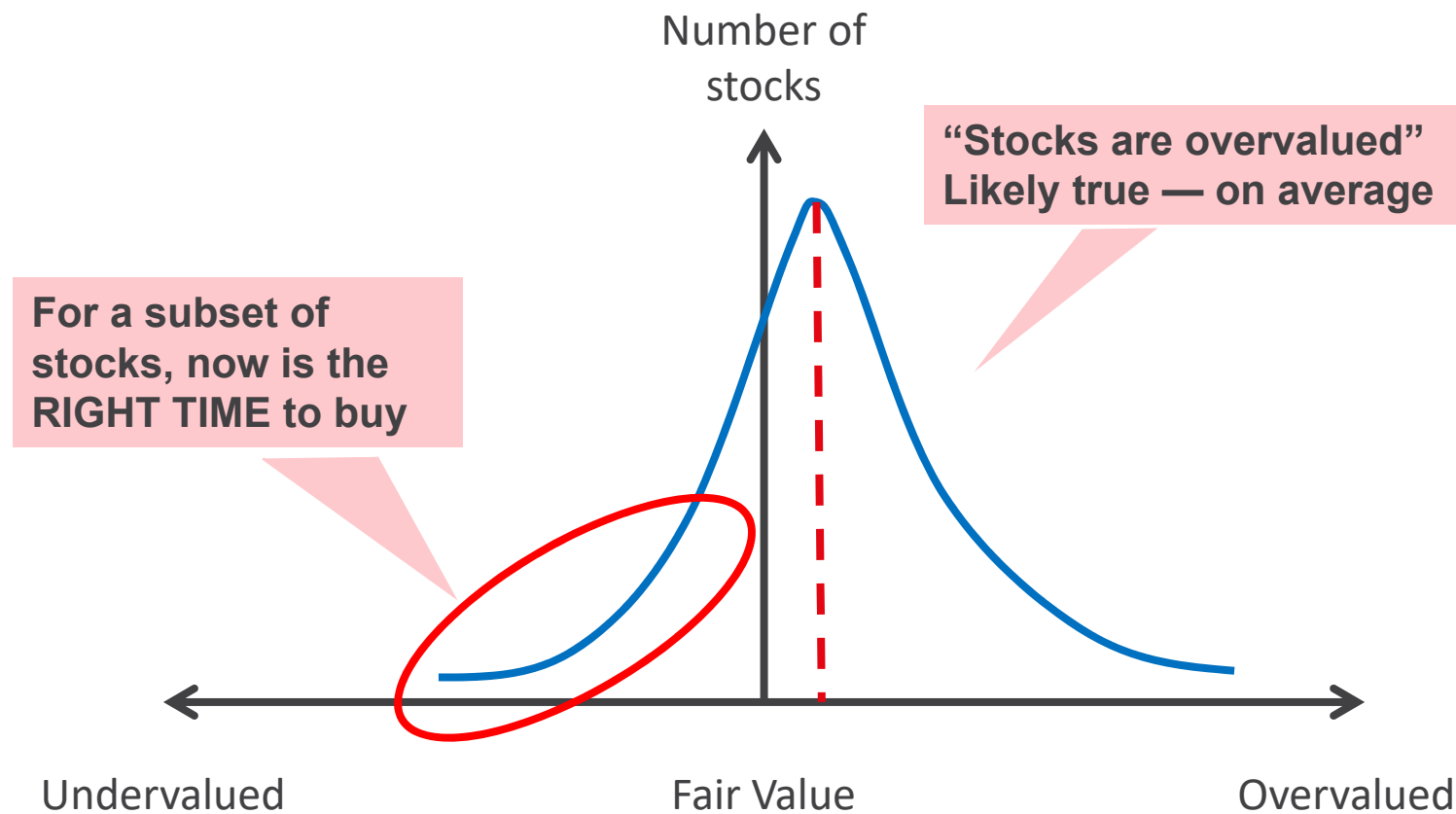
Bloomberg **Gadfly**

CONSEQUENCES OF VOLATILITY

VIX vs. S&P 500 P/E
2010 to present



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