

OPPORTUNITIES FOR AUSTRALIAN SMALL CAPS



21 MARCH 2024

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HEAD OF DISTRIBUTION



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MONTGOMERY LUCENT – EXPERIENCED TEAM



Gary Rollo

Portfolio Manager

- 20 years in Portfolio Management & Equities Research
- Former PM at MHOR for 3 years
- Former PM at Renaissance AM (13% compound outperformance)
- International equities experience at Morgan Stanley & JP Morgan
- Technology Specialist - decade+ in tech sector & Equities Research
- M.Eng, Chartered Accountant



Dominic Rose

Portfolio Manager

- 17 years in Portfolio Management & Equities Research
- Former PM at MHOR for 3 years
- Former Head of Small Caps Research at Deutsche Bank
- Previously Head of Research at Boutique Small Cap Stockbroker
- Small Caps Specialist - decade+ in Equities Research
- B.Ec, M.Bus (University of Sydney)

MIM Investment Team Access

- Roger Montgomery - Chair
- David Buckland - CEO
- Australian Eagle - Large Cap

MIM Dealing Desk

- David Trofa - Dealer

FUND SUMMARY



Montgomery Small Companies Fund (FHT3726AU) 29 Feb 2024

Alpha (% p.a, post fees)	5.2% p.a. (internally targeting 5-10% p.a.)
FUM	c. \$204m, soft closure between c. \$400-\$500m (hard closure c. \$750m)
STOCK HOLDINGS	48 (typically 30-50)
INDIVIDUAL STOCK LIMIT	10% at Cost
AUTHORISED STOCKS	ASX & NZX listed stocks (typically ex-100) plus unlisted companies expected to list within 12 months
PRE-IPO INVESTMENTS	<10%
CASH LIMIT	0-30% (typically <5%)
INVESTMENT STYLE	Long Only, Style Agnostic
MANAGEMENT FEE	1.22% p.a.
PERFORMANCE FEE	17.94% over benchmark with HWM
RESEARCH RATINGS	Lonsec – Recommended Zenith – Recommended

- 1. Process & Performance**
- 2. Small Caps: Why Now**
- 3. Portfolio Positioning & Outlook**
- 4. High Conviction Stocks**
- 5. Key Takeaways**

1. PROCESS & PERFORMANCE

Active Small Cap Investors

Small Caps Under-Researched / Undiscovered

Fundamental Analysis

Themes & Industry Change

Market Share Takers

Harness Small Cap Innovation

Identify Tomorrow's Leaders Today

PROCESS: INVESTING ACROSS THE SPECTRUM

STABLE COMPOUNDERS	TACTICAL OPPORTUNITY	STRUCTURAL WINNERS
 <ul style="list-style-type: none"> • Defensive growth • Stable industries • Market leaders • Compounding cashflows 	 <ul style="list-style-type: none"> • Sector recovery • Industry catalyst • Market share takers • Survivor to thriver 	 <ul style="list-style-type: none"> • Global megatrends • Long growth runways • Market share takers • Destiny in own hands
		
		

PERFORMANCE & CONTRIBUTION



	FY20	FY21	FY22	FY23	FY24 YTD	Inception	Annualized
Fund	3.63%	43.82%	-26.82%	12.80%	17.51%	44.54%	8.66%
Index	-8.48%	33.23%	-19.52%	8.45%	9.22%	16.23%	3.45%
Relative	12.11%	10.59%	-7.30%	4.35%	8.29%	28.31%	5.21%

Contributors (bps)			Detractors (bps)		
Megaport	MP1	+290	Praemium	PPS	-119
Audinate Group	AD8	+237	IDP Education	IEL	-78
Boss Energy	BOE	+219	Aeris Resources	AIS	-74
Ramelius Res.	RMS	+145	IPH	IPH	-61
Smartgroup	SIQ	+138	Gold Road Resources	GOR	-59
Top 10		+1,629	Bottom 10		-598

2. SMALL CAPS: WHY NOW

- **Macro:** Stabilised
- **The Set Up:** Looks good
- **Cheap Growth:** Good bits are on sale
- **Active Management:** Now is the time

**2022-
2023**

RAPID RATE HIKES

RECESSION FEARS

EARNINGS RISK

CAUTIOUS POSITIONING

HIGH CASH LEVELS

2024

PEAK RATES / CUTS

SOFT LANDING

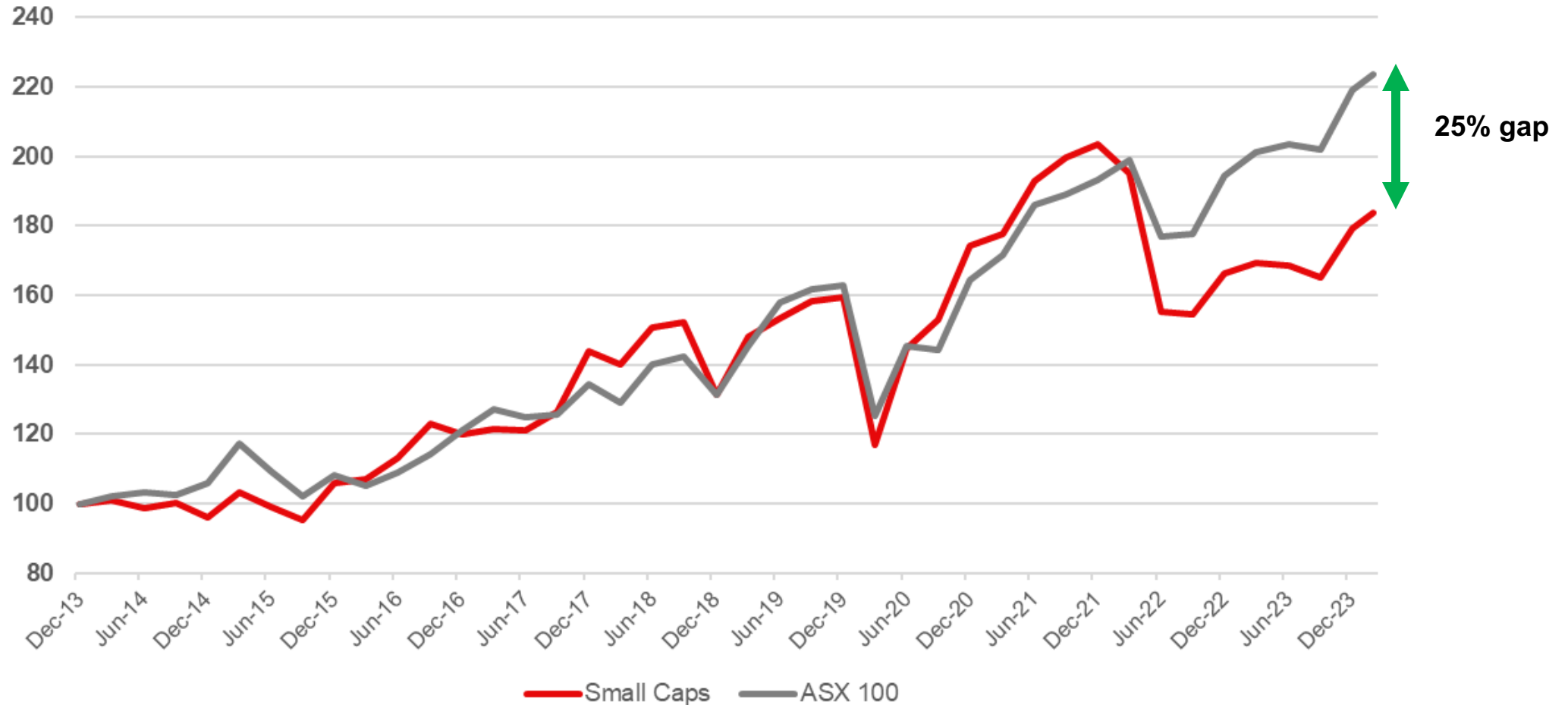
EARNINGS RESILIENT

BACK TO STOCK PICKING

DEPLOYING CASH

THE SET-UP: RETURNS CORRELATED UNTIL 3Q21...

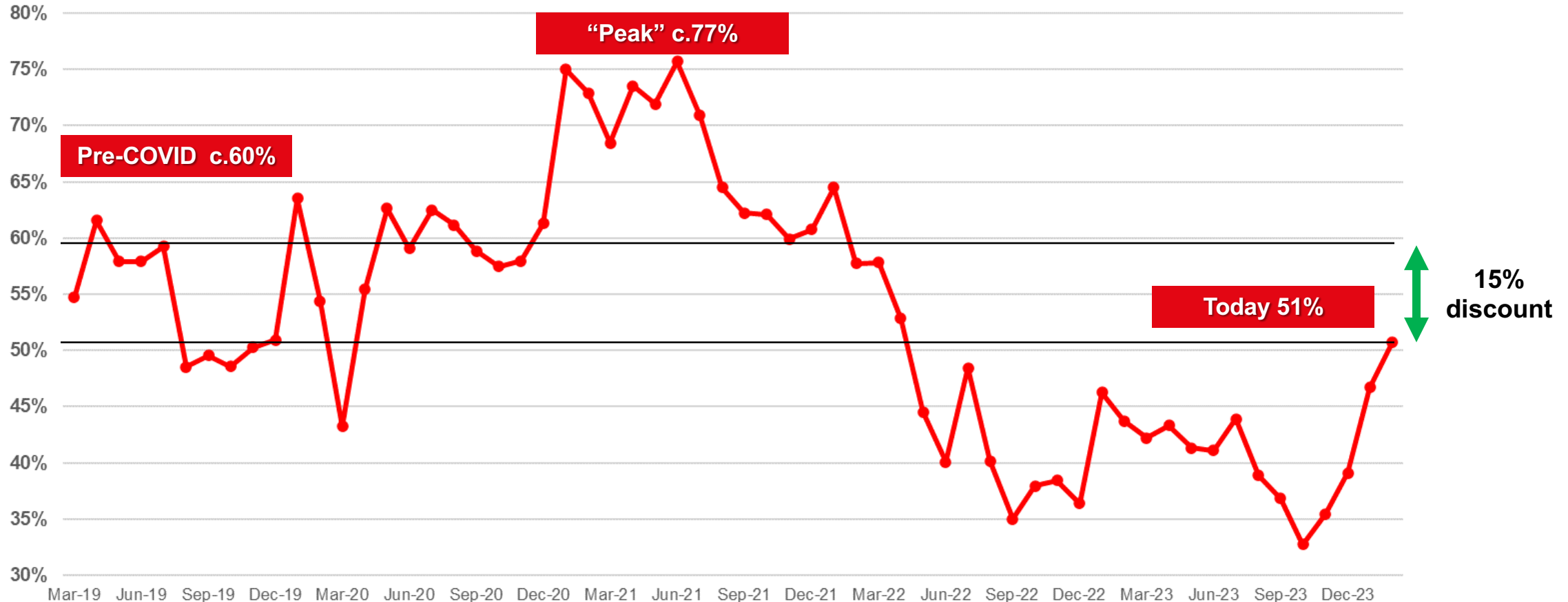
Small Caps V ASX100



SMALLS: THE “GOOD” STUFF IS ON SALE

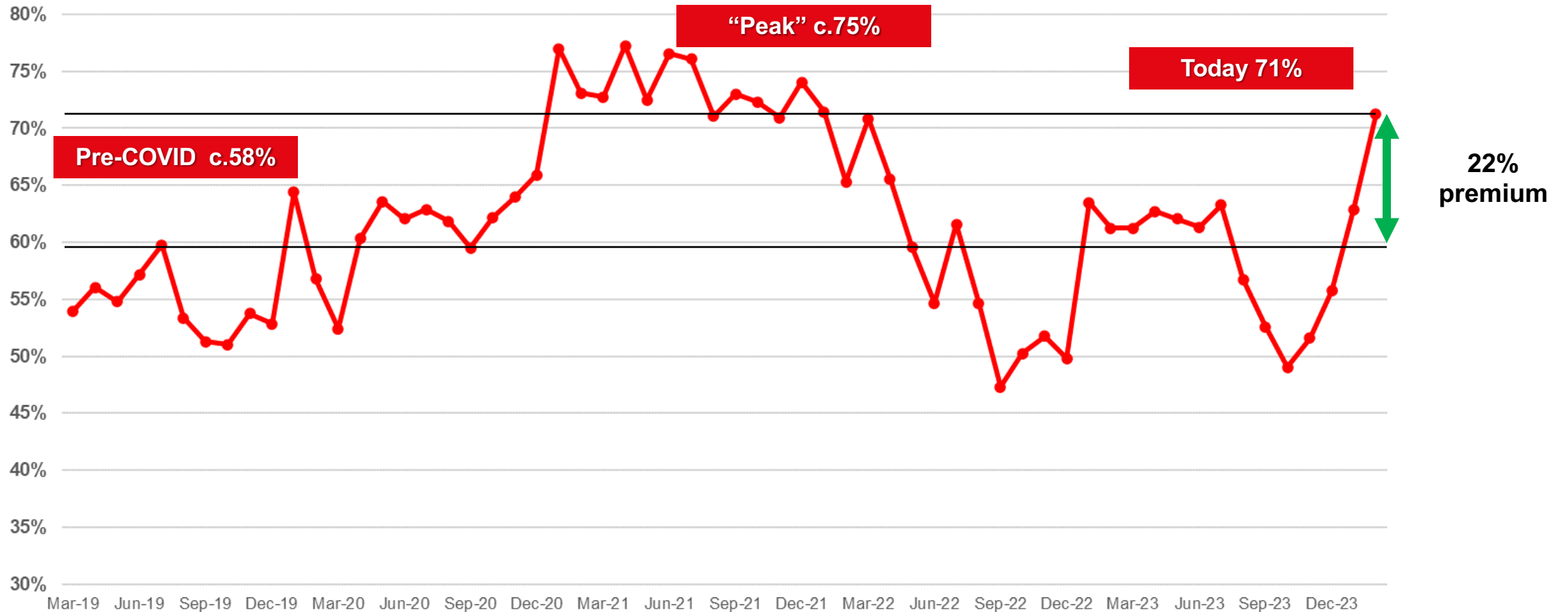


Composite Valuation Regime Index: Small Cap Growth



Small Cap Growth is 15% undervalued

Composite Valuation Regime Index: Large Cap Growth



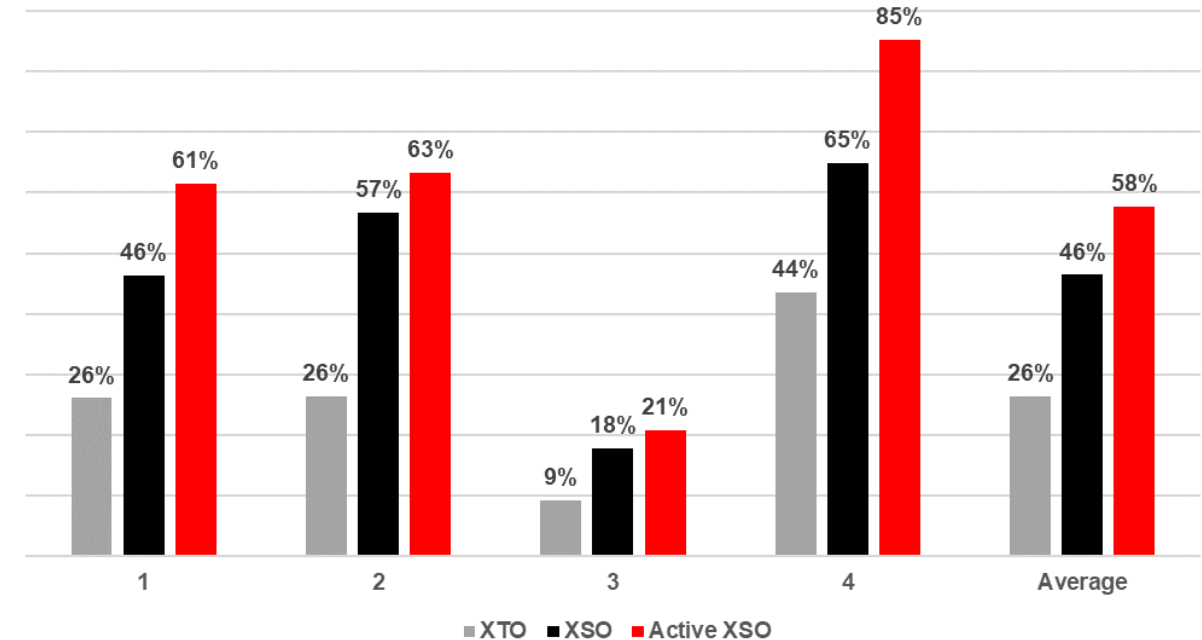
Large Cap Growth At Premium

SMALL CAP STOCK PICKERS OUTPERFORM



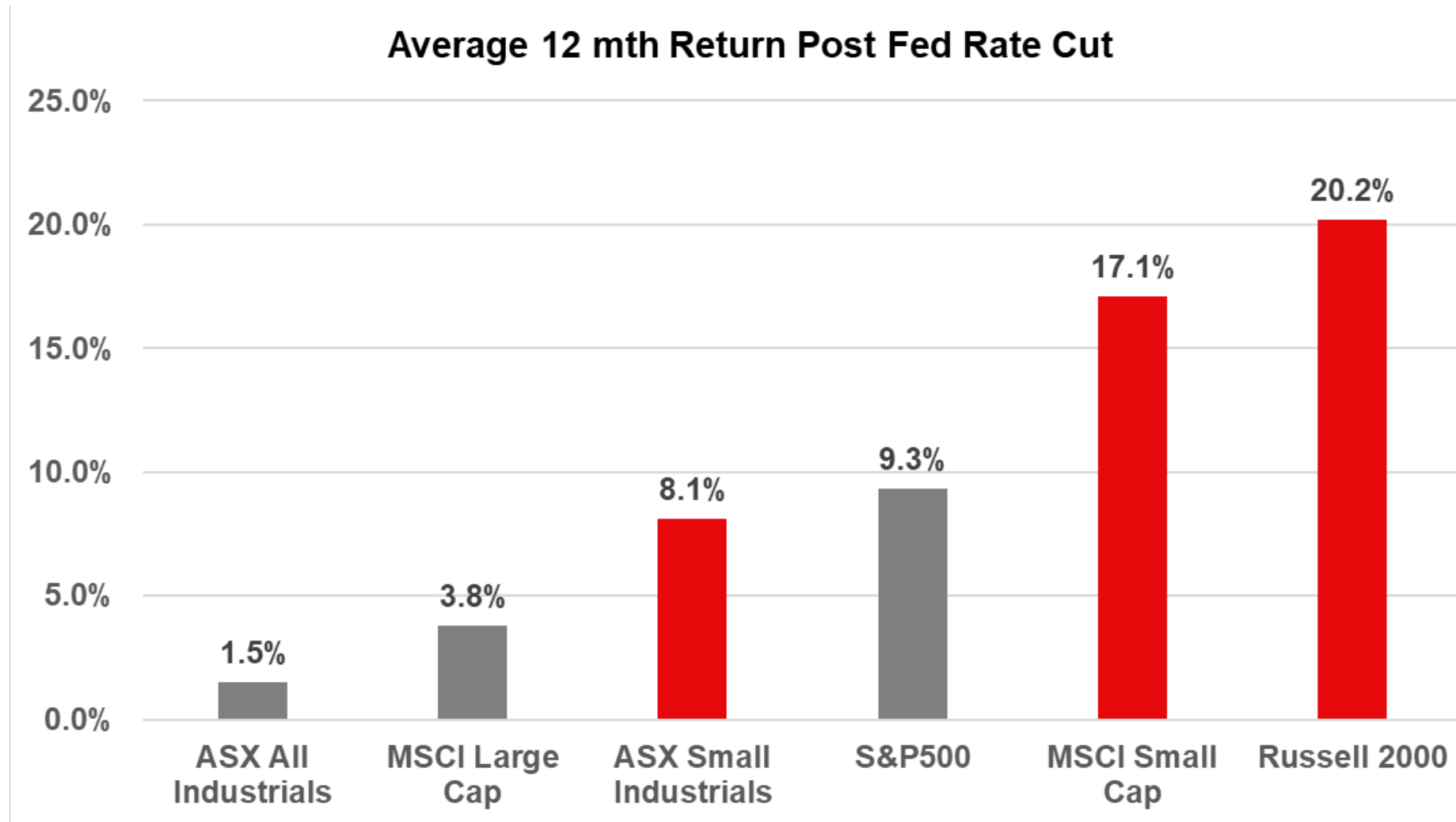
SMALL CAPS	5 yr	10 yr
ASX Small Ordinaries Index	5.4%	6.4%
Median Aust Small Cap Manager	9.0%	8.3%
Relative Performance – Median Small Cap Manager	3.6%	1.9%
Top Quartile Aust Small Cap Manager	12.1%	12.0%
Relative Performance – Top Quartile Small Cap Manager	6.7%	5.6%
Relative Performance – Top Quartile Large Cap Manager	1.1%	0.9%

ACTIVE SMALLS OUTPERFORM RECOVERIES

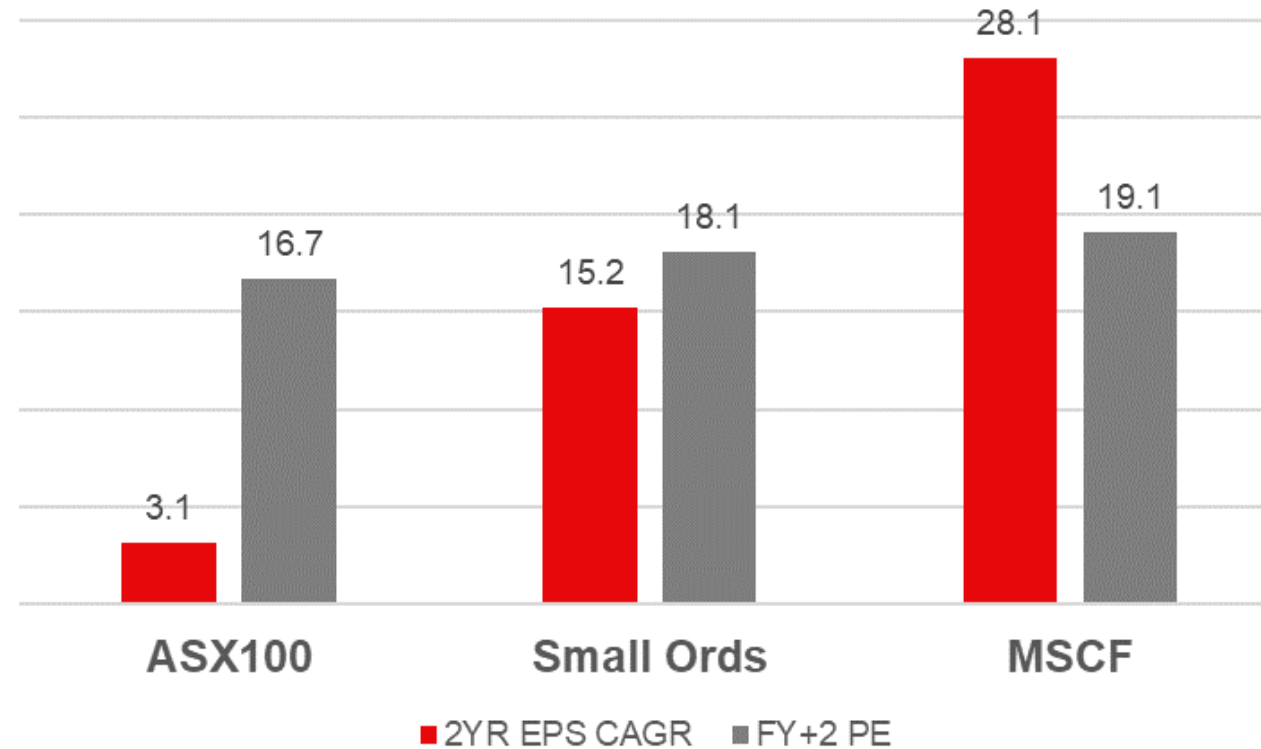


- 4 major XSO drawdowns >20% over past 20 years
- Each 18-mth recovery XSO outperforms XTO: 100% hit rate
- And the Median Active Small Cap manager outperforms both: 100% hit rate

SMALL CAPS TYPICALLY RALLY AFTER FED CUTS



SMALL CAPS CHEAP FOR THE GROWTH



	2 yr EPS CAGR	FY+2 PE	PEG
ASX100	3.1%	16.7x	5.4
Small Ordinaries	15.2%	18.1x	1.2
MSCF Portfolio	28.1%	19.1x	0.7

3. PORTFOLIO POSITIONING & OUTLOOK

POSITIONING & OUTLOOK



Type	Cash	Growth	Cyclical	Resource	Safety
Live	5.0%	49.6%	11.6%	20.3%	13.5%
Index		28.0%	30.6%	23.1%	18.3%
Delta	5.0%	21.5%	-19.0%	-2.8%	-4.7%

Growth	T1	T2	T3	GARP
Live	36.0%	3.8%	3.2%	6.6%
Index	18.4%	5.1%	0.2%	4.3%
Delta	17.6%	-1.4%	2.9%	2.4%

Cyclical	Media	MinServ	Building	Financial	Retail	Agri	Ind
Live	0.0%	3.9%	0.0%	1.4%	3.8%	0.0%	2.4%
Index	2.0%	1.8%	4.6%	6.4%	8.5%	3.4%	3.9%
Delta	-2.0%	2.1%	-4.6%	-5.0%	-4.6%	-3.4%	-1.5%

Resource	Energy	Base	EV	Gold	Iron
Live	6.7%	3.3%	2.6%	7.6%	0.0%
Index	5.8%	2.2%	2.1%	9.2%	3.9%
Delta	1.0%	1.1%	0.5%	-1.5%	-3.9%

Safety	Utility	Infra	Telco	REIT	Service	Aged
Live	0.0%	0.0%	0.0%	12.1%	1.5%	0.0%
Index	0.0%	1.1%	2.4%	11.4%	2.4%	1.1%
Delta	0.0%	-1.1%	-2.4%	0.7%	-0.9%	-1.1%

Bottom-up decisions, top-down risk management

- **Overweights**
 - Fast Growth: Profitable, large runway at a discount
 - Defensive Growth: Delivery certainty & optionality
 - Energy: Uranium market S/D balance changed
- **Underweights**
 - Consumer: No growth & earnings uncertainty = No Cheap growth optionality = Yes
 - Financials: Old World Fund Managers in decline
 - Agriculture: As good as it gets & drought coming?
- **Cash 5%**

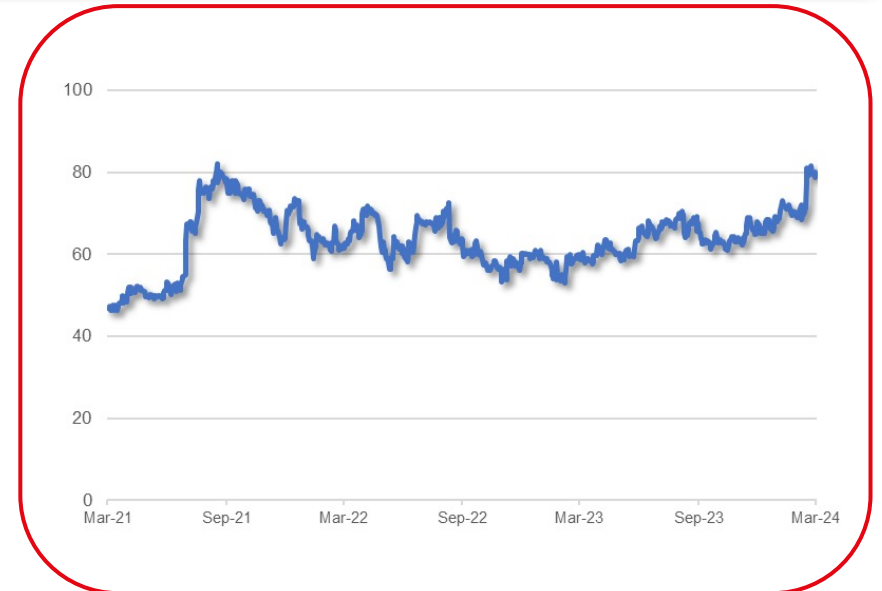
4. HIGH CONVICTION STOCKS

HIGH CONVICTION POSITION



Macquarie Technology Group (MAQ): Digital Infrastructure driven by global megatrends

- Data Centre Operator & Developer
- Defensive Growth: highly visible digital infrastructure demand
- Global megatrend: enterprise migration to the cloud & A.I.
- Multi-stage expansion triples capacity & more than double profits
- Competitive advantage: location, Government expertise & track record
- Attractive model: higher returns, long-life assets
- Risks: time to develop, lumpy capital-intensive growth & execution
- Thesis: proven track record of strong capital discipline, growth optionality & digital infrastructure assets coveted by long-term investors
- Valuation: \$100-115 share NPV @ 9-10% Cost of Equity
- Long-Term “Super Fund” Valuation \$180 @ 6% WACC (7% CoE & 5% CoD)



Share Price \$79.00 Market cap \$1.9 billion



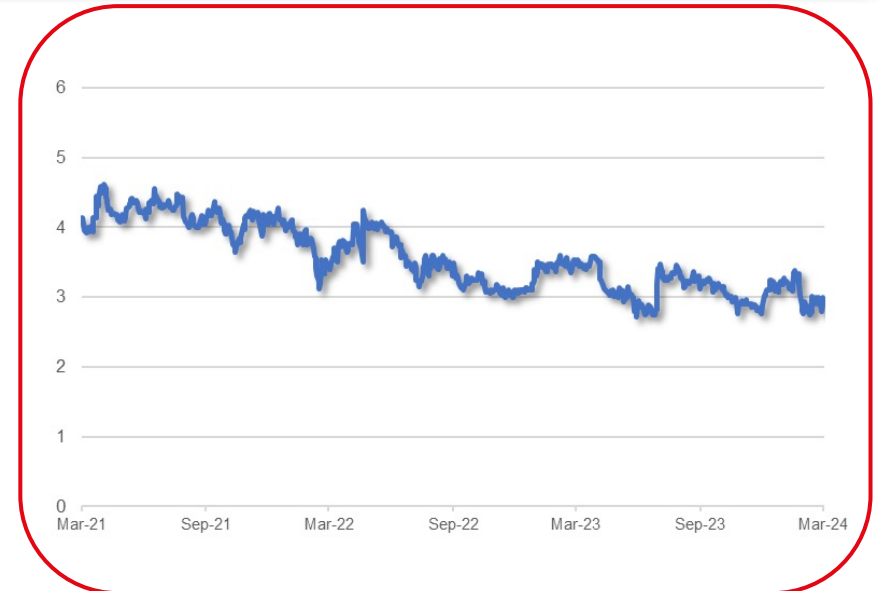
Stable Compounder / Cloud 2.0

TARGET VALUATION \$100

HIGH CONVICTION POSITION

Alliance Aviation Services (AQZ): Taking advantage of market disruption

- Aviation infrastructure company
- Counter cyclical investors at moments of distress: buy aircraft cheap
- Competitive advantage 1: lowest unit capital cost operator in the sector
- Competitive advantage 2: labour force productivity (non-unionised, flexible) drives operating cost efficiency
- Bought assets at Covid lows: tripled fleet capacity by aircraft volume & 4x available flight hours
- New assets entering service now: 7-yr QAN contract doubles profits. Multi-year profit & cashflow growth underpinned as new capacity fills
- Market share taker: AQZ emerging from pandemic in stronger position
- Management have strong track record of value creation: 30% ROIC
- Qantas owns 19.8%
- Valuation: \$7.00 @ 5x F25 EBITDA (90% deployed)
– Target valuation \$7.00



Share Price \$2.94 Market cap \$470 million



Tactical

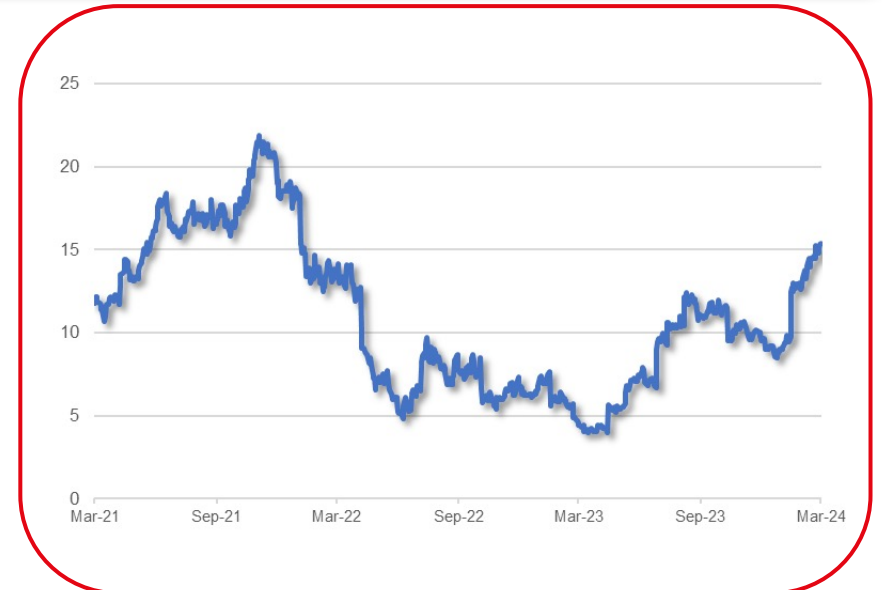
Alliance

TARGET VALUATION \$7.00

HIGH CONVICTION POSITION

MegaPort (MP1): Cloud technology play

- Cloud workload connectivity management solution
- Global megatrend: cloud tech adoption a multi-year growth opportunity
- AI necessitates high-density compute workloads & development, driving cloud connectivity needs
- World leading product: MP1 delivers one pane of glass to establish & manage frictionless, low-cost access to burgeoning cloud services market
- Competitive advantage: first mover & 'Switzerland' product positioning
- Attractive model: capital light, highly scalable
- Risks: sales execution, competition (not today)
- Thesis: world beater, defensive profitable growth, huge mis-understood growth optionality, scaling & now free cashflow positive
- Valuation: Key pieces in place for US\$500m sales @ 40% margins
– Target valuation \$20.00+



Share Price \$15.40 Market cap \$2.5 billion



TARGET VALUATION \$20.00+

PORTFOLIO: GROWTH, VALUE & RISK



Portfolio	2yr Growth CAGR			Valuation (Yr2)			Risk	
	Sales	EBITDA	NPAT	EV/EBITDA	PE	Yield	Liquidity	SDev
Portfolio	9.6%	16.2%	24.1%	9.8	19.0	2.4%	8.4	2.6
Benchmark	5.2%	10.7%	18.7%	9.2	18.6	2.7%	6.4	2.6
Relative	183%	152%	129%	107%	102%	87%	130%	101%

BUYING SUPERIOR GROWTH FOR NO PREMIA & NO INCREMENTAL RISK

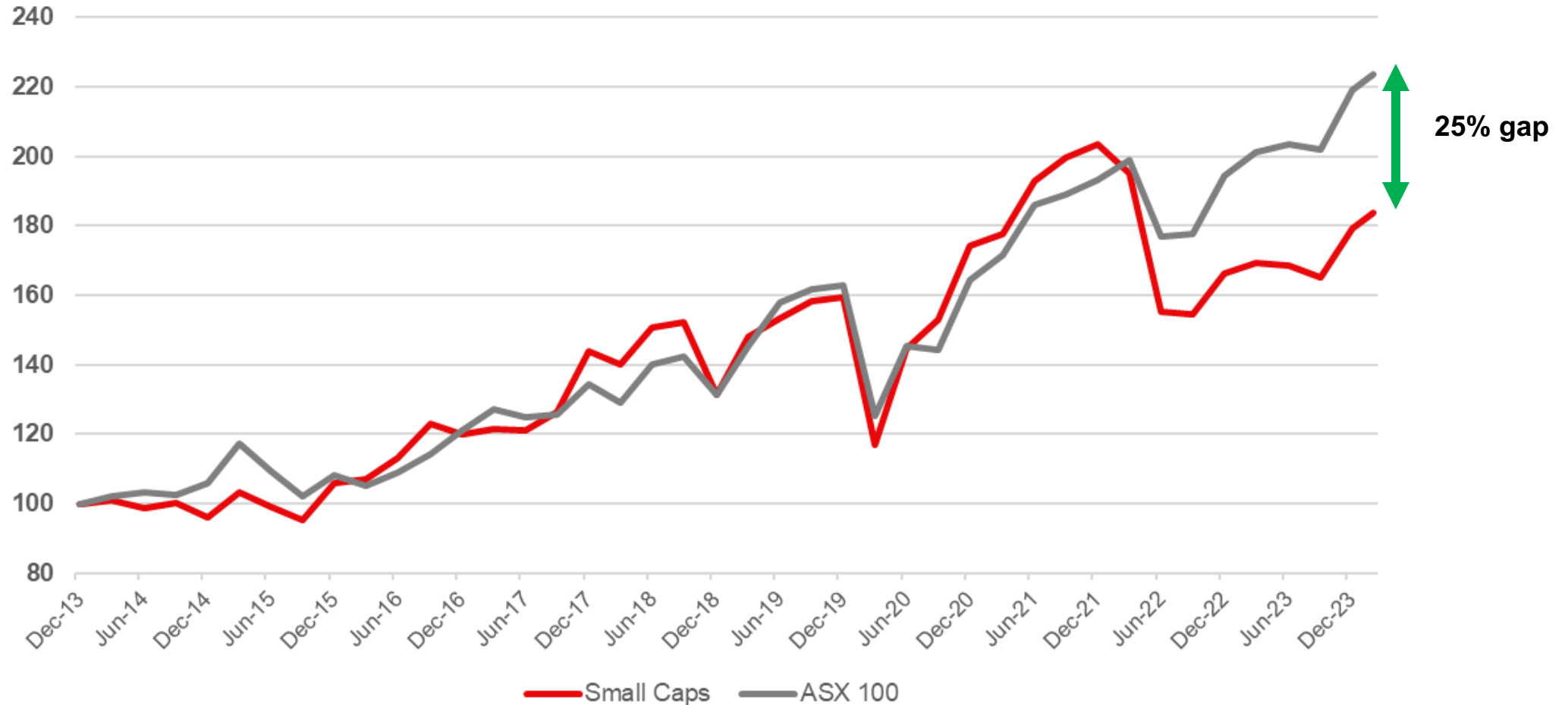
- **Superior Growth:** Portfolio profits growing 30-50% faster than market
- **Undervalued:** Paying slight premium for superior growth profile
- **Market risk:** Taking no more than market risk
- **Great Bang for Buck**

5. Q&A

6. KEY TAKEAWAYS

THE SET-UP: RETURNS CORRELATED UNTIL 3Q21...

Small Caps V ASX100



EXPERIENCED TEAM

Each team member has >17 years' experience in small cap investing

ALIGNED INTERESTS

PMs invest in the Fund & own a significant equity stake

ROBUST PROCESS

Intensive company contact, bottom-up fundamental research,
focus on growth optionality value capture

LESS FUM, HIGH ALPHA

Relatively less FUM, soft & hard closure, targeting 5-10% alpha p.a

FLEXIBLE INVESTMENT MANDATE

Style agnostic, able to invest across the market spectrum



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National Account Manager

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