INVESTMENT REPORT & FACT SHEET

FUND OVERVIEW

The Montgomery Global Equities Fund (Managed Fund) (the Fund) employs a highly disciplined, bottom-up, value style and typically invests in 15 to 30 high conviction stocks listed on major global stock exchanges. The focus of the Fund is on investing in what Montgomery Global regards as high quality businesses with attractive prospects trading at a discount to their estimated intrinsic value.

The Fund has the flexibility to retain a reasonable level of cash, with a "soft" 30 per cent limit. The Fund will generally be currency unhedged but we can put in place strategies aimed at protecting investor capital against currency fluctuations if we predict material upside to the Australian dollar.

The Fund aims to deliver superior positive returns when suitable investment opportunities are abundant, and to preserve capital through cash allocations when an insufficient number of company names are appealing. The Fund also aims to target a minimum 4.5% annual distribution yield, paid semi-annually.

FUND FACTS

INVESTMENT MANAGER
MGIM Pty Ltd

OBJECTIVE
The Montgomery Global Equities Fund (Managed Fund) aims to outperform the index over a rolling 5-year period.

BENCHMARK
MSCI World Net Total Return Index, in Australian dollars.

ASRN
621941508

RECOMMENDED INVESTMENT TIMEFRAME
5 years

INCEPTION DATE
20 December 2017

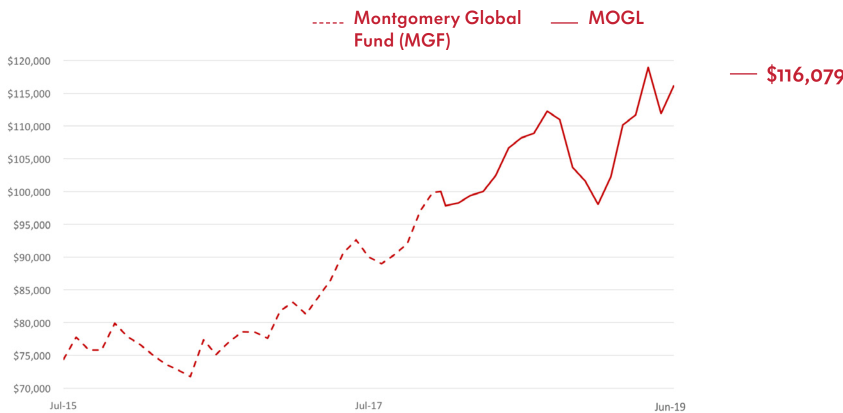
FUND SIZE (AUD)
$99.4M

MANAGEMENT COST
1.32% per annum, inclusive of GST/RITC.

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

APPLICATION & REDEMPTION PRICES
montinvest.com/mogl

PERFORMANCE GRAPH



Performance Graph Monthly Index: $100,000 = MOGL inception date[2]

CONTACT DETAILS

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PORTFOLIO PERFORMANCE (to 30 June 2019, after all fees)

	INCOME	CAPITAL GROWTH	FUND RETURN	MSCI WORLD NET TOTAL RETURN INDEX[1]	OUT/UNDER PERFORMANCE
1 month	4.74%	-1.02%	**3.72%**	5.24%	-1.52%
3 months	4.75%	-0.82%	**3.93%**	5.28%	-1.35%
6 months	5.29%	13.08%	**18.37%**	17.35%	1.02%
12 months	6.64%	0.64%	**7.28%**	11.95%	-4.67%
MOGL (since inception)[2]	9.76%	6.32%	**16.08%**	16.85%	-0.77%
MGF (since inception)[3]	35.18%	21.59%	56.77%	47.29%	9.48%

1) In Australian dollars 2) Inception: 20 December 2017 3) Inception: 1 July 2015

Past performance is not an indicator of future performance. Returns are not guaranteed and so the value of an investment may rise or fall.

FUND COMMENTARY

In the month of June, the Montgomery Global Equities Fund (Managed Fund) (the Fund) increased by 3.72 per cent net of fees. This compared to the MSCI World Total Return Index in Australian dollar terms (the Benchmark) which returned 5.24 per cent. Over the 12 months to June 30, the Fund increased by 7.28 per cent, net of fees. By comparison, the Benchmark increased by 11.95 per cent, over the same period.

Since inception, the Fund has increased by 16.08 per cent, net of fees, notwithstanding an average portfolio cash holding of approximately 16 per cent. Over the same period, the Benchmark – which naturally carries zero cash – increased by 16.85 per cent.

Given the numerous uncertainties out there in the world today which are significant for global equity investors, it is perhaps timely to take a step back and be reminded of how we think about the Fund's portfolio construction and why we believe this approach will add durable value over the long term for our investors.

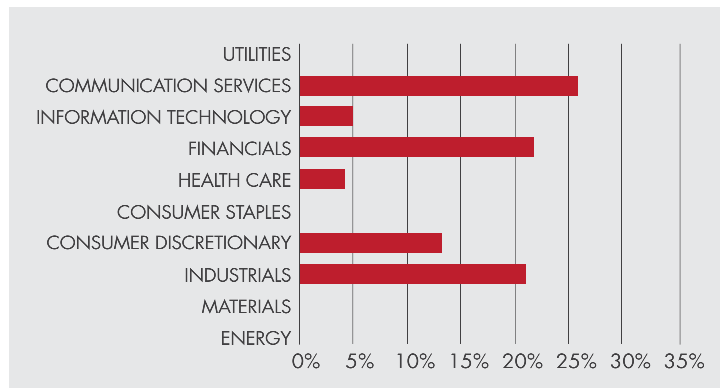
Continued on the next page...

TOP COMPLETED HOLDINGS* (TCH) (at 30 June 2019, out of 20 holdings)

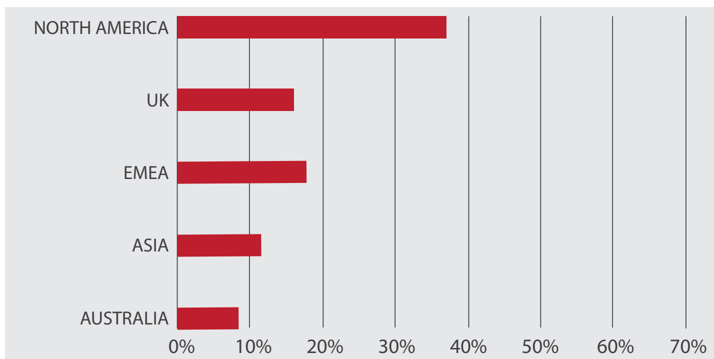
COMPANY NAME	COUNTRY OF DOMICILE	MARKET CAP ($USDM)	WEIGHT (%)
Vivendi	FR	36,055	7.0
Prudential	GB	56,542	6.5
Insperity	US	5,039	5.7
Alphabet	US	751,025	5.5
REA Group	AU	8,865	5.4
Microsoft	US	1,026,511	5.3
St James's Place	GB	7,389	5.0
Facebook	US	550,957	5.0
Alibaba	CN	441,175	5.0
Airbus	FR	110,342	4.6
PORTFOLIO MEDIAN		46,298	4.5
Total equity weighting			91.1
Total cash weighting			8.9

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

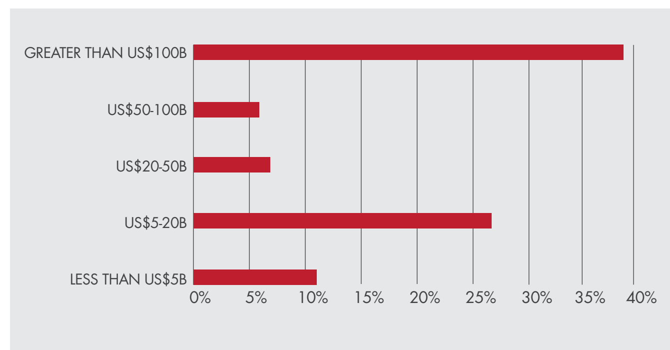
GICS SECTOR INDUSTRY EXPOSURE



GEOGRAPHIC - COUNTRY OF DOMICILE



MARKET CAPITALISATION EXPOSURE



#Portfolio Performance is calculated after fees and costs, including the investment management fee and performance fee, but excludes the buy/sell spread. All returns are on a pre-tax basis. This report was prepared by MGIM Pty Ltd, (ACN 604 878 533) (CAR) #001 007 050 (Montgomery) the investment manager of the Montgomery Global Equities Fund (Managed Fund). The issuer of units in Montgomery Global Equities Fund (Managed Fund) is the Fund's responsible entity Perpetual Trust Services Limited ACN 000 142 049 (AFSL 236648). Copies of the PDS are available from Montgomery Global Investment Management (02) 8046 5000 or online at www.montinvest.com/mogl Before making any decision to make or hold any investment in the Fund you should consider the PDS in full. The information provided is general information only and does not take into account your investment objectives, financial situation or particular needs. You should consider your own investment objectives, financial situation and particular needs before acting upon any information provided and consider seeking advice from a financial advisor or stockbroker if necessary. You should not base an investment decision simply on past performance. Past performance is not an indicator of future performance. Returns are not guaranteed and so the value of an investment may rise or fall.

FUND COMMENTARY (CONTINUED)

The exposures we seek to build into our global portfolio can be characterised as follows:

- A collection of privileged global business models, in structurally growing industries, that remain materially undervalued today;
- A set of exposures which are selectively diversified by geographical region and by industry sector; and
- A set of currency exposures which are globally diversified and seek to maintain global purchasing power for our investors in the Fund.

In constructing a portfolio of high-quality global businesses which are undervalued, we seek to deliver outperformance over the Benchmark over time. And by owning businesses which are positively exposed to structural industry tailwinds, we can look-through much of the short-term market volatility and have peace of mind that the businesses we own will likely be significantly more valuable in the future, than they are today.

And there is no shortage of risks out there today which are significant to global investors. Whether it is the changing winds of global monetary policies – which in the space of nine months have changed from tightening, to neutral to easing; or the ongoing dispute between the US and China; or the uncertainty around how Brexit will unfold. And let's not forget that a war between the US and Iran almost broke out in recent weeks.

Notwithstanding the return of volatility in global equity markets, the Fund seeks to provide investors with exposures to a set of undervalued, high-quality global businesses which are experiencing industry tailwinds which are structural in nature.

For example, consider Vivendi (Euronext: VIV), owner of the world's largest record label, Universal Music Group (UMG). As consumer behaviour continues to evolve from purchasing individual music tracks to subscription-based digital streaming, UMG's revenue growth continues to accelerate at a significantly higher incremental profit margin. And this dynamic is structural with a long runway still ahead. Consider that only around 13 per cent of adults in the US subscribe to a paid digital streaming service. In countries like France, Germany and the UK today, this penetration rate is less than 10 per cent. And in China today it's around 1 per cent. This will underwrite structural growth in global digital streaming revenues of around 20 per cent per annum, well into the next decade.

Or the structural migration of advertising spend onto digital platforms that offer highly-targeted forms of advertising – thereby driving the highest rates of ad spend ROI for the digital marketer. The world has really divided into two distinct digital advertising markets: (i) the world, ex-China, which is dominated by Google, owned by Alphabet (NASDAQ: GOOGL), and Facebook (NASDAQ: FB); and (ii) China, which is dominated by Alibaba (NYSE: BABA) and Tencent (HKEx: 700). In studying the quarterly disclosures of numerous consumer facing businesses, including nearly all the major CPG companies, it is clear that marketing budgets are being significantly re-weighted towards higher-returning digital channels all around the world. Here is what Kimberly-Clark (NYSE: KMB) CEO, Michael Hsu, had to say earlier this year: "Today, digital is approximately half of our working media mix – and that percentage is growing... the ROIs are a multiple of what our traditional ROIs are..."

And this is not the only technological transformation taking place inside the enterprise. Readers will know that substantially all businesses today – both large and small – are moving at least some of their technology infrastructure to the cloud. You can think of the cloud as an external source of storage, compute, services and applications. There are enormous cost, efficiency and security advantages in outsourcing this technology infrastructure. Today, Bernstein estimates the total addressable market for cloud services to be approximately US$1.9 trillion. And yet, aggregate cloud spend is less than 10 per cent of this total addressable market, meaning there is a very long runway ahead for growth in cloud related revenues. Microsoft (NASDAQ: MSFT) is arguably the most well-positioned business to take advantage of this structural growth in cloud related spend. Its offering spans the cloud-based compute/storage infrastructure as well as the enterprise applications that sit on top of this infrastructure. Indeed, Microsoft is in a particularly well-suited position given that Windows is installed on around 90 per cent of the world's PCs and Office is used by around 85 per cent of enterprises. This creates a high degree of customer captivity that Microsoft is in the very early stages of monetising.

Demographic changes are structural trends to which we seek to be positively exposed. In the US, for example, the aging population sees 10,000 Americans turn 65 years old every day. This is creating enormous demand for healthcare services. UnitedHealth (NYSE: UNH), the largest health insurer in the US, is particularly well positioned to grow its insurance business – particularly its highly-popular Medicare Advantage offering which is available to Medicare recipients aged over 65 years old. But it is actually UnitedHealth's underappreciated healthcare delivery platform, Optum, which has the greatest opportunity of profitable, structural growth. Optum is a technology and data-enabled healthcare delivery platform, not only for UnitedHealth's own insurance business, but for more than 80 third-party payers. Optum is seeking to use data and technology to deliver healthcare more efficiently and effectively to drive better outcomes for patients and at lower costs, creating value in which Optum will share.

At the other end of the demographic spectrum in the US, readers may be interested to know that the children of the baby boomers – known as the "echo-boomers" – are around 28 years old today. Over the next 10 years, population growth in the all-important 35-44 year old cohort in the US will be around six million. By comparison, growth in this cohort was negative over the last 10 years. This favours demand for housing and those businesses exposed to demand for home renovations. We own Floor & Décor (NYSE: FND), a specialty retailer of surface flooring – the preferred supplier of flooring products to professional customers and known for its 1,500 SKU in-stock, job-ready inventories.

Finally, Asian demographics represent another structural trend that is providing great opportunities to the disciplined investor. Over the next 15 years, more than 80 per cent of the growth in middle-class spend will stem from the Asian-Pacific region. And private financial wealth levels in Asia will continue to grow at around 10 per cent per annum for many years to come. In China, Ping An (HKEx: 2318) is an industry leader in life insurance and wealth management offerings. It is a leader in technology and data-enabled design and distribution of insurance and wealth products.

FUND COMMENTARY (CONTINUED)

And given that its average customer age is only around 38 years old, it is set to grow structurally with the wealth of its customer base.

Outside of China, Prudential (LSE: PRU) is a clear leader in Asian life insurance with a top-two market position in Indonesia, Singapore, Hong Kong, Malaysia, Vietnam, India and elsewhere. Asian insurance markets are around half the size, on average, of western insurance markets as a percentage of GDP, suggesting there is substantial penetration ahead. And Prudential's Asian business has delivered circa 20 per cent post-tax economic returns consistently for years – and we expect this performance to continue for many years to come.

The growth in the wealth levels of the Asian middle-class will also drive structural demand growth for services like travel. Chris Demasi explores our thesis in Airbus (Euronext: AIR) below, which is positively exposed to structural demand for aircraft for decades to come.

It is important to observe that each of our theses not only identifies the sources of business quality and structural growth opportunities; but also makes the important assessment as to whether (or not) the business in question remains undervalued today. After all, not even the greatest growth story in the world can stop you from losing money if you overpay for an asset.

CASE STUDY: AIRBUS

The Montgomery Global funds have successfully held long positions in Airbus for several years. Looking forward, we think Airbus remains a wonderful investment opportunity because it is a high-quality business with a long runway for profitable growth that is not fully appreciated by the market.

United Europe success story

In the years following the end of the second World War, European aircraft manufacturers found competing with larger American peers Boeing, McDonnell Douglas and Lockheed increasingly difficult. While the Europeans might have been just as innovative as the Americans, acting independently they were too small to bear development risks and achieve production efficiencies.

Though not without hiccups along the way, European aviation companies and their governments seem to have heeded the advice of Britain's wartime Prime Minister, Sir Winston Churchill, to great effect: "*If Europe were once united in the sharing of its common inheritance there would be no limit to the happiness, prosperity and glory…We must build a kind of United States of Europe*"

Negotiations over a collaborative European approach began at the 1965 Paris Air Show and by 1967 France, West Germany and the UK were working together on a new "Airbus". This paved the way for Airbus to be formally established in 1970 with German, French, British and Spanish partners. The consortium's first commercial plane went into service in 1974.

Today Airbus is the second largest aerospace and defence company in the world with €70 billion in annual revenue and an order book valued at almost half a trillion Euros across three operating segments. But the commercial passenger aircraft business is still the crown jewel in the Airbus empire, contributing 75 per cent of total company revenues and 90 per cent of profits.

Airbus is the world leader in producing passenger aircraft for commercial airlines, including the narrow-body A320, the wide-body A350, and the world's largest passenger airliner, the A380. In addition, Airbus Helicopters is a global leader in civil and military rotorcraft, and Airbus Defence and Space is a leading supplier to militaries and the space industry.

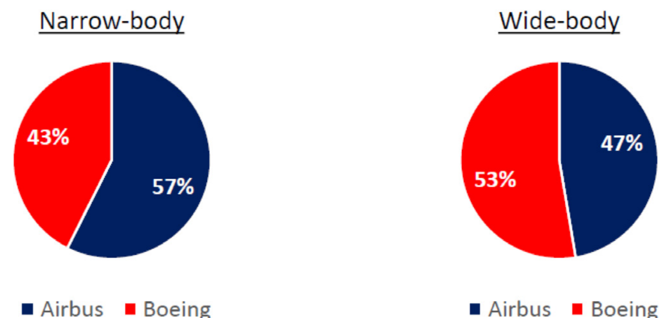
Reflecting its pan European heritage and global expansion, Airbus is headquartered in the Netherlands; with its main office in France; shares traded in Paris, Frankfurt and Madrid; and assembly lines and suppliers located around the world.

Leading a two-horse race

Airbus is undoubtedly a high-quality business, which stems from its market-leading position in the attractive industry for passenger aircraft and is demonstrated by return on equity above 30 per cent.

Airbus leads US-based Boeing in a global duopoly for passenger jets. The A320 family accounts for almost 60 per cent of all narrow-body plane orders worldwide, leading Boeing's 737 platform. In the market for wide-body planes, Airbus' A330 and A350 together account for almost half of the global industry order book. Airbus's backlog of more than 7,000 orders represents nine years' worth of production and secures its leadership for the foreseeable future.

Market share of backlog (number of aircraft)



Source: Company filings

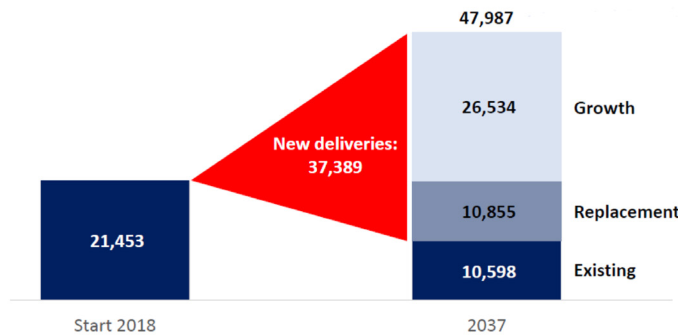
This privileged market structure is virtually impervious to disruption because the barriers to entry are extremely high for potential new entrants. Initial capital outlays for aircraft development can easily reach tens of billions of dollars, run over-budget, and have pay-back periods longer than a decade. For example, Airbus expected development costs for its A380 to be $10 billion in 2000 but they ultimately expanded to $25 billion and may not be fully recouped. The technological expertise required to develop aircraft and the commercial relationships needed to sell them to airline and leasing customers years in advance are also built over decades. Deep pockets, know-how, know-who and time are strong advantages for Airbus.

Tailwinds for decades

Airbus will benefit from structural growth in air travel for decades. Airbus estimates that more than two billion people will join the global middle class over the next 20 years. Higher disposable incomes for this cohort are expected to drive global air passenger traffic to more than double over this period.

At the same time airlines around the world are operating their fleets at the highest load factors (or fewest spare seats) on record. In order to meet such robust growth in air travel airlines will need to expand their fleets significantly. Airbus estimates that the global fleet of passenger planes will more than double over the next two decades and airlines will need to purchase over 37,000 new jets. Airbus A320 and A350 families feature prominently in airline expansion plans.

Global passenger aircraft fleet (number of aircraft)



Source: Airbus

Even with Airbus close to producing the A320 family at a rate of 60 per month, and stepping up in coming years, it still cannot deliver the single-aisle jets quickly enough. A320 delivery slots are full looking out four years.

Insatiable demand for the A320 has allowed Airbus to command premium pricing at the same time as customers are choosing larger, longer-range, next-generation engine variants that are all more profitable for Airbus. At the Paris Air Show this month Airbus launched the A321XLR with 15 per cent higher range, 30 per cent lower fuel burn, an extra fuel tank, more seating and immediately gained hundreds of orders.

Meanwhile production of the A350 will ramp well above 100 this year. Profit margins will turn positive and inflect upwards as the program continues down the industrial learning curve, unit costs fall, and pricing improves.

Stock taking off

Ultimately, we see a potential path for Airbus to grow volumes over the next two decades at mid-single-digit annual rates, with better pricing and product mix adding another couple percentage-points to top line growth each year, and profit margins doubling. In this scenario we think the stock is worth €200 per share today, or 60 per cent more than where it is currently trading.

Said another way, we think the market is underappreciating the runway for growth and the potential for improved profitability ahead of Airbus. The current share price of around €125 implies the market is taking a moderate view of production volumes than the industry requires, failing to recognise price/mix benefits, and consequently underestimating profit margin expansion over time.

* * *

In closing, on behalf of the entire Montgomery Global team, I would like to thank each and every one of our investors for the trust you continue to place in us to preserve and grow your wealth over time. We continue to work tirelessly to deliver our investors attractive returns and a positive experience in your partnership with us. We seek the highest standards of discipline and integrity in how we operate, while continually looking for opportunities to improve our offering.

At the end of the period to 30 June 2019, the Fund will pay a distribution of 16.9 cents per unit, comprising 16.9 cents of taxable income. Payments will be made 23 July 2019. The reinvestment unit price is $3.5317.

The distribution communicated on 10 July 2019 was an adjustment to the distribution estimate posted to the ASX 25 June 2019.

Sincerely,

Andrew Macken
Chief Investment Officer

Christopher Demasi
Portfolio Manager