MONTGOMERY

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
Montgomery Global Investment Management 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

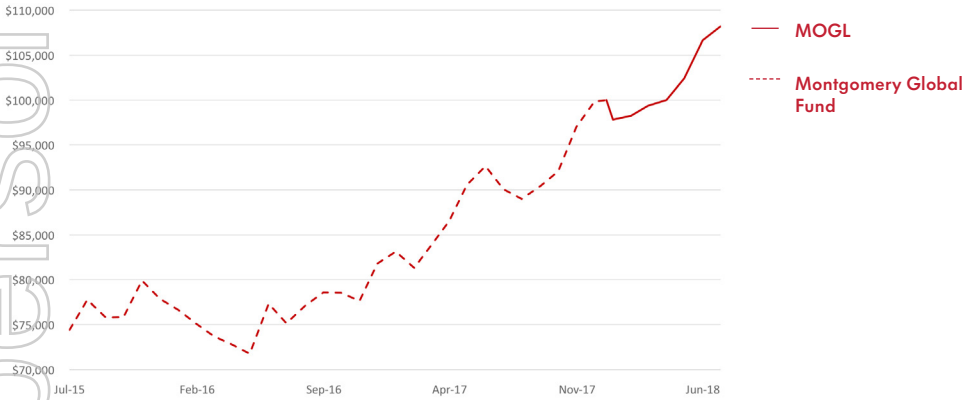
FUND SIZE
$81.5 M

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 2018, after all fees)

	INCOME*	CAPITAL GROWTH	FUND RETURN	MSCI WORLD NET TOTAL RETURN INDEX[1]	OUT/UNDER PERFORMANCE
1 month	2.41%	-0.94%	**1.48%**	2.36%	-0.88%
3 months	2.57%	5.62%	**8.19%**	5.68%	2.51%
6 months	2.63%	7.97%	**10.60%**	6.32%	4.28%
MOGL (since inception) [2]	2.57%	5.63%	**8.20%**	4.37%	3.83%
MGF (since inception)[3]	19.62%	25.89%	**45.51%**	31.56%	13.95%

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

* Please note this is the total distribution, which is made up of income and capital. Please see final paragraph on page 6 for a detailed breakdown.

FUND COMMENTARY

In the month of June, the Montgomery Global Equities Fund (Managed Fund) (the Fund) returned 1.48 per cent net of fees. This was below the return delivered by the MSCI World Total Return Index in Australian dollar terms (the Benchmark), which delivered 2.36 per cent. Over the June quarter, the Fund delivered 8.19 per cent, net of fees, comparing favourably to the Benchmark, which returned 5.68 per cent over the same period.

Since inception, three years ago, the underlying strategy as represented by the Montgomery Global Fund (MGF) has returned 45.51 per cent, net of fees. By comparison, the Benchmark returned 31.56 per cent, over the same period.

Three unbelievable global developments transpired in the June quarter which demonstrate how rapidly the global world order is evolving and set the stage for heightened volatility in the months ahead.

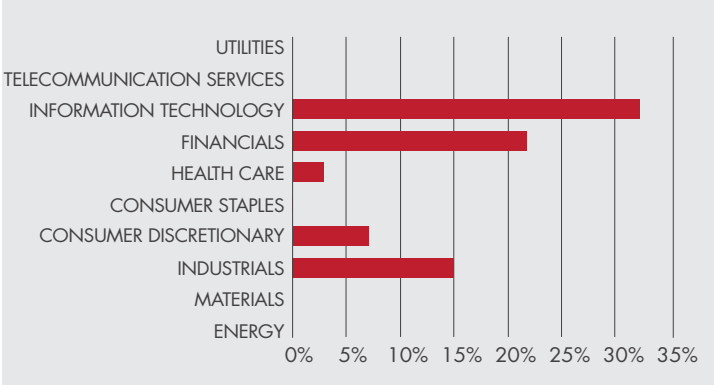
Continued on next page...

TOP COMPLETED HOLDINGS* (TCH) (at 30 June 2018, out of 19 holdings)

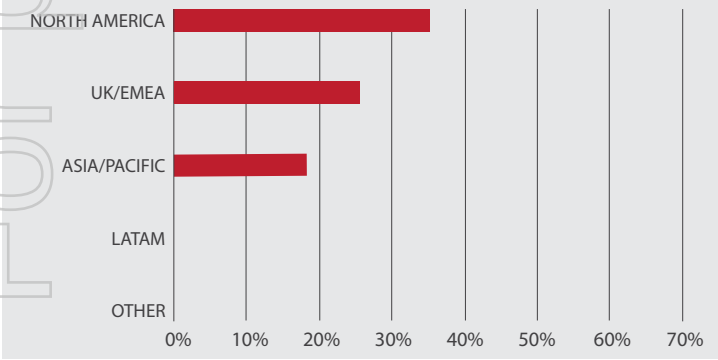
COMPANY NAME	COUNTRY OF DOMICILE	MARKET CAP ($USDM)	WEIGHT (%)
Insperity	US	4,001	5.9
51job	CN	6,083	5.8
St James's Place	GB	8,021	5.5
Alibaba	CN	475,171	5.3
Facebook	US	562,695	5.3
Wells Fargo	US	270,152	5.2
Travelers Companies	US	33,064	4.7
Vivendi	FR	31,919	4.4
REA Group	AU	8,864	4.4
Alphabet	US	779,235	4.2
PORTFOLIO MEDIAN		31,919	4.2
Total equity weighting			79.1
Total cash weighting			20.9

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

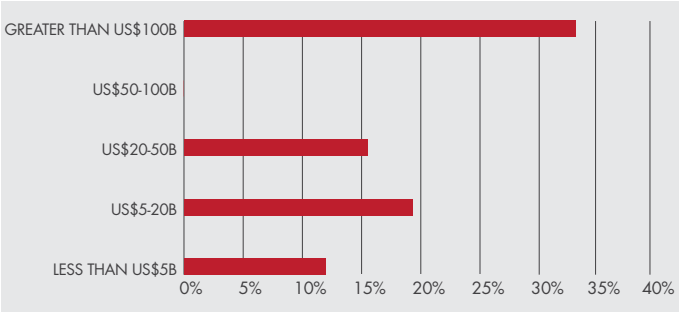
GICS SECTOR INDUSTRY EXPOSURE



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 Montgomery Global Investment Management 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

First, it was a surreal moment in history when President Trump refused to endorse the recent G7 Summit communique, attacked Canadian Prime Minister Trudeau for "false statements" and asserted that Russia should be reinstated to the G8. In one weekend, President Trump effectively self-selected into isolation away from America's closest allies. Meanwhile, on the same weekend, Chinese President Xi awarded Russian President Putin the first ever friendship medal of the People's Republic of China. It really is no overstatement to say that the major global alliances we have known for more than 70 years are rapidly changing before our eyes.

Next, the surrealism continued when President Trump personally met with North Korean leader Kim Jong-un in Singapore. While the meeting was more spectacle than genuine negotiation, it is surely true that the probability of a near-term armed conflict on the Korean Peninsula has thankfully decreased significantly over the last six months.

Finally, the Trump Administration rounded out the quarter by significantly elevating both the probability and the stakes of a full-blown trade war with China. On June 18, President Trump stated the following:

"On Friday, I announced plans for tariffs on $50 billion worth of imports from China... However and unfortunately, China has determined that it will raise tariffs on $50 billion worth of United States exports... Therefore, today, I directed the United States Trade Representative to identify $200 billion worth of Chinese goods for additional tariffs... If China increases its tariffs yet again, we will meet that action by pursuing additional tariffs on another $200 billion of goods."

It doesn't get much more tit-for-tat than that. In response, the Chinese Commerce Ministry stated that: "China will take actions to defend its interests" and that if the US releases a new tariffs list, then China is fully prepared to respond with "qualitative and quantitative" tools. According to Chinese analyst, Bill Bishop, those "qualitative" measures may include more inspections, production delays, administrative penalties, encouragement to use non-US products and a nasty nationalist backlash against the US and its goods.

At the beginning of the calendar year, we flagged that a key risk for 2018 was a break-down in the relationship between the US and China. This has indeed been a key source of market volatility this year and we now expect the situation to get worse before it gets better. Why?

In the days following President Trump's announcement of new potential tariffs on Chinese imports, the White House Office of Trade and Manufacturing Policy released a damning and inflammatory report, titled: "How China's Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World."

This report is well-researched with 163 references to external sources of research; many from Europe and many from publications made prior to Trump even taking Office. The report appears mostly (but not entirely) fair and highlights numerous ways in which China effects IP transfer from other countries.

One paragraph gives an accurate flavour for the tone and content of this explosive report:

"Chinese industrial policy seeks to 'introduce, digest, absorb, and re-innovate' technologies and intellectual property (IP) from around the world. This policy is carried out through: (A) State sponsored IP theft through physical theft, cyber-enabled espionage and theft, evasion of U.S. export control laws, and counterfeiting and piracy; (B) coercive and intrusive regulatory gambits to force technology transfer from foreign companies, typically in exchange for limited access to the Chinese market; (C) economic coercion through export restraints on critical raw materials and monopsony purchasing power; (D) methods of information harvesting that include open source collection; placement of non-traditional information collectors at U.S. universities, national laboratories, and other centers of innovation; and talent recruitment of business, finance, science, and technology experts; and (E) State-backed, technology-seeking Chinese investment."

Now, irrespective of whether or not one agrees with the contents of this report, what appears undeniable is the notion that the Trump Administration is readying for a serious fight with China. Furthermore, we believe the probability that China backs down is low. The reason stems from the difference in political time horizons between the leaders of the two nations: (i) President Xi has effected a complete removal of his term limits and will remain politically uncontested for decades to come; while (ii) President Trump has until the Midterm elections in November when the Democrats could potentially take control of House of Representatives. Should the Democrats succeed, they will surely restrict the President's otherwise aggressive approach to diplomacy.

It is for this reason that we commence the second half of calendar 2018 with a reasonable degree of caution. We believe the probability of heightened volatility in global equity markets over the coming months has increased; and we have positioned the Fund accordingly. The Fund's cash weighting at the June month-end was 20.9 per cent. Such a significant cash weighting should greatly assist in protecting the downside should equity markets fall; and we remain ready to pounce on new bargains as and when they present themselves.

We believe in building an ongoing partnership with our investors and hope to deliver a more holistic value proposition than just high risk-adjusted net returns. As such, we continue to prioritise and value investor education. This quarter, we articulate our investment thesis on Chinese online recruitment platform, 51job (NASDAQ: JOBS), following some outstanding work by George Hadjia.

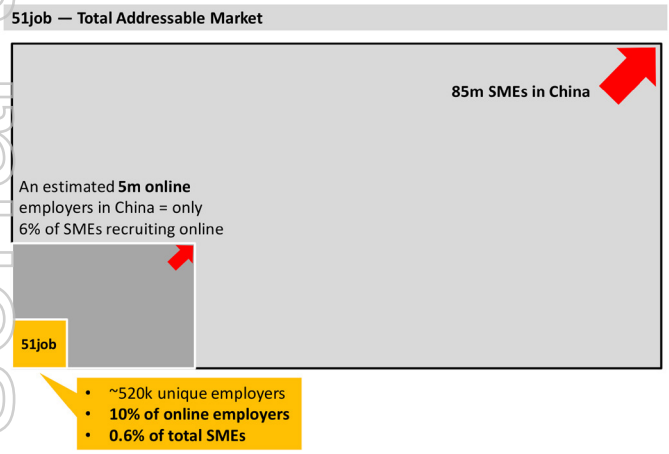
FUND COMMENTARY

CASE STUDY: 51JOB

When you say "5" and "1" in Putonghua, the standard spoken form of modern Chinese, it sounds similar to the phrase "I want". As such, the portmanteau of "51job" – the name of the Chinese online job ad portal that has been a key holding of the global fund portfolios – is a play on words that means "I want a job", or "no worries about a job". It is then perhaps unsurprising that 51job is the preeminent online job platform in China, attracting job seekers in search of opportunities, in addition to employers looking to source white-collar talent. We continue to believe that not only is 51job one of the highest quality businesses in China, but it is also significantly undervalued today.

51job benefits from secular tailwinds

51job is in a privileged position by virtue of the online job ad market in China being at an early stage, with currently only six per cent of SMEs in China recruiting online. In other words, strong future growth for 51job will be underwritten by an increasing number of Chinese businesses posting job ads online, with many transitioning their recruitment budgets from old-world channels such as newspapers and job fairs.



Source: Source: 51job; MGIM

51job offers a recruiting channel that allows firms to maximise the return on their recruitment spend, facilitating access to an unparalleled pool of white-collar workers in China, given the more than 115 million resumes in 51job's database. For access to these job seekers, 51job charges employers just RMB 40 (A$8) per job ad – an infinitesimal sum, and a fraction of the cost of advertising in newspapers or job fairs. We expect to see 51job continue to expand its share of recruitment spend over time.

51job's growth prospects are further buttressed by:

1. Rising internet penetration in China, which was at just 56 per cent in 2017, according to CNNIC;
2. Robust economic growth, with the transition of China's economy to a services-led growth model likely to result in increased hiring activity in the white-collar sectors that 51job serves;
3. A white-collar worker shortage, with the move to a services-based economy creating increased demand for engineering, finance, and accounting jobs; many employers have cited difficulty in sourcing employees for these roles. These positions all require degrees to spawn additional labour capacity. The fact that this skilled labour supply is growing at a slower pace than the demand for these workers is creating labour market tightness, a boon for 51job given that it acts as a matchmaker between job seekers and employers, helping alleviate frictions in the labour market; and
4. High job turnover, particularly among younger Chinese workers who frequently switch jobs to secure higher salaries. This increases the velocity of job ads, given that a worker leaving a job creates a vacancy that typically requires a job ad posting for it to be filled.

Favourable duopoly market structure

The Chinese online job ad market is a duopoly between 51job and Zhaopin. These two players are virtually neck-and-neck in terms of market share, but are head-and-shoulders above the distant number three competitor. However, these aggregate market shares mask the regional monopolies that both 51job and Zhaopin have carved out in different parts of China.

For example, 51job dominates Shanghai as well as Guangdong province, with double the market share of Zhaopin in these regions; conversely, Zhaopin has multiples of 51job's market share in Inner Mongolia, Hainan province, and Guizhou province. In short, the two firms have mapped out their respective territories, with the need to aggressively compete being tempered by the fact that many employers choose to advertise on both portals anyway, given the miniscule cost. We believe that the Chinese market is sufficiently large to accommodate these two players, but also subject to high enough barriers to stave off competition from smaller portals.

Part of the reason why firms will struggle to break this duopoly is because 51job is an online technology platform that exhibits network effects, a hallmark of this powerful business model. As the number of employers advertising on 51job's platform grows, the value of the platform to job seekers increases, and a growing number of job seekers will access the site and upload their resumes. This in turn attracts even more employers onto the platform, and the virtuous cycle continues. This dynamic creates platform stickiness, and given that 51job has already reached critical scale, it possesses an asset that is close to impossible to replicate by newcomers.

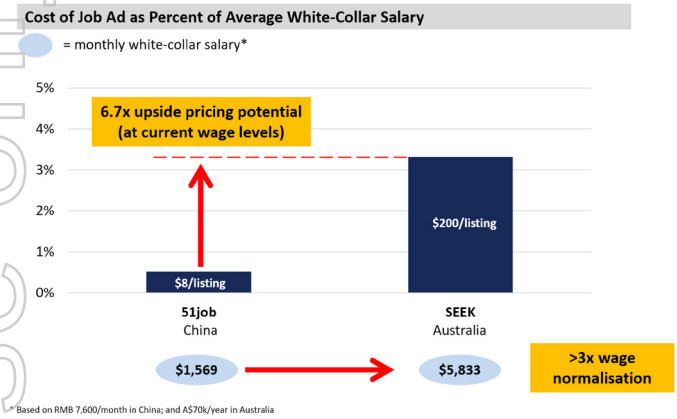
Furthermore, despite being viewed as an asset-light model, the manpower associated with managing employer relationships on the platform often goes unappreciated, and it represents a significant hurdle to competitors. 51job has a 4,300-strong sales force that covers 196 cities in China, ensuring optimal coverage of employer accounts as well as allowing product cross-selling and up-selling opportunities to deepen monetisation of existing accounts.

51job remains significantly undervalued

A cornerstone of Montgomery Global's investment process is to reverse-engineer the key expectations implied by a company's stock price. When doing this for 51jobs's current $104 stock price, we can ascertain that the market is essentially baking in that the company's A$8 price of a job listing increases to A$12 and then grows only with inflation thereafter. This market-implied expectation appears absurdly conservative.

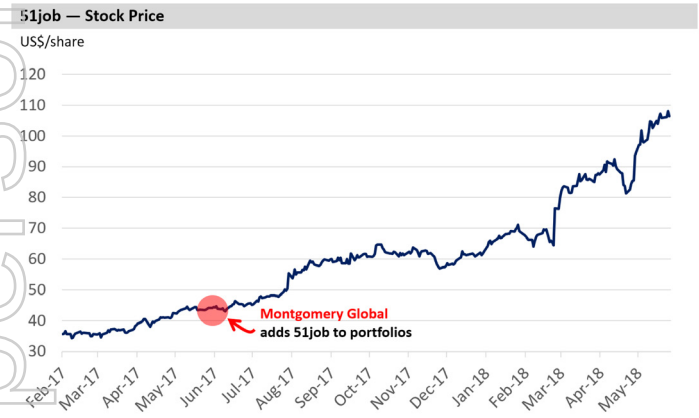
FUND COMMENTARY

Consider that, as a percentage of an average Chinese white-collar monthly wage, this equates to around 0.5 per cent. By comparison, Australia's dominant online job platform, Seek (ASX: SEK), charges nearly 3.5 per cent of a typical white-collar monthly wage. And, of course, one would expect Chinese wages to increase structurally for decades to come as the wealth of the Chinese middle-class appreciates.



Source: 51job; MGIM

51job recently instituted price increases of up to 45 per cent on its products. We believe such price increases are only the beginning. If we are correct, then we would expect this pricing lever to supercharge revenue growth and generate margin expansion over time. For reference, if 51job can increase its average price of a job listing to just A$20 – still one tenth of the price charged by Seek in Australia – then the stock should double from its current level today.



Source: Bloomberg

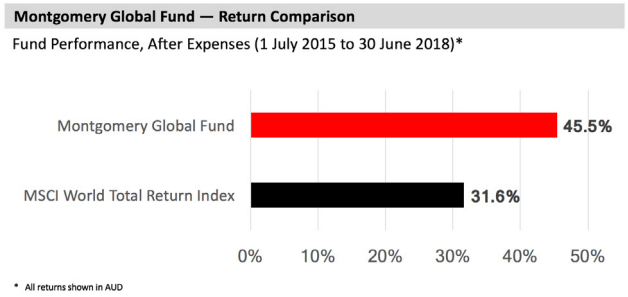
* * *

This letter marks the three-year anniversary of Montgomery Global launching this strategy: first under MGF in July 2015; and subsequently in the Fund in December 2017. While each and every member of the Montgomery Global team feels as though we are just getting started, it is worth reflecting on this small milestone.

This strategy, at its core, is simple to understand, difficult to execute and extraordinarily powerful when successful. The Montgomery Global investment team seeks to own a concentrated, high-conviction portfolio of 15 to 30 high-quality global businesses – but only while they are materially undervalued.

In assessing valuation, we are unusually explicit about the expectations that the market is pricing in, at any given stock price level. Only then can we make a case as to whether or not these market-implied expectations are too conservative, or not. If the market-implied expectations do not appear to be unreasonably conservative, then the stock is not undervalued and it should not be owned. We believe this concept is what sets us apart from many other investors.

Buying a dollar for fifty cents is not easy to do. Global equity markets are continually being analysed in excruciating detail by determined, highly-skilled analysts all over the world. The market is usually right; but on rare occasions, it is not. Our job is to meticulously apply our investment process in an emotionless and disciplined fashion. The result of doing this every day for the last three years has been a total return, after all fees, well in excess of the MSCI World Total Return Index in Australian dollar terms, as shown below.

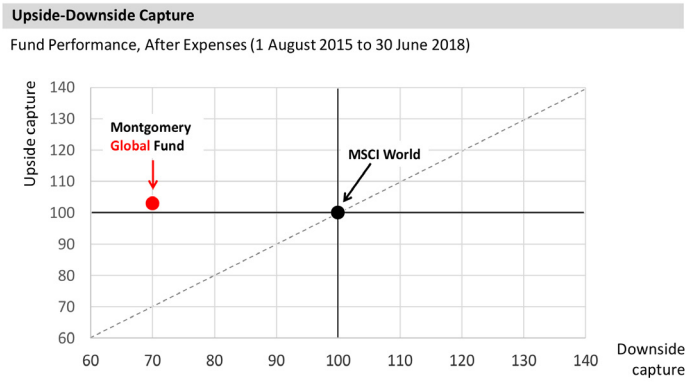


Source: Fundhost

What is perhaps even more interesting than MGF's total return over the last three years, is the nature of this return profile. On average:

- In a month during which the MSCI World increased, MGF increased by slightly more than the market, after fees; and
- In a month during which the MSCI World declined, MGF declined by only 70 per cent of the market's decline, after fees.

This track record of MGF capturing more than 100 per cent of the upside, while bearing only 70 per cent of the downside, is illustrated by the chart below.



Source: Morningstar

How is it possible to achieve such a return profile? There are two key drivers of this return profile, in our view. First, buying a dollar for fifty cents is a remarkably powerful idea. If done well, it alone will provide significant downside-protection for minimum upside reduction. Second, as part of this strategy, we employ an active weighting of the portfolio to cash. When we see fewer opportunities or are concerned by macro risks, the Fund's cash weighting builds. And vice versa when we see more opportunities with fewer macro risks.

FUND COMMENTARY

Holding cash typically does not help the Fund's total return during periods of rising markets. (Said another way, MGF's outperformance over the last three years would have been materially higher had the fund been more fully invested). Had we known for sure in advance that the last three years would be dominated by rising markets, we would have been fully invested, of course. But the premise here of knowing for sure what the future holds can never be true. And this raises a key point to understand how we think about managing the Fund's portfolio.

We are always thinking through the range of alternative scenarios for what the future might hold. It is obvious, but very often poorly appreciated, that many things can happen in the future; but only one thing will happen. We manage the Fund's portfolio with the objective of doing as well as we can under all possible scenarios for how the future plays out.

Applying this concept retrospectively, we encourage investors to view our results and historical actions through the lens of not what happened, but what could have happened. Think not of the market's history over the last three years – but of the range of alternative histories that could have played out. We managed the Fund's portfolio to perform as best as possible under all alternative histories. And this is why the Fund's cash weighting has averaged 20 per cent since inception, three years ago.

* * *

We remain highly-optimistic for the future returns of the Fund. The high-quality global businesses owned in the Fund's portfolio today remain significantly undervalued. Furthermore, should volatility return to global equity markets in a more significant way, we are holding enough cash to rapidly take advantage of new opportunities when they present themselves.

More important than the Fund's holdings, however, is the team that we have assembled at Montgomery Global. The investment team of six – split between our Sydney and New York offices – could not be more disciplined, thoughtful and hard-working. Similarly, our operations and business development team works tirelessly behind the scenes, with complete integrity and professionalism, to ensure an institutional-grade infrastructure which enables our business to deliver our clients a valuable and enjoyable experience. To be leading such a dedicated and skilled team is a true privilege. And it is the composition and collective attitude of our team that is the greatest leading indicator for future success.

Finally, to each and every one of our investors: we continue to value dearly the trust you have placed in us to protect and grow your capital. It is a responsibility and privilege we never take for granted. Thank you for your ongoing support.

At the end of the period to June, the Fund will pay a distribution of 8.6 cents per unit, comprising 3.14 cents of taxable income and 5.46 cents from capital. The capital component will reduce your cost base from $3.34 to $3.2854 per unit, and you may want to speak to your tax advisor on this matter. So after ending the 2018 financial year with a unit price of $3.6143, we commence the 2019 financial year with a unit price of $3.5283.

Sincerely,

Andrew Macken

Chief Investment Officer