

A MONTGOMERY WHITE PAPER

How do we calculate total returns?

This White Paper provides investors with an explanation of how total return figures are calculated for The **Montgomery** Fund and The Montgomery **[Private]** Fund. Importantly it is worth knowing the investment returns are not generated by Montgomery Investment Management. Fundhost Limited is the Independent Administrator, Responsible Entity and Trustee of both Funds and Fundhost is responsible for all of the calculations.

By David Buckland

INVESTMENT RETURN TO 30 NOVEMBER 2014

When we discuss the returns of our Funds one of the questions that invariably arises is; how do we arrive at the total return figure?

The frequency of the question suggests that it's a mystery to many of our investors, so this short paper is designed to help you understand the figures we report.

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The other thing to appreciate is that Fundhost apply conventional industry practice in the calculation of the investment returns, which must accurately reflect the returns generated by the Funds.

As at 30 November 2014, the Total Return of The **Montgomery** Fund since inception was 50.31% and the unit price was \$1.3730. The question we are seeking to answer is how the total return (after expenses) can be 50.31% if the unit price, which commenced its life at \$1.00 is, at the same time, \$1.3730.

In short, the answer is contained in the distributions from the Fund and how they are treated. For the total return calculation, all distributed income is reinvested back into The Fund.

The treatment is standard practice and measures the return of an investor who invested one dollar at the inception of the fund (17 August 2012) and then selected the reinvestment option for their distributions - buying additional units with their distributions rather than receiving them as cash.

Importantly, this treatment ensures you are measuring apples with apples when comparing the returns of a fund to an accumulation benchmark. The **Montgomery** Fund's benchmark is the S&P/ ASX 300 Accumulation Index, and the calculation of the index each day also assumes the reinvestment of all dividends.

Below we have compiled a snapshot of how well two different investors would have performed had they each invested \$100,000 in the **Montgomery** Fund at inception.

Investor 1 reinvests all distributions back into The **Montgomery** Fund whenever they are received. By doing this, Investor 1 has grown their account to \$150,309.85 by the end of November 2014.

Investor 2 does not reinvest any of their distributions. By doing this, Investor 2 has still grown their fund to a respectable \$137,300.00 by the end of November 2014 but they have not purchased any additional units at the time of the distributions and so their balance is less than Investor 1.

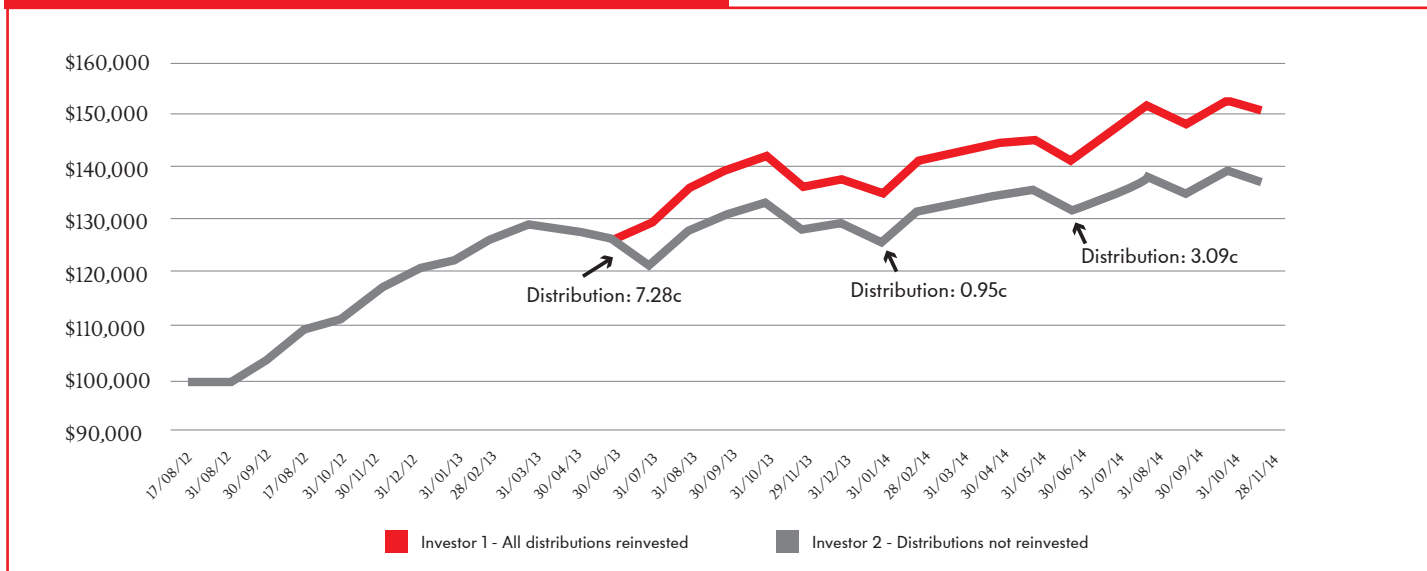
The reinvestment part of the investment strategy should drive greater returns over the longer-term - just like reinvesting dividends back into a quality stock or reinvesting interest back into a bank account drives greater returns over the long run.

To compare "apples with apples" the figures behind total returns and any accumulation index assumes that investors reinvest distributions/dividends.

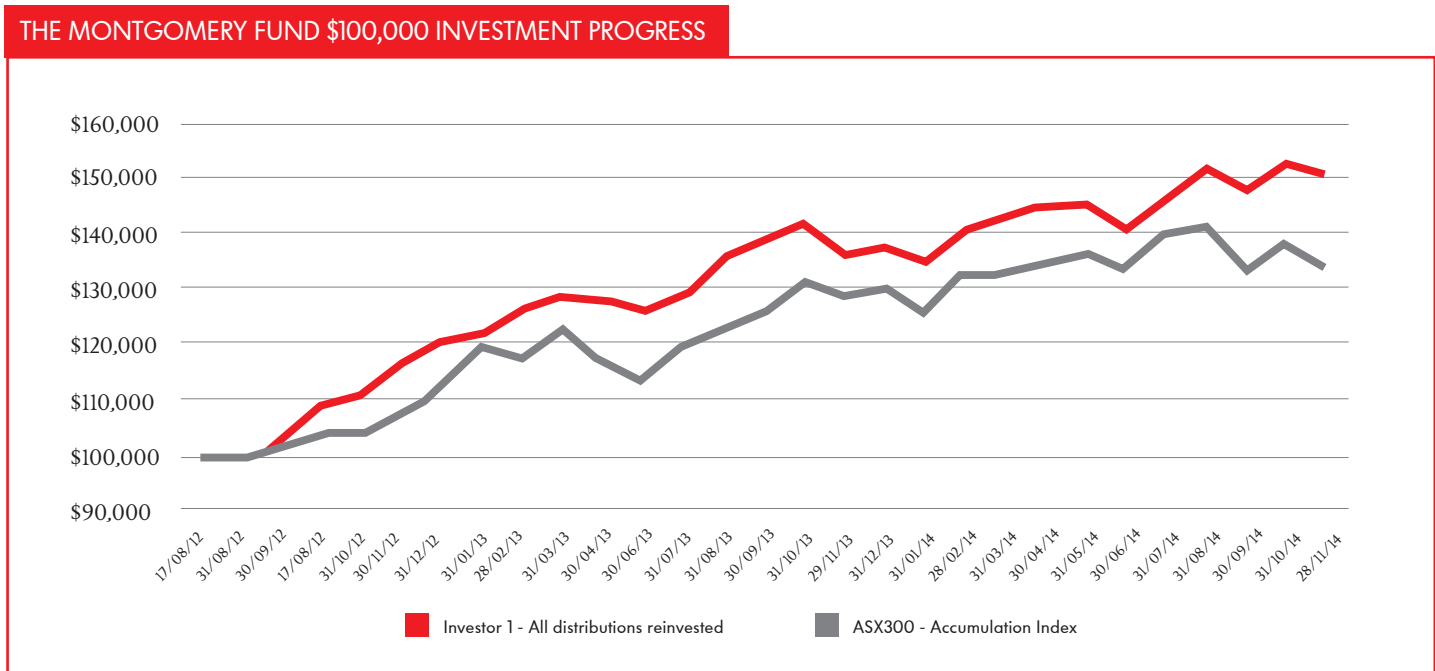
So the difference between the unit price of \$1.3730, or the net asset value of The **Montgomery** Fund at 30 November 2014, and the total return of \$1.5031 between inception of 17 August 2012 and 30 November 2014, essentially comes down to whether the distributions are reinvested or not.

Finally, and as we noted earlier, even our benchmark the S&P/ ASX 300 Accumulation Index assumes that all dividends paid are reinvested. Hence when comparing the investment performance with The **Montgomery** Fund it is assumed all distributions are reinvested.

THE MONTGOMERY FUND \$100,000 INVESTMENT PROGRESS



You can see the outperformance below where we've compared the hypothetical performance of a \$100,000 investment in The **Montgomery** Fund, where the investor has elected to reinvest all distributions, compared with a \$100,000 investment in the S&P/ ASX 300 Accumulation Index over the same time frame.



The **Montgomery** Fund investor has grown his account to \$150,309.85 by 30 November 2014, whereas the Index investor has grown his account to a total of \$134,213.99.

The total returns (after expenses) to 30 November 2014 follow.

THE MONTGOMERY FUND (TMF) - INVESTMENT RETURNS (%) to 30 November 2014

PERIOD TO 30 NOVEMBER 2014	TMF	BENCHMARK	OUT / (UNDER) PERFORMANCE
3 months	-0.67	-4.53	3.86
5 months	6.65	0.32	6.33
6 months	3.76	-1.13	4.89
12 months	10.49	4.04	6.45
2 years (annualized)	16.24%	12.97	3.27
3 years (annualized)	-	-	-
Total Return (since inception)	50.31	34.21	16.10
CAR (since inception)*	19.08	13.44	5.64

* Compound Annual Return since inception, 17 August 2012.

To source the daily unit price of The **Montgomery** Fund, please see <http://fundhost.com.au/investor/tmf> or <http://www.montinvest.com/tmf>

IF YOU ARE INTERESTED IN THE MATHEMATICS BEHIND THESE NUMBERS THEN THE FOLLOWING MAY INTEREST YOU:

What is the S&P/ ASX 300 Accumulation Index?

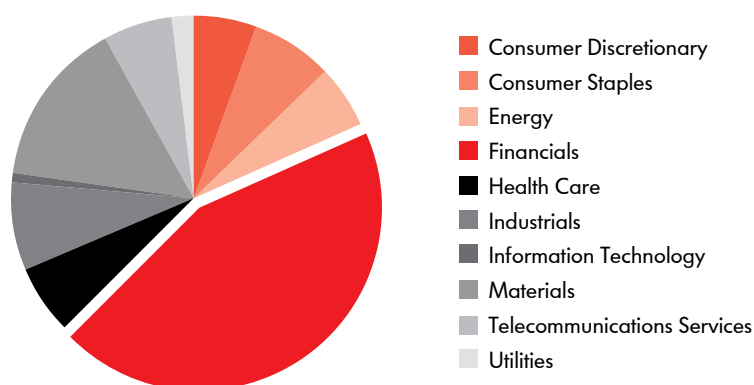
The Index includes up to 300 of Australia's largest securities by float-adjusted market capitalisation. The S&P/ ASX 300 index includes the large cap, mid cap and small cap components of the S&P/ ASX index family, and when we designed The **Montgomery** Fund in mid-2012 we felt this was the most appropriate benchmark. At the time of writing the Index had a market capitalisation of \$1.461 trillion and accounted for nearly 96% of the broader All Ordinaries Index, which comprises up to 500 securities.

THE ASX 300 INDEX IS REBALANCED SEMI-ANNUALLY AT MARCH AND SEPTEMBER AND THE TOP CONSTITUENTS OF THE INDEX FOLLOW:

CONSITUENT	ASX CODE	WEIGHT (%)	SECTOR
Commonwealth Bank	CBA	9.06	Financials
Westpac Banking Corp.	WBC	7.02	Financials
BHP Billiton	BHP	6.69	Materials
ANZ Banking Group	ANZ	6.06	Financials
National Australia Bank	NAB	5.25	Financials
Telstra	TLS	4.74	Telecommunications
Wesfarmers	WES	3.29	Consumer Staples
CSL	CSL	2.79	Healthcare
Woolworths	WOW	2.67	Consumer Staples
Woodside Petroleum	WPL	2.01	Oil and Gas
Top 10		49.6	
Top 50		79.3	
51 - 100		12.0	
101 - 300		8.7	

While it may be difficult to find the day-to-day performance of the S&P/ ASX 300 Accumulation Index without access to Bloomberg or Iress, a rough guide is to watch the performance of the ASX 300 Index, and add back the annual dividend yield of the market.

The sector breakdown of the S&P/ ASX 300 Index follows, and it is important to note that of the ten sectors, Financials and Materials account for 44.1% and 14.7%, respectively.



ASX300 - Sector Weights

HOLDINGS BY SECTOR	TMF	INDEX
Consumer Discretionary	11.5%	5.6%
Consumer Staples	0.0%	7.3%
Energy	0.0%	5.6%
Financials	33.5%	44.1%
Health Care	24.6%	6.1%
Industrials	13.0%	7.7%
Information Technology	6.3%	1.0%
Materials	0.0%	14.7%
Telecommunication Services	11.1%	6.0%
Utilities	0.0%	1.9%

HOW DO WE ARRIVE AT A 50.31% RETURN IN THE PERIOD 17 AUGUST 2012 TO 30 NOVEMBER 2014?

By 30 November 2014, the unit price of The **Montgomery** Fund was \$1.3730, and The Fund had paid out a total of 11.3323 cents per unit in distribution, being 7.2834 cents at 30 June 2013, 0.954 cents at 31 December 2013 and 3.0949 cents at 30 June 2014.

I have broken down the returns, payments and reinvestment schedule as follows.

PERIOD 1:	UNIT PRICE	% CHANGE
17 August 2012 to 30 June 2013	\$1.0000 \$1.2633	+26.33
Distribution at 30 June 2013	\$0.07283	
Ex-distribution price	\$1.1904	

PERIOD 2A:	UNIT PRICE	% CHANGE
30 June 2013 to 31 December 2013	\$1.1904 \$1.2923	+8.56
Cumulative Gain 17 August 2012 to 31 December 2013		+37.14
Distribution at 31 December 2013	\$0.00954	
Ex-distribution price	\$1.2828	

PERIOD 2B:	UNIT PRICE	% CHANGE
31 December 2013 to 30 June 2014	\$1.2828 \$1.3183	+2.77
Cumulative Gain 17 August 2012 to 30 June 2014		+40.94
Distribution at 30 June 2014	\$0.030949	
Ex-distribution price	\$1.2874	

PERIOD 3:	UNIT PRICE	% CHANGE
30 June 2014 to 30 November 2014	\$1.2874 \$1.3730	+6.65
Cumulative Gain 17 August 2012 to 30 November 2014		+50.31

IMPORTANT NOTICE

This document has been prepared by Montgomery Investment Management Pty Ltd.

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The issuer of units in The Montgomery [Private] Fund (Private Fund) is the Private Fund's trustee Fundhost Limited (ABN 69 092 517 087). The Information Memorandum for the Private Fund contains all of the details of the offer. Copies of the Information Memorandum are available from Montgomery Investment Management (02) 8046 5000 or at www.montinvest.com. An investment in the Private Fund will only be available through a valid application form attached to the Information Memorandum. Before making any decision to make or hold any investment in the Private Fund you should consider the Information Memorandum in full.

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