

A MONTGOMERY WHITE PAPER

How do we calculate total returns? (Part II)

This White Paper provides investors with an update from the original paper (dated 17 December 2014) explaining 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. In turn, Ernst & Young is the Auditor for both funds.

By David Buckland

INVESTMENT RETURN TO 30 JUNE 2015

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.

Importantly it is worth knowing the investment returns for The **Montgomery** Fund and The **Montgomery [Private]** Fund 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.

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 June 2015, the Total Return of The **Montgomery** Fund since inception was 60.29% and the unit price was \$1.3326 after the 11.6653 cents per unit distribution. The question we are seeking to answer is how the total return (after expenses) can be 60.29% if the unit price, which commenced its life at \$1.00 is, at the same time, \$1.3326.

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 \$160,297 by the end of June 2015.

Investor 2 does not reinvest any of their distributions. By doing this, Investor 2 has still grown their fund to a respectable \$133,260 by the end of June 2015 but they have not purchased any additional units at the time of the distributions and so their balance is less than Investor 1.

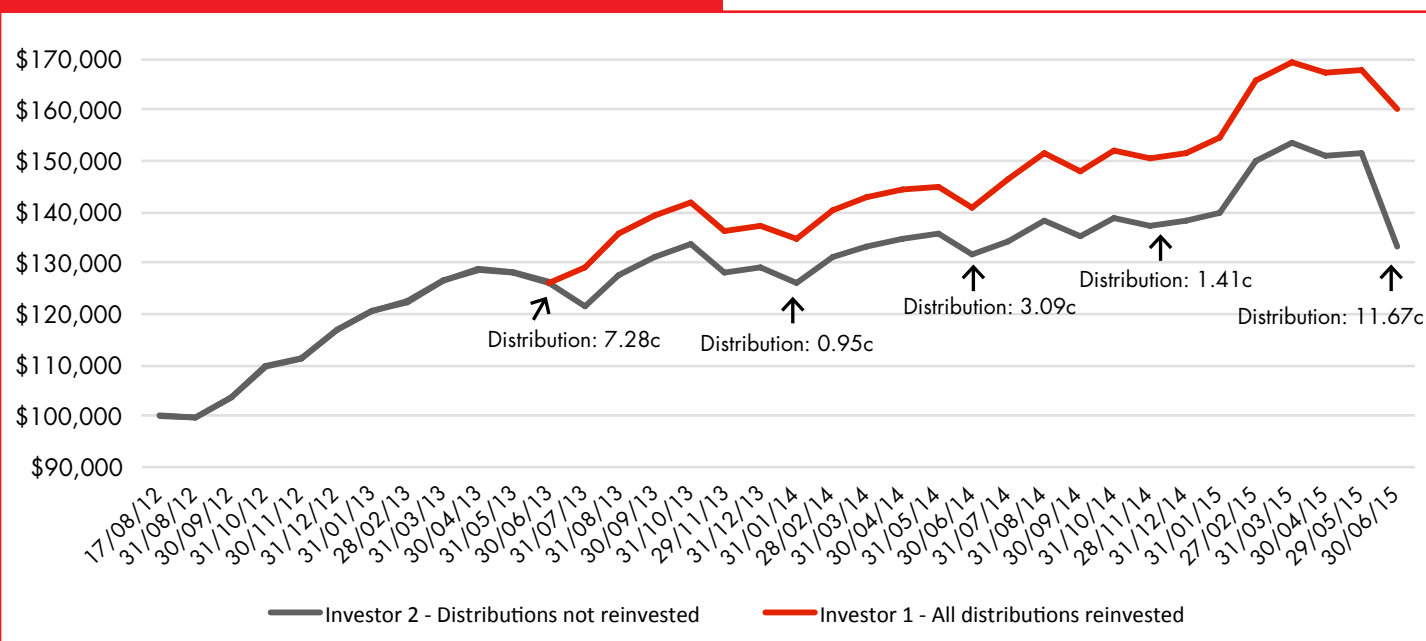
The reinvestment part of the investment strategy should drive greater returns over the longer-term - just like reinvesting dividends back into a quality stock or reinvesting interest back into a bank account drives greater returns over the long run.

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 \$1.3326, or the net asset value of The **Montgomery** Fund at 30 June 2015 (ex-distribution), and the total return of \$1.6029 between inception of 17 August 2012 and 30 June 2015, essentially comes down to whether the distributions are reinvested or not.

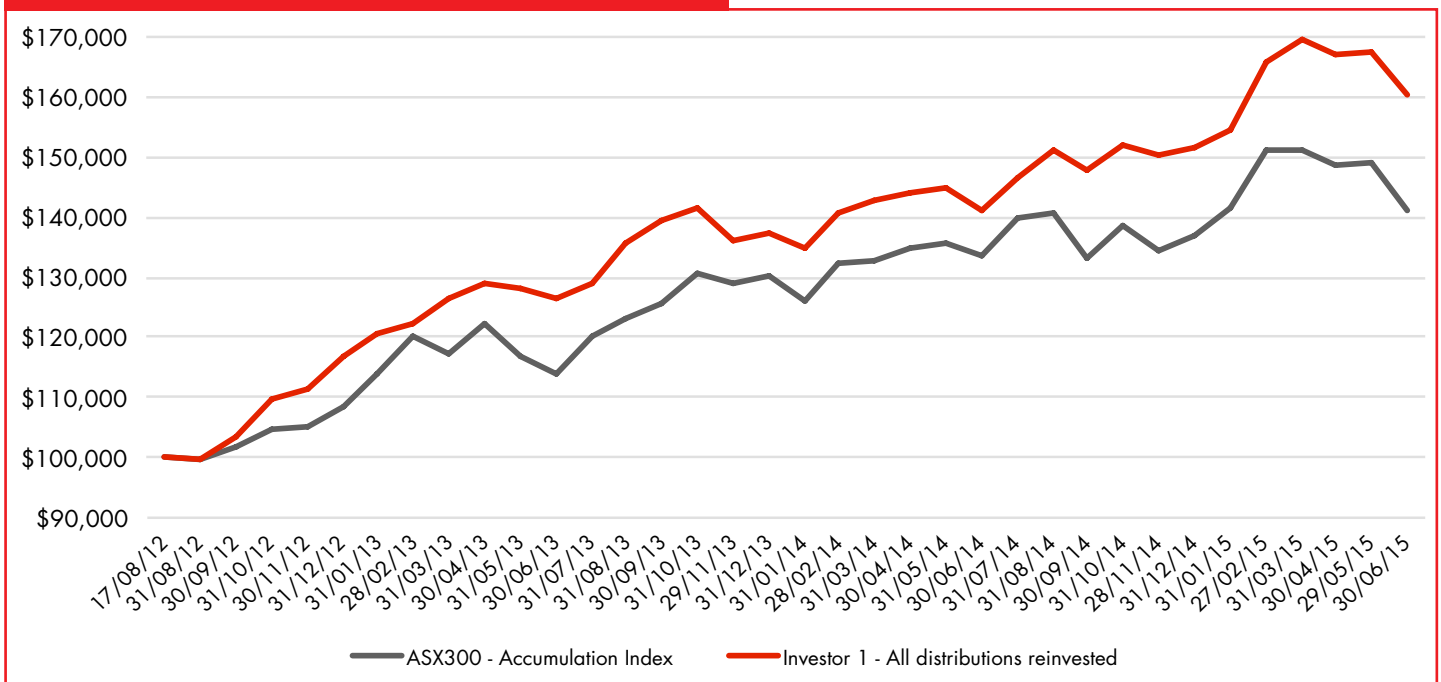
Finally, and as we noted earlier, even our benchmark the S&P/ ASX 300 Accumulation Index assumes that all dividends paid are reinvested. Hence when comparing the investment performance with The **Montgomery** Fund it is assumed all distributions are reinvested.

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 \$100,000 INVESTMENT PROGRESS



The **Montgomery** Fund investor has grown his account to \$160,297 by 30 June 2015, whereas the Index investor has grown his account to a total of \$141,291, outperformance of \$19,006, after expenses.

The total returns (after expenses) to 30 June 2015 follow.

THE MONTGOMERY FUND (TMF) - INVESTMENT RETURNS (%) to 30 June 2015

PERIOD TO 30 JUNE 2015	TMF	BENCHMARK	OUT / (UNDER) PERFORMANCE
3 months	-5.47	-6.48	1.01
6 months	5.86	3.17	2.70
12 months	13.73	5.61	8.12
2 years (annualized)	12.64	11.28	1.36
3 years (annualized)	-	-	-
Total Return (since inception)	60.29	41.29	19.00
CAR (since inception)*	17.56	12.58	4.98

* 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>

HOW DO WE ARRIVE AT A 60.29% RETURN IN THE PERIOD 17 AUGUST 2012 TO 30 JUNE 2015?

By 30 June 2015, the unit price of The **Montgomery** Fund was \$1.3730 ex-distribution, and The Fund had paid out a total of 24.4049 cents per unit in distribution, being 7.2834 cents at 30 June 2013, 0.954 cents at 31 December 2013, 3.0949 cents at 30 June 2014, 1.4073 cents at 31 December 2014 and 11.6653 cents at 30 June 2015.

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	

HOW DO WE ARRIVE AT A 60.29% RETURN IN THE PERIOD 17 AUGUST 2012 TO 30 JUNE 2015?

PERIOD 3A:	UNIT PRICE	% CHANGE
30 June 2014 to	\$1.2874	
30 December 2014	\$1.3831	+7.43
Cumulative Gain		
17 August 2012 to		
31 December 2014		+51.42
Distribution at		
31 December 2014	\$0.014073	
Ex-distribution price	\$1.3690	

PERIOD 3B:	UNIT PRICE	% CHANGE
31 December 2014 to	\$1.3690	
30 June 2015	\$1.4493	+5.86
Cumulative Gain		
17 August 2012 to		
30 June 2015		+ 60.29
Distribution at		
30 June 2015	\$0.116653	
Ex-distribution price	\$1.3326	

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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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