

A MONTGOMERY WHITE PAPER

How do we calculate total returns? And, how do Trusts calculate distributable income? (Part III)

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. Second, we answer the question, "How do Trusts calculate distributable income?"

Importantly it is worth knowing the investment return and distribution calculations are not generated by Montgomery Investment Management. Fundhost Limited is the Independent Administrator and Responsible Entity of The Fund and is responsible for the calculations. In turn, Ernst & Young is the Auditor of The Fund.

By David Buckland

INVESTMENT RETURN TO 31 DECEMBER 2015

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Fundhost apply conventional industry practice in the calculation of the investment returns, which must accurately reflect the returns generated by The Fund.

As at 31 December 2015, the Total Return of The **Montgomery** Fund since inception was 80.71% and the unit price was \$1.5024. The questions we are seeking to answer is how the total return (after all expenses) can be 80.71% if the unit price, which commenced its life at \$1.00 is, at the same time, \$1.5024.

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 \$180,714 by the end of December 2015.

Investor 2 does not reinvest any of their distributions. By doing this, Investor 2 has still grown their account to a respectable \$150,240 by the end of December 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 \$1.5024, or the net asset value of The **Montgomery** Fund at 31 December, and the total return of 80.71% between inception of 17 August 2012 and 31 December 2015, essentially comes down to whether the distributions are reinvested or not.

Distributions: Perhaps the most frequently misunderstood aspect of investing in an unlisted unit trust like The **Montgomery** Fund is how income distributions are generated for you.

The net income distribution is made up from a number of items, and if positive, this sum must be distributed by 30 June.

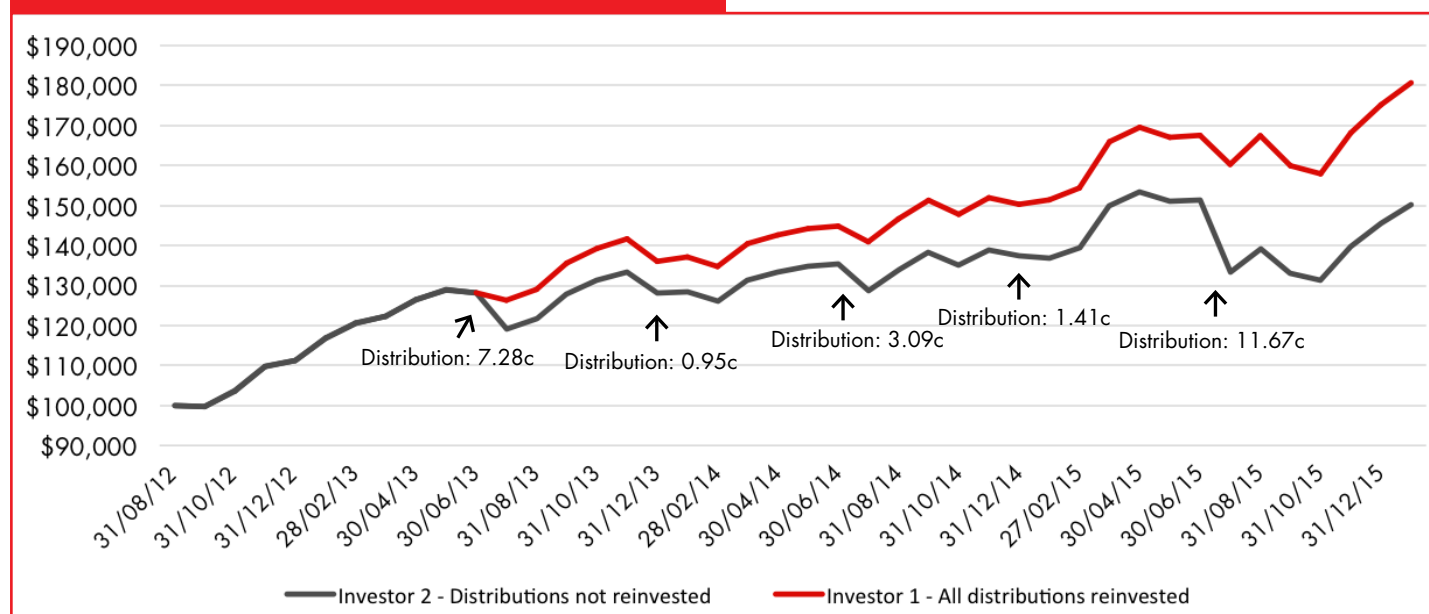
If a distribution is paid, it includes dividends received plus interest received less all fees and expenses (which generally includes management fees, possible performance fees, responsible entity and administration fees, audit fees and custodian fees) as well as all net realised capital gains (realised profits minus realised losses). Net realised capital gains are generally only distributed at the end of the financial year (in June) once the final taxable position is known.

If realised capital losses, fees and expenses are greater than the combined value of the realised capital gain, dividends received and interest received, then no distribution is paid. Income is generally hard to predict and the size of the distributions will vary from one period to the next. While our goal is to grow the long-term value of the portfolio and the income generated by it, there will be periods when net income is negative.

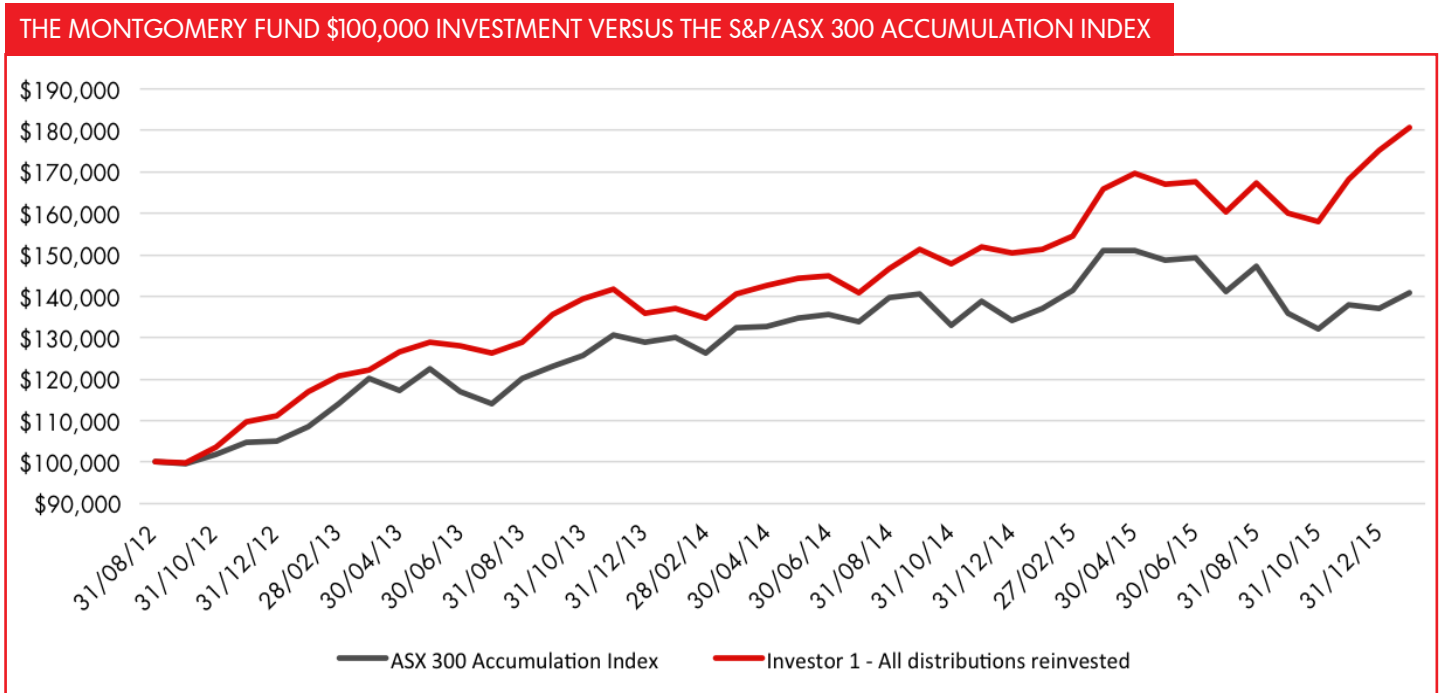
In the half-year to December 2015, The **Montgomery** Fund out-performed its benchmark, the S&P/ ASX 300 Accumulation Index, by 13.09 per cent after all fees and expenses. This resulted in a relatively large performance fee to The Manager and meant there was no distributable income for the period.

Over the life of The **Montgomery** Fund, distributions have aggregated to 24.4 cents per unit, which equates to an annual average 7 cents per unit. Details of how total investment returns are calculated, including the impact of distributions, follow.

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 \$180,714 by 31 December 2015, whereas the Index investor has grown his account to a total of \$140,792, outperformance of \$39,922, after expenses.

The total returns (after expenses) to 31 December 2015 follow.

THE MONTGOMERY FUND (TMF) - INVESTMENT RETURNS (%) to 31 December 2015

PERIOD TO 31 DECEMBER 2015	TMF	BENCHMARK	OUT / (UNDER) PERFORMANCE
3 months	14.41	6.56	7.85
6 months	12.74	-0.35	13.09
12 months	19.35	2.80	16.54
2 years (annualized)	14.79	4.04	10.75
3 years (annualized)	15.63	9.01	6.62
Total Return (since inception)	80.71	40.79	39.92
CAR (since inception)*	18.91	10.53	8.38

* 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 80.71% RETURN IN THE PERIOD 17 AUGUST 2012 TO 31 DECEMBER 2015?

By 31 December 2015, the unit price of The **Montgomery** Fund was \$1.5024 after all distributions, and The Fund had paid out a total of 24.4049 cents per unit in distributions, 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. There was no distribution at 31 December 2012 or 31 December 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 80.71% RETURN IN THE PERIOD 17 AUGUST 2012 TO 31 DECEMBER 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	

PERIOD 4A:	UNIT PRICE	% CHANGE
30 June 2015 to	\$1.3326	
31 December 2015	\$1.5024	+12.74
Cumulative Gain		
17 August 2012 to		
31 December 2015		+ 80.71

IMPORTANT NOTICE

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

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