FUND MANAGER SERIES

Under the Radar Report was founded on the belief that the knowledge of a community is greater than any one individual. We introduce investors to stocks they might not have heard of. We also shine a light on different investment management styles. We have created a community where our members are on a path, at differing stages, to building wealth.

We first interviewed Roger Montgomery in September 2012 and he promoted the idea of contrarian investing and mentioned recent purchases including lottery **Jumbo Interactive (JIN)**, which then had a market cap of $53m, as well as **Woolworths (WOW)** whose market cap was $33.2bn. Fast forward to today and Jumbo is valued at over $1bn, even after recent weakness. Woolworths now worth $39.4bn.

Roger has seen the light! He is investing heavily in his small cap fund, which is managed by Gary Rollo and Dominic Rose. Find out which stocks they're buying now.

Because we have a deep history with the actions of many fund managers, we are more penetrating when it comes to questions around their philosophy and their actions.

Under the Radar Report is about facilitating a community that talks to us and to each other. We cover the stocks you own, and we look for stocks you don't. We advise on decision making when stocks are going well and when they're not.

We are not shy, so don't you be. If you have any questions, please just ask and I promise we'll answer to the best of our ability. We have a great deal of resources, which you can easily tap into. That's what we're here for.

> "That's the beautiful thing about small caps compared to large caps. You can invest in a lot more sectors. You can invest in a lot more growth opportunities and have exposure to a lot more industries than you can in large caps."
>
> **Roger Montgomery**

Richard Hemming
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Roger Montgomery, founder of Montgomery Investment Management

The founder of his eponymous investment management company is putting his money where his mouth is and investing more and more in Small Caps, where he sees big returns in 2024-2025.

Why Montgomery is investing heavily in small caps.
The gap between the valuation of the big caps and the smalls has never been greater and in coming months we will see that close further in favour of small caps:

“This doesn't mean that the large caps will sell off. It just means I think the small caps outperform. And I put my money where my mouth is… I'm invested in small caps and have gone overweight. I've invested more money in our funds because I believe that smalls will do well. Time will tell.”

It’s no co-incidence that the Montgomery Small Companies Fund is the best performing fund in his stable, having returned just over 26% over the past 12 months to 31 March and 5.6% a year over the past three years. The benchmark S&P/ASX Small Ords has returned just under 14% over the past 12 months and 2.7% a year over three years.

The fund is managed by Gary Rollo and Dominic Rose and their big bets are on digital technology and retail stocks, which include Under the Radar Report favourite, **Macquarie Technologies (MAQ.ASX)** **as well as Audinate (AD8.ASX), Megaport (MP1.ASX)** and **Lovisa (LOV.ASX)**.

Tech momentum shifting to Aussie small caps
Montgomery believes the small cap momentum will continue because macro-economic conditions are favourable, with positive economic growth, declining inflation and interest rates that have peaked. This really benefits innovative companies that have pricing power and in the past couple of years this has seen the rise and rise of the tech giants or the so-called “magnificent seven” namely: Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta because of the fear of recession. Now that those fears have been allayed, one place to be is Aussie technology stocks, at the small end:

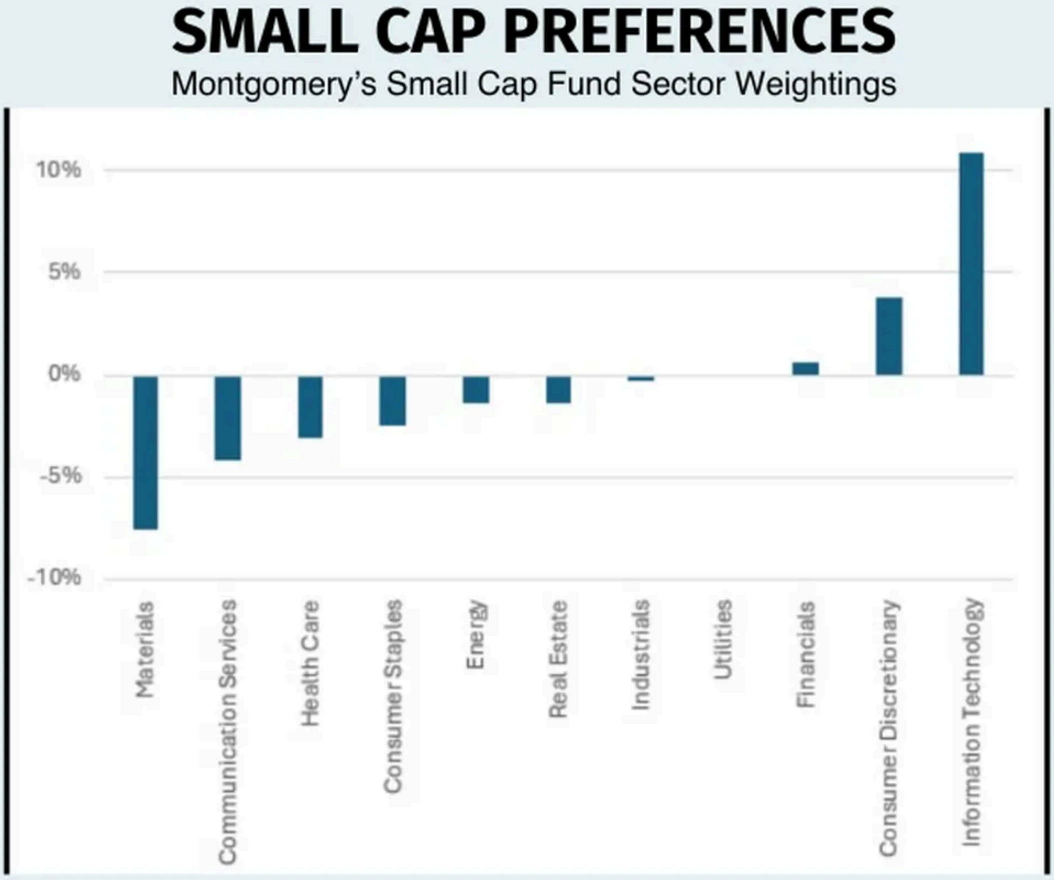
“Many investors would be in disbelief if they knew how dominant some of our Australian small caps are on the global stage.

“If we start with (data centre owner/operator) **Macquarie technology (MAQ.ASX)**, for example, that we see as a stable compounder, which is not something you normally expect. They're going to benefit from that AI, being a business with (gross profit) margins of 75%, which drops straight to the bottom line.”

MAQ: a takeover opportunity
His small cap team has a $100-115 valuation on the stock, which climbs to $180 on the basis of being taken over, which he says is a real possibility if you use a discount rate of 6%:

“Down the track when it's fully tenanted, it's just throwing off rent. That's your index to inflation. We think there's a pension fund out there somewhere or a super fund. And we also know talking to investment banks, that they're working for these funds, and they're looking for these kinds of assets.”

Roger Montgomery Cont.



This highlights the fund is weighted towards companies that don't rely too heavily on the domestic economy. Whether it's AI or a global store rollout, Montgomery's small caps are based on structural tailwinds.

SOURCE: Montgomery Investment Management

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Roger Montgomery Cont.

Small cap earnings resilience
Another factor in favour of small caps is earnings resilience, but Montgomery notes that this is the case only where there are "structural tailwinds" that boost earnings, which in the case of the technology companies is the powerful Artificial Intelligence trend, which seems to be on everyone's lips.

In MAQ's case AI is adding to the demand for its data centres, but it's also working for other technology stocks, which also have impressive niches in both hardware and software.

Audinate's market potential
Audiovisual networking business **Audinate (AD8.ASX)** is expanding its offer from simply sound to include visual:

"What they're starting to do now is embed the same technology into the visual side of delivering those concerts, and those conferences. And that is an enormous growth opportunity for them. And the market really hasn't priced that in at all, but it's where the growth opportunity is.

"This is a classic example of a business that Australian investors might not even realize exists in the small cap space listed in Australia and is a world class highly regarded global business."

Megaport is in the box seat
Megaport (MP1.ASX) facilitates the movement of AI data between data centres and companies:

"How does AWS talk to Salesforce? How do you get those data centres or cloud providers to talk to each other? Megaport is Sweden. Megaport makes sure that you can talk to each other. Each of you are talking to different data centres, but Megaport makes it look as though you're just talking to one, connecting them together with hardware and software."

Go for growth in retail
The structural tailwind theme also happens surprisingly in one of the most consumer sensitive or cyclical industries – discretionary retail. The small caps in this space Montgomery's team likes are in businesses that are expanding globally. Hence the store rollouts could literally happen almost forever.

Everybody loves Lovisa
The stock he names in this space is another big performer like those mentioned above, but Montgomery is adamant that jewellery retailer **Lovisa's (LOV.ASX)** market capitalisation of $3.4bn is only the start of bigger things to come.

"All this talk about interest rates, harming consumers, doesn't apply to the visa number one, because it's a low price point. But number two, its audience don't have a mortgage. They're living at home with their parents, they're employed."

The unemployment rate fell to 3.7% in February, but the RBA has forecast it to climb to 4.3% by the end of the year.

"These people are employed, they haven't got a mortgage, they're living at home often. When interest rates go up, it doesn't harm them at all. Lovissa has shown its ability to roll out these stores at a massive rate of knots."

Why small caps should be the engine room of your portfolio boat:
"That's the beautiful thing about small caps compared to large caps. You can invest in a lot more sectors. You can invest in a lot more growth opportunities and have exposure to a lot more industries than you can in large caps.

"The hull of the boat is your core of your portfolio that's keeps you afloat. You have to have some businesses in there that are going to be large cap. if you keep the right small caps, they're going to be large caps.

"I'm a stink boat fan, which you might not know. That engine, that power, comes from small caps."

More information on Under the Radar Report
For information on Small Cap Investing at Under the Radar Report visit https://www.undertheradarreport.com.au

99% of all financial news relates to the 40 to 50 biggest companies. So what about the rest? They're Under the Radar.

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