The Montgomery Fund

2026 Annual Letter to investors

MONTGOMERY

August 2026

To our investors:

We are pleased to present the 2026 financial year update for The Montgomery Fund (The Fund).

The Fund ended the financial year broadly flat, returning 0.35 per cent after fees compared with 6.16 per cent for the S&P/ASX300 Accumulation Index. While this outcome for the year was below the benchmark, since inception, The Fund has generated a solid 8.39 per cent per annum after fees.

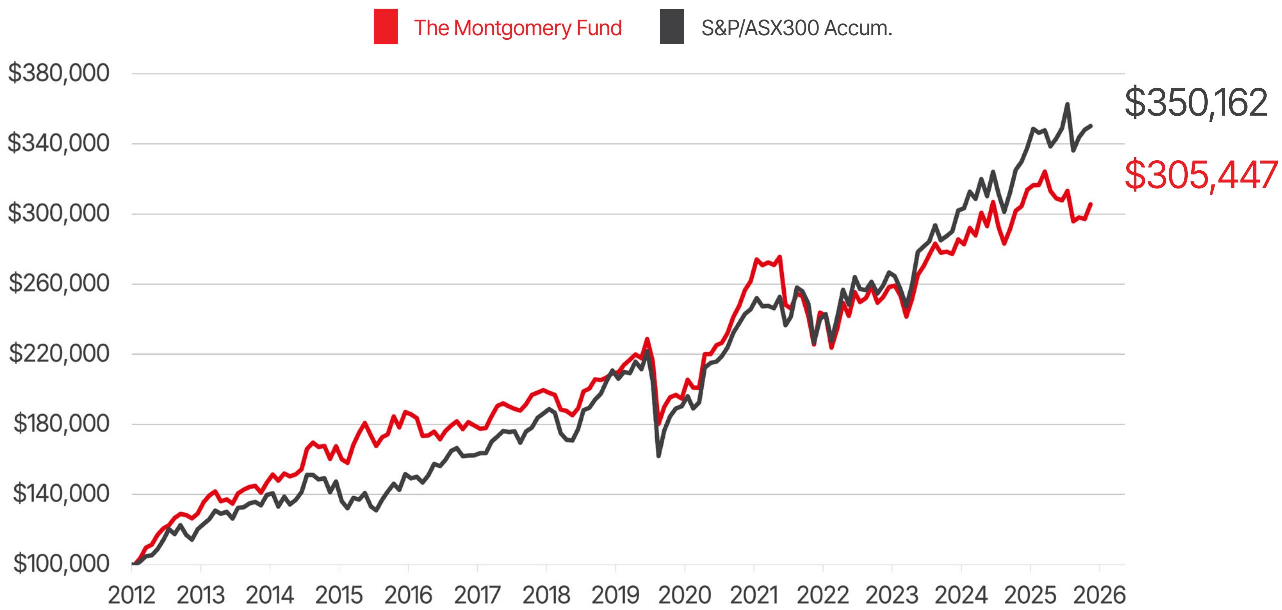
Australian Eagle's investment process is focused on identifying companies with improving quality, earnings and growth prospects. Market concentration became extreme in 2026, and consequently returns were driven by a narrow group of the largest index constituents, with BHP dominating. This combination of factors produced headwinds for our brand of quality-focused investing.

The year, however, also demonstrated the benefits of disciplined stock selection, particularly within resources, where The Fund's exposure to companies benefiting from copper, lithium, gold and electrification contributed strongly to returns.

Investors may remember that market performance has previously been led by the major banks, despite them demonstrating modest organic growth and flat margins. In the 2026 financial year, however, leadership shifted to resources, with BHP (ASX:BHP) benefiting from insatiable global demand for copper and electrification-related commodities. While The Fund held a position in BHP, we were underweight relative to the benchmark. Importantly, this detraction was more than offset by strong contributions from our other resource holdings, including Rio Tinto (ASX:RIO), PLS, formerly known as Pilbara Minerals (ASX:PLS) and Evolution Mining (ASX:EVN). The result highlights the importance of disciplined stock selection within sectors where fundamentals are improving, rather than simply owning the largest companies in the index.

In terms of operations, Australian Eagle remained stable during the financial year, with no changes to the investment team, thus preserving the stability that underpins our long-standing investment approach.

The Montgomery Fund performance since inception to 30 June 2026



Source: Fundhost/Montgomery

The Montgomery Fund annual performance

Financial year	The Montgomery Fund	S&P/ASX 300 Accum. Index	Outperformance
2013*	+26.3%	+14.1%	+12.2%
2014	+11.6%	+17.3%	-5.7%
2015	+13.7%	+5.6%	+8.1%
2016	+11.2%	+0.9%	+10.3%
2017	+1.7%	+13.8%	-12.1%
2018	+9.3%	+13.2%	-3.9%
2019	+4.4%	+11.4%	-7.0%
2020	-4.9%	-7.6%	+2.7%
2021	+30.5%	+28.5%	+2.0%
2022	-12.1%	-6.8%	-5.3%
2023	+11.9%	+14.4%	-2.5%
2024	+9.8%	+11.9%	-2.1%
2025	+9.8%	+13.7%	-3.9%
2026	+0.4%	+6.2%	-5.8%
Since Inception p.a.	**+8.4% ****	**+9.5% ****	**-1.1% ****

*2013 is the period 17 August 2012 to 30 June 2013, **Compound annual returns

Distributions

At the conclusion of the 6 months to 30 June 2026, The Montgomery Fund has paid a distribution of 5.4374 cents per unit. Accordingly, after ending financial year 2026 with a unit price of $1.4121, we commence financial year 2027 with a unit price of $1.3577. Since the Fund's inception on 23 December 2010, it has paid out a total of $1.1403 per unit.

Year to June	Distribution (cents per unit)
2013*	7.2834
2014	4.0489
2015	13.0725
2016	7.7190
2017	2.1137
2018	12.8559
2019	8.5643
2020	1.6831
2021	5.4930
2022	15.4240
2023	6.0097
2024	13.5791
2025	9.4633
2026	6.7127
Total distributions since inception	**114.0226**

Market overview

The 2026 financial year was a volatile year for markets, with performance driven by a narrow set of themes, shifting macroeconomic policy expectations and geopolitical events. Globally, artificial intelligence (AI) remained the dominant investment narrative, as AI-related companies continued to attract capital given the technology's potential to reshape productivity, infrastructure and business models over time. In Australia, where there are very few direct AI leaders listed on the ASX, investors looked for adjacent beneficiaries, with resources companies exposed to copper, electrification and critical minerals becoming an important way to gain exposure to the theme.

The Australian market also became increasingly concentrated. While the 2024 and 2025 financial years were dominated by the major banks, the 2026 financial year could be characterised as the year of BHP. BHP generated a 52.6 per cent total return and contributed more than 80 per cent of the S&P/ASX300 Accumulation Index return. This created a challenging environment for active managers who were underweight the largest index constituents, even when broader stock selection was positive.

The year was also shaped by a significant rotation away from quality stocks, which began in September 2025 and remained a headwind for much of the financial year, despite a partial recovery in June 2026. This was most evident in the so-called "SaaS-pocalypse" (Software-as-a-Service), when investors reassessed the valuations and earnings durability of software companies amid concerns that AI could disrupt existing products, compress pricing and increase reinvestment requirements. This affected many ASX-listed technology and healthcare companies, including Life360 (ASX:360), TechnologyOne (ASX:TNE), Xero (ASX:XRO), Cochlear (ASX:COH), CSL (ASX:CSL) and ResMed (ASX:RMD).

Macroeconomic conditions added further volatility. Interest rate expectations shifted materially during the year, with early rate cuts by the US Federal Reserve (The Fed) and the Reserve Bank of Australia (RBA) later giving way to renewed inflation concerns. The RBA raised rates at three consecutive meetings in the second half, while the The Fed held rates steady despite inflation remaining well above target. Geopolitical tensions escalated following the outbreak of conflict between the US/Israel and Iran, which led to the closure of the Strait of Hormuz and a sharp rise in oil prices. Domestically, the Federal Budget in May proposed changes to capital gains tax (CGT) and negative gearing, adding further pressure to property-exposed sectors and the major banks.

Investment strategy

The Fund's investment process centers on bottom-up stock picking, emphasising the identification of companies whose quality is on the rise, rather than just holding those already seen as high quality. We target companies improving in areas such as earnings quality, competitive edge, capital allocation, balance sheet health, or growth potential. At the same time, we steer clear of companies with weakening fundamentals or those where market expectations are not backed by sustainable improvements in cash flow, margins, or returns on capital.

This distinction between quality and improving quality is central to the Australian Eagle process. The broader quality factor remains a significant part of our investment universe, given our preference for businesses with durable competitive advantages, responsible management and strong balance sheets. As a result, the sharp drawdown in quality stocks during the 2026 financial year weighed on performance, particularly because many affected companies were in sectors that have historically aligned with our investment philosophy.

Throughout the year, we decreased our holdings in companies most impacted by the sell-off related to quality and SaaS, while increasing exposure to sectors with improving fundamentals. This shift included a heavier focus on resources, where many holdings gained from rising commodity prices, increased production, and stronger balance sheets. These adjustments helped boost returns and showcased our readiness to adapt the portfolio as new evidence emerged.

Risk management remained crucial in portfolio construction. When investment theses weakened or execution risks grew, we reduced or sold positions, including Telix Pharmaceuticals (ASX:TLX). During periods of rapid stock price increases, such as Woodside Energy (ASX:WDS) amid the oil price spike, we took profits near peak levels and reinvested in lower-risk energy and critical infrastructure assets. Additionally, we increased our underweight bank positions as the market reevaluated credit growth prospects, profitability, and loan losses in response to higher interest rates and potential Federal Budget impacts.

Portfolio positioning

The key feature of performance during the year was the contrast between strong stock selection in resources and significant detractors in healthcare. Resources contributed 2.93 per cent to Fund returns, while healthcare detracted 5.32 per cent.

The Fund's top contributors mainly came from resources, where the portfolio gained from exposure to higher-quality companies with improving fundamentals. PLS, Rio Tinto, and Evolution Mining were the three leading contributors, showcasing strength in lithium, diversified mining, and gold.

PLS was the leading performer, increasing over 200 per cent during the financial year due to a sharp rebound in lithium prices. We believe it remains the top-quality lithium producer on the ASX, characterised by low-cost, long-term operations, expanding production, and a strong net cash position. The lithium market's recovery was fueled by the suspension of a major Chinese lithium mine in late 2025 and renewed demand from energy storage systems, which tightened market conditions and boosted sector confidence.

Rio Tinto also performed strongly and surpassed BHP in absolute share price growth over the year. Our preference for Rio Tinto was based on its clearer growth outlook, driven by the ramp-up of Oyu Tolgoi and increased copper output, along with its diversified commodity portfolio and disciplined capital management. The Fund held BHP as well, but remained underweight because we believed Rio Tinto had a better growth trajectory and greater potential for outperformance. Although BHP's large benchmark weight posed a relative challenge, Rio Tinto's impressive gains reaffirmed our strategy of focusing on companies with improving quality and earnings.

Evolution Mining remained a top performer and was one of The Fund's leading contributors for the second year in a row. The company's performance was boosted by record-high gold prices in the first half, driven by lower interest rates, increased geopolitical uncertainty, and rising central bank demand. Its significant copper exposure through the Ernest Henry mine and the recent Northparkes acquisition provided a risk hedge as gold prices declined. Operational improvements, especially at Red Lake, along with a stronger balance sheet, contributed to higher shareholder returns and enhanced business quality.

The primary underperformance stemmed from the healthcare sector. Cochlear was the biggest negative contributor, facing an atypical demand cycle that caught the market off guard, coupled with foreign exchange pressures due to the Australian dollar's strength throughout much of the year.

Although we still view Cochlear as a high-quality company with solid long-term competitive advantages, we significantly reduced our stake and are awaiting clearer signs of stabilisation or recovery before scaling up our investment.

Telix Pharmaceuticals was a notable detractor. Although the company had multiple products moving toward FDA approval, management's skill in navigating and anticipating the regulatory process was less effective than we had anticipated. This diminished our confidence in the execution aspect of the investment thesis, leading us to sell our position during the year.

Overall, The Fund participated in the resources rally through bottom-up stock selection in lithium, diversified mining, gold, and energy. Underperforming company-specific issues in healthcare detracted from gains, outweighing the positive impact from resources. We have responded by reducing or selling positions where our confidence in the investment has declined, while maintaining exposure in areas we believe have long-term quality and recovery potential.

Outlook

Looking ahead, we expect markets to remain highly sensitive to inflation, interest rates, geopolitical developments and the durability of the hype surrounding the AI investment cycle. While inflation has moderated from the immediate shock of higher energy prices, the lagged effects may take longer to work through, particularly if wage growth, services inflation, or government debt issuance keeps bond yields elevated. This remains an important risk for long-duration equities, such as technology-related issues, and companies with weak balance sheets.

AI will remain a significant investment theme, but the market is expected to become more selective. For much of the 2026 financial year, investors favoured companies that benefited from AI infrastructure demand, such as those involved in compute, storage, power, and electrification. Recently, however, there's been growing concern the rapid expansion of AI infrastructure could lead to overcapacity, especially if supply outpaces actual cash flow and demand. We anticipate the market will increasingly differentiate between companies with solid earnings, cash flow, and margin advantages from AI, and those that mainly rely on narrative.

For The Fund, this environment reinforces the importance of discipline. Our focus remains on companies demonstrating improving quality and where the market has yet to fully recognise shifts in earnings, competitive edge, capital use, or growth potential. Resources remain an area of interest where supply discipline, strong balance sheets, and exposure to electrification or energy security present compelling opportunities. Additionally, we see prospects in companies benefiting from higher interest rates or increased corporate activity, such as QBE Insurance Group (ASX:QBE) and Computershare (ASX:CPU).

Meanwhile, we remain alert to opportunities in healthcare, technology, and other quality sectors, where valuations and sentiment are at multi-year lows. Any improvement in fundamentals could lead to a positive revaluation of undervalued quality stocks. We have scaled back some holdings where, despite solid earnings quality, the near-term outlook appears less certain compared to historical patterns. We will also continue reallocating capital to higher-conviction opportunities as they present themselves.

Despite recent underperformance, which we expect to be temporary based on our past experience, the investment team remains dedicated to the Australian Eagle process. The portfolio continues to invest in high-quality companies with strong earnings growth prospects, although many of these stocks are now valued at levels similar to or below the broader market. This situation is unusual. Historically, companies with healthier balance sheets, stronger competitive positions, and more sustainable earnings have commanded higher valuations. However, the recent decline in the quality factor has caused many of these stocks to be priced as if these strengths are less important. We see this as an attractive opportunity, where fundamentals and earnings are improving while market expectations are unusually low. As investors once again prioritise proven earnings quality, cash flow, margin improvements, and disciplined capital use, we believe the portfolio is well positioned to benefit from the eventual recovery of quality stocks.

We deeply value your trust and support and thank you for your continued partnership.

Sincerely,

Roger Montgomery
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Montogmery Investment Management

Sean Sequeira
Chief Investment Officer
Australian Eagle Asset Management

Alan Kwan
Senior Portfolio Manager
Australian Eagle Asset Management

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