

# MONTANARO

ASSET MANAGEMENT

## Montanaro European Smaller Companies Trust (“MESCT”)

### AGM Presentation

5 September 2024

*“No one knows Smaller Companies like we do”*



Montanaro Asset Management Ltd

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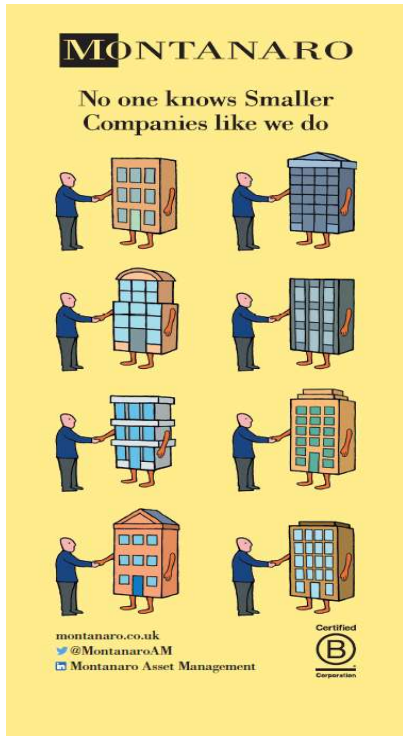
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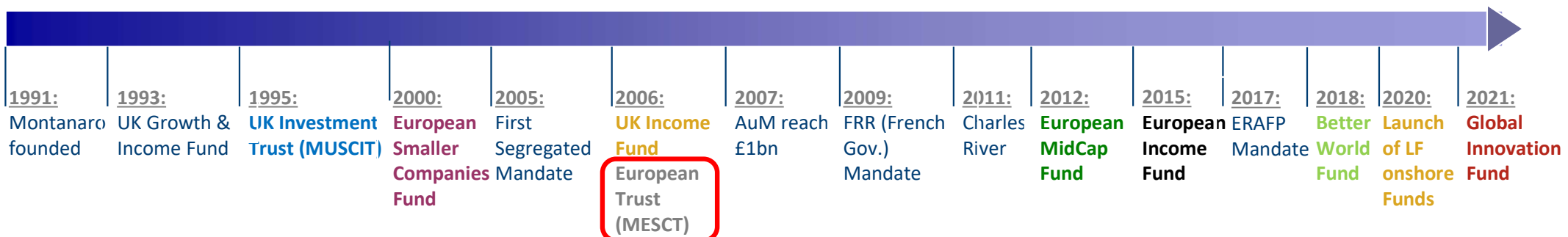
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# Montanaro



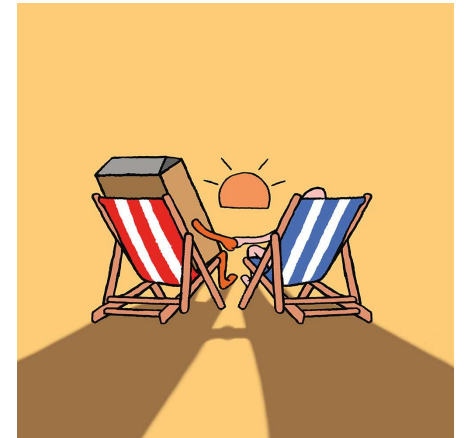
- Established by Charles Montanaro in **1991**
- Specialists in **quoted, Global Small & MidCap**
- AUM of **£3.3 billion**
- MAM has been managing MESCT for **18 years**
- One of the **largest Small & MidCap Teams in Europe**
- Bought MESCT shares in July 2024 – **now own >5%**



Source: Internal.

# What is a classic “Montanaro” company?

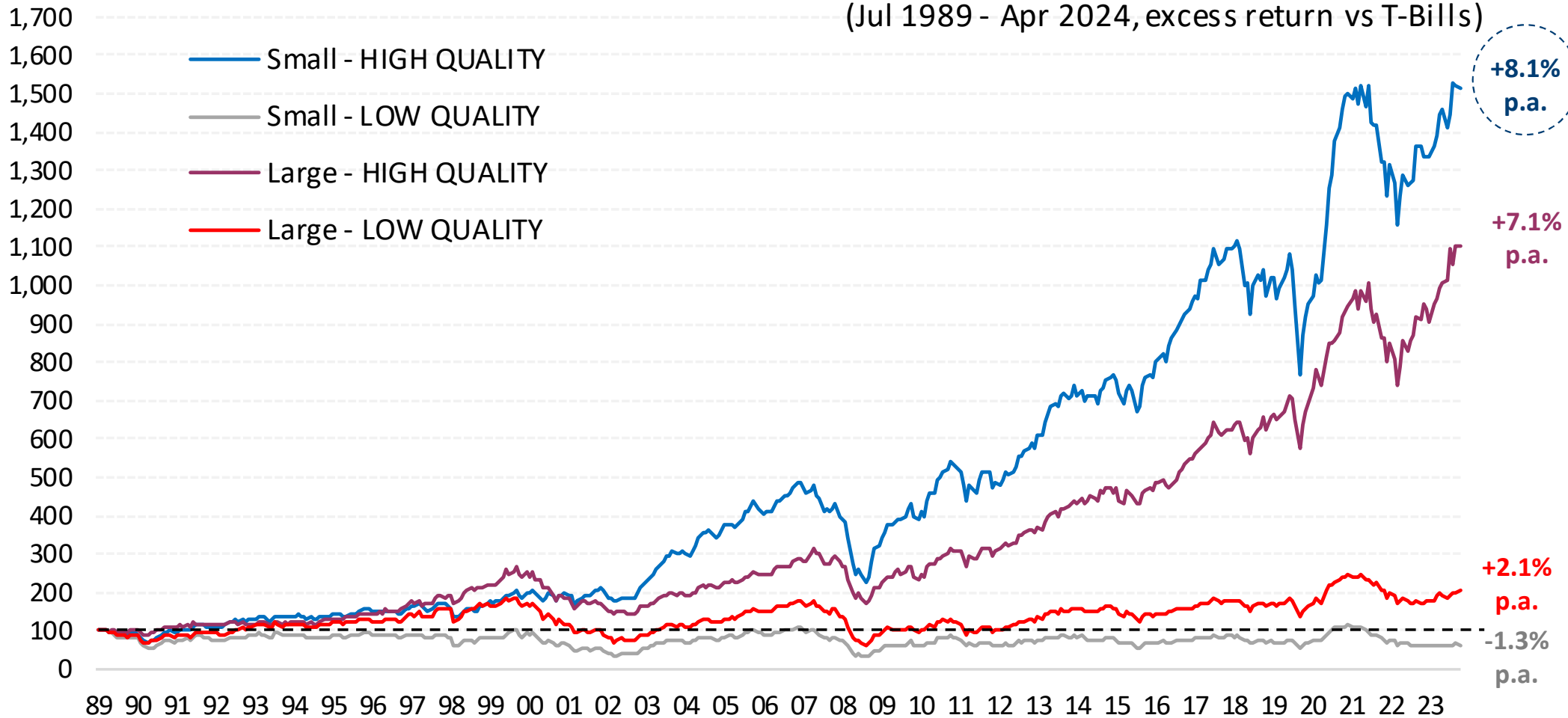
1. **Established:** long history of trading over different cycles
2. **Quality:** in control of own destiny - high IP, USPs, recurring revenues & pricing power
3. **Mkt leader:** growth market with high barriers to entry and investment in R&D
4. **Focused:** a simple business we can understand
5. **Predictable:** “*must have*” products / services to broad list of clients
6. **High returns:** double digit & rising EBIT margins & good cashflow
7. **Low risk:** must be profitable with a strong balance sheet
8. **Attractive:** sensible valuation (GARP)
9. **Overlooked:** under researched – a “hidden gem”
10. **Outstanding:** exceptional management with a strong ESG culture



We are “Quality Growth” Investors

# Within SmallCap, “Quality Growth” has performed the best historically

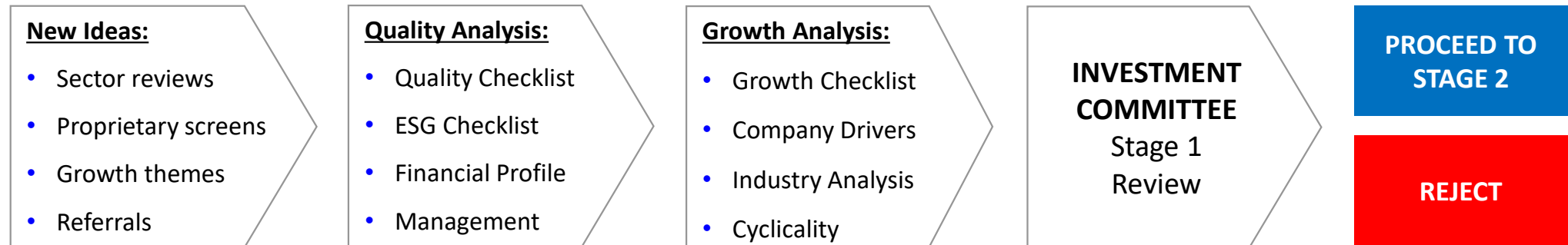
Global Excess Returns by Size & Quality  
(Jul 1989 - Apr 2024, excess return vs T-Bills)



Source: AQR, Internal. “Quality” is defined by AQR based on **Profitability**, (RoE, RoA, Gross Margin, CF/Assets, Gross Profit/Assets, % cash earnings), **Growth** (over 5 years), **Safety** (low beta, low leverage, low volatility, low RoE volatility, low bankruptcy risk) and **Payout** (equity & debt issuance, dividend payout).  
“Size”: the cut-off is defined as the 80<sup>th</sup> percentile by country.

# Our Investment Process

## Stage 1: Is it a good business?



## Stage 2: Is it a good investment?

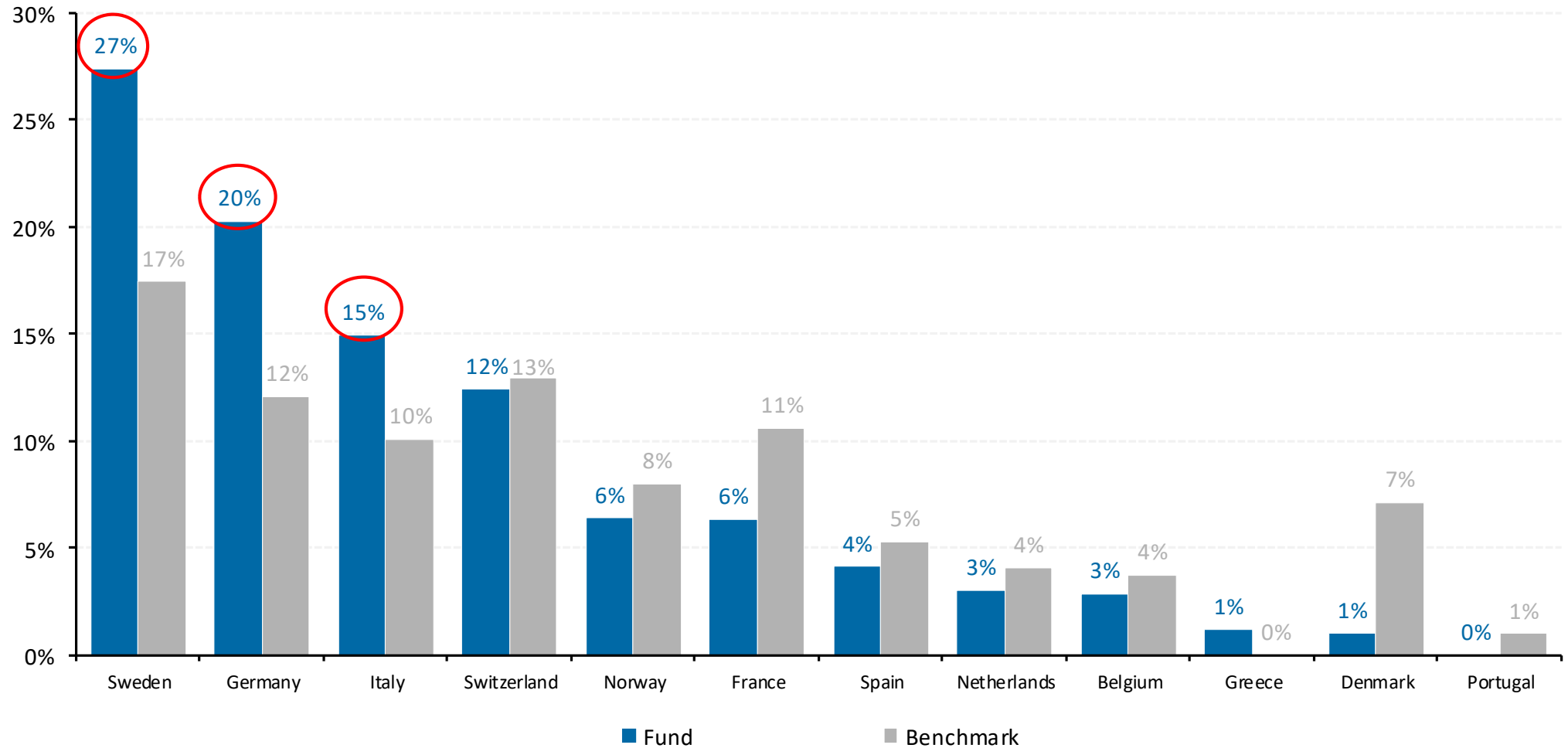


## Our Top 20 holdings

Company	Country	%
<b>NCAB</b>	Sweden	5.5%
<b>MTU Aero Engines</b>	Germany	4.6%
<b>CTS Eventim</b>	Germany	4.0%
<b>Fortnox</b>	Sweden	3.9%
<b>Atoss Software</b>	Germany	3.7%
<b>VZ</b>	Switzerland	3.3%
<b>Esker</b>	France	3.1%
<b>Kitron</b>	Norway	3.0%
<b>Reply</b>	Italy	3.0%
<b>IMCD</b>	Netherlands	3.0%
<b>Top 10</b>		<b>37.1%</b>

Company	Country	%
<b>Melexis</b>	Belgium	2.9%
<b>Brunello Cucinelli</b>	Italy	2.7%
<b>AAK</b>	Sweden	2.6%
<b>Bachem</b>	Switzerland	2.6%
<b>Brembo</b>	Italy	2.4%
<b>Belimo</b>	Switzerland	2.4%
<b>Tecan</b>	Switzerland	2.4%
<b>Rational</b>	Germany	2.4%
<b>Amadeus Fire</b>	Germany	2.3%
<b>Technoprobe</b>	Italy	2.2%
<b>Top 11 - 20</b>		<b>24.8%</b>

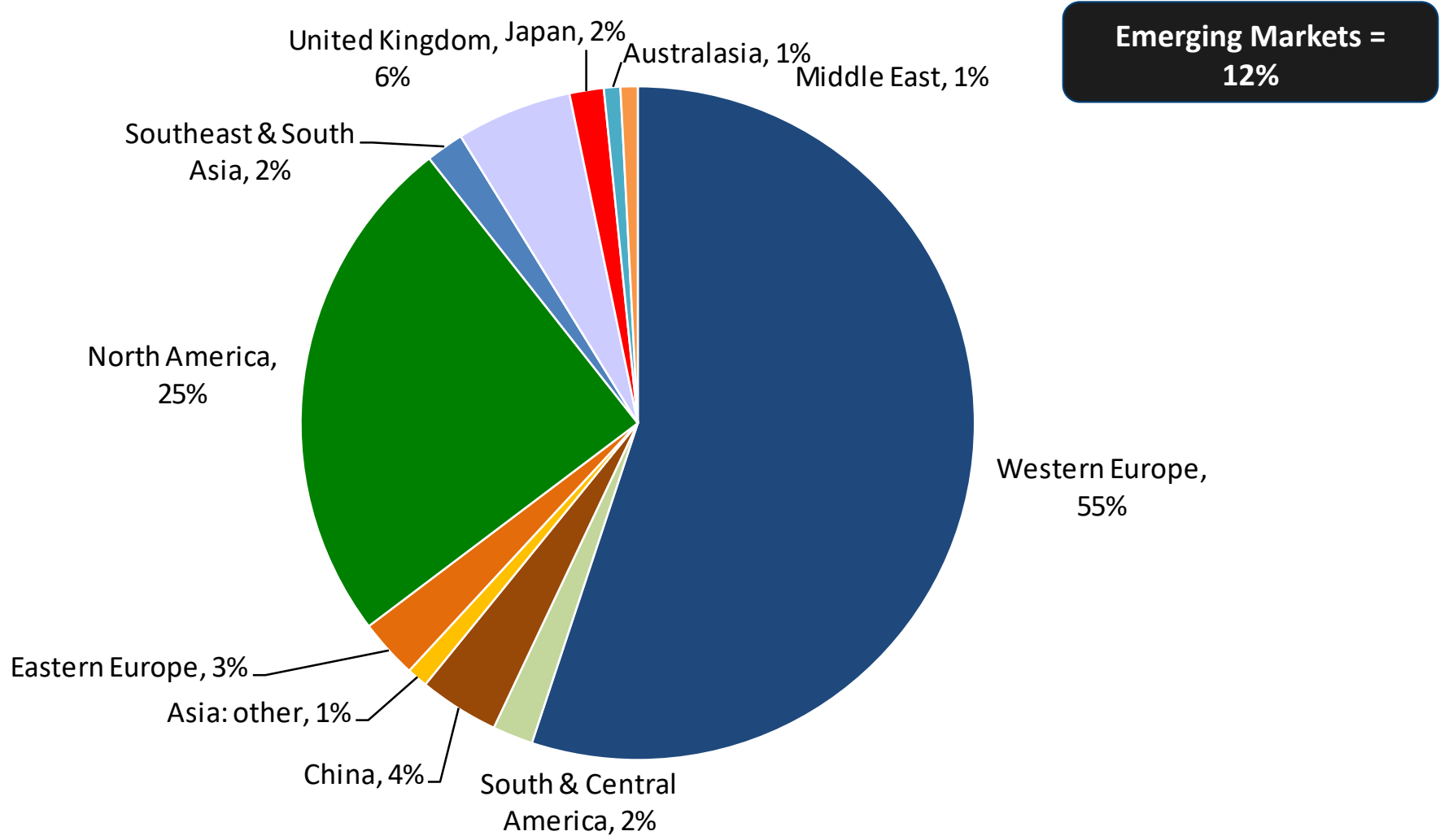
# Countries: The result of bottom-up stock-picking



Source: Internal, MSCI, Bloomberg.  
Benchmark = MSCI Europe ex-UK Small Cap Index.

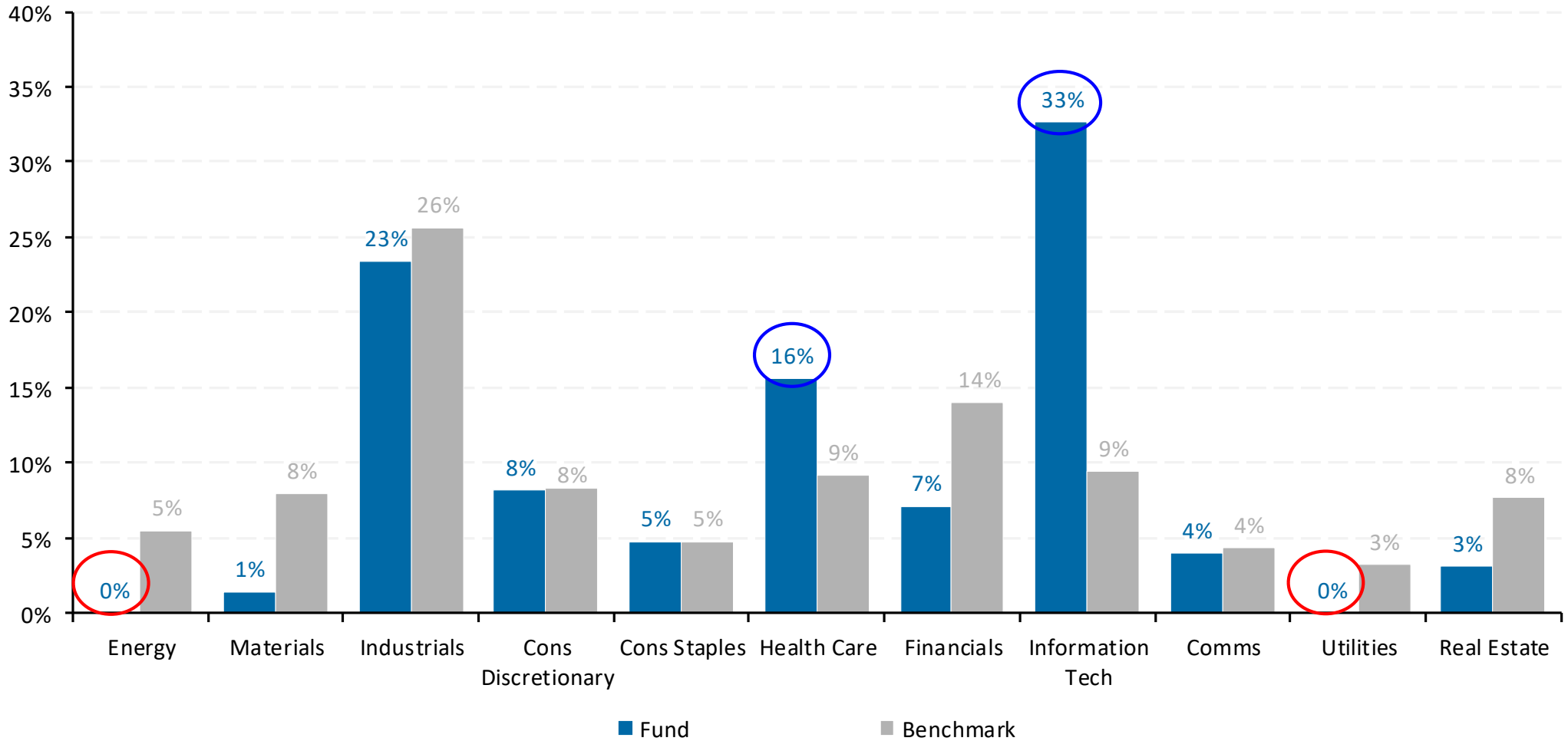


# Our companies sell all around the world



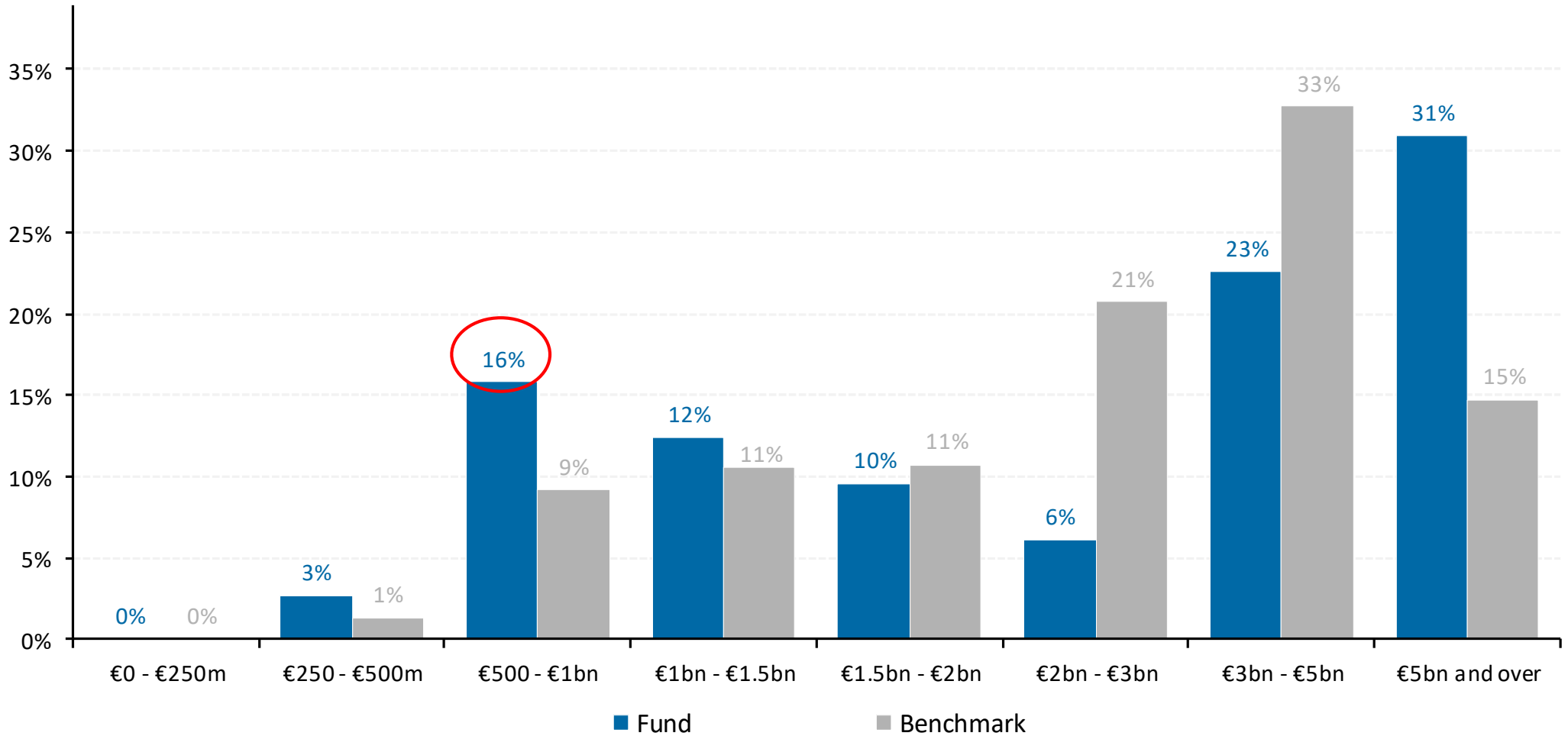
Source: Internal, Bloomberg.  
Note: Total percentage may not add up to 100% due to rounding.

# Sectors



Source: Internal, MSCI, Bloomberg.  
Sectors are based on GICS; vs MSCI Europe ex-UK Small Cap Index.  
Benchmark = MSCI Europe ex-UK Small Cap Index.

# Size: a balanced portfolio



Source: Internal, MSCI, Bloomberg.  
Benchmark = MSCI Europe ex-UK Small Cap Index.

## A consistently High Quality Portfolio

	2016	2017	2018	2019	2020	2021	2022	2023	2024e	Average
Revenue Growth	8%	12%	10%	12%	7%	26%	22%	7%	9%	13%
10Y EPS Growth	12%	13%	11%	13%	14%	16%	16%	17%	n/a	14%
EBIT Margin	20%	21%	21%	20%	19%	19%	18%	19%	19%	20%
RoE	22%	22%	22%	23%	21%	24%	22%	21%	21%	22%
Net Gearing	16%	18%	15%	7%	11%	-3%	7%	4%	-4%	9%
Net Debt / EBITDA	0.6	0.7	0.5	0.3	0.3	0.1	0.3	0.3	0.1	0.4
Interest Cover	15.2	17.8	19.8	27.4	20.4	24.2	25.1	30.7	15.5	22.6

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Average
Portfolio Turnover *	25%	35%	22%	25%	15%	18%	20%	14%	20%	10%	20%

Source: Internal, Factset, Bloomberg.

\* Portfolio Turnover = (Purchases + Sales) / 2 \* Average NAV.

# ESG Dashboard: a Portfolio with low Carbon Intensity

CLIMATE			
	Source	MESCT	Bench.
<b>Carbon Intensity</b> (Scope 1 & 2 / Sales)	MSCI	29.3	121.3
<b>% Scope 3 Emissions available</b>	MSCI	47%	64%
<b>MSCI Low Carbon Transition Score</b> (1 to 10)	MSCI	5.9	5.9

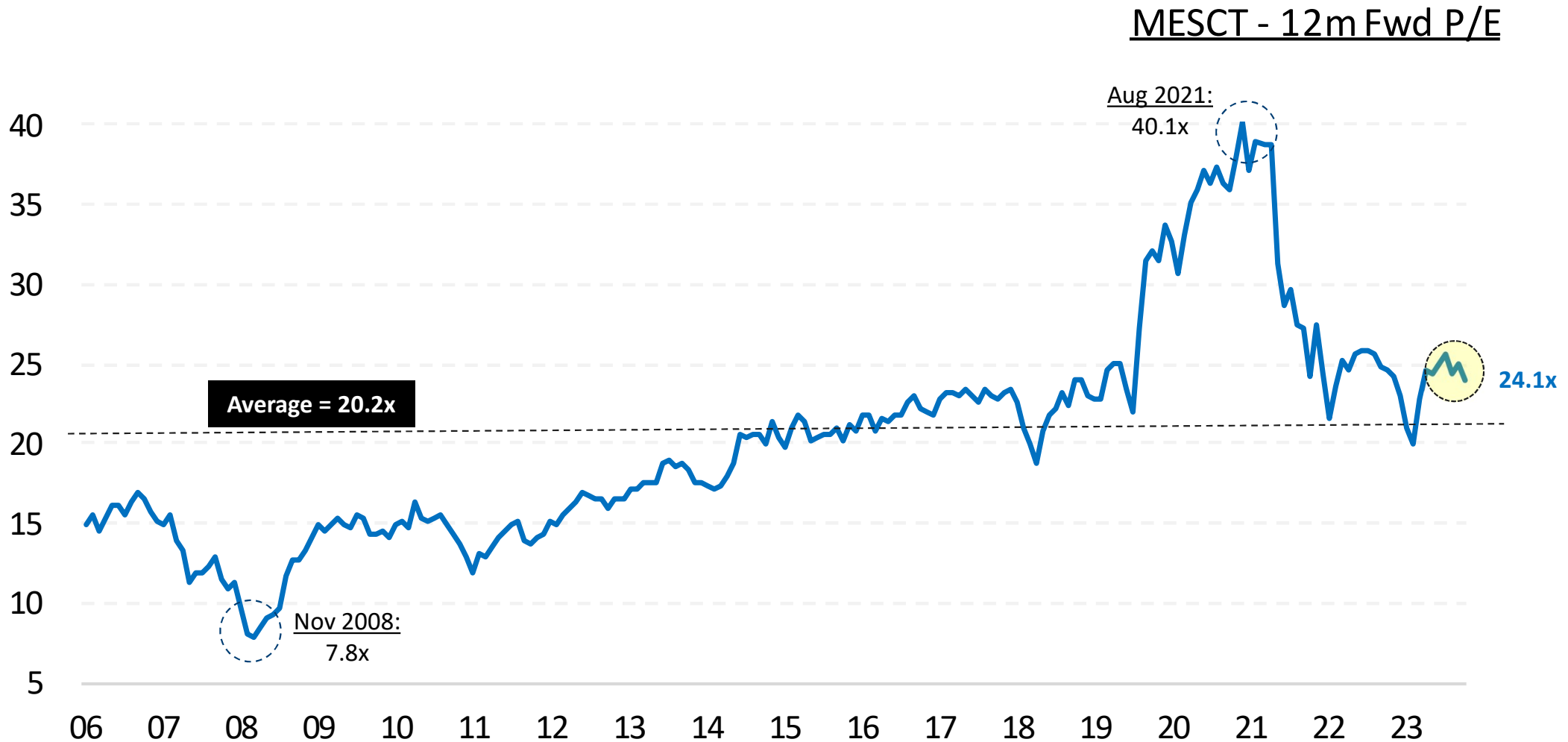
SOCIAL			
	Source	MESCT	Bench.
<b>MSCI Social Score</b> (1 to 10)	MSCI	4.9	5.2
<b>% Employee Turnover</b>	Bloomberg	14%	14%
<b>% Women in Workforce</b>	Bloomberg	38%	35%

ENVIRONMENT			
	Source	MESCT	Numis SC Index
<b>MSCI Environmental Score</b> (1 to 10)	MSCI	5.2	6.1
<b>Polution &amp; Waste Score</b> (1 to 10)	MSCI	5.1	4.6
<b>Biodiversity &amp; Land Use Exposure Score</b>	MSCI	1.8	2.0

GOVERNANCE			
	Source	MESCT	Numis SC Index
<b>MSCI Governance Score</b> (1 to 10)	MSCI	6.4	6.6
<b>% Non-Executive Directors</b>	Bloomberg	88%	92%
<b>% Women on Boards</b>	Bloomberg	35%	37%

Source: Internal, MSCI, Bloomberg.  
Note: Carbon intensity is measured in Metric Tons of CO2 emitted / USD Million of Sales.

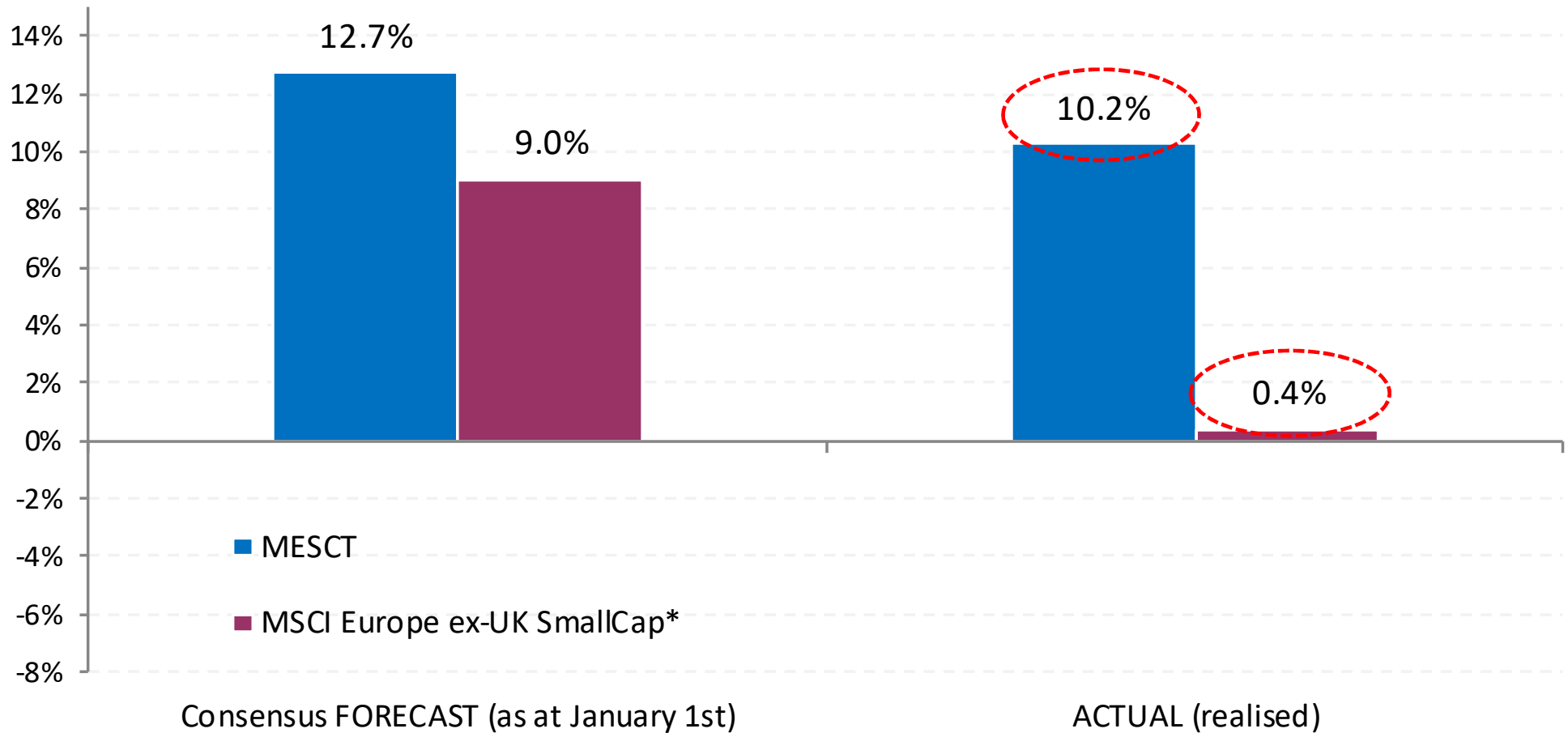
# The Trust's P/E has normalised since reaching a peak in mid-2021



Source: Internal, Factset.

# It is worth paying a premium for companies that deliver on earnings

Consensus vs Realised EPS Growth (2009-23 Average)



Source: Internal, Factset.

\* Note that the benchmark history for the European Trust prior to June 1st 2009 was the MSCI European Smaller Companies Index.

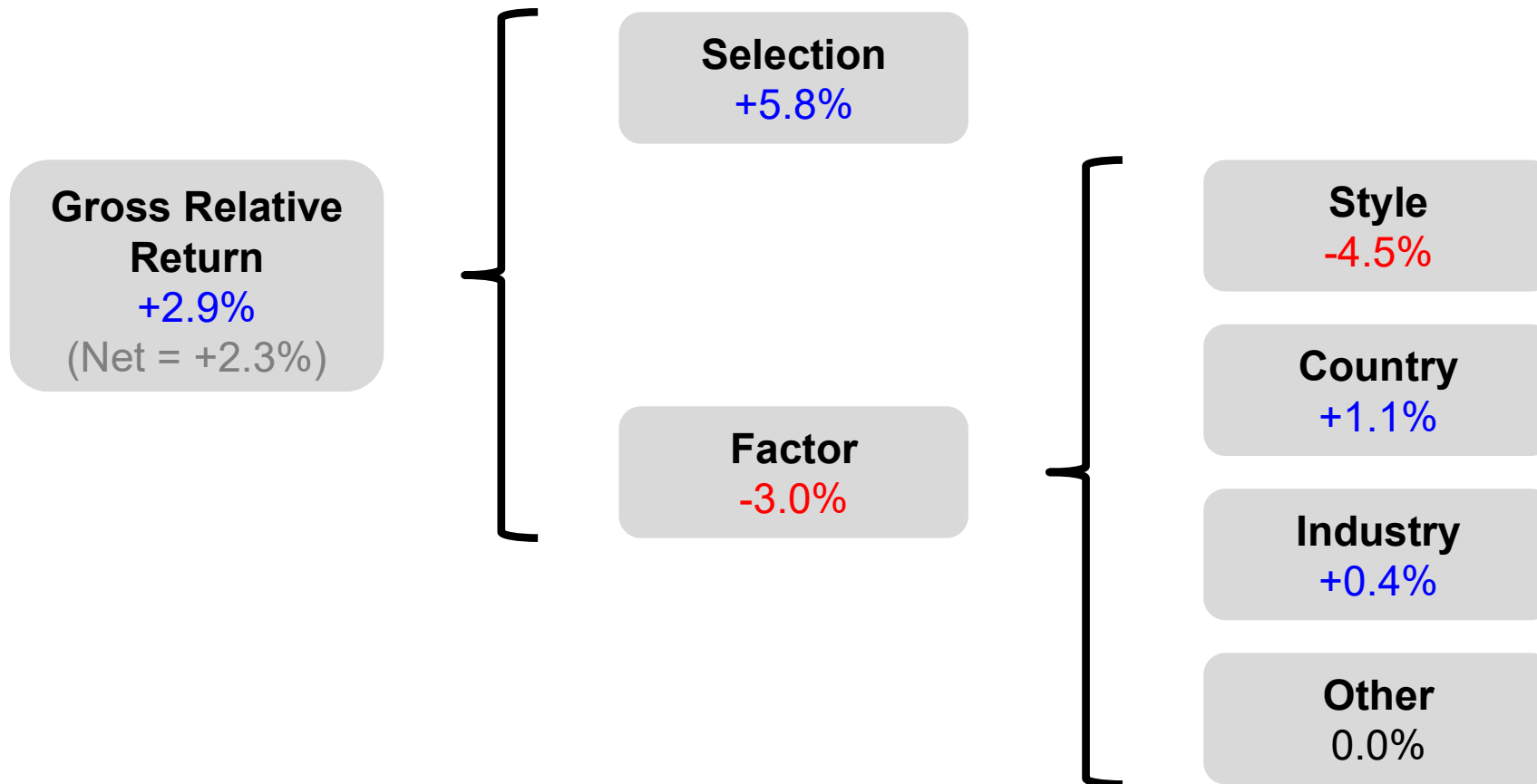
## Returns

<i>(Total Returns, GBP)</i>	MESCT (NAV)	MESCT (Share Price)	Benchmark (Composite)	Relative	
				NAV	Share Price
<b>YTD (to 31 Aug 2024)</b>	6.4%	6.9%	4.1%	<b>2.3%</b>	<b>2.8%</b>
<b>1 Year</b>	13.5%	12.7%	12.2%	<b>1.4%</b>	<b>0.6%</b>
<b>3 Years p.a.</b>	-6.5%	-11.4%	-1.7%	<b>-4.8%</b>	<b>-9.7%</b>
<b>5 Years p.a.</b>	9.3%	7.5%	6.9%	<b>2.3%</b>	<b>0.6%</b>
<b>10 Years p.a.</b>	13.0%	12.9%	9.3%	<b>3.7%</b>	<b>3.6%</b>
<b>15 Years p.a.</b>	12.3%	12.5%	9.9%	<b>2.4%</b>	<b>2.6%</b>
<b>Launch p.a. (Sep 2006)</b>	<b>10.3%</b>	<b>10.0%</b>	<b>8.1%</b>	<b>2.2%</b>	<b>1.9%</b>

Source: Internal, MSCI. Based on the Cum-Income NAV. Note: **Effective June 1st 2009 the index used for comparison purposes is the MSCI European Smaller Companies Index ex-UK.** The benchmark history for the European Trust prior to June 1st 2009 was the MSCI European Smaller Companies Index.



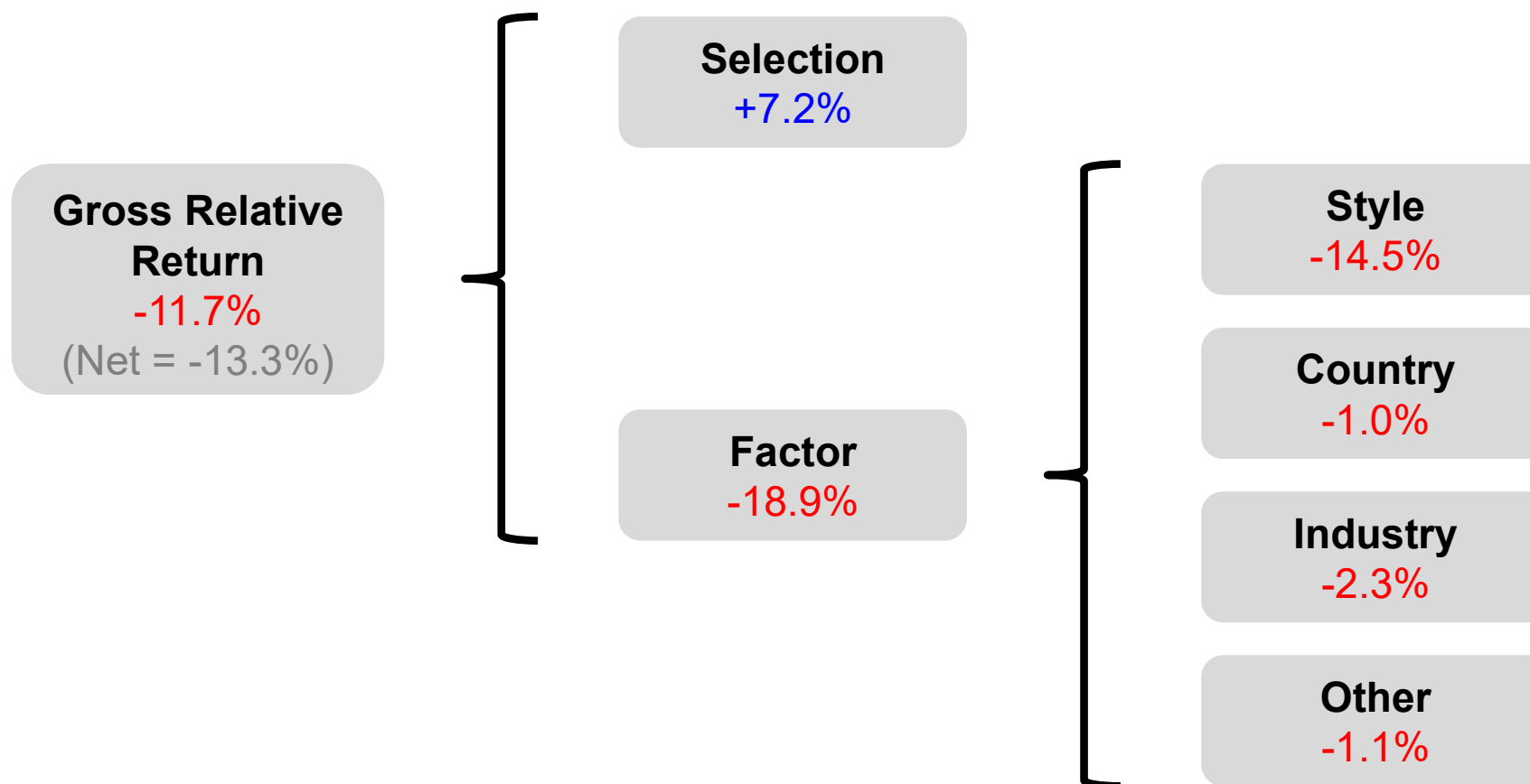
# Relative performance attribution – YTD to 31 August 2024



Source: Internal, BBG PORT using adjusted MAC3 / Europe equity factor attribution. GBP.

Please note: The Net Relative Return figures are based on the official NAV of the Trust compared to the Benchmark. The Gross Relative Return figures are derived from external models, so are not official and act as a guide only.

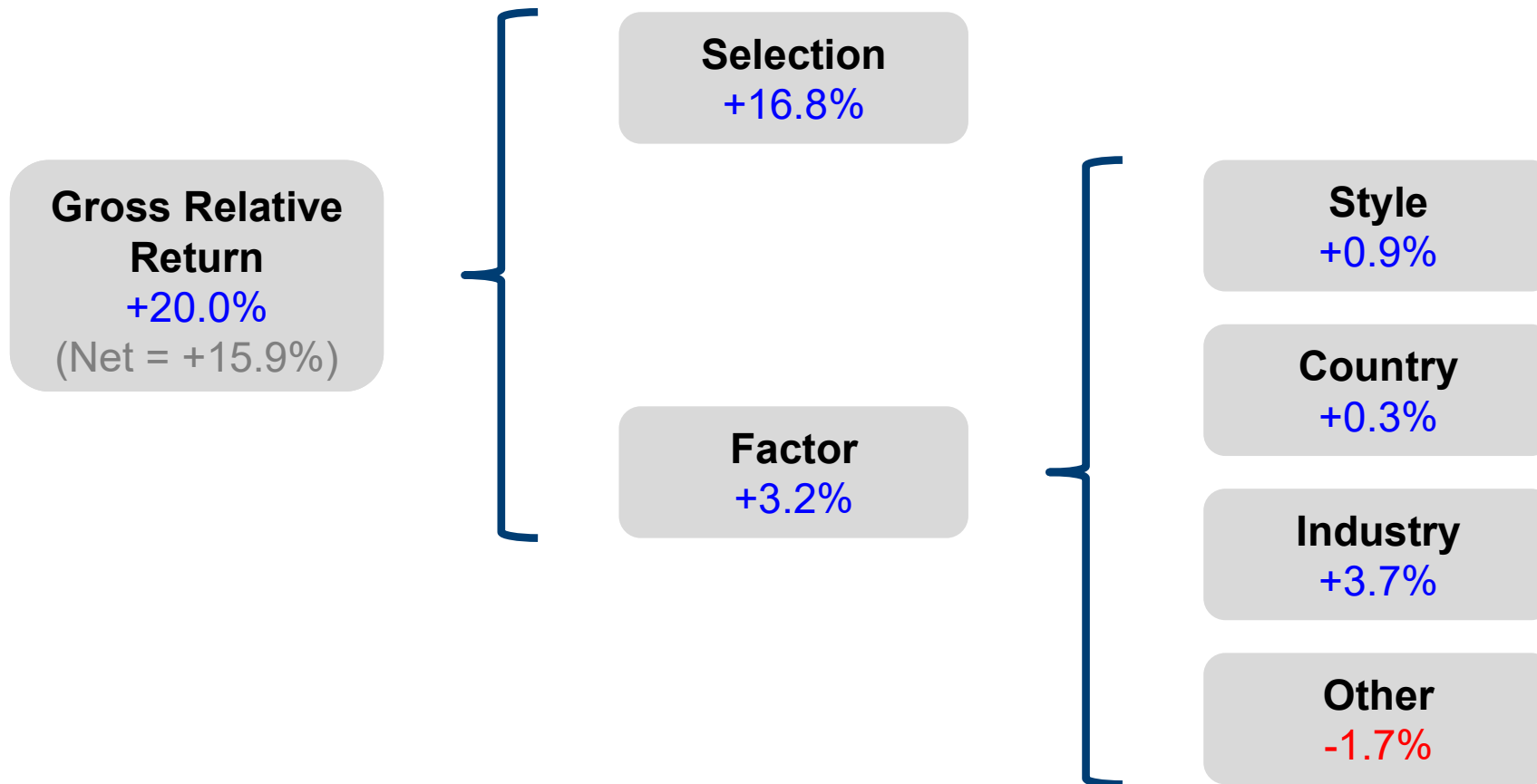
# Relative performance attribution – 3 Years to 31 August 2024



Source: Internal, BBG PORT using adjusted MAC3 / Europe equity factor attribution. GBP.

Please note: The Net Relative Return figures are based on the official NAV of the Trust compared to the Benchmark. The Gross Relative Return figures are derived from external models, so are not official and act as a guide only.

# Relative performance attribution – 5 Years to 31 August 2024

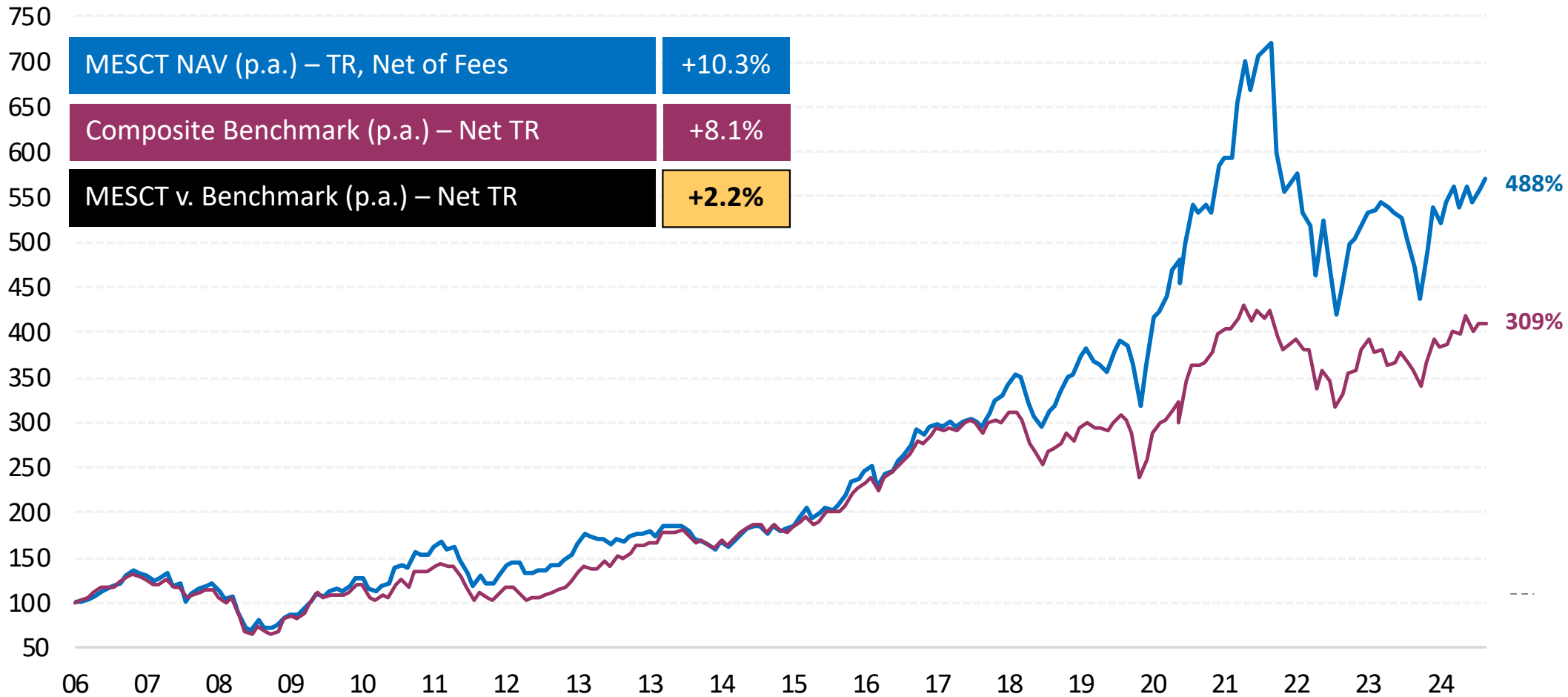


Source: Internal, BBG PORT using adjusted MAC3 / Europe equity factor attribution. GBP.

Please note: The Net Relative Return figures are based on the official NAV of the Trust compared to the Benchmark. The Gross Relative Return figures are derived from external models, so are not official and act as a guide only.

# Solid performance since MAM was appointed: +10.3% p.a. (after fees)

Net Total Returns (to 31 August 2024, in GBP)

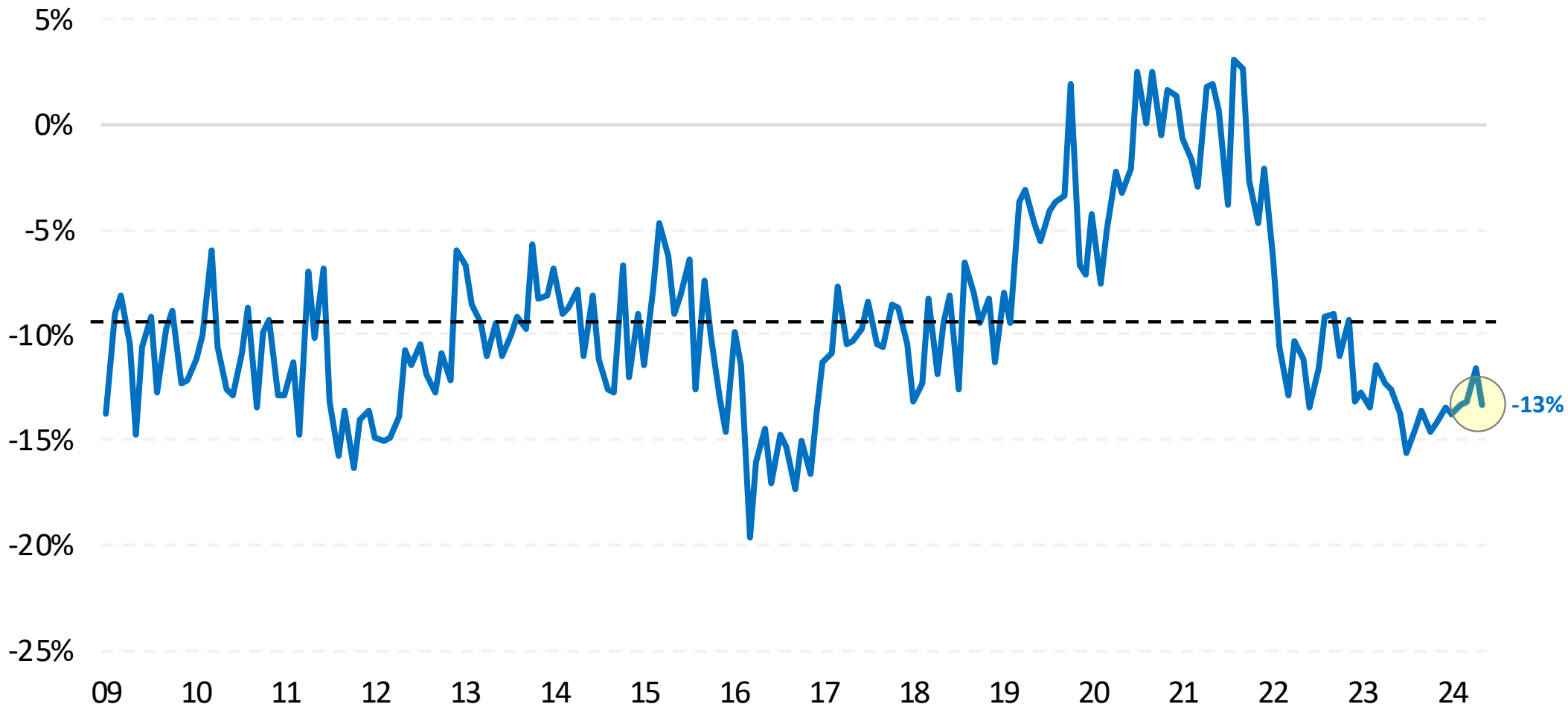


Source: Internal, MSCI. Note: MAM was appointed Manager to MESCT in September 2006.

Note: Effective June 1st 2009 the index used for comparison purposes is the MSCI European Smaller Companies Index ex-UK. The benchmark history for the European Trust prior to June 1st 2009 was the MSCI European Smaller Companies Index.

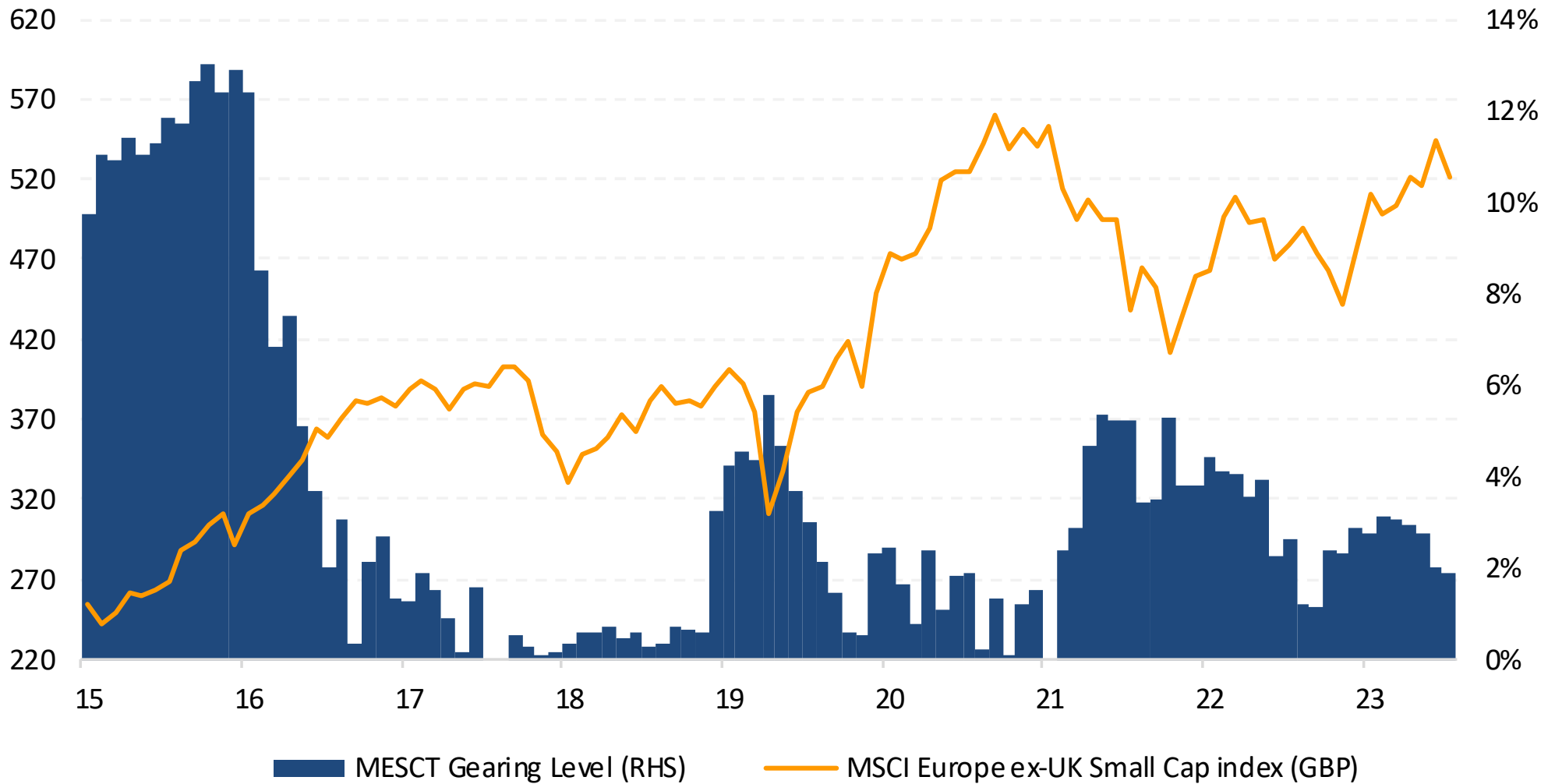
# MESCT is trading on a historically high discount of 13% (at 31 August)

**MESCT - Discount History (Share Price v. NAV)**



Source: Internal, Bloomberg.

# We have plenty of gearing to deploy when the time is right

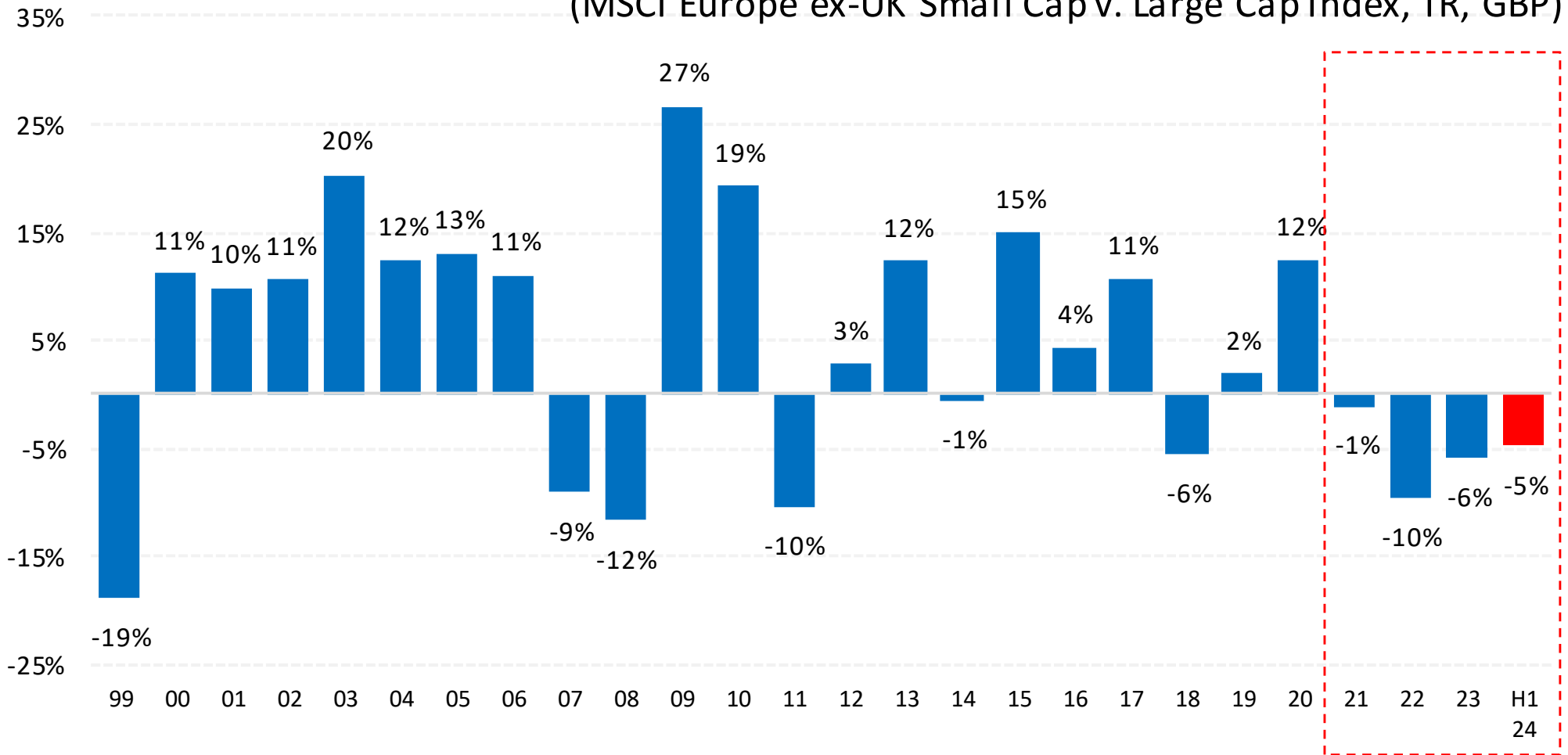


Source: Internal, Bloomberg.

# SmallCap has been lagging LargeCap for almost 4 years now

## Europe ex-UK Small v. LargeCap - Returns

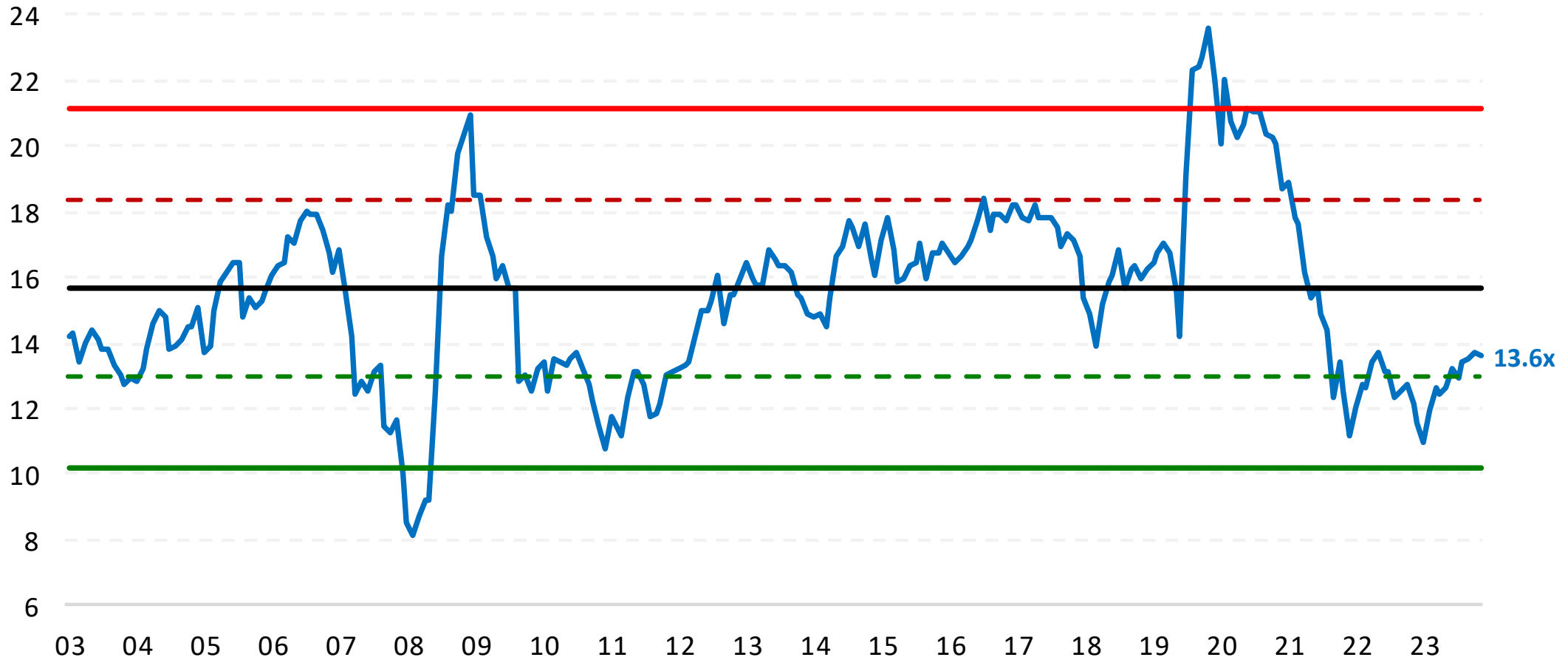
(MSCI Europe ex-UK Small Cap v. Large Cap Index, TR, GBP)



Source: Internal, MSCI, Bloomberg.

# Europe ex-UK SmallCap is trading on a P/E below historical average

**MSCI Europe ex-UK Small Cap - 12m Fwd P/E**



Source: Internal, MSCI, Factset. As at 31 August 2024.

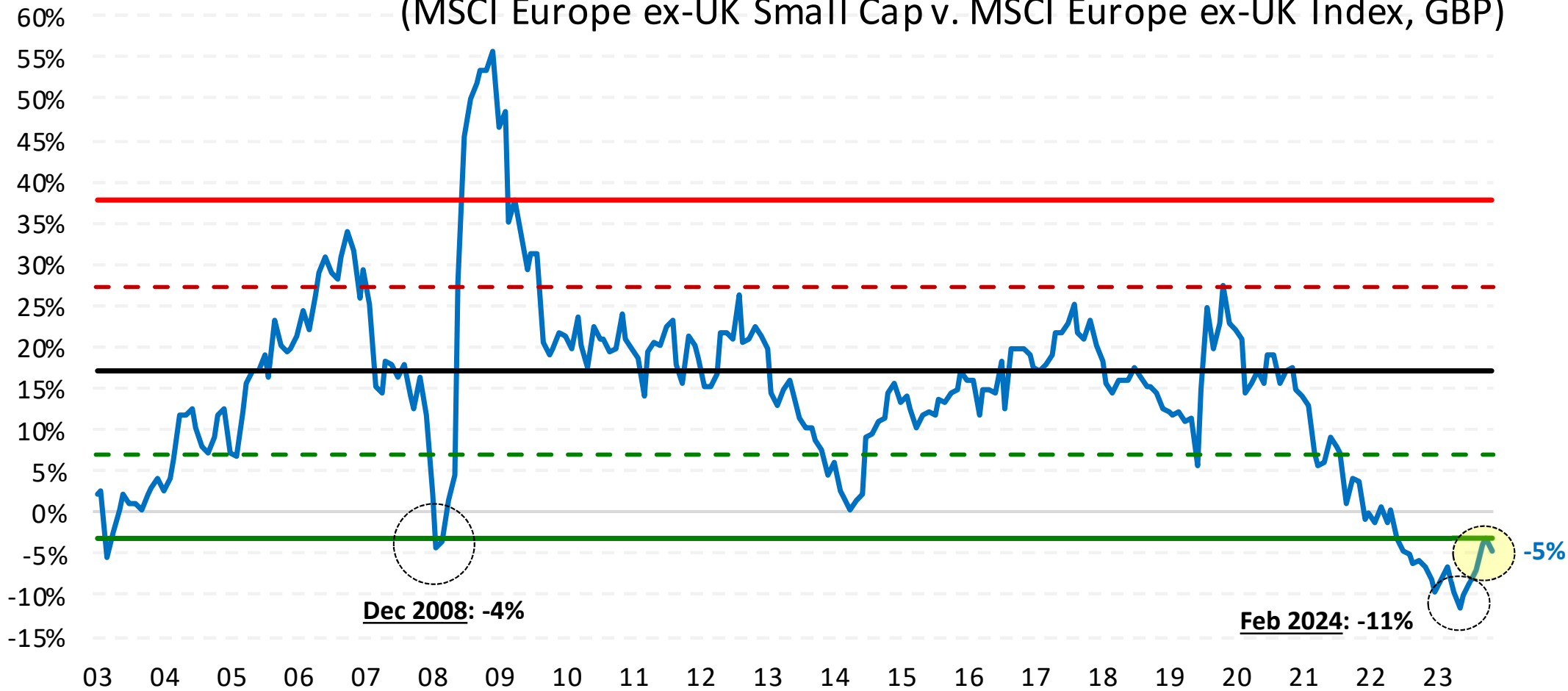
Note: Dotted black line = Average. Thick red line = Average + 2 Standard Deviations (dotted red line = Ave +1 SD). Thick green line = Average - 2 Standard Deviations (dotted green line = Ave - 1SD).



# ... and on a near record P/E discount to LargeCap

## Europe ex-UK Small v. Market - 12m Fwd P/E

(MSCI Europe ex-UK Small Cap v. MSCI Europe ex-UK Index, GBP)



Source: Internal, MSCI, Factset. As at 31 August 2024.

Note: Dotted black line = Average. Thick red line = Average + 2 Standard Deviations (dotted red line = Ave +1 SD). Thick green line = Average - 2 Standard Deviations (dotted green line = Ave - 1SD).

**Thank you!**

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