

# MONTANARO

ASSET MANAGEMENT

*This is a marketing  
communication*

Certified



This company meets the  
highest standards of social  
and environmental impact

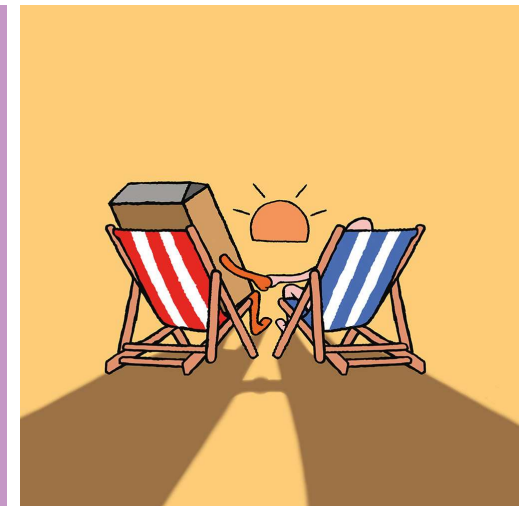
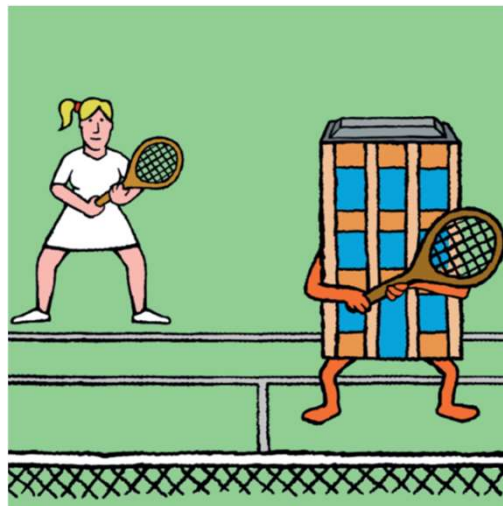
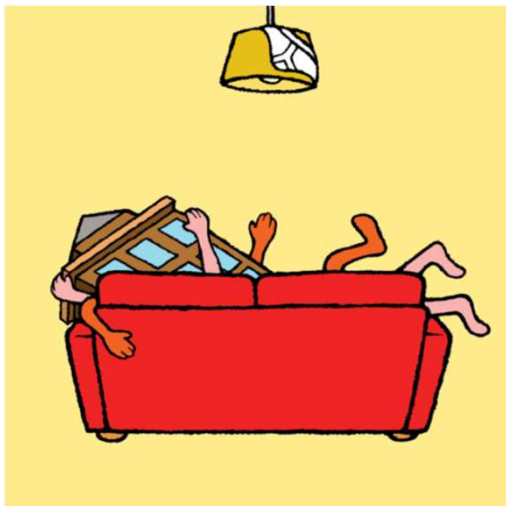
Corporation

## UK Smaller Companies Investment Trust PLC (“MUSCIT”)

### AGM Presentation

25 July 2024

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



Montanaro Asset Management Ltd

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# What is a classic “Montanaro” company?

1. **Established:** long history of trading over different cycles
2. **Quality:** in control of own destiny – high recurring revenues & pricing power
3. **Mkt leader:** growth market with high barriers to entry
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**

# Key Messages – Q2 2024

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## 1. Q2 2024: NAV +5.0% / Share Price: +6.6% (TR):

- NSCI +5.2% (TR); NSCI (inc. AIM) +5.0% (TR) \*

## 2. H1 2024: NAV +6.7% / Share Price: +4.8% (TR)

- NSCI +5.4% (TR); NSCI (inc. AIM) +4.2% (TR) \*

## 3. UK SmallCap may have bottomed out:

- 12% Px/Book discount v. LargeCap 📩 largest discount since 2009 (!)
- BUT: the best performing SmallCap market globally over the past 3 and 12 months \*\*

## 4. Market sentiment feeling more positive:

- companies saying de-stocking may be ending
- IPOs and M & A are back

## 5. MAM bought 1% of MUSCIT in April 2024:

- now holds 6% (5th largest institutional shareholder]

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Source: Internal.

\* See page 3. The NSCI + AIM is used for reference only.

\*\* See page 26.

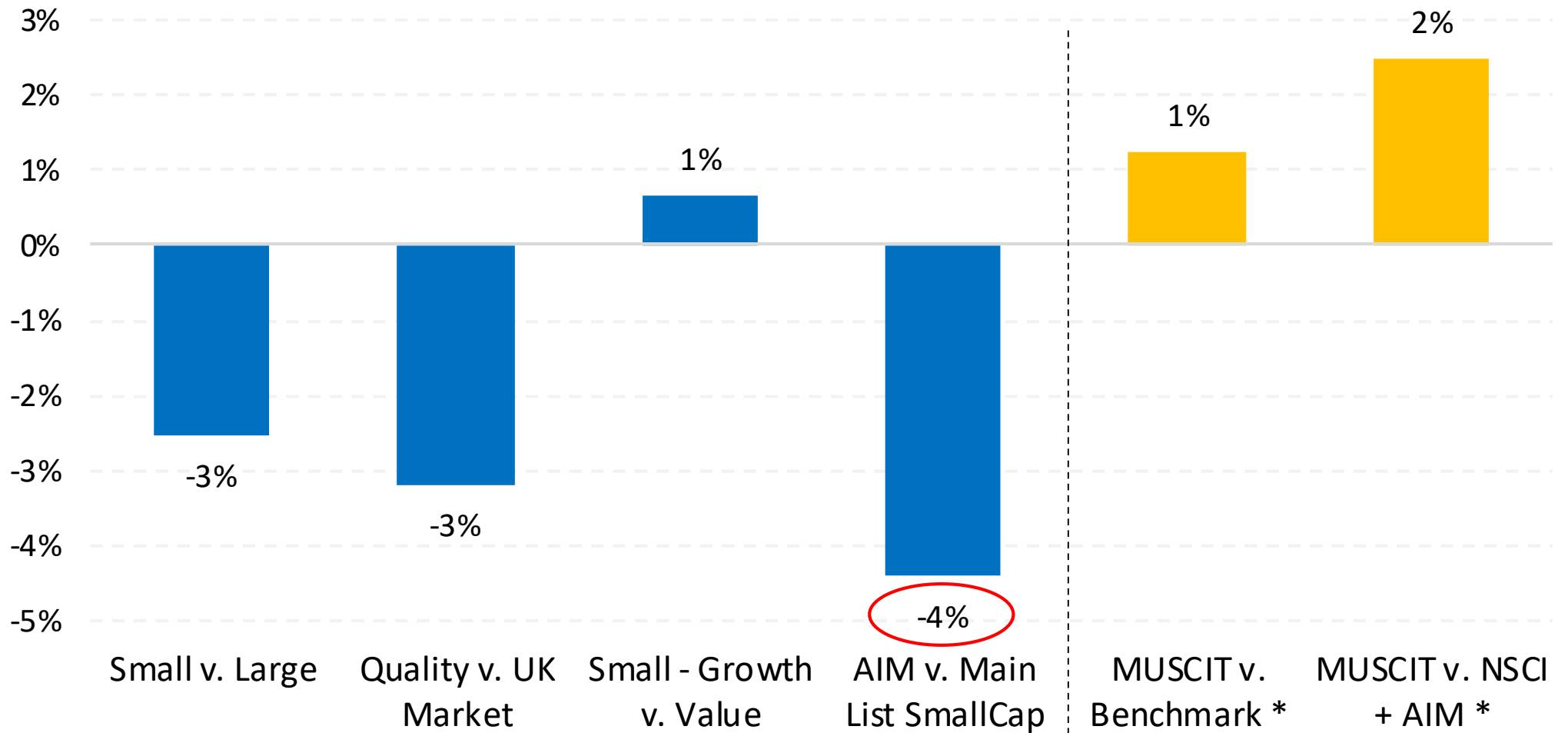
## MUSCIT Returns - more than 14% over the past year

<i>(Total Returns, GBP)</i>	MUSCIT (NAV)	MUSCIT (Share Price)	Benchmark (Composite, TR)	NSCI + AIM	Relative to Benchmark	
					NAV	Share Price
<b>3 months</b>	5.0%	6.6%	5.2%	5.0%	<b>-0.2%</b>	<b>1.5%</b>
<b>6 months</b>	6.7%	4.8%	5.4%	4.2%	<b>1.2%</b>	<b>-0.6%</b>
<b>1 Year</b>	<b>14.1%</b>	11.0%	14.5%	10.0%	<b>-0.4%</b>	<b>-3.5%</b>
<b>5 Years p.a.</b>	2.7%	3.3%	4.7%	3.3%	<b>-2.0%</b>	<b>-1.4%</b>
<b>10 Years p.a.</b>	4.4%	5.1%	5.5%	4.5%	<b>-1.1%</b>	<b>-0.4%</b>
<b>20 Years p.a.</b>	8.9%	9.8%	6.3%	6.8%	<b>2.6%</b>	<b>3.5%</b>
<b>25 Years p.a.</b>	7.4%	8.2%	5.6%	6.3%	<b>1.9%</b>	<b>2.6%</b>
<b>Launch p.a. (March 1995)</b>	<b>8.3%</b>	<b>8.2%</b>	<b>6.8%</b>	<b>7.6%</b>	<b>1.5%</b>	<b>1.4%</b>

Source: Internal, Numis. All returns in Sterling. Note: Dividends reinvested with effect from 1 April 2018 both for the Trust and the Benchmark. Prior to this date both were capital return. The benchmark for the UK Trust changed from the FTSE SmallCap Index (ex-IC) to the Numis Smaller Companies Index (ex-IC) effective 1 April 2013. The benchmark shown here is a composite of the two.

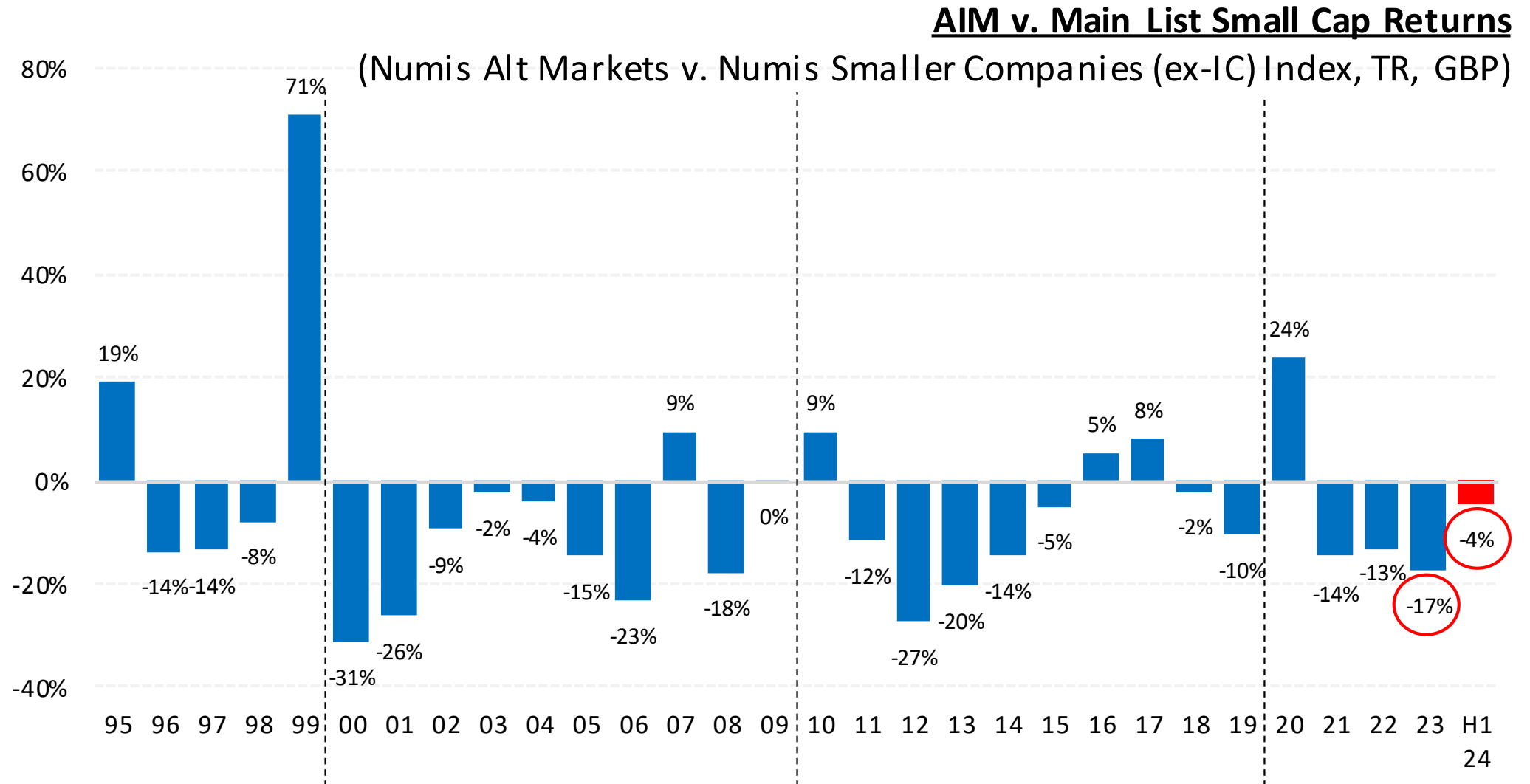
# The factors that most impact MUSCIT's relative performance

## Total Returns - 6 months to 30 June 2024 (GBP)



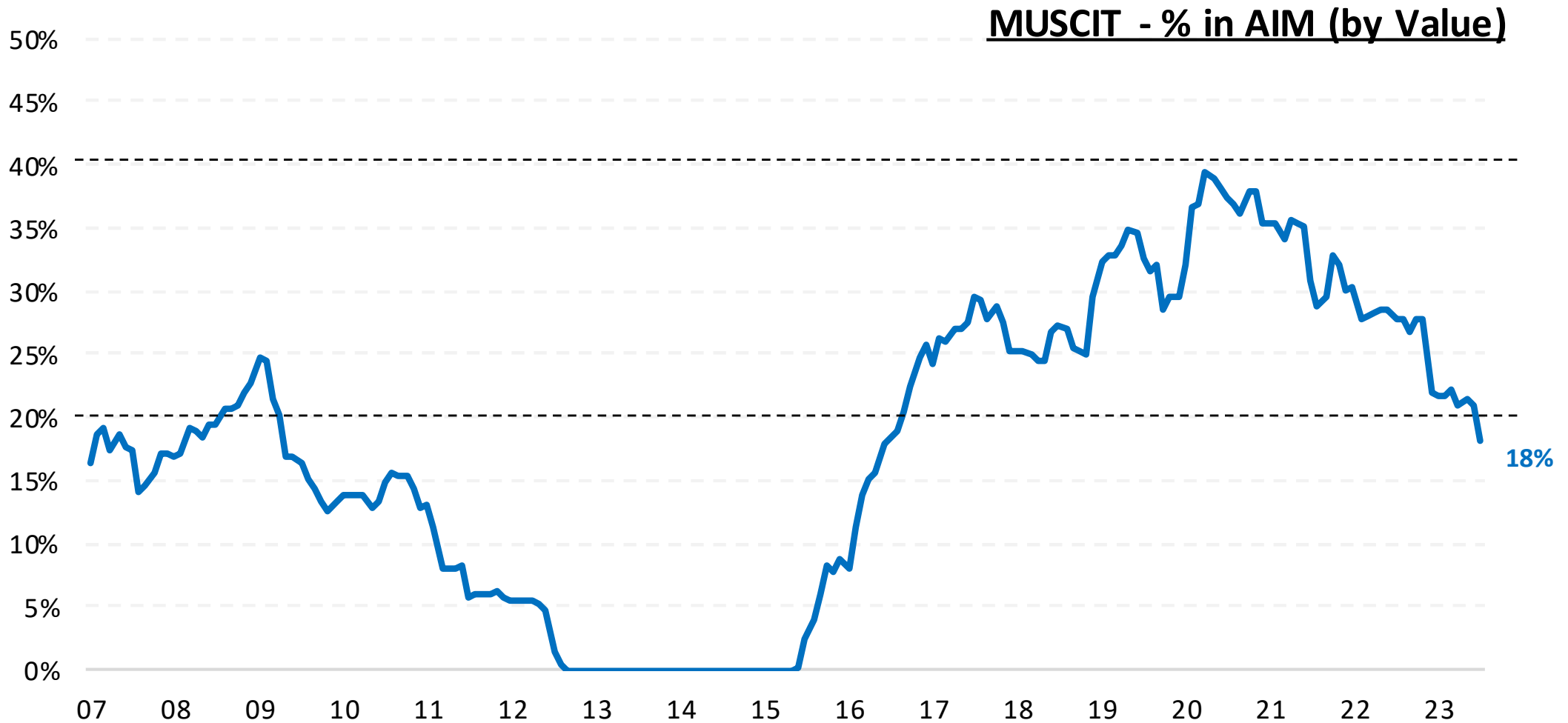
Source: Internal, Numis. \* The Benchmark is the NSCI (Numis Smaller Companies ex-Investment Companies Index). The NSCI + AIM is used for comparison purposes only.  
Notes: Quality v. UK Market = MSCI UK Quality v. MSCI UK Index; Small v. Large = Numis Smaller Companies (ex-IC) v. Numis Large Cap index; Small - Growth v. Value = Numis Small Cap Growth v. Value indices.

# A.I.M. in 2023: the worst relative year in a decade



Source: Internal, Numis.

# We have been reducing the weighting in A.I.M .



## Our A.I.M. investments have delivered a wide range of returns

	% Weight	Market Cap (£m)	12m Price Return (to 30 Jun 24)	
			Absolute	v. NSCI
GLOBALDATA	3.0%	1,851	31%	16%
TRACSYS	2.5%	223	-19%	-34%
BOKU	2.4%	546	33%	18%
TRISTEL	2.1%	220	33%	18%
M P EVANS	2.0%	455	30%	15%
CERILLION	1.9%	470	24%	10%
BIG TECHNOLOGIES	1.1%	448	-44%	-59%
POLAR CAPITAL	1.0%	566	20%	6%
YOUGOV	0.8%	483	-59%	-74%
JUDGES SCIENTIFIC	0.8%	671	12%	-2%
FRONTIER DEVELOPMENTS	0.4%	99	-59%	-74%
<b>WEIGHTED AVERAGE</b>			<b>11.3%</b>	<b>-3.2%</b>



# Top 20 holdings

Company	Country	%
BIG YELLOW	UK	5.7%
GAMES WORKSHOP	UK	5.1%
XPS PENSIONS	UK	5.0%
GREGGS	UK	5.0%
4IMPRINT	UK	4.9%
MARSHALLS	UK	4.9%
CRANSWICK	UK	4.3%
DISCOVERIE	UK	4.0%
CLARKSON	UK	4.0%
PORVAIR	UK	4.0%
<b>Top 10</b>		<b>47.1%</b>

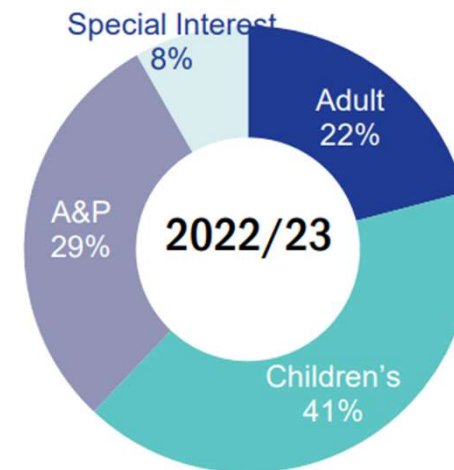
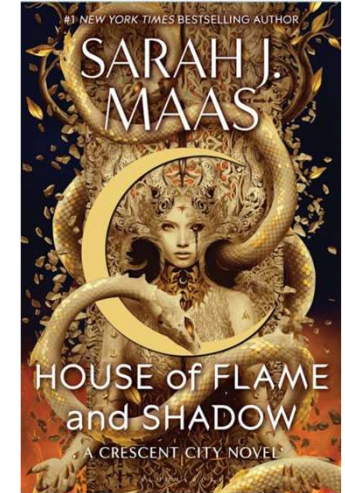
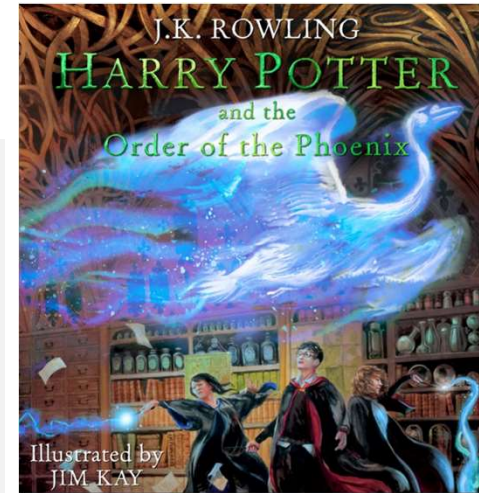
Company	Country	%
RASPBERRY PI	UK	3.9%
KAINOS	UK	3.8%
BYTES TECHNOLOGY	UK	3.7%
HILTON FOOD	UK	3.7%
XP POWER	UK	3.6%
LONDONMETRIC PROPERTY	UK	3.3%
GLOBALDATA	UK	3.2%
GENUIT	UK	3.1%
NCC	UK	2.6%
TRAC SIS	UK	2.6%
<b>Top 11 - 20</b>		<b>33.4%</b>

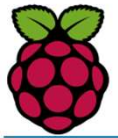


# Bloomsbury (Publishing)



- Longest-serving UK CEO (Nigel Newton, founder, since 1986)
- **Strong brand and long track record** as a publisher
- Multiple awards incl. **Nobel Prize**; Pulitzer Prize; NYT / Sunday Times best seller lists etc.
- **Well diversified** – consumer (adult / children) vs non-consumer (academic); print vs digital; global (73% non-UK)
- **High quality back-list**, providing repeating revenue stream
- Several growth avenues – Harry Potter, Sarah J. Maas, new authors, **Bloomsbury Digital Resources** (high margin)
- Fragmented market – **M&A bolt-on opportunities**
- **Net cash position**; excellent cash conversion; good ROCE
- 5 Year **EPS & DPS** Growth of 17% & 9% respectively p.a.
- IPO in 1994: **28 year revenue CAGR of 12.9%** vs 2.2% inflation

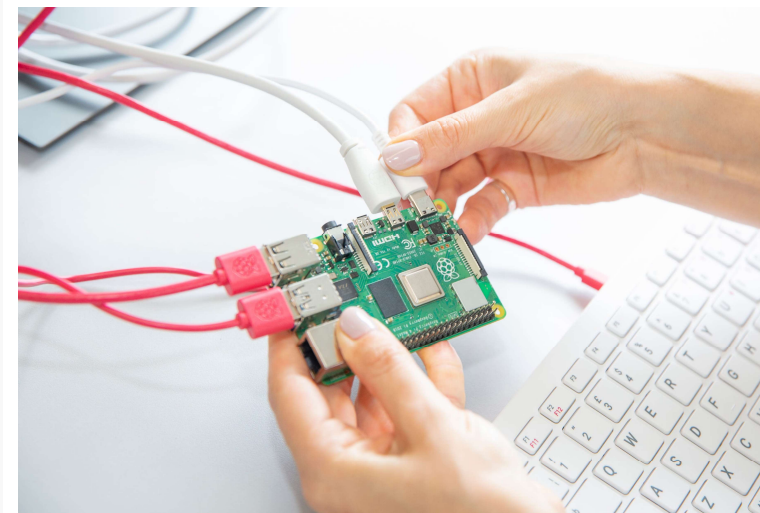
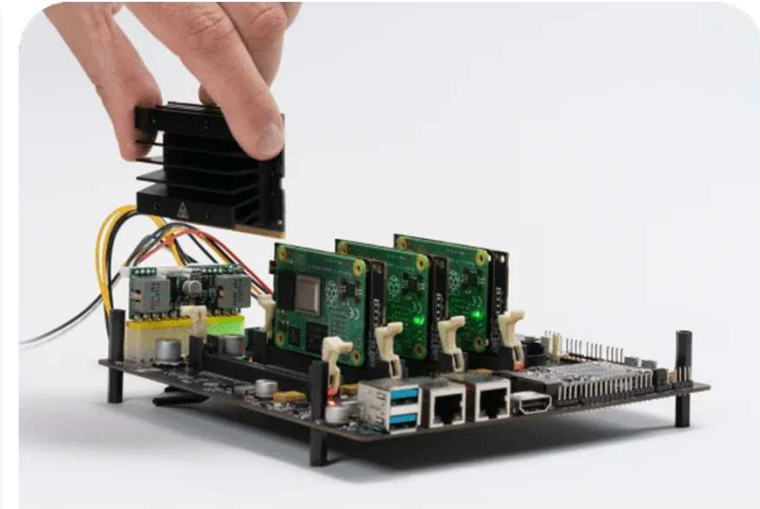








## Raspberry Pi “Computing for everybody”



- Raspberry Pi is a Cambridge-based developer of computer boards and computing units. Founded in 2012, RPI saw rapid growth, listing just 12 years later on the LSE on the 11 June 2024. We met the company and **MUSCIT** participated in the IPO.
- Sells to two markets: **Education & Enthusiasts** (28% of unit sales), and **Industrial & Embedded** (72% of unit sales). **<1% market share** in Industrial & Embedded market.
- Raspberry Pi owns IP in all areas of its computer: the chips/silicon, which it co-develops as well as the software, **Raspberry Pi OS**.
- **Brand** and **community** moats driven by millions of tech enthusiast followers and developers
- **Drivers:** Huge opportunity in IoT devices and custom board business; new generation of chips and PCBs riding cost/performance curve.
- **EBIT Margin** of 14%
- **2021-2023 Sales and EBIT growth** of +90% and +100%



# How are some of our companies performing?

<b>Tracsis</b>		<b>Cerillion</b>	
24 Apr 24	<ul style="list-style-type: none"> <li>1H Sales -7%; EPS -36%; Div +10%</li> <li>software pipeline more than doubled</li> <li>“rail activity on every front”</li> <li>2H weighted; no change to forecasts</li> <li>statement 13/6/24: General Election causing delays but ‘25 unchanged</li> </ul>	13 May 24	<ul style="list-style-type: none"> <li>1H Sales +10%; EPS +8%; Div +21%</li> <li>strong pipeline underpins growth</li> <li>“risk is on the upside”</li> <li>“double the business in 3-5 years”</li> <li>“an essential holding” (Singers)</li> </ul>
			
<b>Big Yellow</b>		<b>Kainos</b>	
20 May 24	<ul style="list-style-type: none"> <li>FY Sales +6%; EPS -1%; Div Flat</li> <li>rents +7.5%; occupancy 80.9% (-2.3%)</li> <li>14 stores in pipeline; Kings X going well</li> <li>raised £107m to develop the pipeline</li> <li>TSR since 2000 13.6% p.a. (FTA 5.4%)</li> </ul>	20 May 24	<ul style="list-style-type: none"> <li>FY Sales +2%; EPS +17%; Div +14%</li> <li>Workday “very strong”</li> <li>“substantial growth opportunities”</li> <li>3% eps upgrade for 2024</li> <li>shares finished up 17% on the day</li> </ul>
			

Source: Internal and latest company reports.

# How are some of our companies performing?

<b>Cranswick</b>		<b>Bloomsbury</b>	
21 May 24	<ul style="list-style-type: none"> <li>1H Sales +11%; EPS +16%; Div +13%</li> <li>Demand for pork and poultry resilient</li> <li><i>“outlook at upper end of consensus”</i></li> <li>33 years of unbroken dividend growth</li> <li>ROCE expanded to 18.5%; <i>“upside”</i></li> </ul>	23 May 24	<ul style="list-style-type: none"> <li>FY Sales +23%; EPS +61%; Div +25%</li> <li>Sarah J Maas sales +161%</li> <li>bought Rowman &amp; Littlefield for £65m</li> <li><i>“transformational acquisition”</i></li> <li>three upgrades over past year</li> </ul>
✓		✓	
<b>Bytes</b>		<b>DiscoverIE</b>	
23 May 24	<ul style="list-style-type: none"> <li>Sales +11%; EPS +16%; Div +18%</li> <li>public sector +33% (NHS and HMRC)</li> <li>among top 50 UK Best Workplaces 2024</li> <li><i>“expect double digit growth”</i></li> <li><i>“We’re confident about the future”</i> (CEO: Sam Mudd)</li> </ul>	5 June 24	<ul style="list-style-type: none"> <li>sales -3%; EPS +5% (3% ahead); Div +5%</li> <li>revenues doubled over past three years</li> <li>record margin of 13.1%; £85m to invest</li> <li>7% p.a. organic growth over past 7 yrs</li> <li><i>“good visibility and excellent cashflow”</i></li> </ul>
✓		-	

Source: Internal and latest company reports.

## High Quality companies with strong balance sheets

Portfolio Characteristics		
	MUSCIT	Numis SmallCap (ex-IC) Index
# Stocks	35	341
Weighted Market Cap (£bn)	1.3	1.0
EBIT Margin (24F)	24%	21%
RoE (24F)	21%	13%
% Companies with Net Cash (24F)	51%	20%

## Growth and Valuation

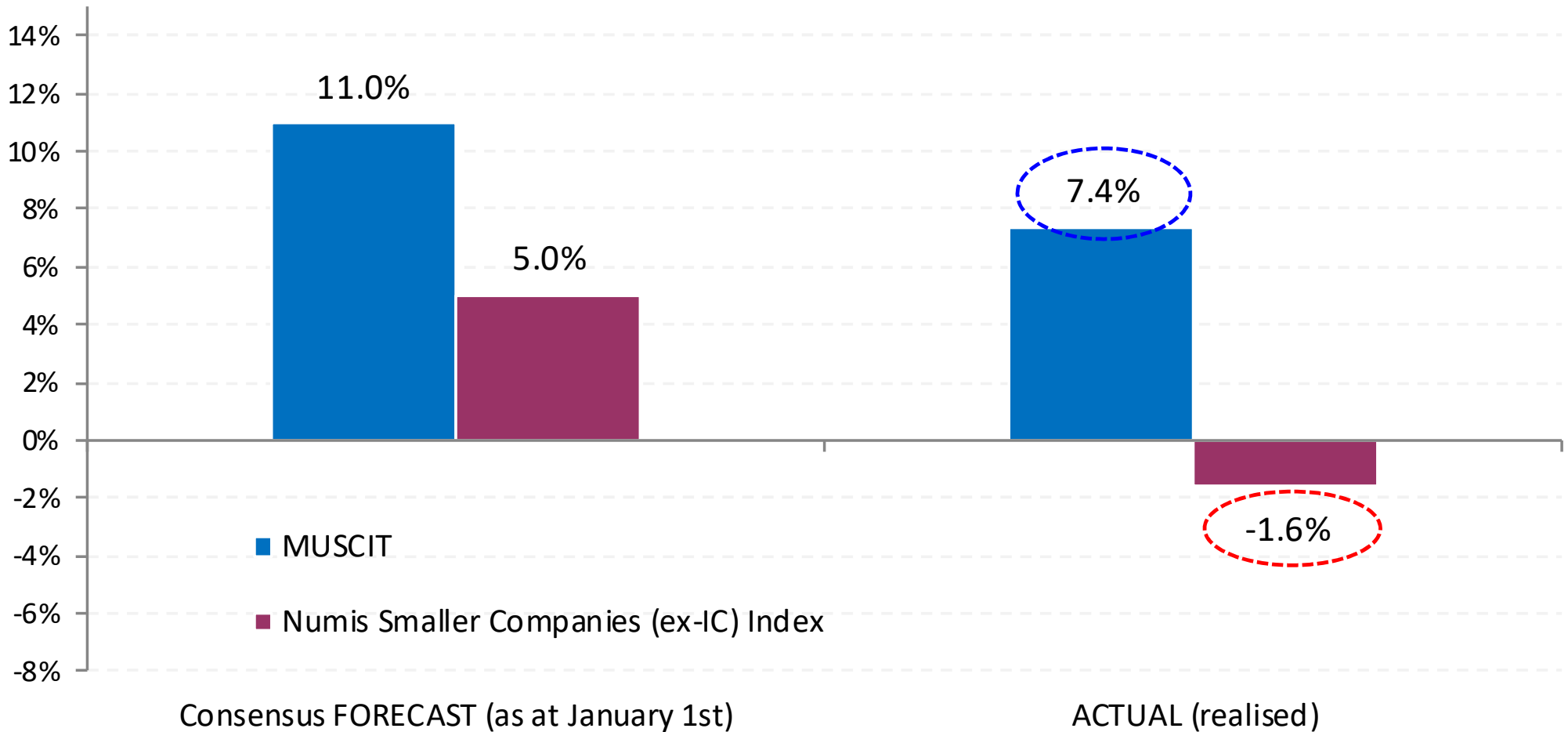
Growth (2025e)		
	MUSCIT	Numis SmallCap (ex-IC) Index
Sales Growth (2025e)	6.0%	4.4%
EPS Growth (2025e)	12.4%	15.0%

Valuation (2025e)		
	MUSCIT	Numis SmallCap (ex-IC) Index
P/E (2025e)	16.6	9.8
Dividend Yield (2025e)	2.9%	3.9%

Source: Internal, Factset, Bloomberg. Note: PE & EPS growth figures are calculated excluding loss-makers.

# Our companies typically tend to deliver – unlike the benchmark

Consensus vs Realised EPS Growth (2009-23 Average)

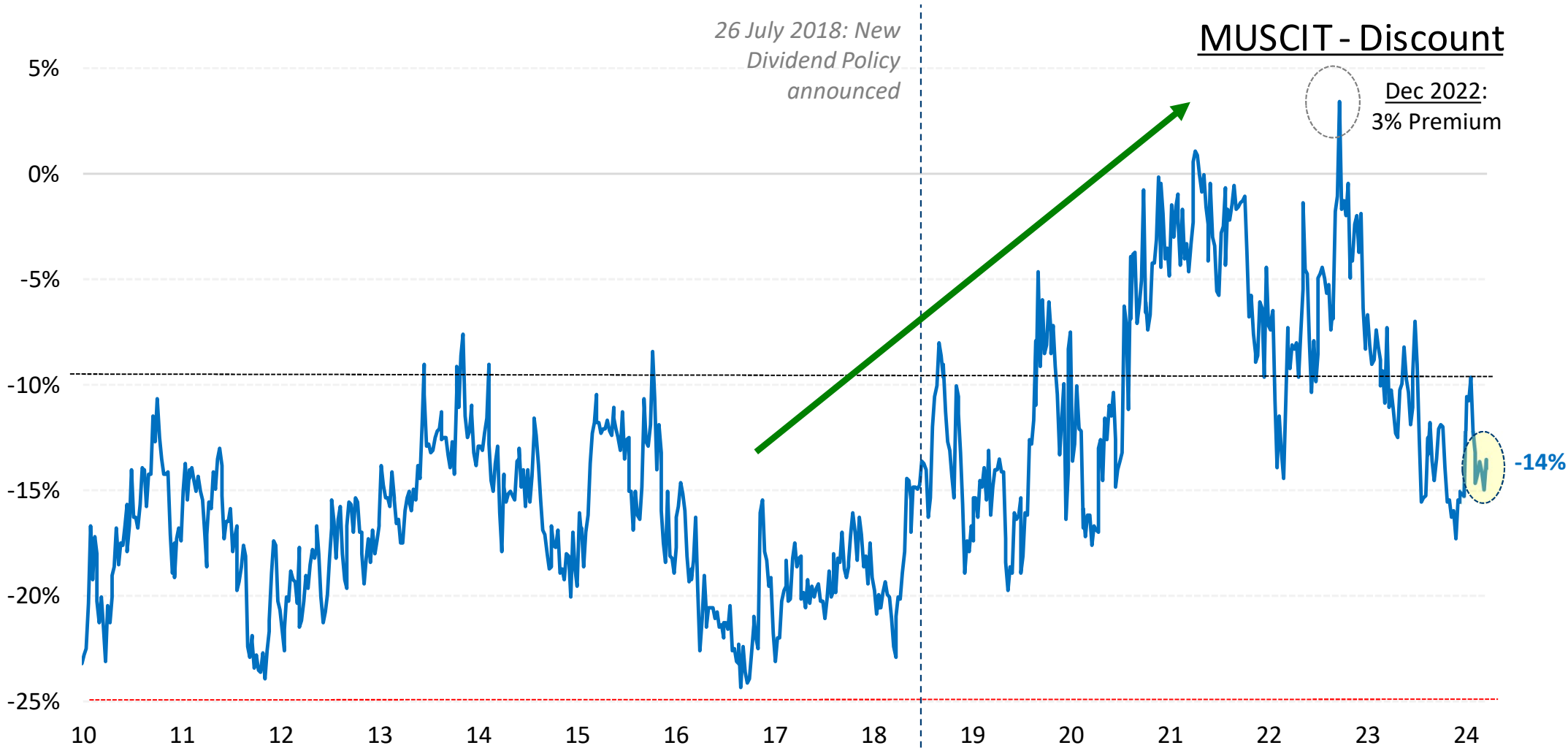


Source: Internal, Factset.

Note: The Numis Smaller Companies (ex-IC) index became the official benchmark on 1 April 2013.

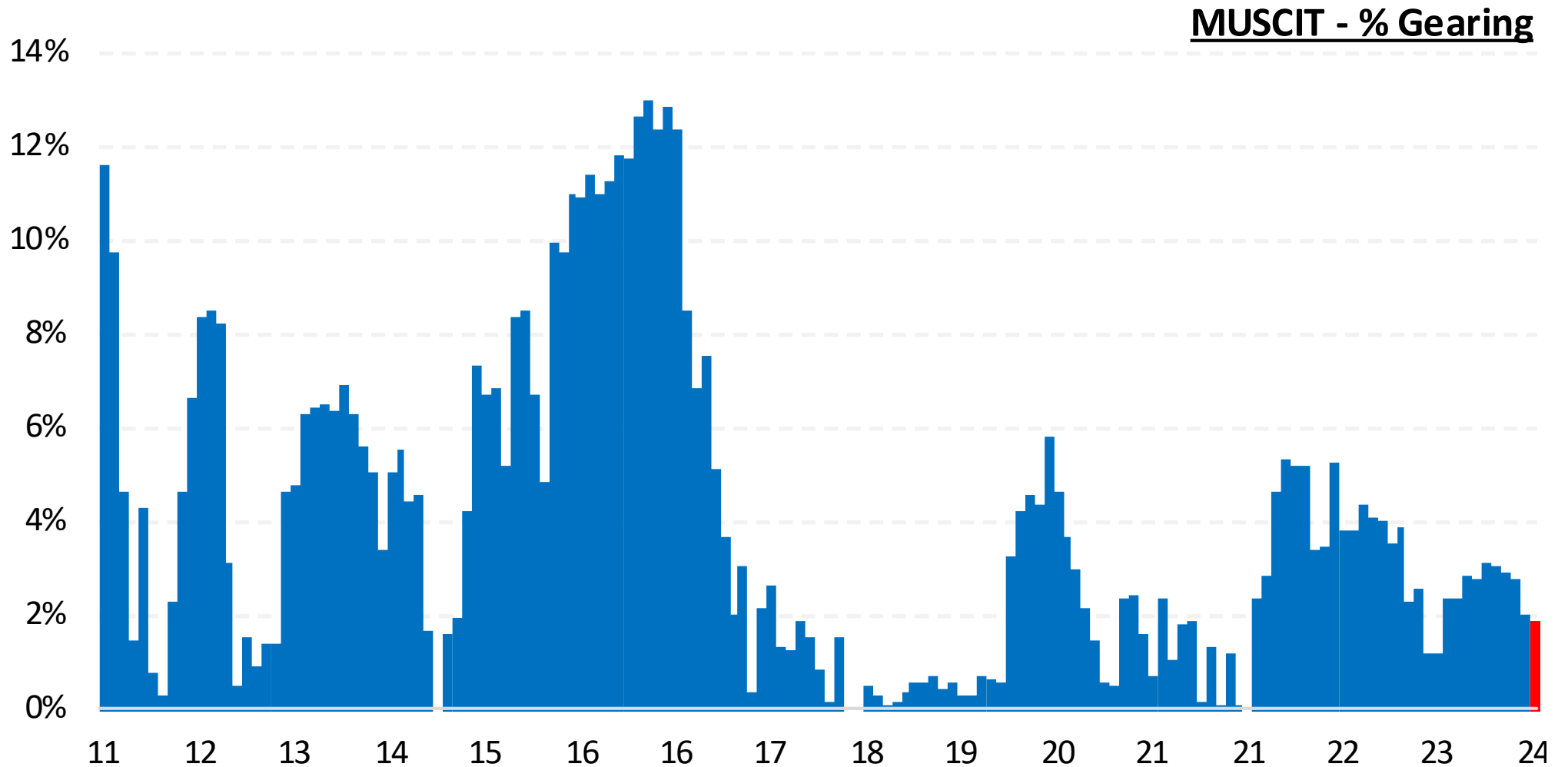


# MUSCIT ended the second quarter on a discount of 14%



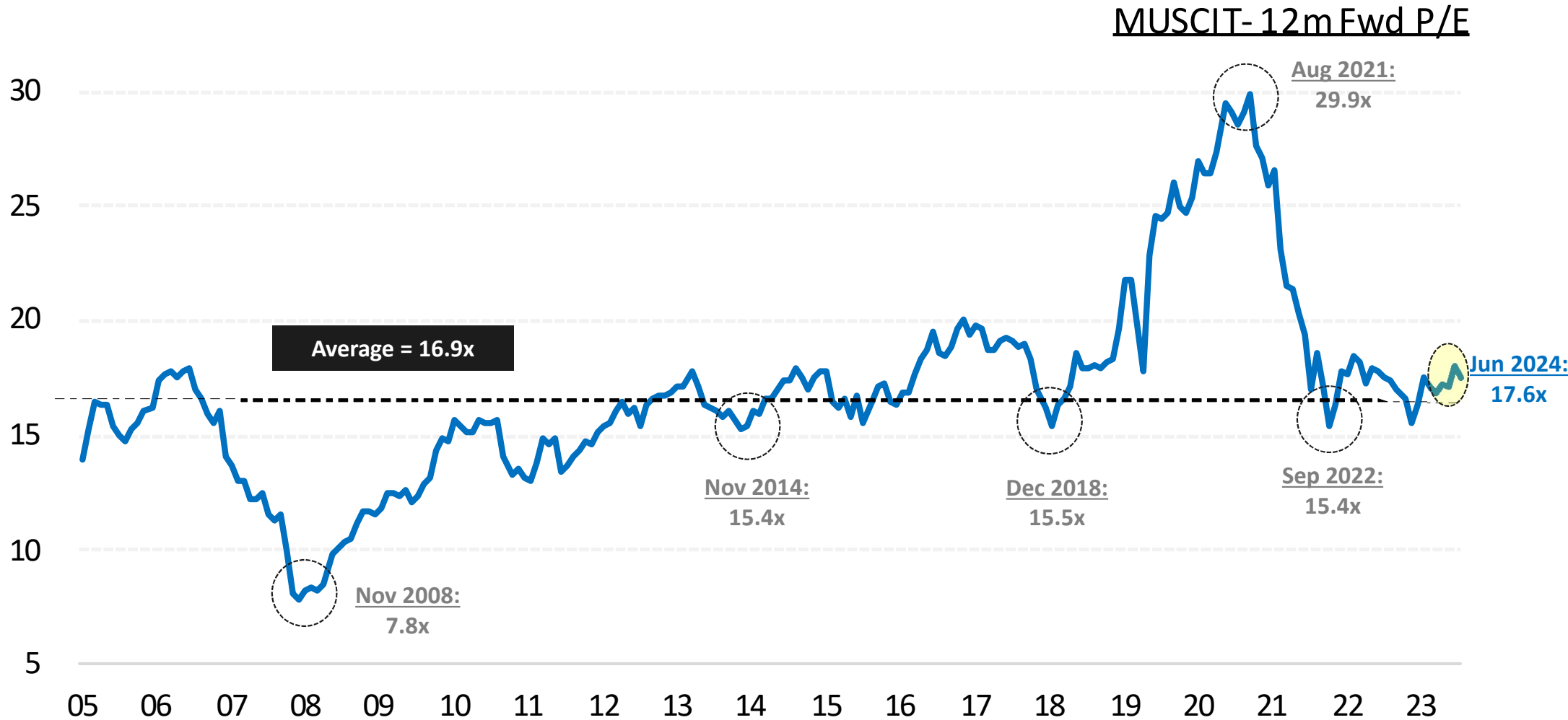
Source: Internal, Bloomberg.

# Gearing of c.2% at the end of June 2024 (now c.5%)



Source: Internal.

# MUSCIT is trading at around its long-term average P/E



Source: Internal Factset.

# The relative P/E (v. the Numis index\*) is back to 2019 levels



Source: Internal, Numis, Factset.

\* Numis Smaller Companies ex-IC Index (the Benchmark),

# “Top of the Pops”, 2024 Income & Growth Rated Funds (Kepler)

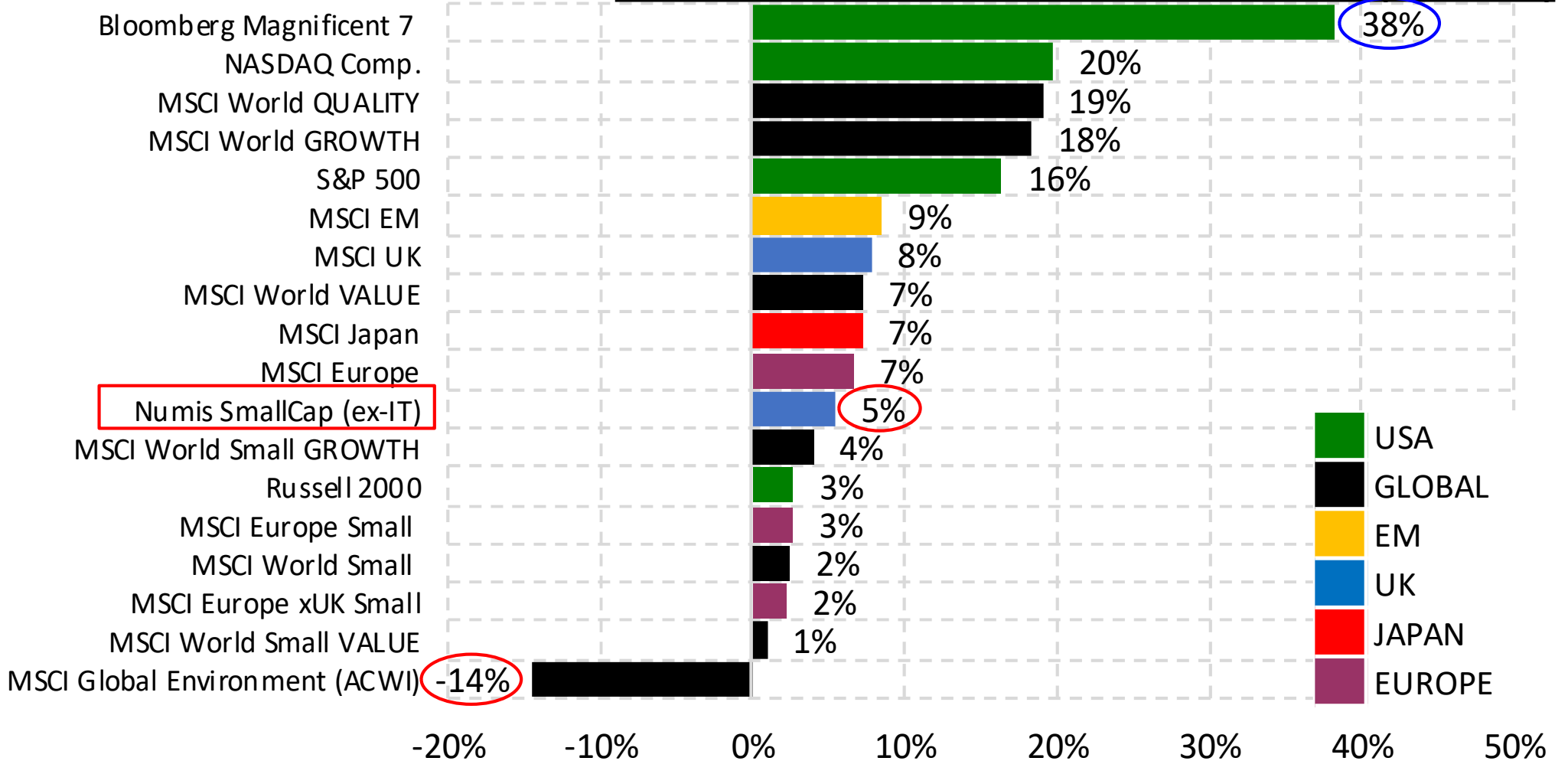
**Kepler:** “We screen for funds which have delivered annualised income growth of 3% or more over five years, and then for those which have a starting yield of 3% or more. These funds are intended to be appealing to an investor who wants to draw a growing income stream over many years, while hopefully growing their capital too, as well as to those who like the more defensive attributes of equity income as a total return strategy.”

<i>Data to 31 December 2023</i>	Growth / Value score	Quality score
JPMorgan China Growth & Income	3.1	5.4
JPMorgan Global Growth & Income	2.8	5.5
Lindsell Train	2.5	6.4
<b>Montanaro UK Smaller Companies</b>	<b>2.5</b>	<b>4.5</b>
Utilico Emerging Markets	0.4	6.0
JPMorgan Asia Growth & Income	0.1	4.9
JPMorgan European Growth & Income	-0.2	5.4
Mercantile	-0.7	6.2
CC Japan Income & Growth	-1.0	6.4
Schroder UK Mid Cap	-1.4	7.0
Templeton Emerging Mkts	-2.0	6.3
Henderson Opportunities	-2.1	6.4
Fidelity China Special	-2.5	7.6
BlackRock World Mining Trust	-3.0	3.9
TR Property	-3.4	9.7
Invesco Asia	-3.4	5.5
Schroder Income Growth	-3.7	7.2
Weiss Korea Opportunity	-4.7	n/a
Schroder Oriental Income	-5.3	7.1
Fidelity Special Values	-5.3	7.5
<b>AVERAGE</b>	<b>-1.4</b>	<b>6.2</b>

# Outlook

# H1 2024 returns: the US continues to drive global markets

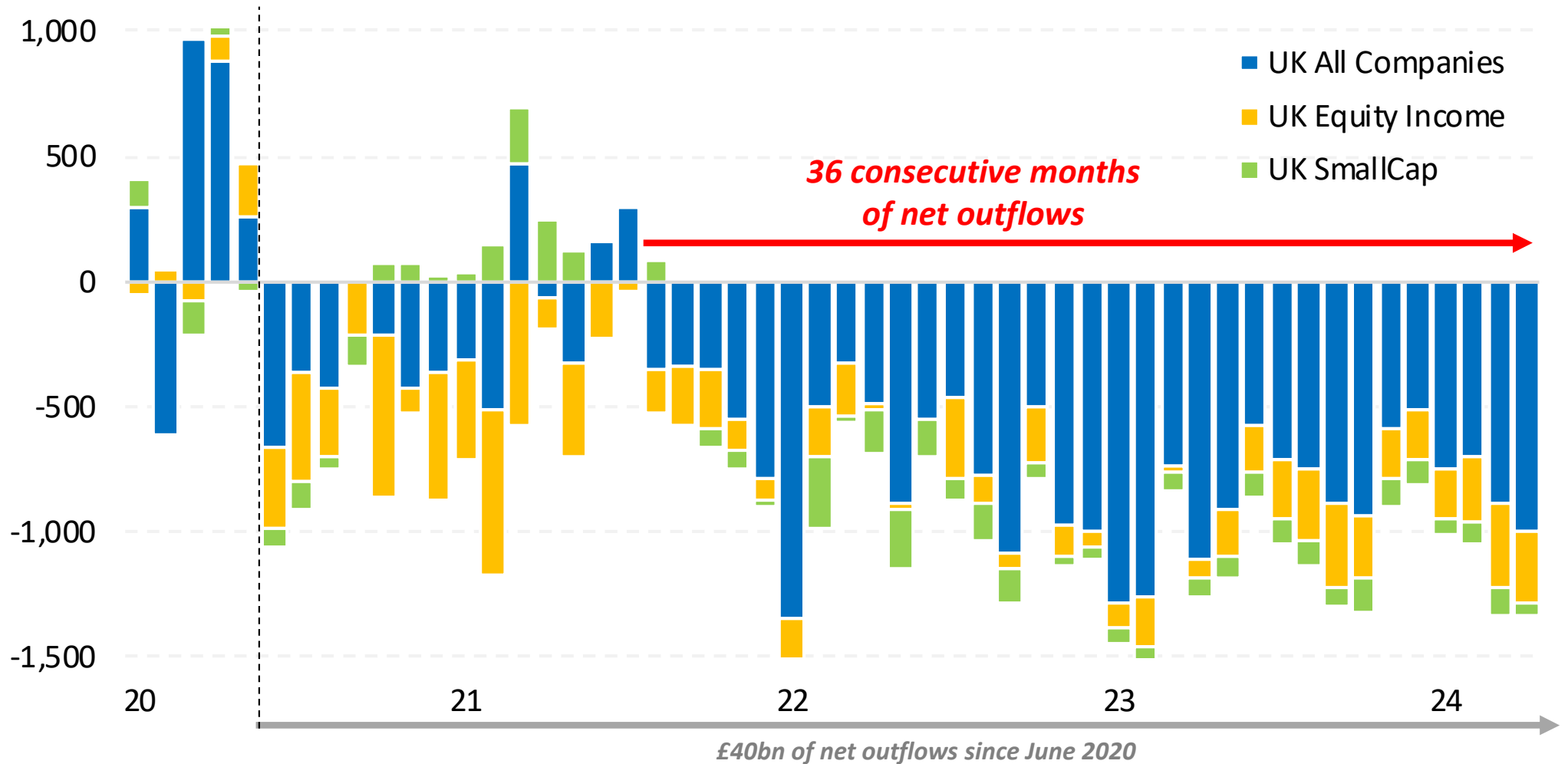
**Performance - 1 Jan 2024 to 30 Jun 2024 (TR, GBP)**



Source: Montanaro Asset Management, Factset.

# Investors have been selling out of the UK for more than 2 years

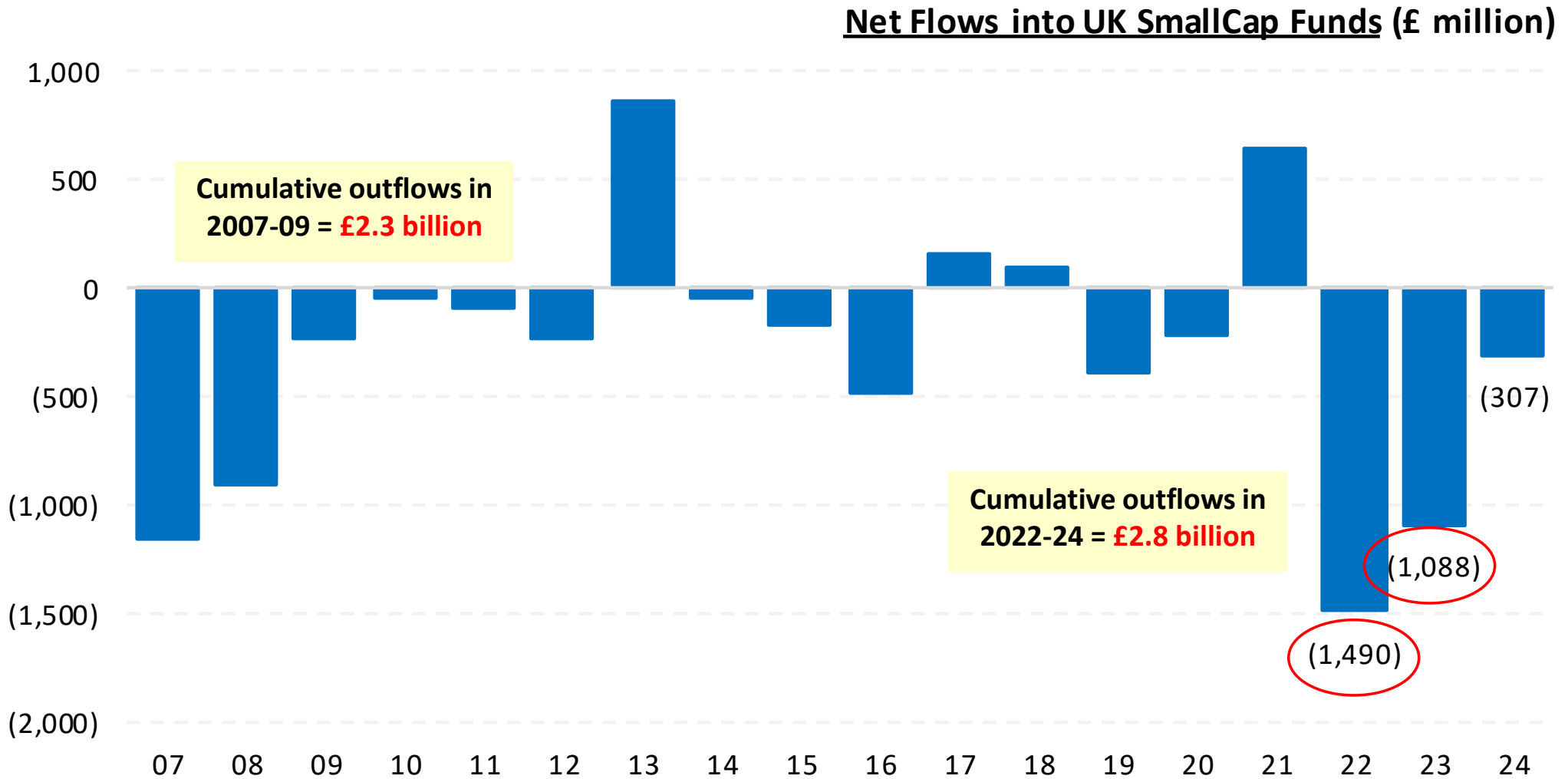
**Monthly Net Flows in UK Equity Funds (£ million)**



Source: Internal, Investment Association.



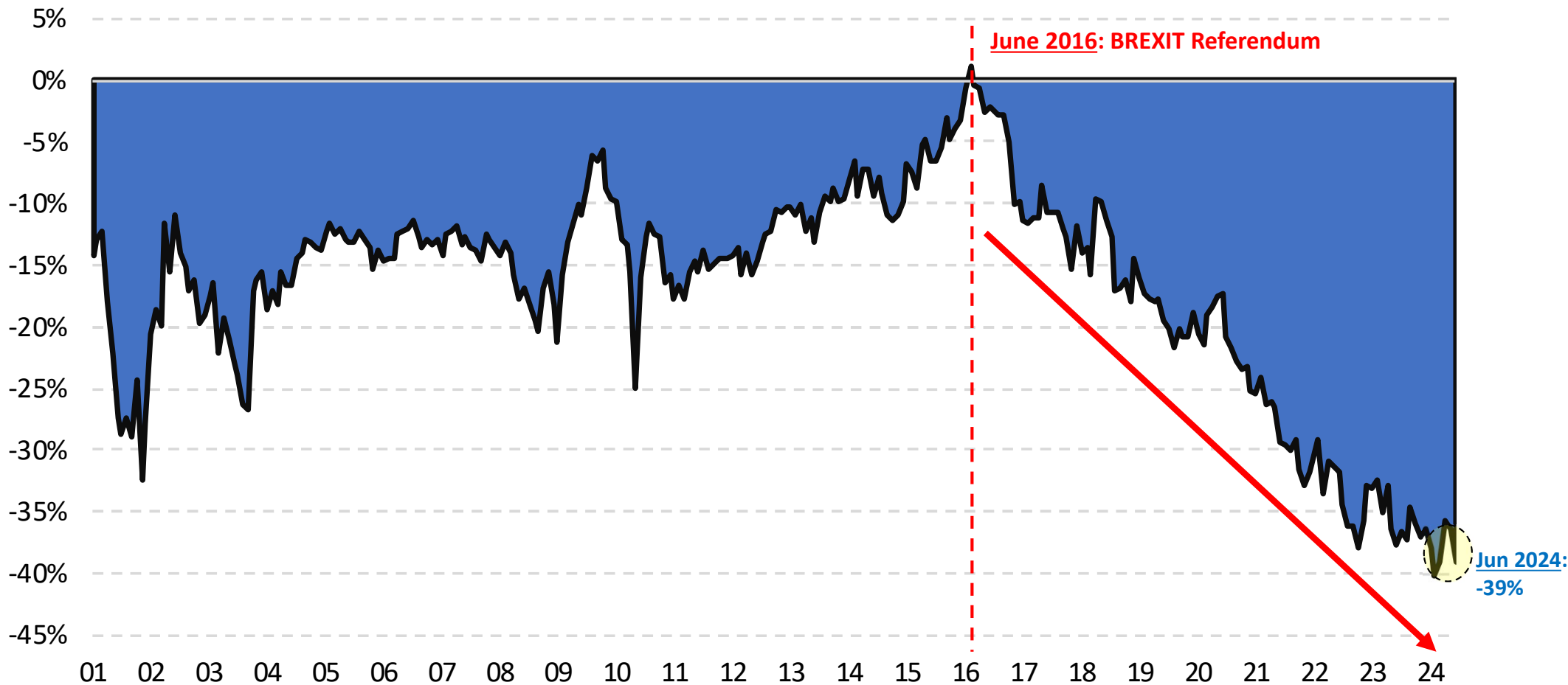
# Outflows from UK SmallCap are now higher than in the GFC of 2008 \*



Source: Internal, Investment Association.  
\* Data to 29 February 2024.

# The UK now looks (very) cheap v. Global equities

UK v. Global Equities - Relative 12m Fwd P/E

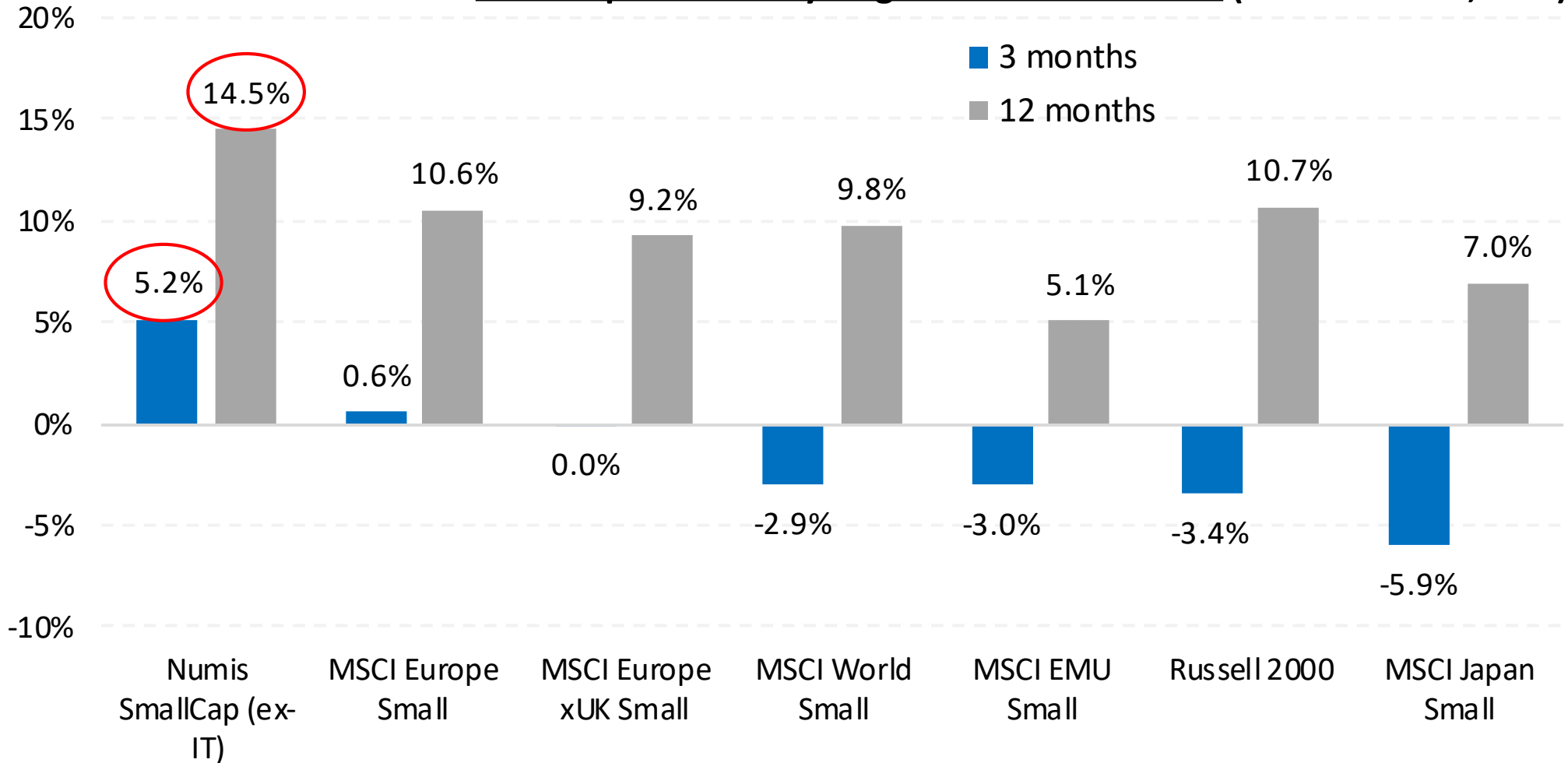


Source: Montanaro Asset Management, Factset.

Note: Indices used are the FTSE All-Share and the MSCI World Index.

# BUT: a "silent" recovery may be underway (seemingly unnoticed)

**SmallCap Returns by Region to 30 June 2024 (Total Returns, GBP)**



Source: Montanaro Asset Management, Factset.

# 'Quality' has fallen below trend underperforming by 33%

**UK QUALITY v. Market - Relative Performance (rebased)**  
(MSCI UK Quality index v. MSCI UK Index, TR, GBP)

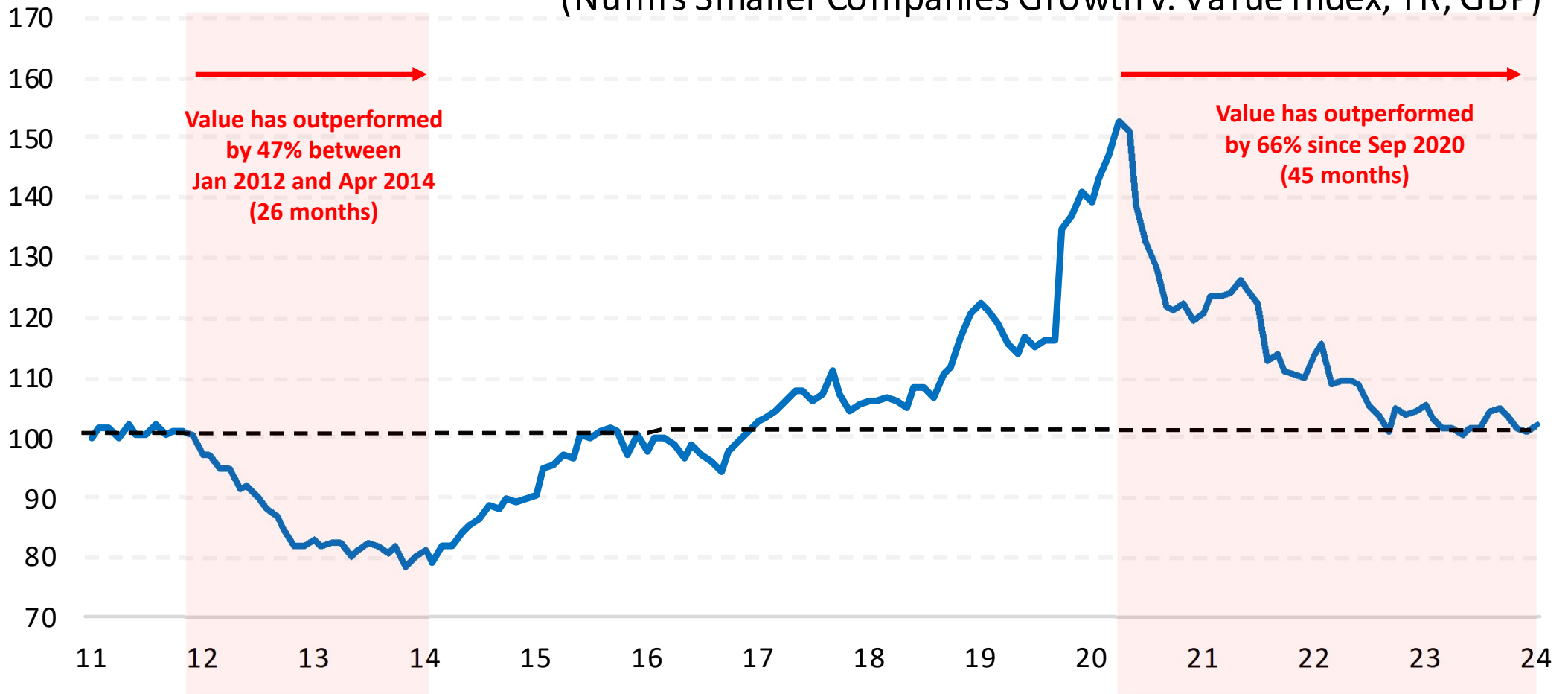


Source: Internal, MSCI.

# SmallCap 'Growth' has lagged Value by 66%

## UK SmallCap GROWTH v. VALUE - Relative Performance (rebased)

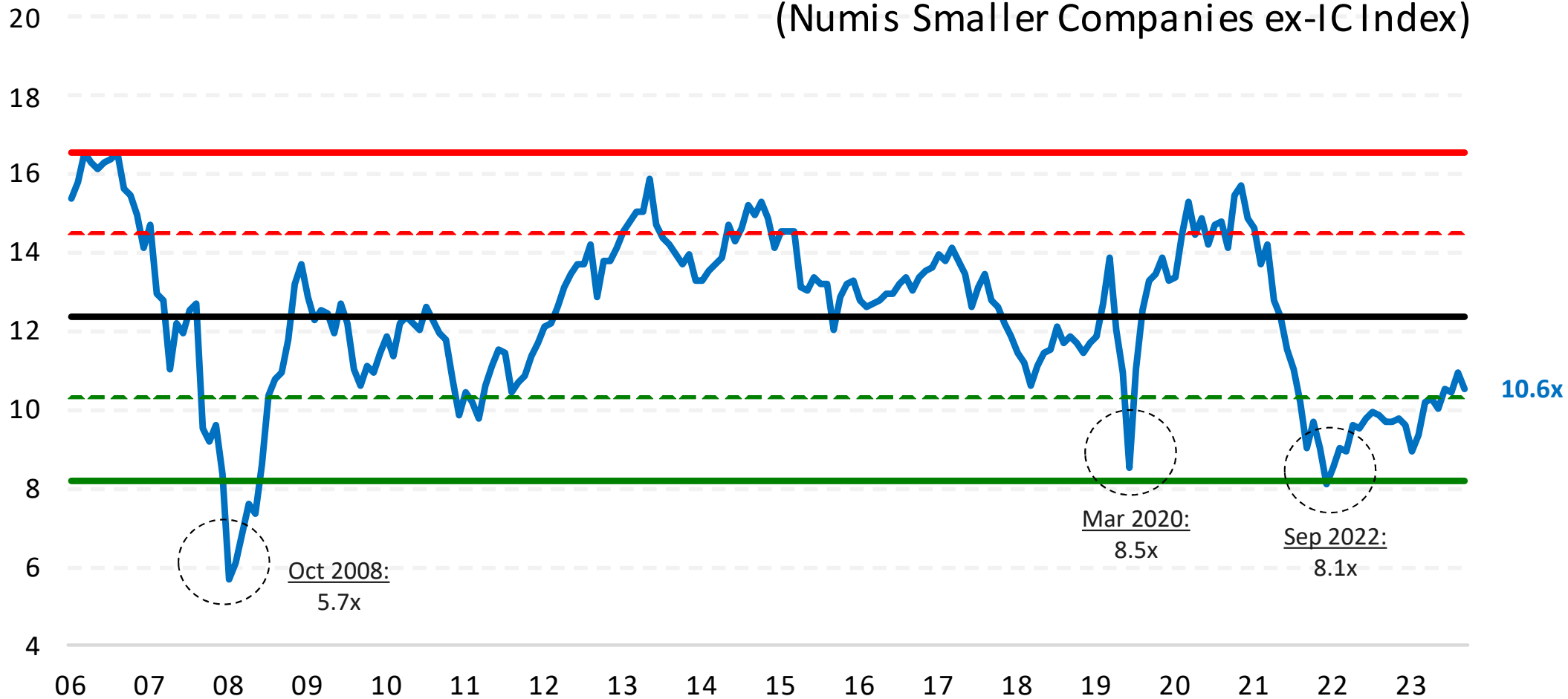
(Numis Smaller Companies Growth v. Value Index, TR, GBP)



Source: Internal, Numis.

# UK SmallCap is trading near the bottom of its historical P/E range

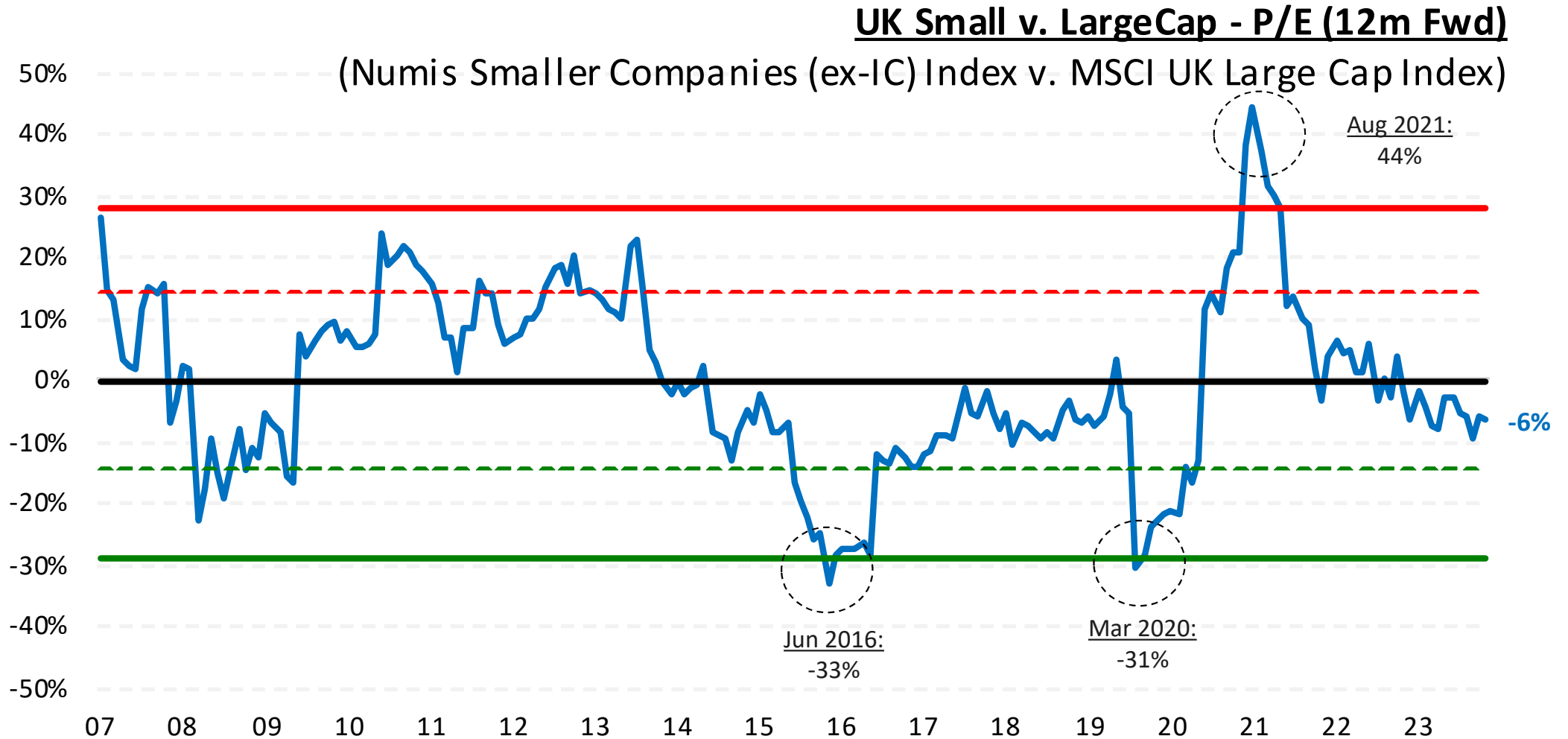
**UK SmallCap - 12-month Forward P/E**  
(Numis Smaller Companies ex-IC Index)



Source: Internal, MSCI, Factset.

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 6% discount to LargeCap

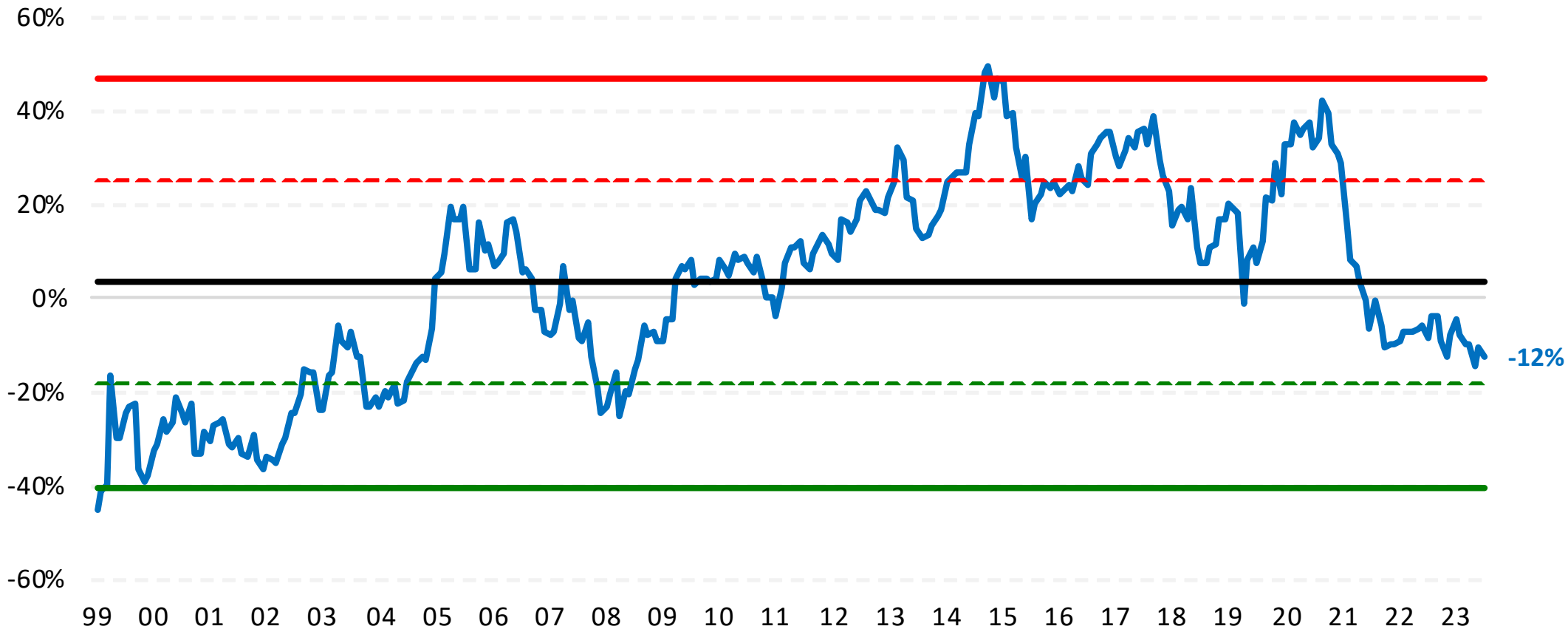


Source: Internal, MSCI, Factset.

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 the largest Px/Book discount to LargeCap since 2009

**UK Small v. LargeCap - P/Book (12m Trailing)**  
(MSCI UK Small Cap v. MSCI UK Large Cap Index)

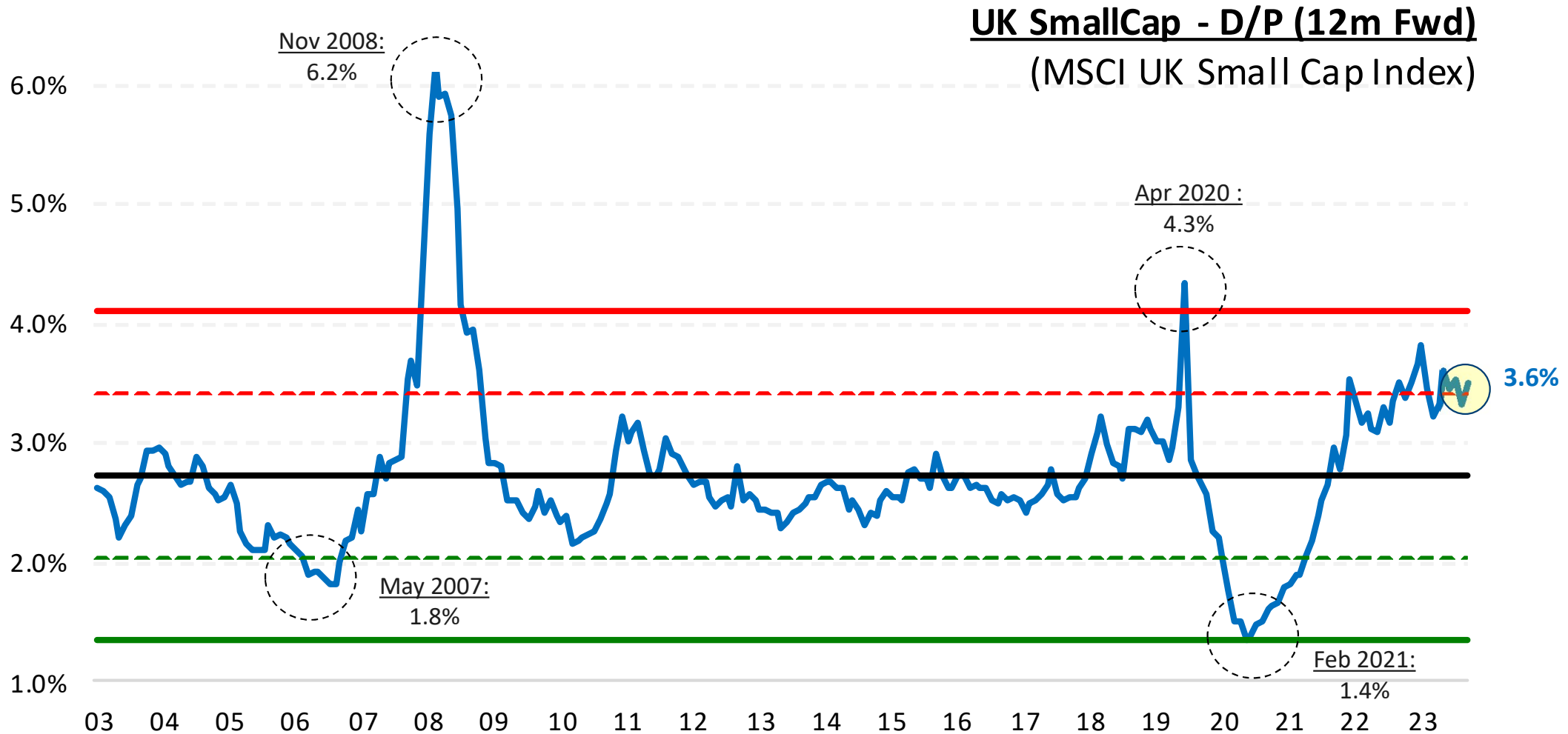


Source: Internal, MSCI, Factset.

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).



# SmallCap is yielding over 3% well above the long-term average

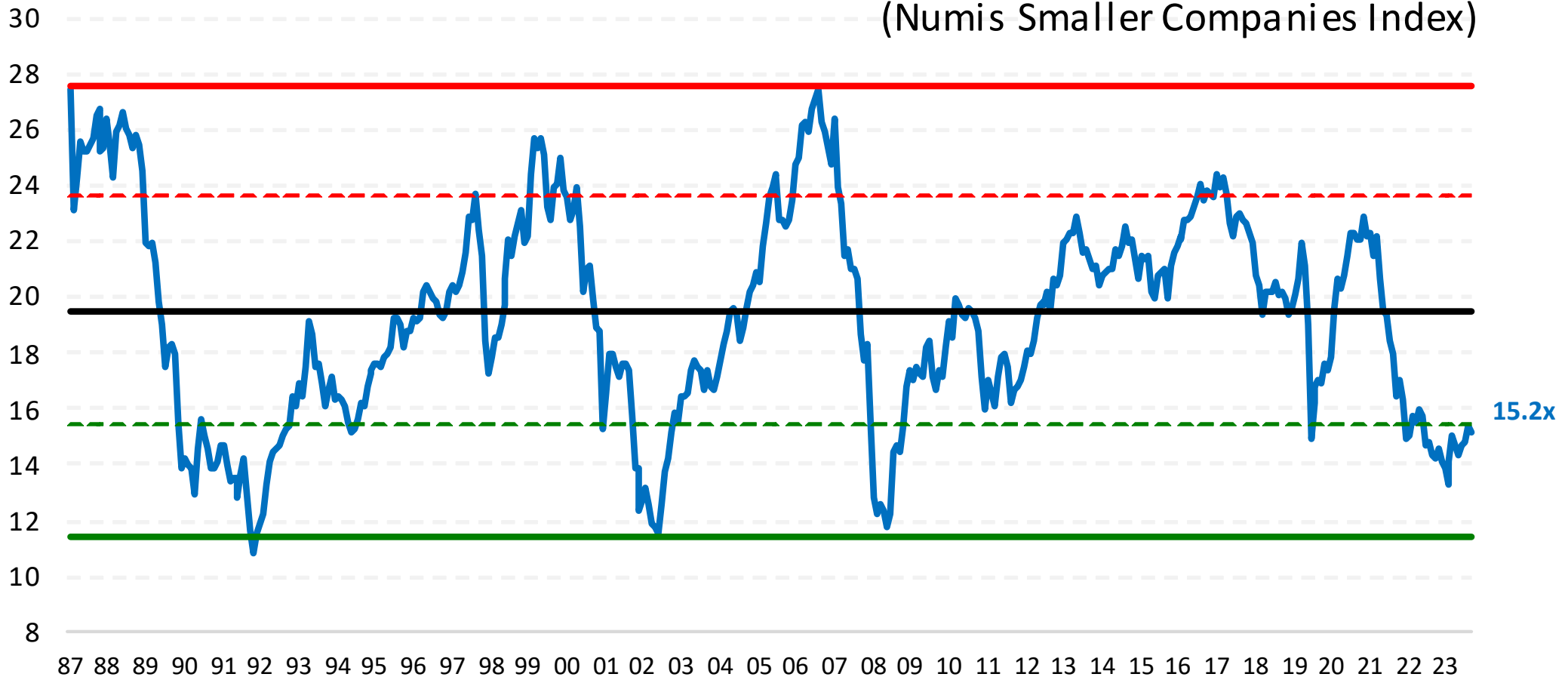


Source: Internal, MSCI, Factset.

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).

# On an 8-year Shiller P/E, SmallCap is back to 2009 levels

**UK SmallCap - 8-year Shiller P/E**  
(Numis Smaller Companies Index)



Source: Internal, MSCI, Factset.

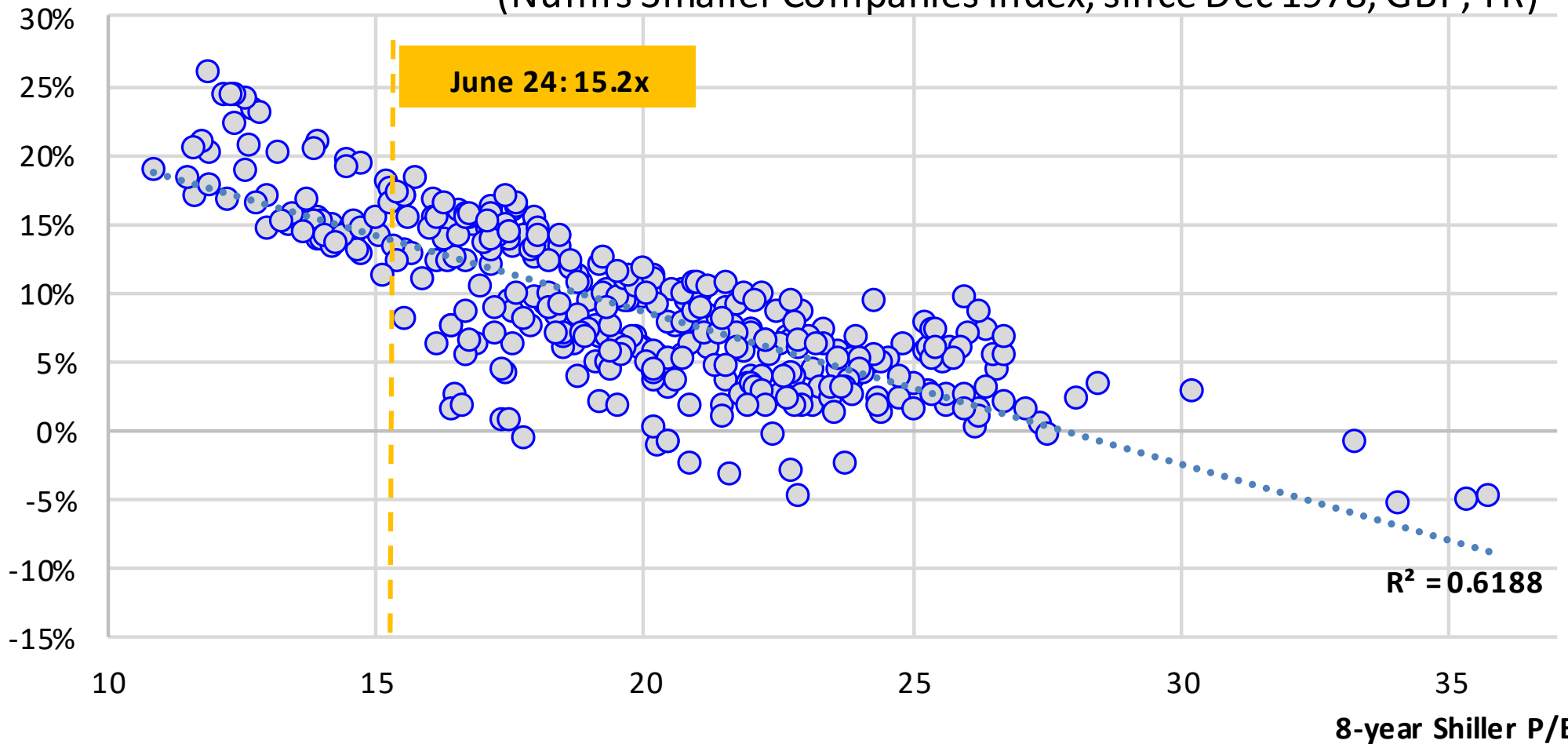
Note: Dotted black line = Average. Thick red line = Average + 2 Standard Deviations (dotted red line = Ave +1 SD). Thick green line = Average - 2 Standard Deviations (dotted green line = Ave - 1SD).

# Historically, this has resulted in 5-year returns of 12% to 19% p.a.

TR over next 5Y (p.a.)

## UK SmallCap Annualised 5Y Return v. starting 8Y Shiller P/E

(Numis Smaller Companies Index, since Dec 1978, GBP, TR)



Source: Internal, MSCI, Factset. Rolling 5-year monthly returns.

## Reasons to invest in MUSCIT

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- 1. Long track record:** over the past 20 years outperformed by 1.5% p.a.\*
- 2. Experienced Manager:** one of the largest specialists teams in Europe
- 3. Interests aligned:** MAM's biggest investment
- 4. Quality portfolio:** half our companies have net cash
- 5. Quarterly Income:** yield of c.4%\*\*
- 6. Total Returns:** "Top of the Pops": 4<sup>th</sup> best over a 5-year period\*\*\*
- 7. Attractive valuation:** P/E now in line with the long-term average
- 8. Discount opportunity:** 14% discount vs a 3% premium at end of 2022
- 9. Improving sentiment:** UK SmallCap may have bottomed
- 10. Good timing:** UK SmallCap has rarely been so cheap\*\*\*\*

Source: Internal. \*see Page 3.

\*\* MUSCIT's dividend policy is to pay out 1% of NAV each quarter. \*\*\* See slide rating from Kepler on Income and Growth Funds

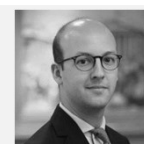
\*\*\*\* See Outlook section

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