

UK Smaller Companies Investment Trust (“MUSCIT”)

Presentation to Clients

Review of Q2 2020 & Outlook



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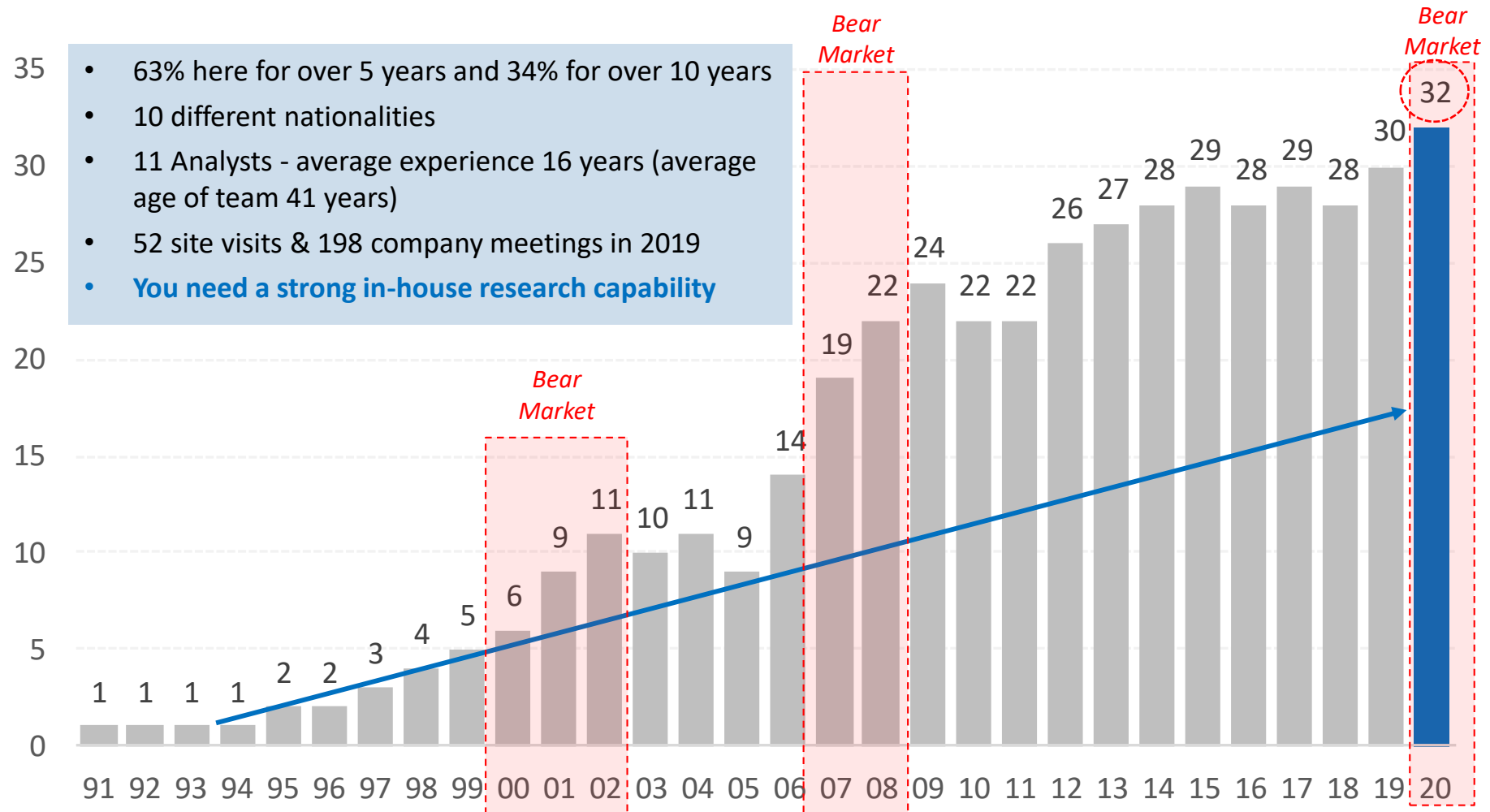
MAM is authorised and regulated by the Financial Conduct Authority (“FCA”) FRN: 183211. Company registration number 03246931.



Update on Montanaro

- **AuM** increased to £2.8 billion: won another **Global SmallCap mandate**
- **Covid-19**: all working remotely (everyone well) - business as usual
- **3 appointments since May 2020 – largest team ever (32 - soon 33):**
 - Healthcare Analyst and Fund Administrator (May 2020)
 - Compliance / Fund Administrator (August 2020)
- **Extended office lease by 10 years until 2035:**
 - complete office renovation this Summer
- **New website:** www.montanaro.co.uk

A Team of 32 (soon 33) – we hire in Bear Markets



We are different

1. It is our business
2. One big family - no big egos
3. Conservative (no loss-makers, no unquoteds, no derivatives, no stock lending)
4. We invest in our own funds
5. Long-term investors
6. We avoid brokers
7. Small & MidCap are all that we do

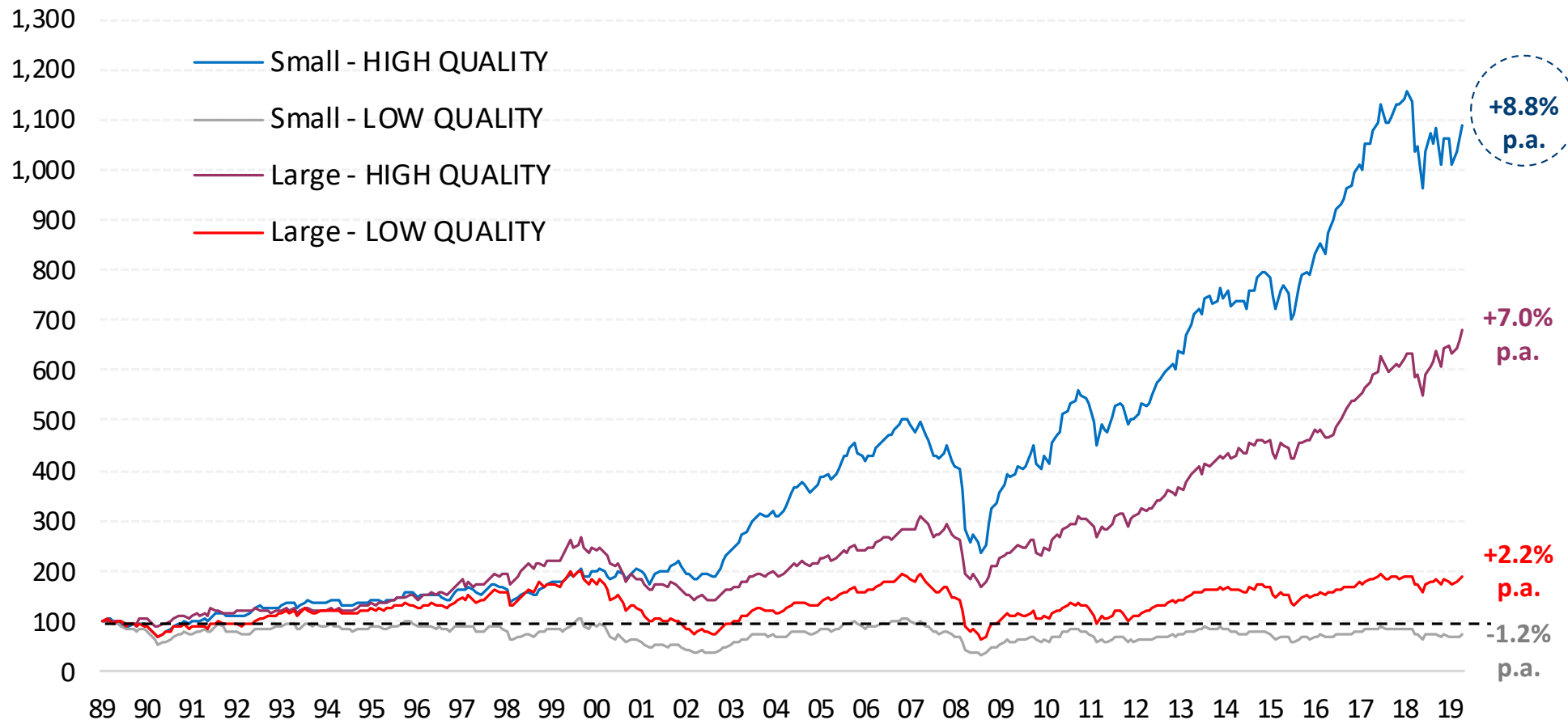
What is a “Montanaro” company?

1. Simple business **we can understand**
2. **Profitable**
3. **Niche business** in a growth market
4. **Market leader**
5. Business with **high operating margins** and **high return on capital**
6. **Good management** we trust

“Quality Growth” investment approach

Over the long run SmallCap “Quality Growth” has performed best

Global Excess Returns by Size & Quality (1989 - Nov 2019, excess return vs T-Bills)

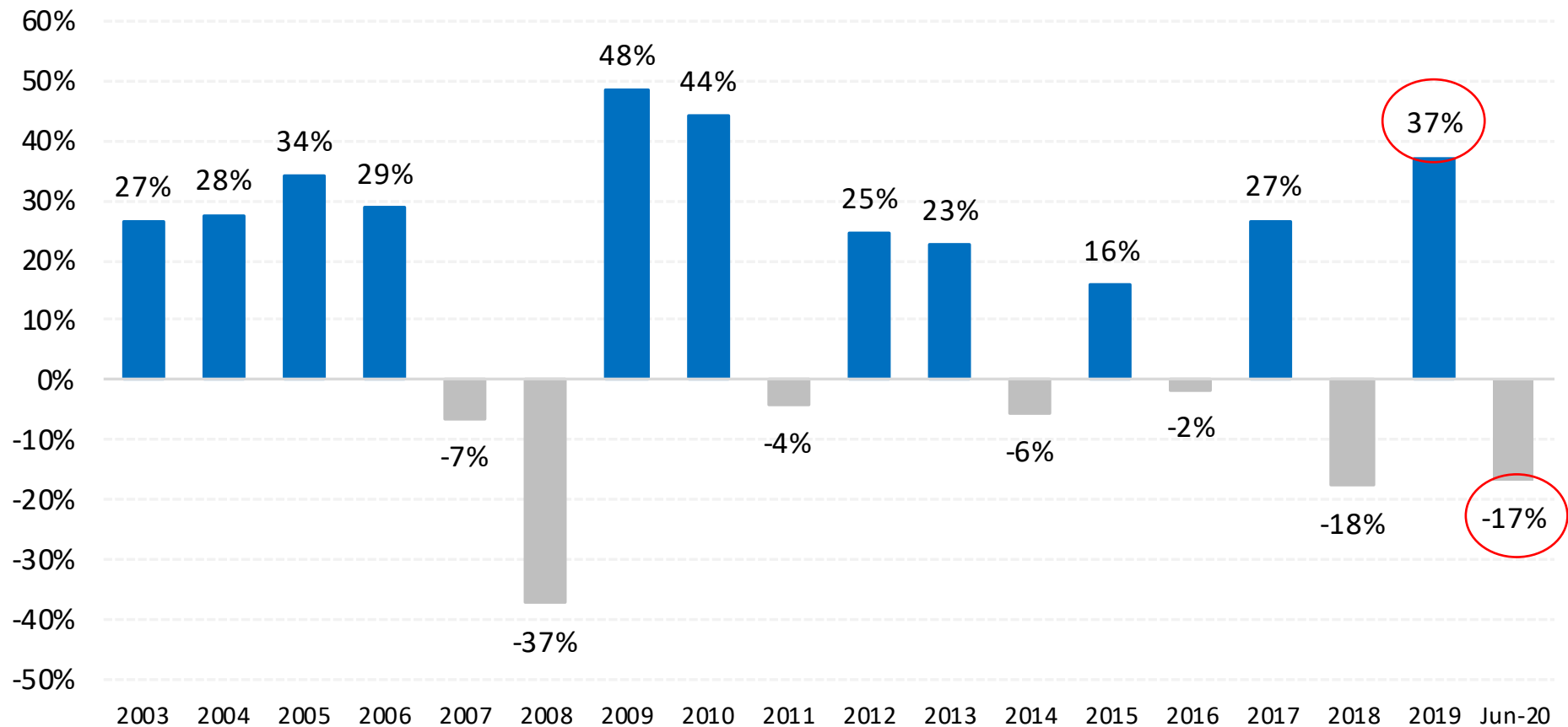


Source: AQR, Internal. “Quality” is defined by AQR based on **Profitability**, (RoE, RoA, Gross Margin, CF/Assets, Gross Profit/Assets, % cash earnings), **Growth** (over 5 years), **Safety** (low beta, low leverage, low volatility, low RoE volatility, low bankruptcy risk) and **Payout** (equity & debt issuance, dividend payout).

“Size”: the cut-off is defined as the 80th percentile by country.

A tough start to 2020 - NAV down 17%

MUSCIT - Calendar Year Returns (TR, GBP)



BUT: outperformance of 8% since January 1st

Annual Returns to June 2020

	Montanaro NAV	UK Small Cap Composite (ex ICs) (£)***	Relative
3 Months	11.8%	16.6%	-4.8%
6 Months	-16.8%	-25.0%	8.2%
1 Year	-0.8%	-15.0%	14.2%
3 Years	0.6%	-5.9%	6.5%
5 Years	2.5%	-1.0%	3.5%
10 Years	8.1%	5.5%	2.7%
15 Years	7.5%	1.8%	5.7%
20 Years	5.4%	0.6%	4.7%
Launch (03/95)	7.9%	3.2%	4.7%

Source: Internal, Numis. All returns in Sterling. * Dividends reinvested with effect from 1 April 2018 both for the Trust and the Benchmark. Prior to this date both were capital return. Note: 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.

Our Top 20 holdings

Company	Country	%	Company	Country	%
4Imprint Group	UK	4.0%	Polypipe Group	UK	2.8%
XP Power	UK	3.7%	FDM Group	UK	2.7%
Marshalls	UK	3.6%	AJ Bell	UK	2.7%
Hilton Food Group	UK	3.5%	NCC Group	UK	2.7%
Integrafin	UK	3.5%	YouGov	UK	2.6%
Big Yellow Group	UK	3.5%	Porvair	UK	2.6%
Ideagen	UK	3.5%	Cranswick	UK	2.5%
Liontrust Asset Management	UK	3.3%	Restore	UK	2.5%
Discoverie Group	UK	3.3%	Diploma	UK	2.5%
Dechra Pharmaceuticals	UK	3.3%	Brewin Dolphin Holdings	UK	2.4%
Top 10		35.4%	Top 11 - 20		26.1%

Major Buys / Sells in Q2 2020

PURCHASES > £1m		Value (£m)
	Kainos	2.3
	Big Yellow	1.5
New →	Avon Rubber	1.4
	Dechra Pharmaceuticals	1.3
	Liontrust Asset Management	1.0

SALES > £1m		Value (£m)
	Shaftesbury	-2.4
	Hilton Food	-2.3
	Integrafin	-1.6
	Vistry	-1.4
	Cineworld	-1.4

← Sold
← Sold

Avon Rubber (Respiratory masks)



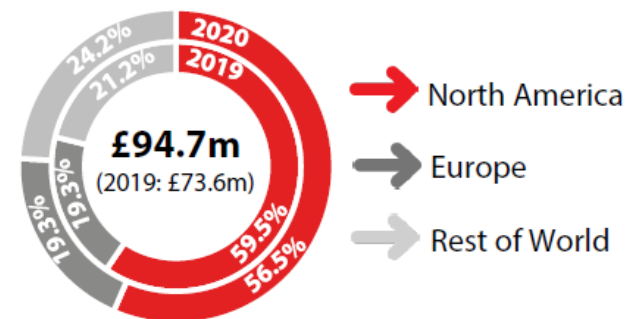
AVON

Avon Rubber p.l.c.

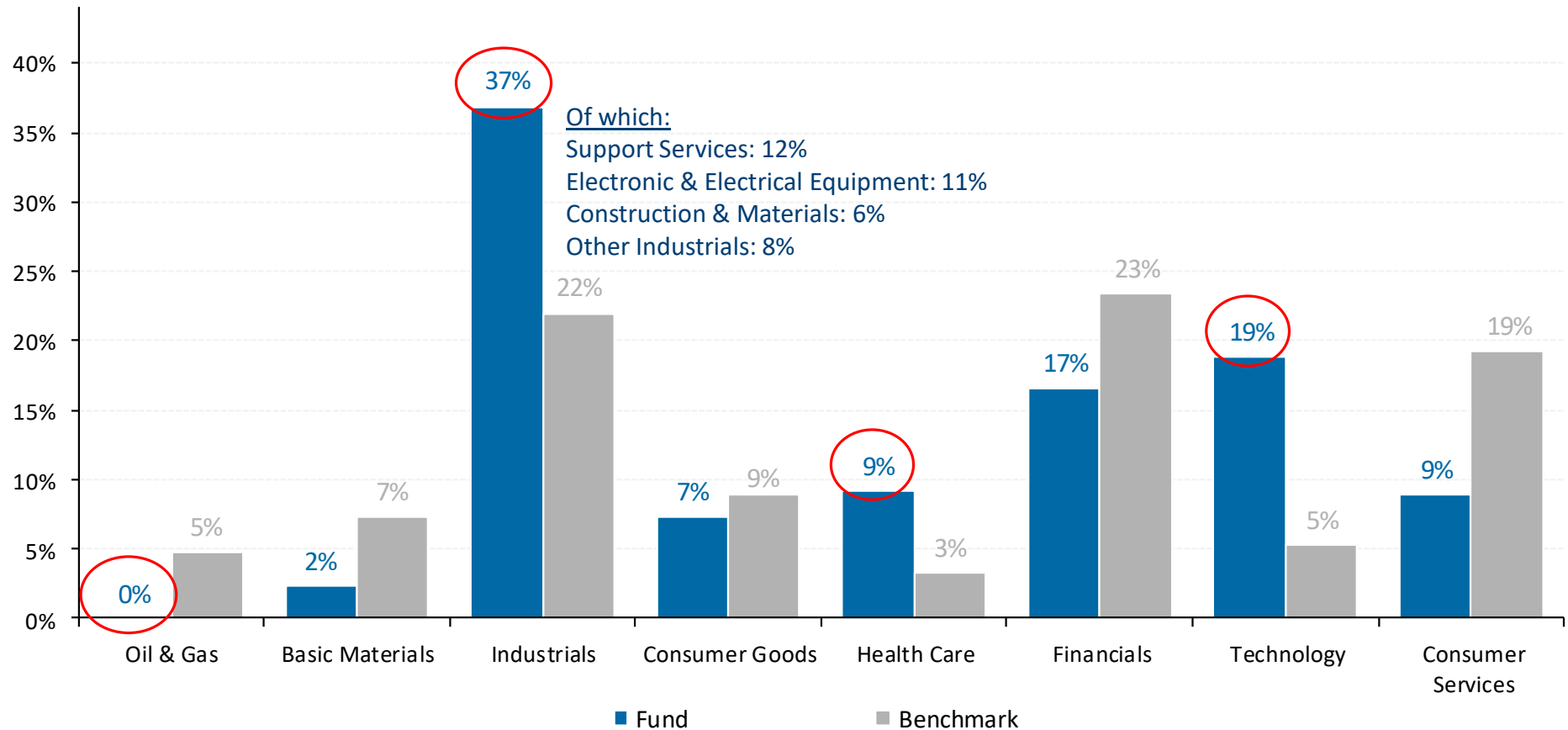
- World leader in **respiratory masks** for law enforcement, military and fire fighters. 8-year co-development programme with US DoD.
- Also has 75% global market share in **dairy** (milking equipment) but in the process of selling that business.
- **EBIT Margin** of 17%
- 5-year **EPS Growth** of 21% p.a. (2014 – 19)



REVENUE SPLIT BY DESTINATION



Sectors – overweight Industrials, IT & Health Care; no Oil & Gas



Sub-sectors

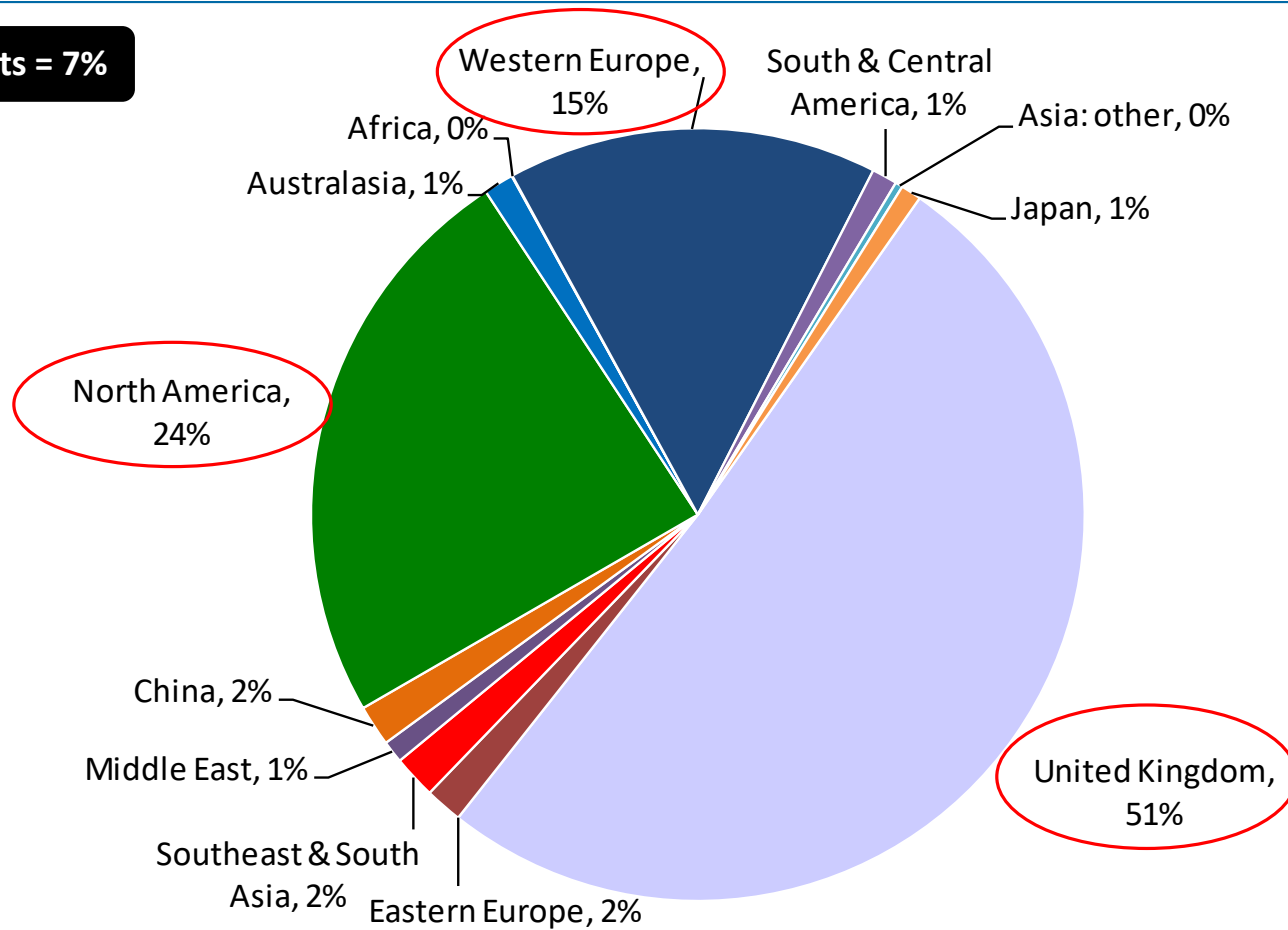
	Trust	NSCI ex-ICs	FTSE All-Share	Trust v. NSCI
Oil & Gas	0.0%	4.8%	8.4%	-4.8%
Oil & Gas Producers	0.0%	3.5%	8.3%	-3.5%
Oil Equipment, Services & Distribution	0.0%	1.3%	0.1%	-1.3%
Alternative Energy	0.0%	0.0%	0.0%	0.0%
Basic Materials	2.3%	7.4%	8.4%	-5.0%
Chemicals	2.3%	1.9%	0.7%	0.5%
Forestry & Paper	0.0%	0.0%	0.4%	0.0%
Industrial Metals	0.0%	1.0%	0.1%	-1.0%
Mining	0.0%	4.5%	7.2%	-4.5%
Industrials	36.9%	22.0%	12.1%	14.9%
Construction & Materials	6.4%	4.9%	1.5%	1.5%
Aerospace & Defense	0.7%	3.1%	1.5%	-2.4%
General Industrials	0.0%	0.8%	1.5%	-0.8%
Electronic & Electrical Equipment	10.6%	2.9%	0.8%	7.6%
Industrial Engineering	2.6%	3.0%	1.0%	-0.4%
Industrial Transportation	4.3%	2.0%	0.3%	2.3%
Support Services	12.3%	5.2%	5.5%	7.1%
Consumer Goods	7.3%	9.0%	15.6%	-1.6%
Automobiles & Parts	0.0%	1.1%	0.0%	-1.1%
Beverages	0.0%	1.5%	3.5%	-1.5%
Food Producers	7.3%	3.1%	0.7%	4.3%
Household Goods (inc House Builders)	0.0%	1.5%	4.0%	-1.5%
Leisure Goods	0.0%	0.2%	0.1%	-0.2%
Personal Goods	0.0%	1.6%	2.8%	-1.6%
Tobacco	0.0%	0.0%	4.4%	0.0%

	Trust	NSCI ex-ICs	FTSE All-Share	Trust v. NSCI
Health Care	9.2%	3.3%	11.4%	5.9%
Health Care Equipment & Services	3.3%	1.0%	1.0%	2.4%
Pharmaceuticals & Biotechnology	5.8%	2.4%	10.4%	3.5%
Consumer Services	8.9%	19.2%	11.8%	-10.3%
Food & Drug Retailers	0.0%	0.0%	2.1%	0.0%
General Retailers	0.0%	4.5%	2.2%	-4.5%
Media	8.9%	6.1%	3.7%	2.8%
Travel & Leisure	0.0%	8.6%	3.8%	-8.6%
Financials	16.6%	23.4%	25.2%	-6.8%
Banks	0.0%	1.5%	7.2%	-1.5%
Nonlife Insurance	0.0%	3.3%	1.1%	-3.3%
Life Insurance	0.0%	0.9%	3.3%	-0.9%
Real Estate Investment & Services	0.0%	5.4%	0.3%	-5.4%
Real Estate Investment Trusts	3.5%	1.4%	1.9%	2.1%
General Financial	13.1%	10.8%	4.3%	2.2%
Equity Investment Instruments	0.0%	0.0%	7.0%	0.0%
Nonequity Investment Instruments	0.0%	0.0%	0.0%	0.0%
Technology	18.8%	5.3%	1.1%	13.5%
Software & Computer Services	18.8%	3.5%	1.0%	15.2%
Technology Hardware & Equipment	0.0%	1.8%	0.1%	-1.8%
Telecommunications	0.0%	3.5%	2.4%	-3.5%
Fixed Line Telecommunications	0.0%	2.2%	0.6%	-2.2%
Mobile Telecommunications	0.0%	1.3%	1.9%	-1.3%
Utilities	0.0%	2.2%	3.6%	-2.2%
Electricity	0.0%	2.2%	0.8%	-2.2%
Gas, Water & Multiutilities	0.0%	0.0%	2.8%	0.0%

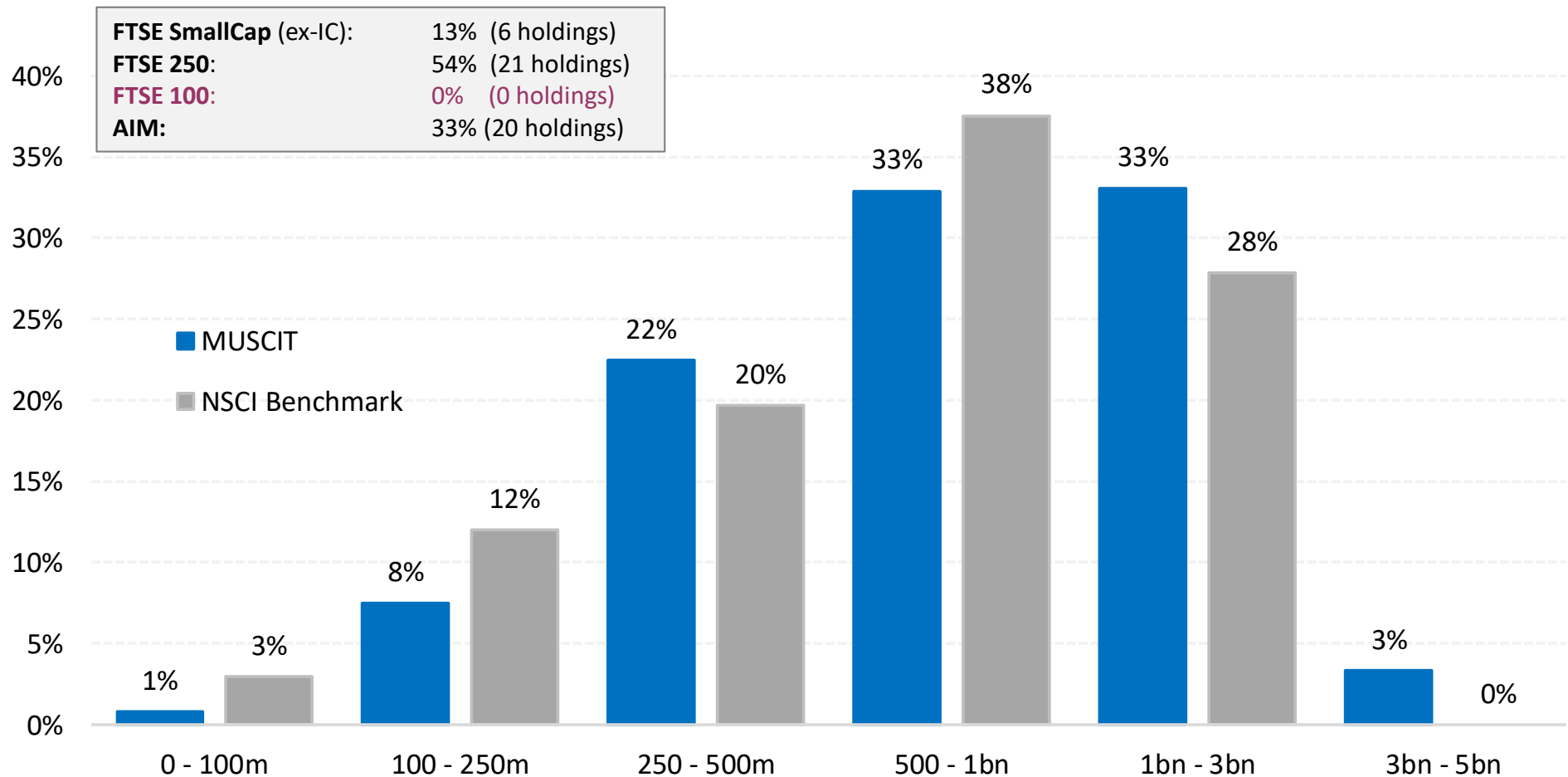
Source: Internal, Bloomberg.
Based on ICB Sectors and Sub-sectors.

Half of sales are to the domestic UK market

Emerging Markets = 7%



Size – a SmallCap portfolio with no exposure to the FTSE 100



Source: Internal, Bloomberg.

Note: The Country weightings may not add up to 100% due to the presence of Cash.

A high quality portfolio – almost 40% of companies have net cash

Portfolio Characteristics		
	Portfolio	Benchmark
# Stocks	47	330
Weighted Market Cap	£919m	£760m
EBIT Margin (21F)	19%	17%
RoE (21F)	14%	10%
Gearing	1.3%	n/a

Risk		
	Portfolio	Benchmark
Beta*	0.84	1.00
Standard Deviation*	18.7%	20.7%
Tracking Error*	7.9%	n/a
Net Debt/Equity (21F)	-7%	20%
% Companies with Net Cash (21F)	38%	19%

# AIM Companies	20
% AIM	33%

Growth & Valuation (based on consensus estimates) - who knows?

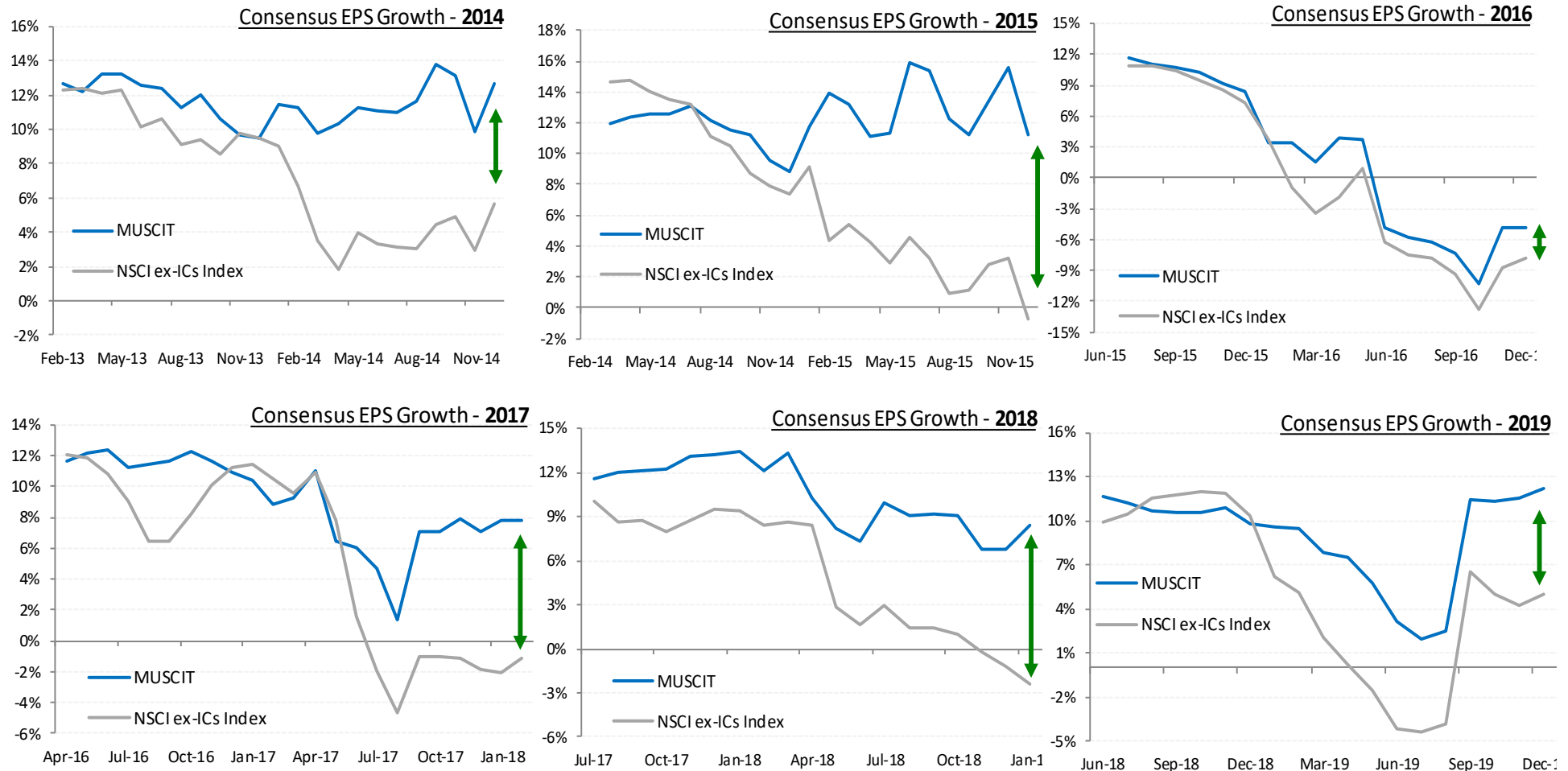
Growth (2020F)		
	Portfolio	Numis SmallCap (ex-IC) Index
Sales Growth	0.5%	-12.0%
EBIT Growth	-11.9%	-13.2%
EPS Growth	-19.7%	-39.2%

Growth (2021F)		
	Portfolio	Numis SmallCap (ex-IC) Index
Sales Growth	10.1%	8.8%
EBIT Growth	15.7%	25.1%
EPS Growth	20.7%	27.5%

Valuation (2020F)		
	Portfolio	Numis SmallCap (ex-IC) Index
P/E	26.7	14.6
Dividend Yield	1.6%	2.3%
EV/EBITDA	14.8	7.4

Valuation (2021F)		
	Portfolio	Numis SmallCap (ex-IC) Index
P/E	22.1	11.4
Dividend Yield	2.0%	3.3%
EV/EBITDA	16.7	9.8

Our companies typically deliver higher EPS growth than the index



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

Relative performance attribution – Q2 2020 (no big movers)

POSITIVE	Top 10
XP Power	0.4%
Liontrust Asset Management	0.4%
4imprint	0.3%
GlobalData	0.2%
Treatt	0.2%
TOTAL	1.6%

NEGATIVE	Bottom 10
Advanced Medical Solutions	-0.5%
Cranswick	-0.5%
Big Yellow Group	-0.5%
Polypipe Group	-0.5%
Restore	-0.4%
TOTAL	-2.4%

■ Traded on AIM

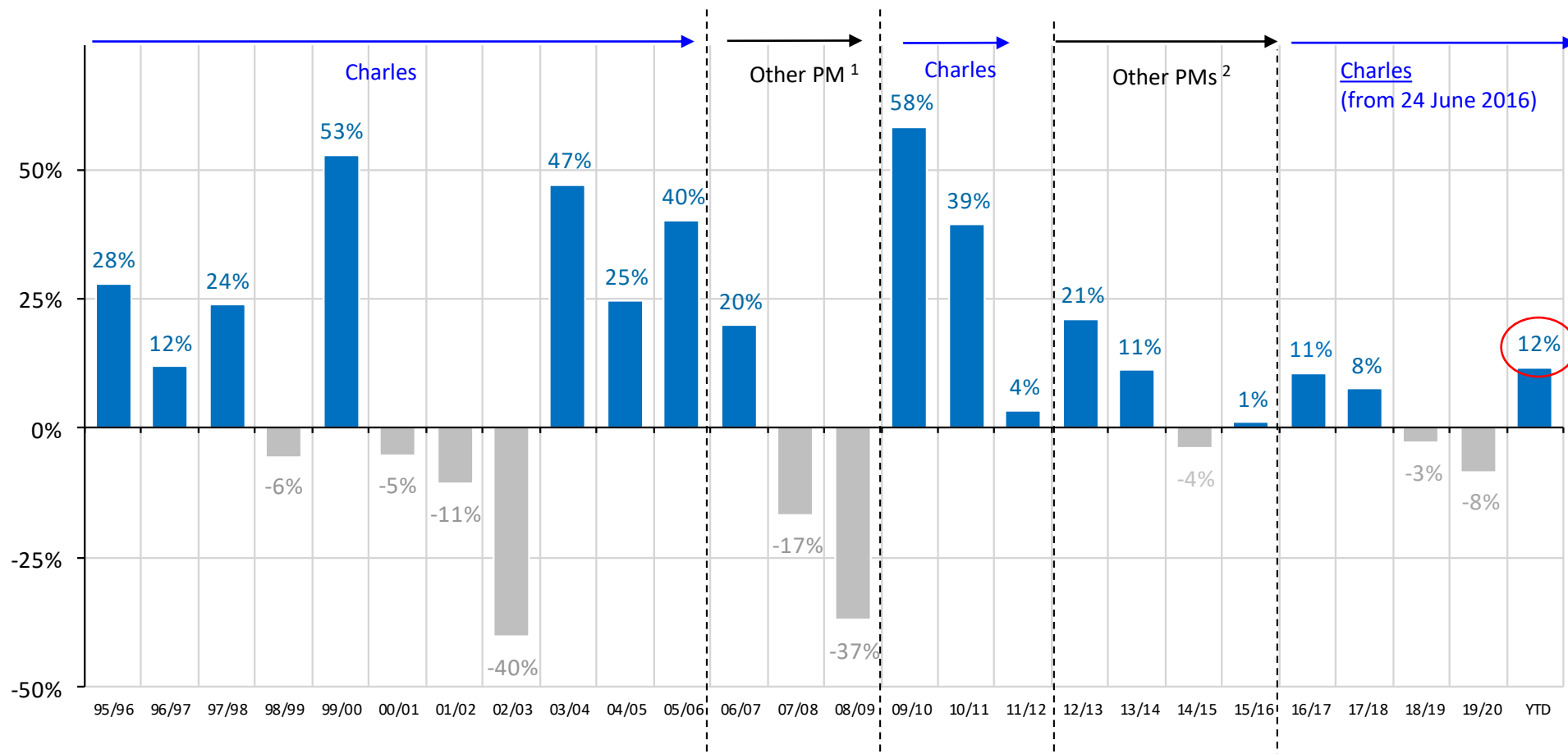
Relative performance attribution – 12 months (AIM was mixed)

POSITIVE	Top 10
Entertainment One	1.6%
XP Power	1.6%
Hilton Food	1.4%
Cranswick	1.2%
Ideagen	1.1%
TOTAL	7.0%

NEGATIVE	Bottom 10
Cineworld	-1.5%
RPS	-0.7%
First Derivatives	-0.7%
Avon Rubber	-0.5%
Midwich	-0.4%
TOTAL	-3.8%

■ Traded on AIM

Absolute returns (by Financial Year - March to March)

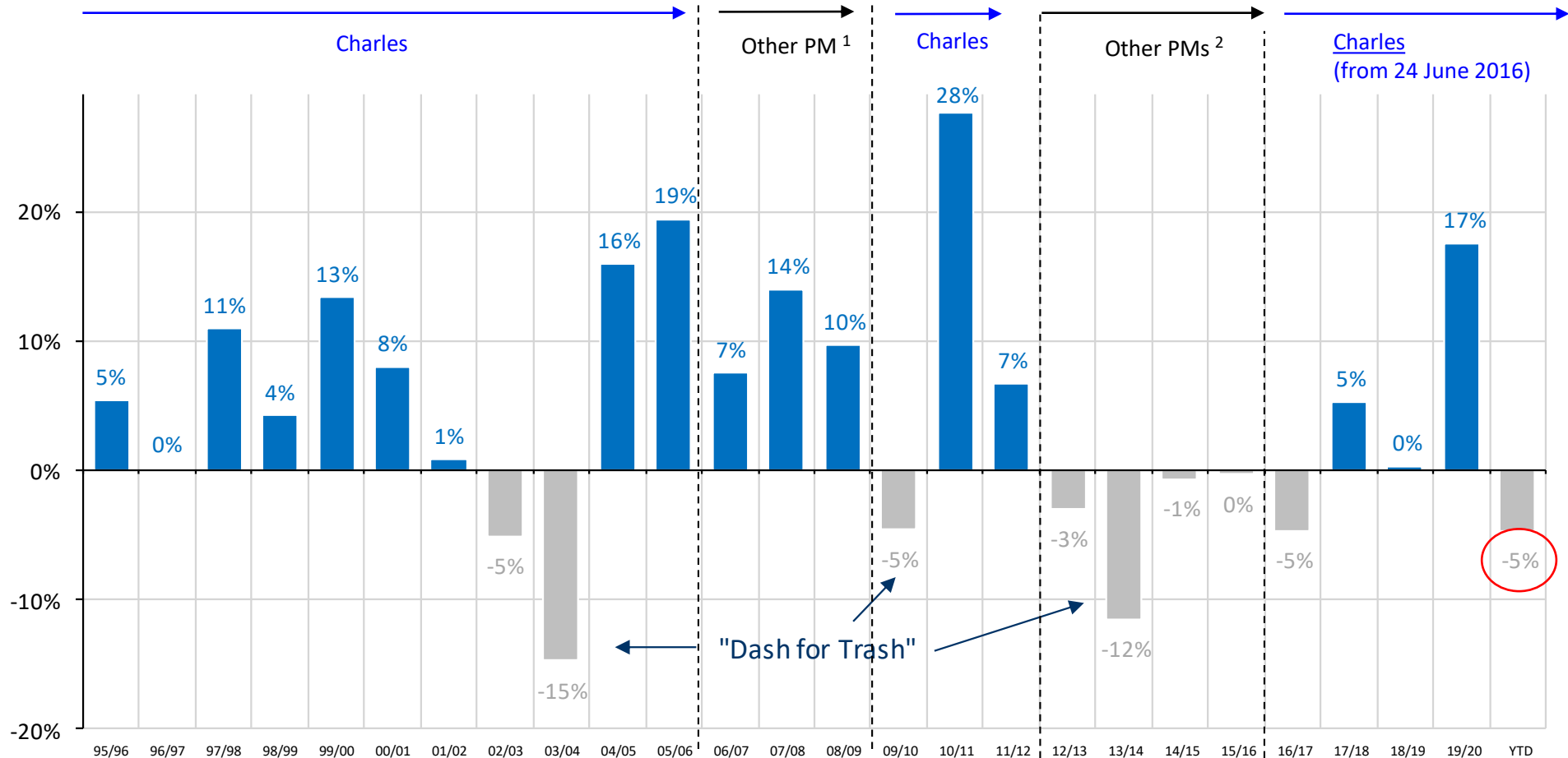


Source: Internal.

Other PMs: Dan Harlow (2006 – 09); David Lindley (2011 – 2014); Anna Lundén (2014 – 2016). Investment Committee started in 2015.

Note: Years 1-3 undiluted NAV, years 4-5 diluted NAV and years onwards basic NAV as no longer any warrants in issue.

Relative returns (by Financial Year)

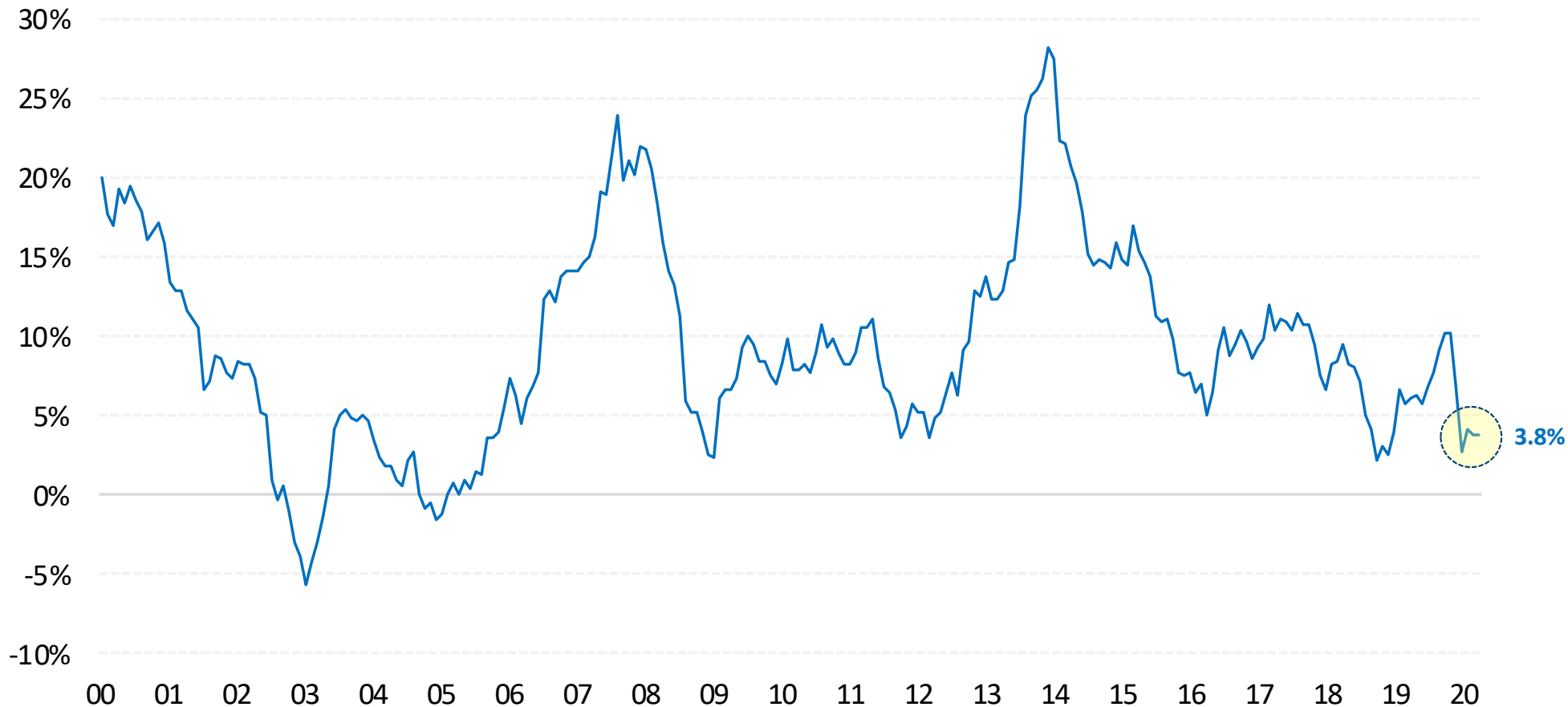


Source: Internal. The benchmark for the UK Trust changed from the FTSE SmallCap Index (ex-IC) to the Numis Smaller Companies Index (ex-IC) effective 1 April 2013.

Note: Years 1-3 undiluted NAV, years 4-5 diluted NAV and years onwards basic NAV as no longer any warrants in issue

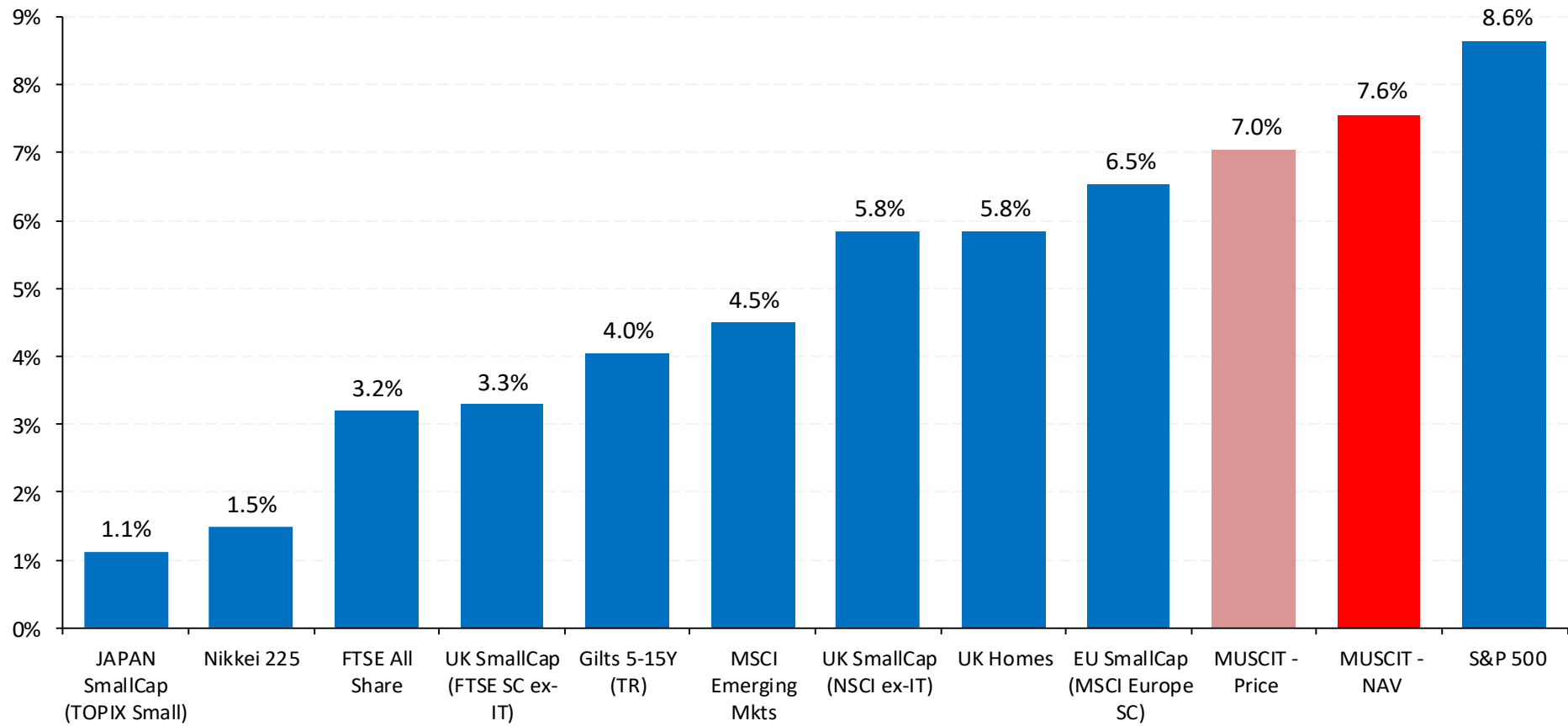
Over 5 years MUSCIT has delivered positive returns 93% of the time

MUSCIT - 5-year NAV Rolling Return (annualised, Net Total Returns)

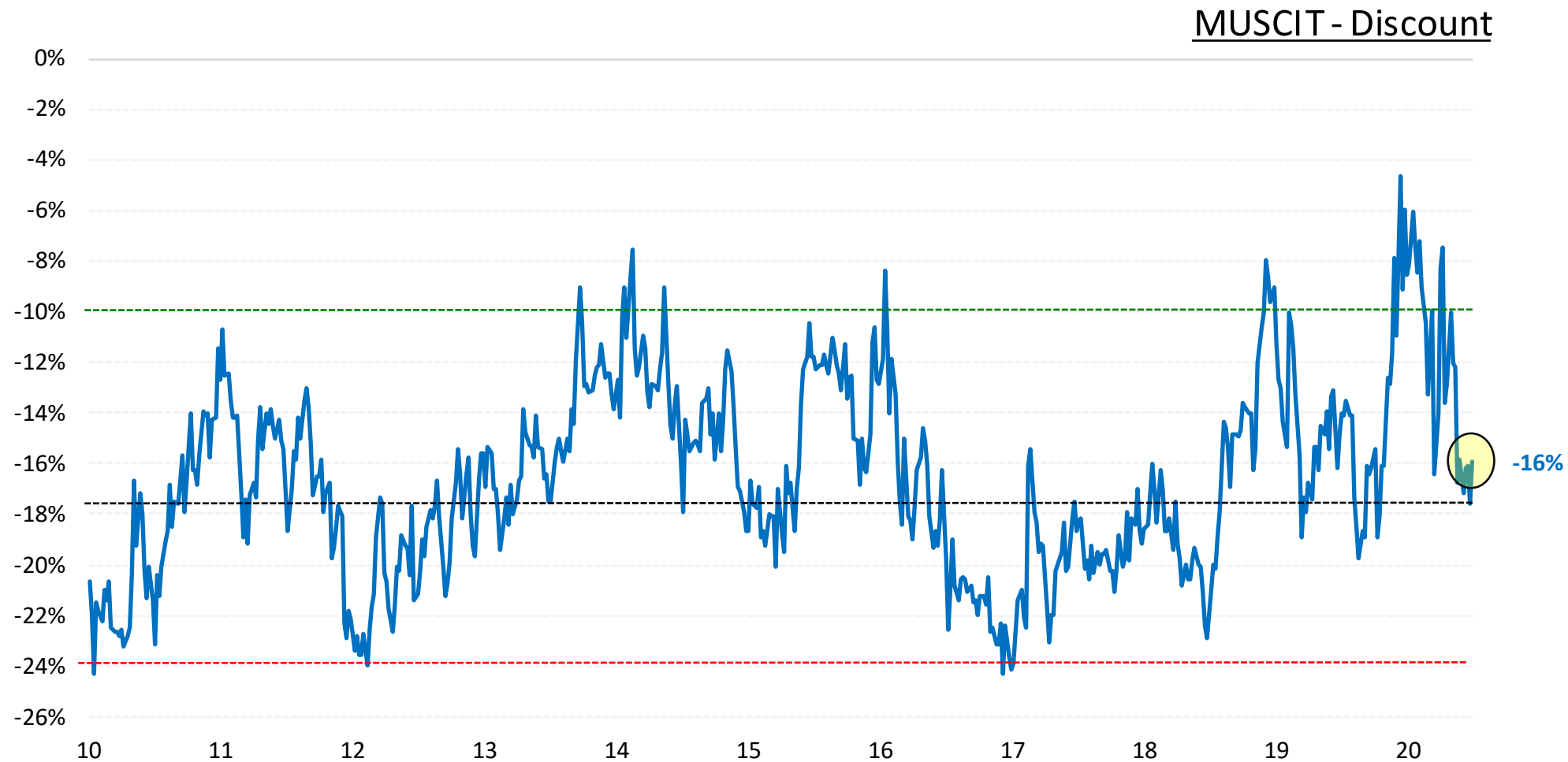


Good returns over the past 25 years (TR after fees: +9% p.a.)

Absolute Capital Returns p.a. since Trust inception (Mar 1995 - Jun 2020, all returns in GBP)

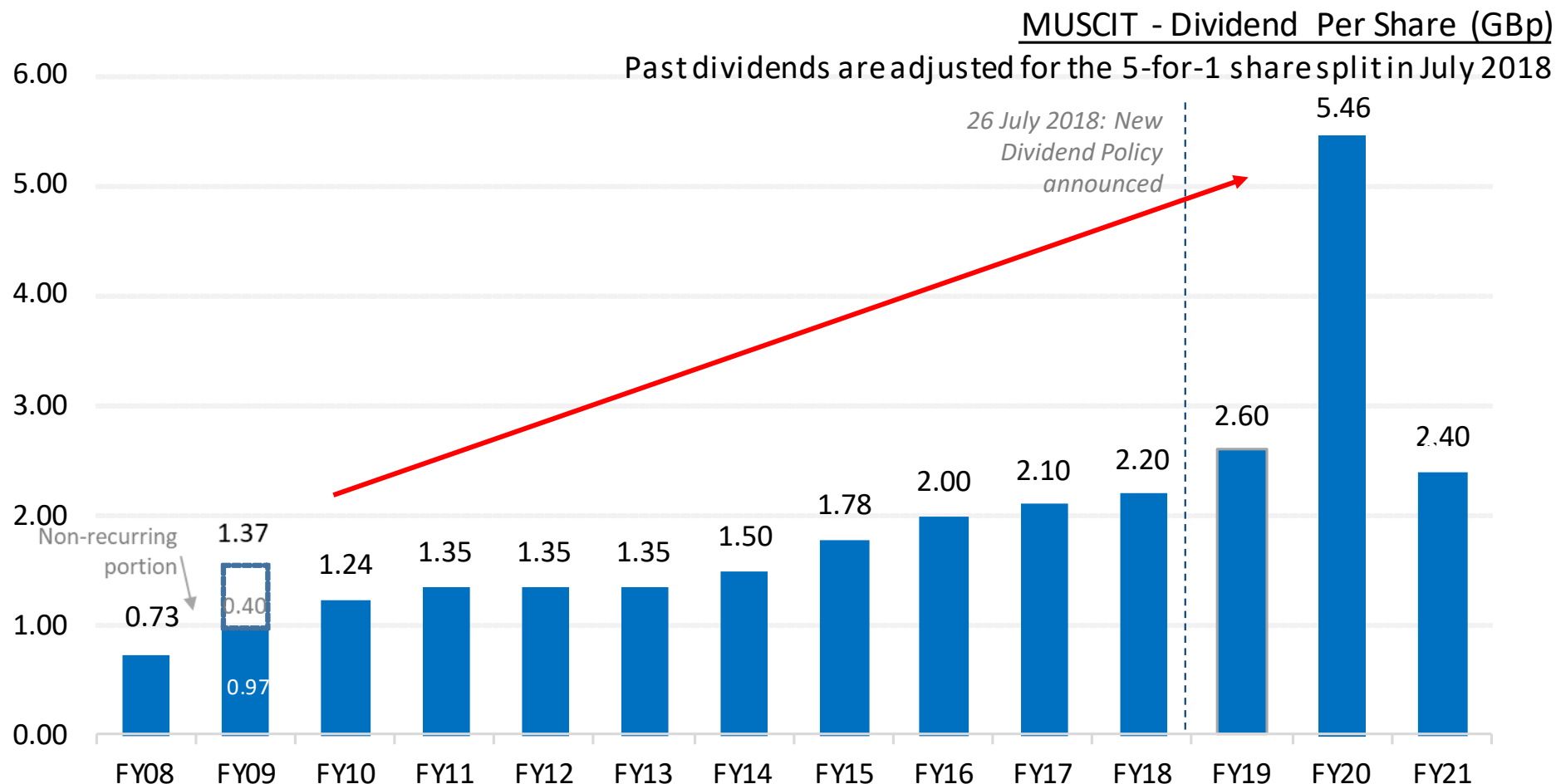


The discount is attractive at 16%



Source: Internal, Bloomberg.

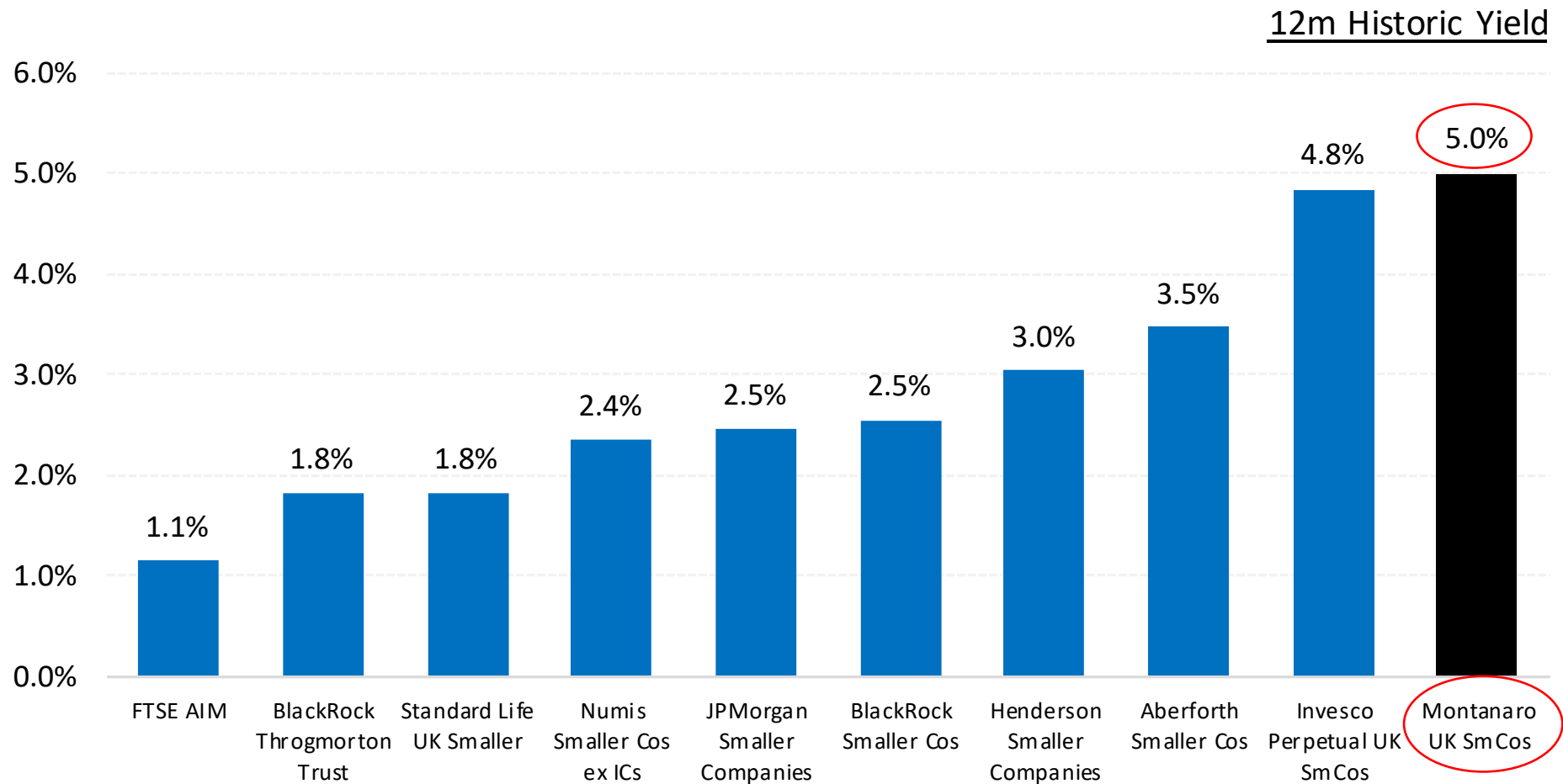
Unchanged dividend policy: 1% of NAV paid out each quarter



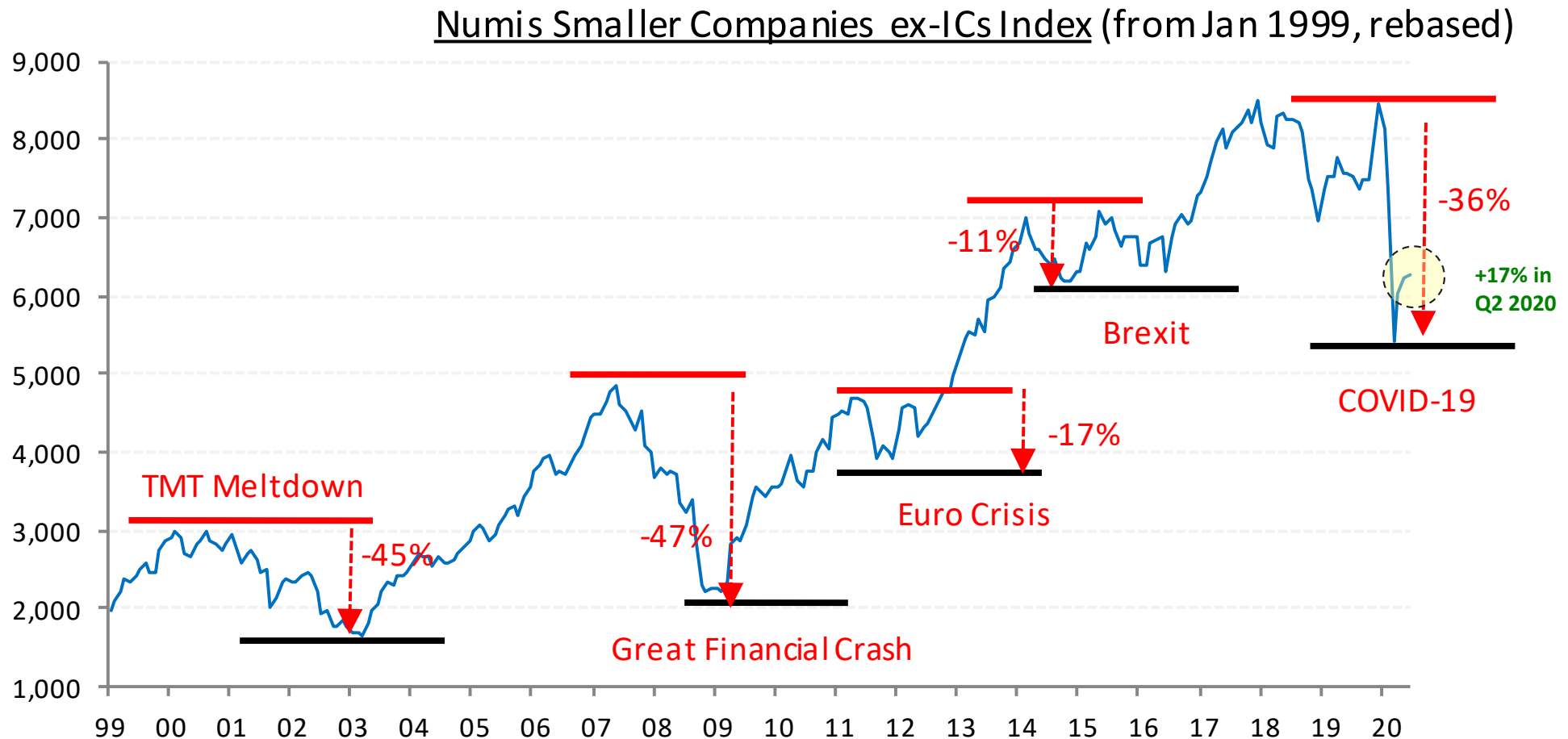
Source: Internal. Financial Year end is 31 March.

Note: On 27 July 2018 the Board announced a change of Dividend Policy. With effect from 30 September 2018, MUSCIT began paying quarterly dividends equivalent to 1% of the NAV (or roughly 4% per annum). The first quarterly dividend was paid on 23 November 2018.

MUSCIT offers the highest yield within its peer group

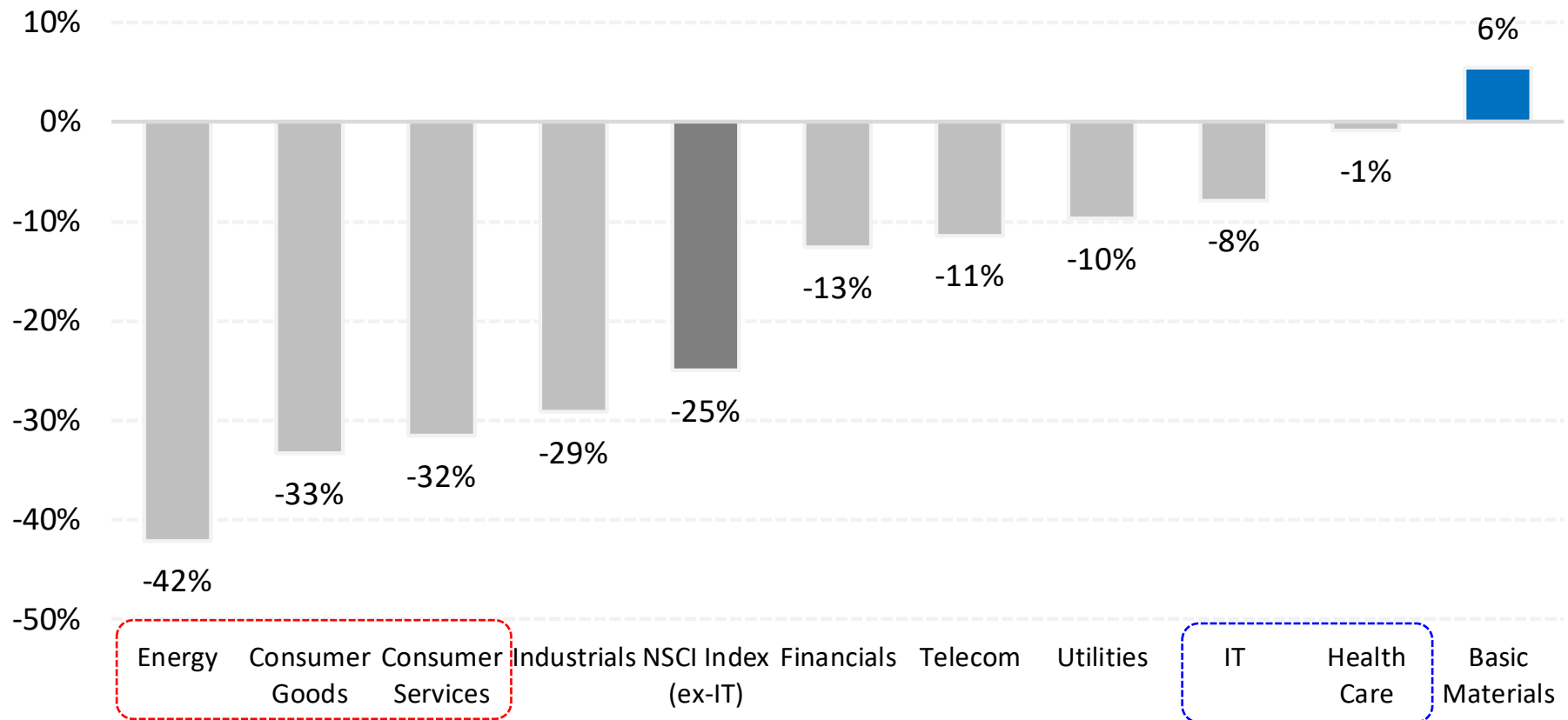


Outlook: UK SmallCap is up 26% from its low – plenty to claw back



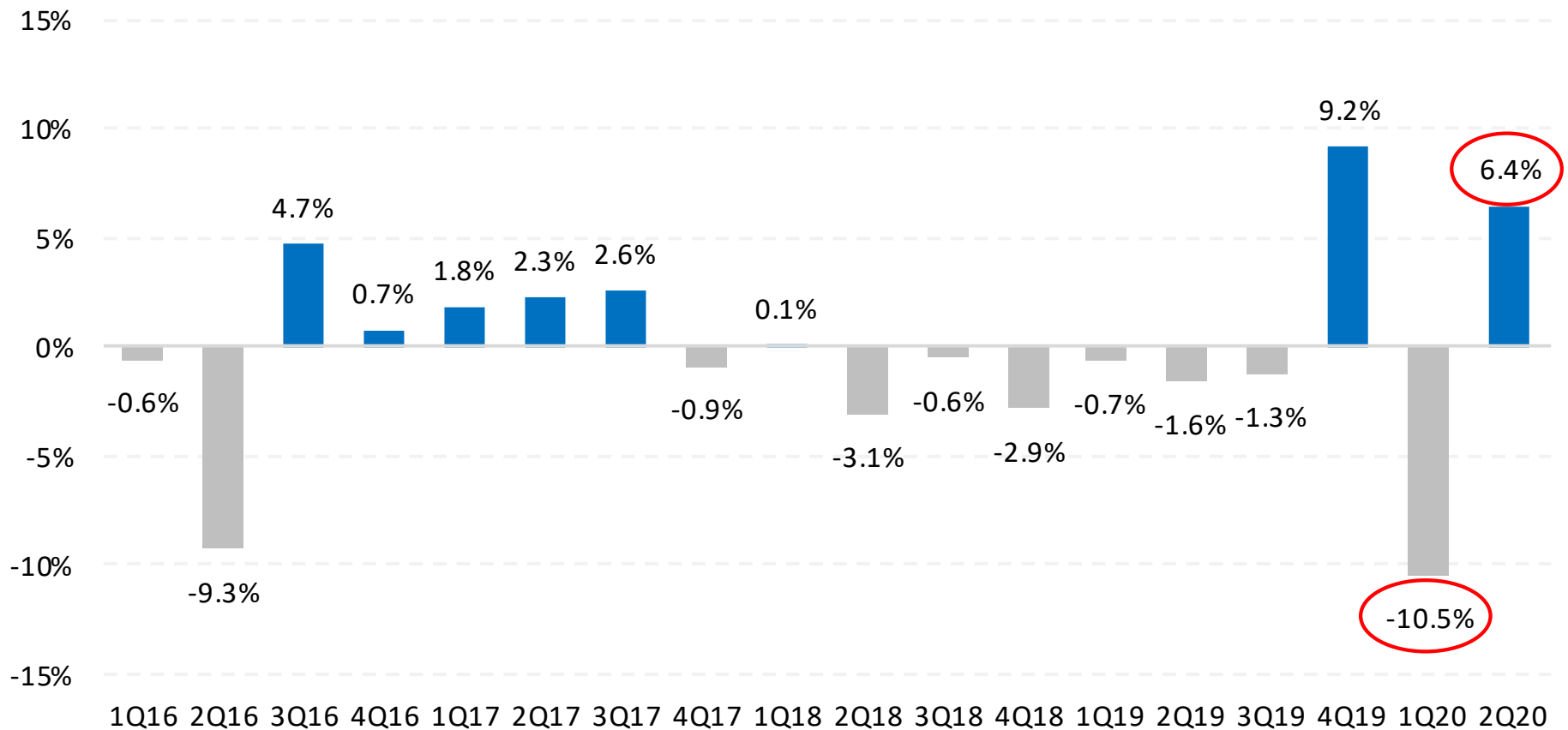
UK SmallCap is down 25% YTD, led by Energy and the Consumer

NSCI Sectors - Performance YTD (to 30 June 2020, TR in GBP)



SmallCap outperformed LargeCap by 6% in Q2 (after a tough Q1)

UK Small v. LargeCap (NSCI ex-IC v. FTSE All-Share, TR in GBP)

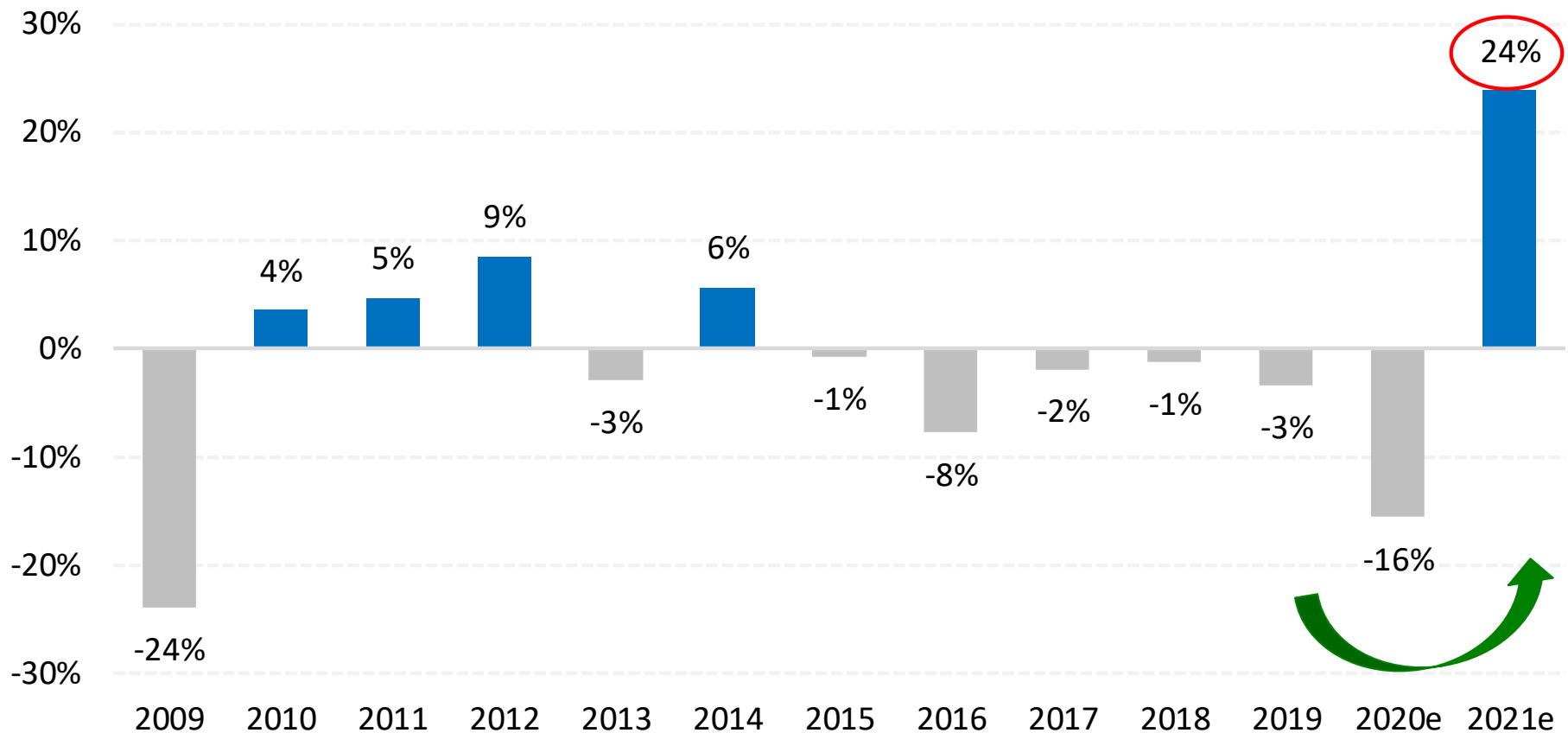


Source: Internal, Numis.

Note: Although the FTSE All-Share is not technically a LargeCap index, it is made up at c.80% by the FTSE 100 index and is therefore a good proxy for LargeCap.

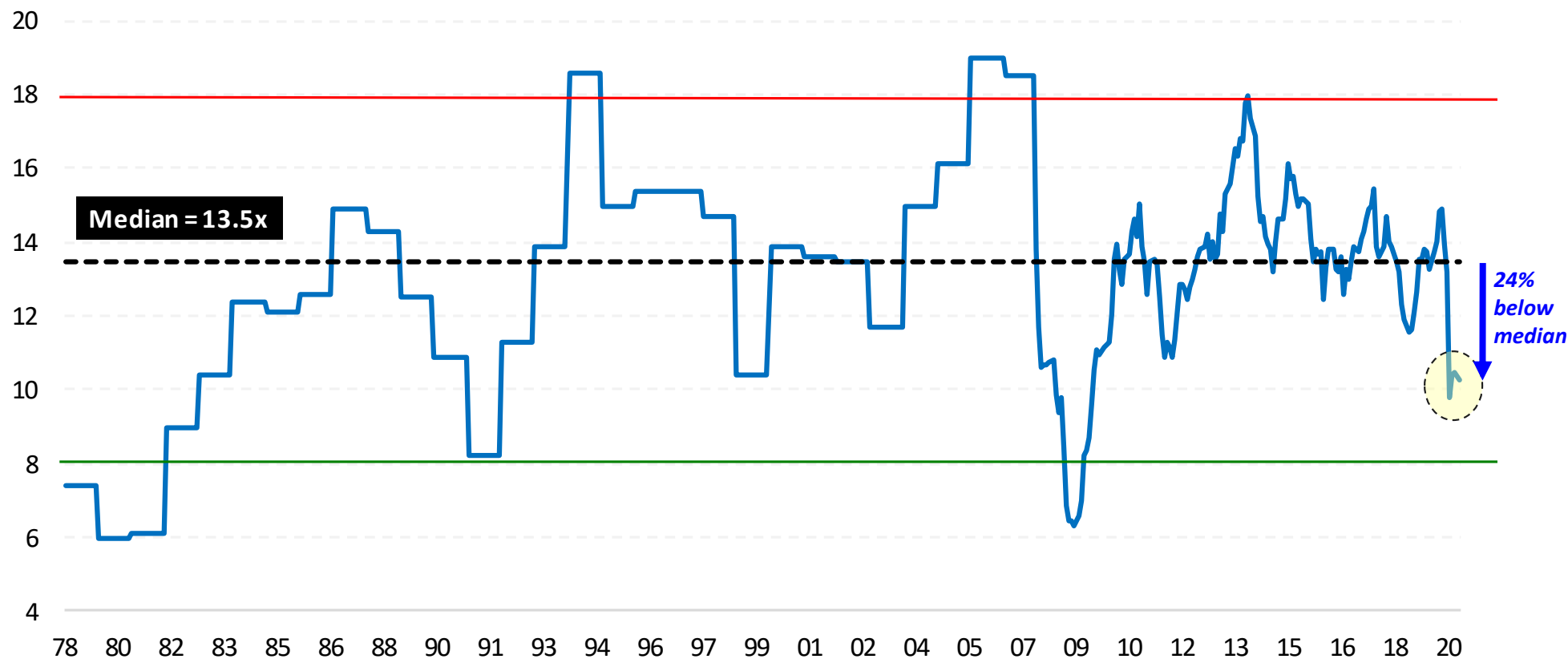
... as investors start looking at an earnings recovery in 2021

Numis Small Cap ex-IT index - % EPS Growth

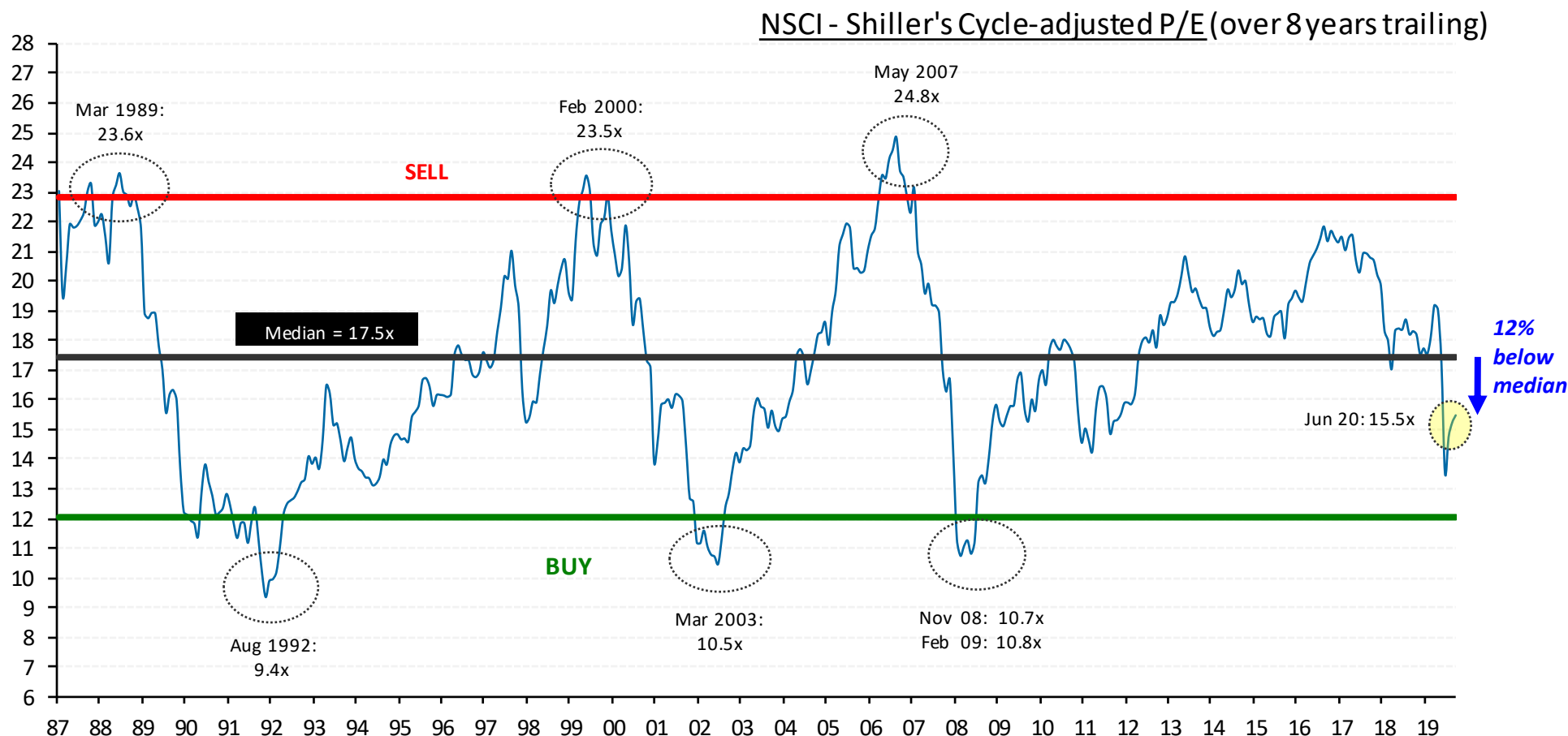


UK SmallCap looks cheap based on P/E (24% below median)

UK SmallCap - NSCI ex-ITs - 12-month trailing P/E



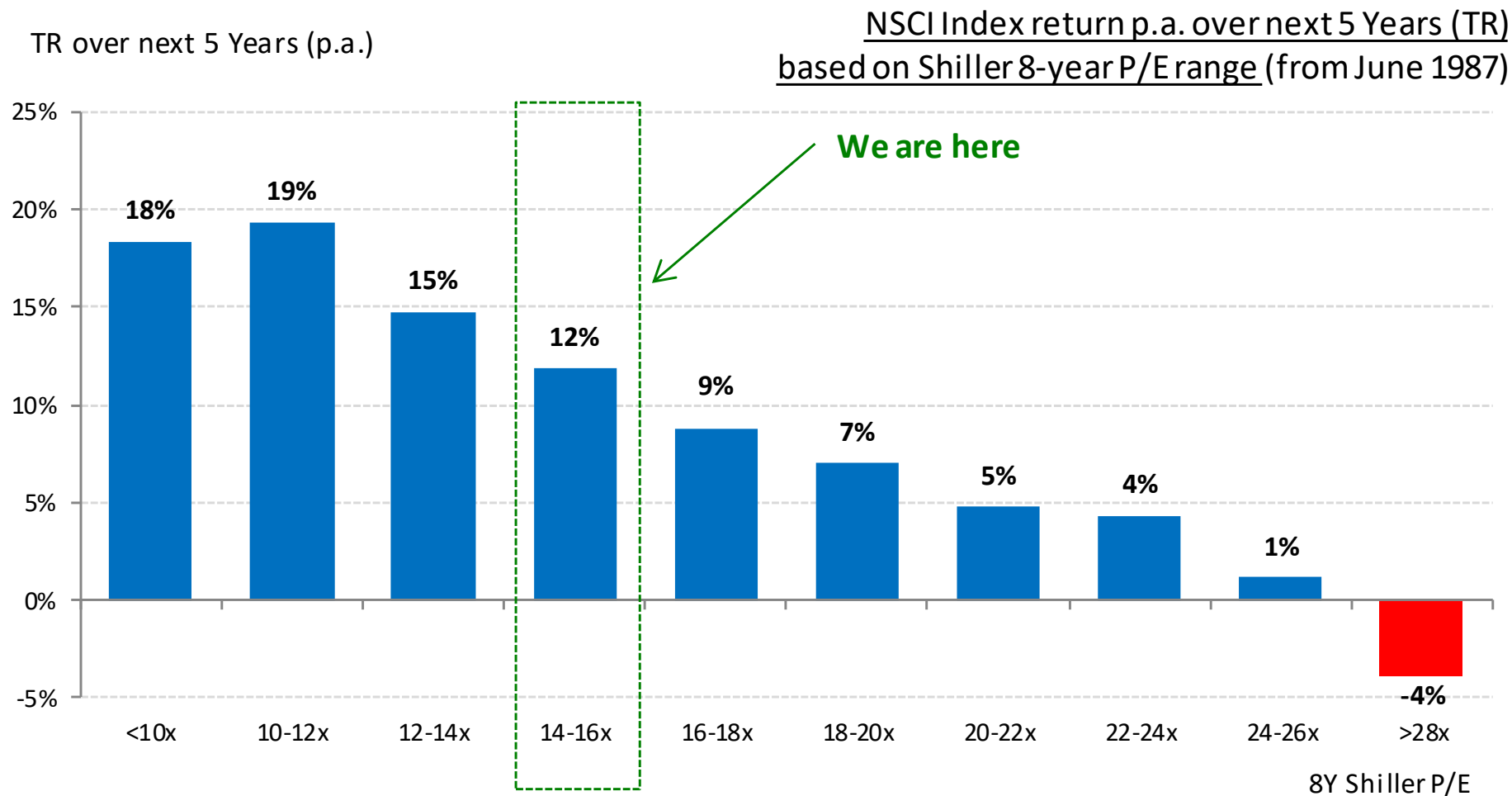
The 8-year Shiller P/E for UK SmallCap is 12% below median



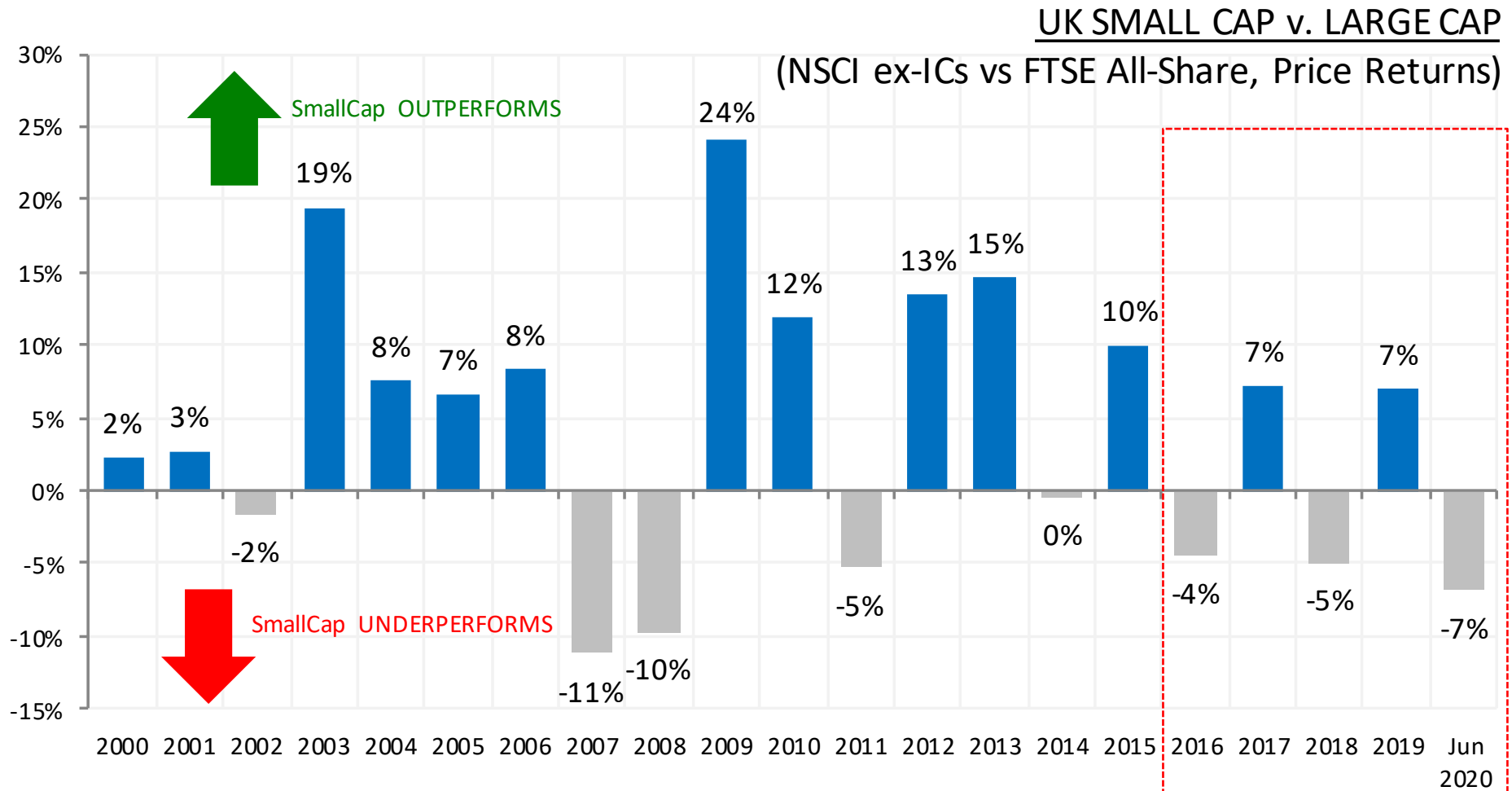
Source: Internal, Bloomberg, Numis.

Note: the SELL line (red) shows 1.5 Standard Deviations above Average. The BUY (green) line shows 1.5 Standard Deviations below Average.

... which suggests a 12% annual return over the next 5 years



It has been tough for UK SmallCap since the 2016 referendum

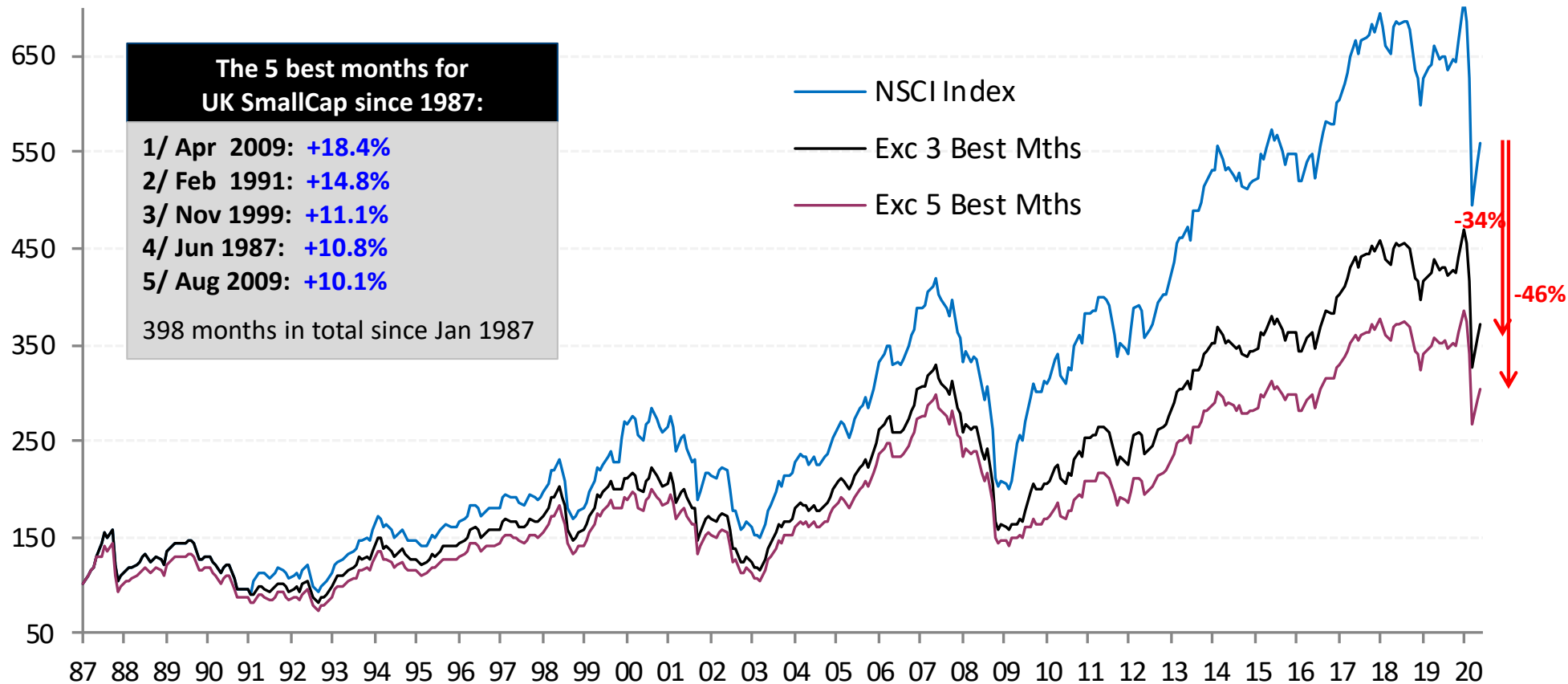


Source: Internal, Numis.

Note: Although the FTSE All-Share is not technically a LargeCap index, it is made up at c.80% by the FTSE 100 index and is therefore a good proxy for LargeCap.

But market timing is hard - and missing the recovery can be costly

Numis UK Smaller Companies Index - Price Returns (in GBP, Jan 1987 - Jun 2020)



UK SmallCap typically outperforms LargeCap by 7% p.a. in Bull Markets


BULL Markets in UK SmallCap					SmallCap	LargeCap **		Small v. LargeCap	
	Trough Date	Peak Date	# Months	% Change	% CAGR	% Change	% CAGR	% Change	CAGR
1	Jul-56	Sep-64	100	+250%	+16%	n/a	n/a	n/a	n/a
2	Nov-66	Jan-69	26	+96%	+36%	+98%	+36%	(2%)	(1%)
3	Jul-69	Dec-72	42	+124%	+26%	+66%	+16%	+58%	+10%
4	Dec-74	Sep-87	155	+3,207%	+31%	+1,707%	+25%	+1,500%	+6%
5	Jan-91	Jun-98	90	+155%	+13%	+170%	+14%	(16%)	(1%)
6	Sep-98	Feb-00	17	+64%	+41%	+27%	+18%	+36%	+22%
7	Mar-03	May-07	51	+183%	+28%	+98%	+18%	+85%	+10%
8	Feb-09	Jan-20	133	+256%	+12%	+121%	+7%	+136%	+5%
9	Mar-20	??	??	+34%	n.a.	+25%	n.a.	+9%	n/a
AVERAGE (exc. Current BM)			77	542%	25%				+7%

Source: Internal, Numis, Bloomberg.

* SmallCap = Numis Smaller Companies Index. ** LargeCap = FTSE All-Share index. Note: Although the FTSE All-Share is not technically a LargeCap index, it is made up at c.80% by the FTSE 100 index and is therefore a good proxy for LargeCap.

Our number crunching shows UK SmallCap offers plenty of upside

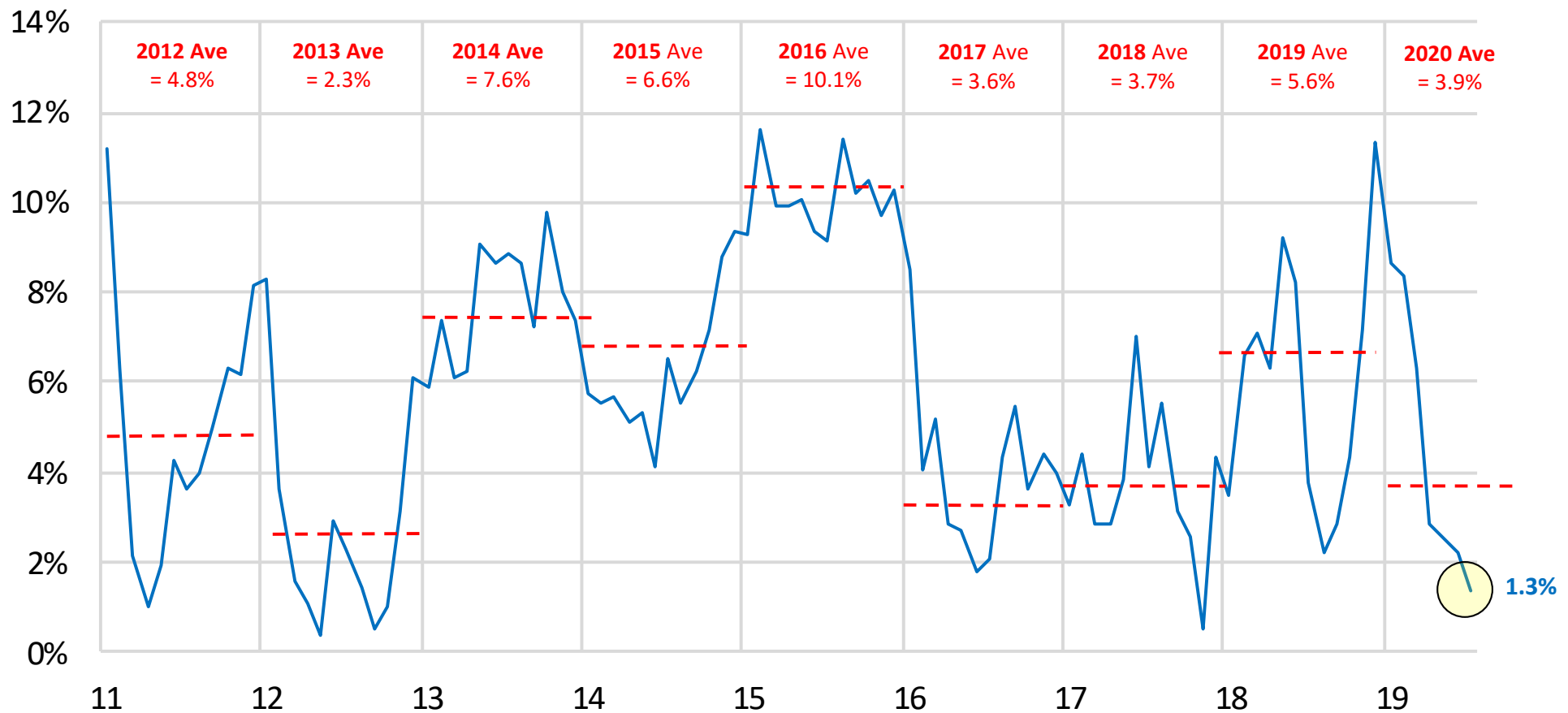
Estimated Annualised Total Returns over the next 7 years *:

<i>(per annum)</i>	Dividends	EPS Growth	P/E Change	Total Return	
Numis SmallCap (ex.IT)	2.9%	6.8%	0.8%	+10.9%	 <p>HIGHEST Expected Returns</p> <p>LOWEST Expected Returns</p>
MSCI Europe SmallCap	2.7%	7.7%	-0.8%	+9.9%	
FTSE All-Share	3.3%	6.3%	-1.0%	+8.9%	
MSCI Europe MidCap	2.7%	3.9%	0.5%	+7.1%	
MSCI Europe	3.1%	4.0%	-1.0%	+6.2%	
MSCI Europe LargeCap	3.2%	4.0%	-3.0%	+4.2%	
S&P 500	2.3%	-0.3%	-3.2%	-1.4%	
Small v. Large (Pan-Europe) - <i>per annum</i>				+5.7%	
Small v. Large (UK) - <i>per annum</i>				+2.0%	

Source: Internal model, based on data sourced from Bloomberg. * Estimated Returns are calculated internally based on four components which are assumed to mean-revert by nature: 1) sales growth, 2) dividend yield, 3) profit margin change and 4) PE ratio re-rating. P/E ratios exclude loss-makers. Note: Although the FTSE All-Share is not technically a LargeCap index, it is made up at c.80% by the FTSE 100 index and is therefore a good proxy for LargeCap.

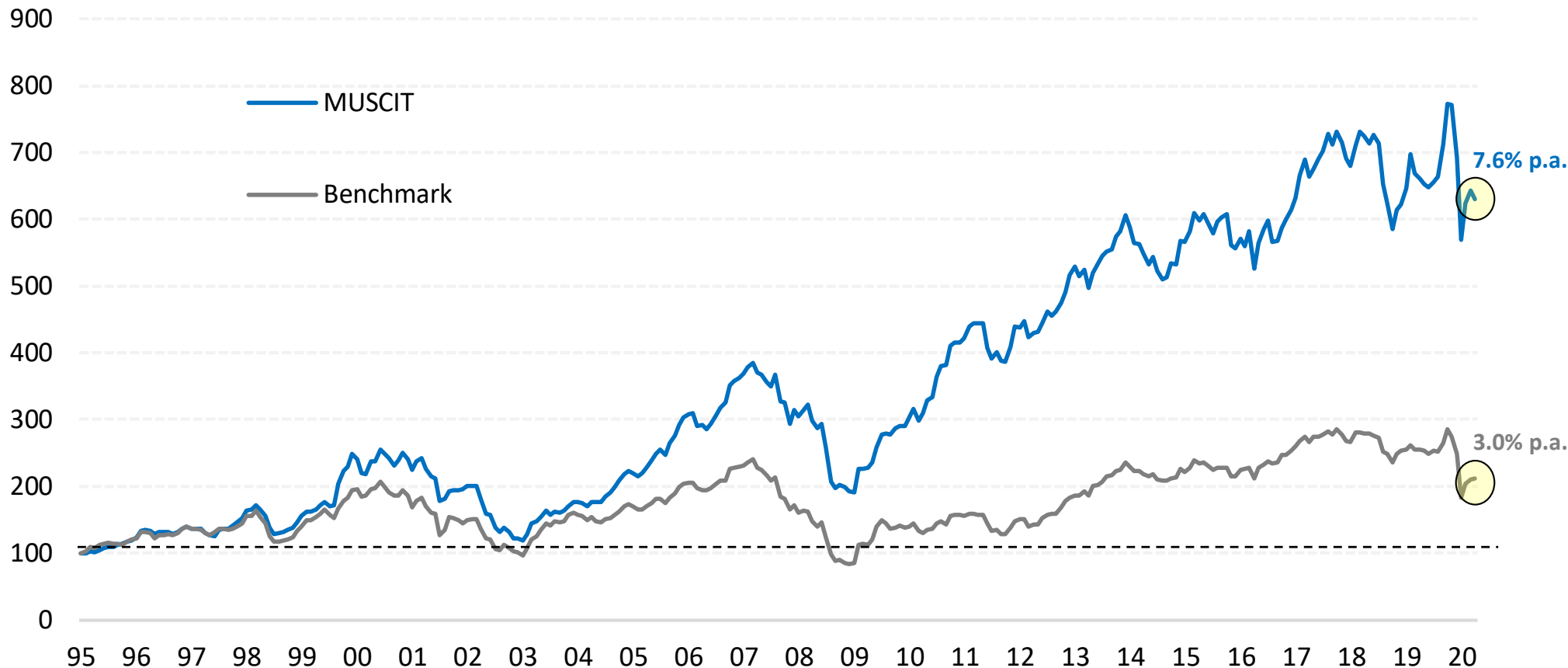
Gearing

MUSCIT Gearing (Annual)



MUSCIT has performed well since launch

Cumulative Returns since MUSCIT launch (31 Mar 1995 - 30 June 2020)



Source: Internal, Bloomberg.

Benchmark: Composite of the FTSE Small Cap (ex-ICs) until 1 April 2013 and the Numis Smaller Companies (ex-ICs) since then.

Note: Returns are NAV / Capital Returns.

Conclusions

- **The post-COVID recovery for UK SmallCap began in Q2:**
 - +17% outperforming LargeCap by 6% *
- The recovery will be bumpy – **watch out for weak, low quality companies:**
 - balance sheet strength increasingly important as government assistance fades
- **Portfolio quality has been strengthened:**
 - expecting a lower decline in 2020 earnings vs than the index
 - 38% of companies have net cash
- The **highest yielding** UK SmallCap Trust (based on 12-month historic yield – see page 27)
- **Discount of 16%** represents an attractive entry point

Quarterly Dividend History

Quarter ended	Dividend Paid (p)	Ex-Dividend Date	Record Date	Pay Date
30-Sep-18	1.43	01-Nov-18	02-Nov-19	23-Nov-18
31-Dec-18	1.17	31-Jan-19	01-Feb-19	22-Feb-19
31-Mar-19	1.29	25-Apr-19	26-Apr-19	24-May-19
30-Jun-19	1.32	25-Jul-19	26-Jul-19	23-Aug-19
30-Sep-19	1.31	24-Oct-19	25-Oct-19	22-Nov-19
31-Dec-19	1.54	06-Feb-20	07-Feb-20	06-Mar-20
31-Mar-20	1.14	23-Apr-20	24-Apr-20	26-May-20
30-Jun-20	1.26	23-Jul-20	24-Jul-20	21-Aug-20
Total FY 19	2.60			
Total FY 20	5.46			
Total FY 21 (to date)	2.40			

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