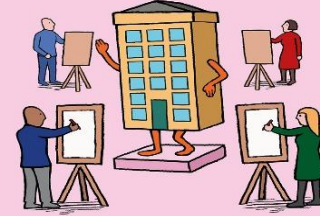


MONTANARO BLOG

The return of European SmallCap

By George Cooke

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After several difficult years, European smaller companies are turning. The recovery that emerged in early 2025 has continued to build through 2026.

Earnings have generally remained resilient and share price reactions to strong results have improved markedly - a welcome contrast to the period when even good updates were often met with indifference. Investor interest is broadening beyond a narrow group of MegaCap winners. Meanwhile, valuations across European SmallCap remain on a significant discount to the wider market, even as earnings growth expectations strengthen for 2026 and into 2027.

This is the environment in which active SmallCap investing can thrive. As a closed-ended trust, the Montanaro European Smaller Companies Trust (“MESCT”) can take a long-term approach, investing in under-researched, overlooked businesses across Europe without being pushed around by short-term flows.

The opportunity set is vast, but uncovering these companies requires significant time, resources and specialist expertise: meeting management teams, visiting companies, understanding niche end markets and identifying businesses capable of becoming long-term compounders before they are widely recognised by the market.

Finding tomorrow’s winners, *today*

We invest in companies benefiting from structural growth drivers such as electrification, AI infrastructure, energy efficiency, reshoring and industrial automation. Many operate behind the scenes in specialist niches, supplying the critical technologies that enable these trends.



Technoprobe, a specialist in semiconductor testing technology, is benefiting directly from increasing chip complexity and AI-driven demand. The combination of strong demand and exceptional

execution recently led the company to raise its 2027 financial targets significantly - and bring them forward by a year.



Belimo and Carel are global leaders in energy-efficient building technologies, supported by rising demand for smarter and more efficient infrastructure.

Kitron supplies high-reliability electronics into areas such as defence and healthcare, while Plejd is helping drive the adoption of smart lighting across the Nordic region.

These are not household names, but many are leaders in their niches, protected by deep customer relationships, technical expertise and high barriers to entry. Identifying them early, before the wider market catches on, is central to how MESCT invests.

Over time, this philosophy has produced several exceptional long-term investments. Swedish software company Fortnox, first purchased in 2017, delivered a total return of more than 2,100% prior to its acquisition in 2025. Belimo, held in the portfolio since 2006, has returned over 1,600%. In both cases, the opportunity came from recognising high-quality business models and powerful structural growth drivers at an early stage.



An encouraging backdrop

Quality growth has been out of favour since 2022, and as a Trust focused squarely within that style, MESCT has felt the headwind. What is encouraging is that stock selection within the portfolio has been positive over both three and five years: the underlying process has been adding value even as style ran against us. For a bottom-up investor, that is what matters most over the long run – and when the style turns, that compounded selection should be amplified.

The underlying fundamentals are equally robust. Over the past decade, the portfolio has delivered annualised EPS growth of approximately 16% and revenue growth of around 13%, while balance sheets are healthy - around half the portfolio holds net cash. The recent reporting season reinforced this picture, with a number of holdings delivering results ahead of expectations and upgrading their outlooks.

Even as the backdrop improves, many of Europe's most innovative smaller companies still trade well below the valuations and recognition afforded to their larger peers. That gap is the opportunity. MESCT offers investors a ready-made portfolio of those businesses built on years of research, due diligence and long-term conviction.

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