

Montanaro UK Smaller Companies Investment Trust
Quarterly Commentary – Q1 2024**Performance**

During the quarter, the NAV of the Trust increased by 1.6%, an outperformance of 1.4% versus the benchmark index.

The strongest contributions during the quarter came from **4imprint**, the provider of promotional products, which rose after full-year profits beat expectations and cash flow was strong. A number of brokers raised forecasts. **Clarksons**, the leading global shipping firm, reported another strong year despite the headwind of lower freight rates. **Greggs**, the popular bakery chain, announced encouraging trading and store roll out for 2024.

The weakest contributions came from **Big Yellow Group**, the market leader in the self-storage sector, which saw some profit taking after a strong run. **Watches of Switzerland Group**, which sells high end watches such as Rolex and Patek Philippe, fell after a weak Christmas. **XP Power**, the specialist power supply manufacturer, announced lower than expected revenue due de-stocking by their customers. In addition, they announced a fund raising to strengthen their balance sheet.

Manager comment – What have we been doing?

One of the beauties about managing an investment trust is that a Fund Manager does not face the challenge of inflows or outflows. As long-term investors, this means that we can keep trading activity low and reduce costs. We take a high conviction approach and back our best ideas – the 35 core holdings are unlikely to change much. Nonetheless, we are not idle and keep a close eye on company announcements and position sizes.

We build holdings over time. As an example, we started an investment in LondonMetric (LMP) last year to gain exposure to warehouse logistics (clients such as Tesco, Amazon and Ocado need to store their goods somewhere) and back Andrew Jones whom we consider an outstanding Manager (co-incidentally a fellow Buffett fan). They should also benefit from falling interest rates.

In January, quite unexpectedly, Andrew announced a £1.9bn acquisition of LXI through a merger to create a £4bn “giant”. Their portfolio is very different: Ramsay Healthcare operate acute hospitals, mental healthcare and teaching facilities, clinical practices etc; Budget Hotels (Travelodge & Premier Inns); Theme Parks (Warwick Castle, Thorpe Park Alton Towers - where I have taken my kids in the past); Foodstores and Industrials sites. Frankly, not obvious to us.

We were one of some 40 meetings with Andrew in January 2024. He met over 200 investors from 65 institutions to explain the strategy and opportunity. In property, our view is that you have to back the best people (what do we know about valuing property?). We have that in Big Yellow with Nick Vetch and Jimmy Gibson. In LMP we have Andrew. His comment when we met: *“This is not my first rodeo and it will not be the last one”*. We completed our holding afterwards. The deal was approved in March 2024 and appears to have been well received.

In any quarter, there are likely to be opportunities to lock in some profits / strong performance and to reinvest in holdings that have been weak and may offer more upside. Diploma is a great business and announced another excellent acquisition. But it now falls into the FTSE-100 prompting us to reduce our position – the Trust’s strategy is to focus on “small” companies. 4Imprint goes from strength to strength and reached over 7% of the portfolio, so we reduced the position (it remains a core holding). Cerillion, Judges Scientific and Boku all trade on AIM and have been hitting highs, so we top-sliced. We will add to all three if they fall.

Bytes Technology was a new investment last year that also rose strongly, so we took some profits. Out of the blue afterwards, the CEO Neil Murphy resigned due to some issues over the reporting of his share trading. This is a great shame as he has helped to create an excellent business. The weakness in share price that followed we see as an opportunity to build up our investment.

In addition, we continued to add to our core holdings in Marshalls (expecting improving end markets as we go forward); DiscoverIE; XP Power (we participated in the fund raising) and Big Technologies.

As we look ahead to the coming quarter, we are considering a replacement for Spirent to £2.00. After recent take-overs of Dechra Pharmaceuticals, Biffa and Ergomed, this shows how much value there is in UK SmallCap currently.

Outlook

After a period dominated by macroeconomics, it has begun to feel like a stock picker's market once again. Our companies have enjoyed generally positive earnings updates, indicating that operationally they are performing well.

We believe that SmallCap looks more attractive than it has for some time. Valuations are compelling (particularly when compared to LargeCap). The UK remains unloved on a global basis, despite the fact that it is home to some fantastic, world leading companies managed by outstanding management teams.

We do not anticipate major changes to the portfolio in the months ahead. If anything, we may increase gearing modestly to reflect the value that we see currently.

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