

Montanaro European Smaller Companies Trust plc  
LEI: 213800CWSC5B8BG3RS21

Unaudited Half-Yearly Report for the Six Months Ended 30 September 2023

The Board of Montanaro European Smaller Companies Trust plc (the "Company") announces the unaudited half-yearly results of the Company for the six months ended 30 September 2023.

## Highlights

Performance

	6 month	1 year	3 year	5 year	10 year	MAM*
<b>Capital Returns%<sup>2</sup></b>						
Share price	(13.2)	11.2	(14.9)	23.7	143.2	270.8
Net Asset Value ('NAV') per Ordinary share**	(12.5)	11.6	(4.3)	30.7	148.5	300.2
Benchmark (Composite) <sup>1**</sup>	(7.5)	10.4	4.3	7.2	93.3	157.2
<b>Total Returns%<sup>2</sup></b>						
Share price	(12.7)	12.0	(13.3)	28.1	168.1	353.9
NAV per Ordinary share**	(12.1)	12.1	(2.6)	35.0	171.5	380.0
Benchmark (Composite) <sup>1**</sup>	(5.7)	13.1	11.0	18.0	132.1	256.9

Sources: Morningstar Direct, Association of Investment Companies ('AIC'), Montanaro Asset Management Limited.

	As at 30 September 2023	As at 30 September 2022	12 month % change	As at 31 March 2023 (Audited)	6 month % change
Ordinary share price*	119.4p	107.4p	11.2%	137.6p	(13.2%)
NAV per Ordinary share**	138.5p	124.1p	11.6%	158.4p	(12.5%)
(Discount)/Premium to NAV <sup>2</sup>	(13.8%)	(13.5%)		(13.1%)	
Net assets** (£'000s)	262,360	235,173	11.6%	299,975	(12.5%)
Market capitalisation** (£'000s)	226,177	203,445	11.2%	260,652	(13.2%)
Net gearing employed <sup>2</sup>	2.2%	5.3%		3.3%	
	6 months ended 30 September 2023	6 months ended 30 September 2022	12 month % change	12 months ended 31 March 2023 (Audited)	6 month % change
Revenue return per Ordinary share	1.37p	1.02p	34.3%	1.10p	24.6%
Dividend per Ordinary share	0.225p	0.200p		0.970p	
Ongoing charges (annualised) <sup>2</sup>	1.1%	1.0%		1.0%	
Portfolio turnover (annualised)**	12%	19%		14%	

\*From 5 September 2006, when Montanaro Asset Management Limited ('MAM') was appointed as Investment Manager.

\*\*Details provided in the Glossary below.

<sup>(1)</sup>From 5 September 2006, the benchmark was the MSCI Europe SmallCap Index. The benchmark was changed on 1 June 2009 to the MSCI Europe SmallCap (ex UK) Index (in sterling terms).

<sup>(2)</sup>Refer to Alternative Performance Measures below.

## **Chairman's Statement**

### **Performance**

The first six months of the financial year saw a weak period of absolute and relative performance for your Company. The Net Asset Value fell by 12.5% to 138.5p per share, underperforming the Benchmark (MSCI Europe ex-UK SmallCap index), which fell by 7.5%.

At the end of the period, the discount was 13.8% versus 13.1% at the start. As a result, the share price fell by 13.2% during the period, providing a total return of -12.7%. The Board recognises that while it is not out of line with the peer group, the level of discount is high. The Board will continue to monitor the discount closely and stands ready to act should it be deemed to be in the interest of shareholders.

This is a disappointing performance but one which is not unexpected given the environment: "growth" companies have underperformed "value" and high quality companies have underperformed low quality. Montanaro seeks to invest exclusively in high quality, growing companies and so these style shifts acted as a significant headwind during the period.

Montanaro take a long-term approach to investing and despite this difficult period, over 5 and 10 years your Company has delivered NAV per share total returns of 35.0% and 171.5% respectively, outperforming the benchmark by 17.0% and 39.4%. Since Montanaro were appointed in September 2006, the NAV total return has been 380.0%, 123.1% ahead of the benchmark.

These returns have been delivered through consistent application of Montanaro's investment process, even in times when their quality growth style has been out of favour. The Board believes this approach provides the best possible foundation for your Company to deliver superior long-term returns in the future, as it has in the past. Montanaro have been able to successfully weather multiple economic cycles and take advantage of periods of high market volatility over the past 30 years. We believe this time will be no different.

### **Earnings and Dividends**

Revenue earnings per share rose to 1.37p in the period (2022: 1.02p). The Board has declared an interim dividend of 0.225p per Ordinary Share (2022: 0.2p per share) payable on 26 January 2024 to shareholders on the register on 22 December 2023. This increase is being proposed both to reflect the timing of when revenues are received and to provide a better balance between the interim and final dividends.

### **Borrowings**

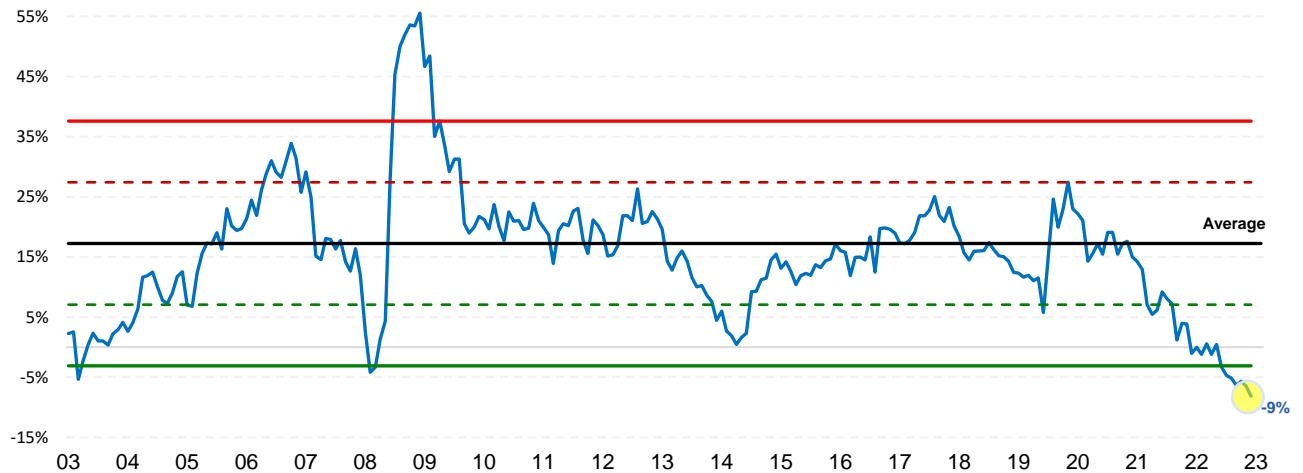
At the end of the period, the Company had gearing, net of cash, of 2.2% compared to 3.3% at 31 March 2023. During the period, the Company's borrowings in the form of a €10 million fixed rate loan and a €15 million revolving credit facility matured. The Board has replaced these facilities with a new €10 million fixed rate loan and a new €15 million revolving credit facility, both of which are due to mature on 13 September 2026.

### **Outlook**

Smaller companies have had a torrid time in recent years. In Continental Europe, they have underperformed their larger counterparts by more than 17% over both three- and five-year periods. Despite this, they have outperformed significantly over longer time periods.

The chart below shows the P/E ratio of small companies versus the P/E of the wider market in Continental Europe over the last two decades. For most of this period, small companies have traded at a higher P/E than the wider market, but they have recently moved to a discount. At the end of October 2023 they were trading at levels previously only seen in times of extreme stress. This suggests that small companies look cheap when compared to their larger counterparts.

**MSCI Europe ex-UK Small Cap v. MSCI Europe ex-UK – 12 month forward P/E**

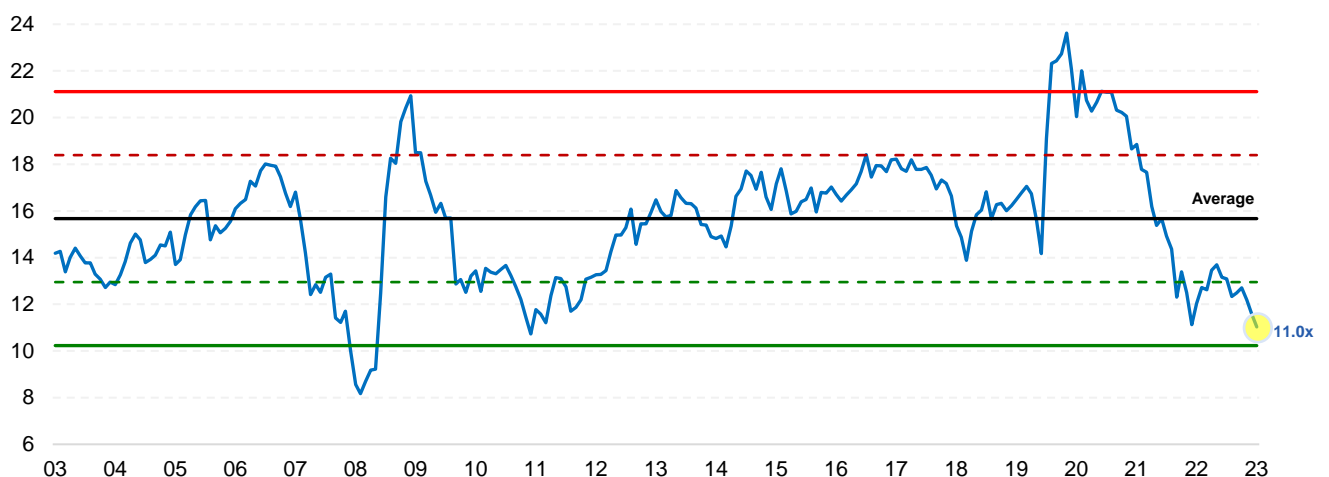


Source: Montanaro Asset Management, MSCI, FactSet.

Note: Thick red line = average +2 standard deviations (dashed red line = average + 1 standard deviation). Thick green line = average -2 standard deviations (dashed green line = average -1 standard deviation). Black line = average.

Small companies also look cheap relative to their own history: at the end of October 2023, the MSCI Europe ex-UK SmallCap Index was almost two standard deviations below its long-term average P/E.

**MSCI Europe ex-UK Small Cap - 12 month forward P/E**



Source: Montanaro Asset Management, MSCI, FactSet.

Note: Thick red line = average +2 standard deviations (dashed red line = average + 1 standard deviation). Thick green line = average -2 standard deviations (dashed green line = average -1 standard deviation). Black line = average.

It is historically unusual for quality growth companies to underperform during bear markets. Usually as recessionary fears rise and markets fall, investors seek the sanctuary of companies with high recurring revenues, defensive end markets and strong balance sheets. This time has been different because the drawdown in stock prices has been predominantly driven by a rapid rise in inflation and interest rates.

It remains to be seen what the future trajectory of interest rates will be but it is clear from listening to companies on the ground that the effects are now being felt in the “real” economy. Companies with stretched balance sheets are finding it increasingly difficult to roll over their debts, which heightens the risk of corporate defaults. However, we believe that your companies are well insulated from the risk of balance sheet stress, as nearly half of the portfolio has net cash on the balance sheet and the average Net Debt / EBITDA ratio for 2023 is a mere 0.3x.

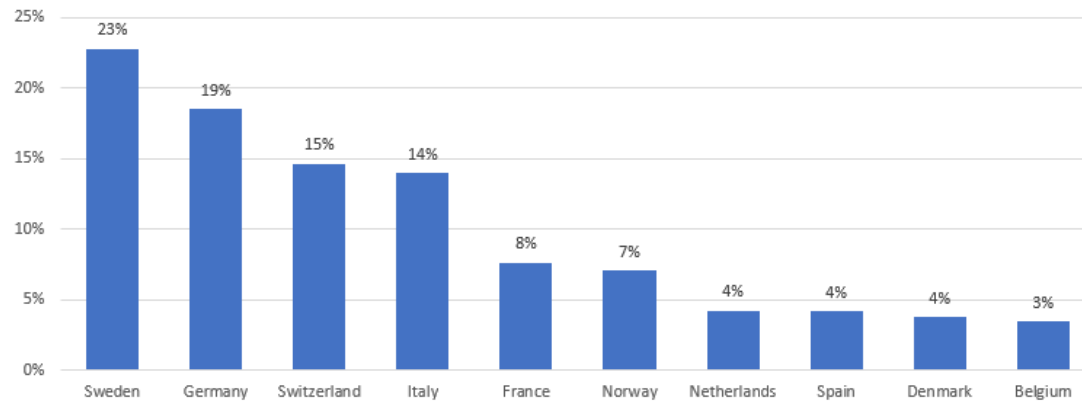
As the high quality, structurally growing companies in which your Company invests are well suited to more difficult economic environments, we would expect investors to start re-appraising the relative attractiveness of the Company's portfolio. This, coupled with highly attractive valuations for the asset class, means that we can look forward to the future with confidence.

**Portfolio Summary**  
**Twenty Largest Holdings**  
**As at 30 September 2023**

Holding	Country	Value £'000	% of investment portfolio	% of net assets
VZ Holding	Switzerland	12,810	4.77	4.88
Kitron	Norway	12,226	4.55	4.66
NCAB	Sweden	11,206	4.17	4.27
Fortnox	Sweden	10,965	4.08	4.17
MTU Aero Engines	Germany	10,423	3.88	3.97
Atoss Software	Germany	10,268	3.82	3.92
Melexis	Belgium	9,208	3.43	3.51
IMCD	Netherlands	8,843	3.29	3.37
Brembo	Italy	8,666	3.23	3.31
CTS Eventim	Germany	8,661	3.23	3.30
Brunello Cucinelli	Italy	7,808	2.91	2.98
Amadeus FiRe	Germany	7,698	2.87	2.93
Tecan	Switzerland	7,620	2.84	2.91
Belimo	Switzerland	7,222	2.69	2.75
Esker	France	7,044	2.62	2.69
Sartorius Stedim	France	6,851	2.55	2.61
Bachem	Switzerland	6,698	2.49	2.55
Christian Hansen	Denmark	6,558	2.44	2.50
Thule	Sweden	6,464	2.41	2.46
Viscofan	Spain	6,264	2.33	2.39
<b>Twenty Largest Holdings</b>		<b>173,503</b>	<b>64.60</b>	<b>66.13</b>

## Geographical Analysis

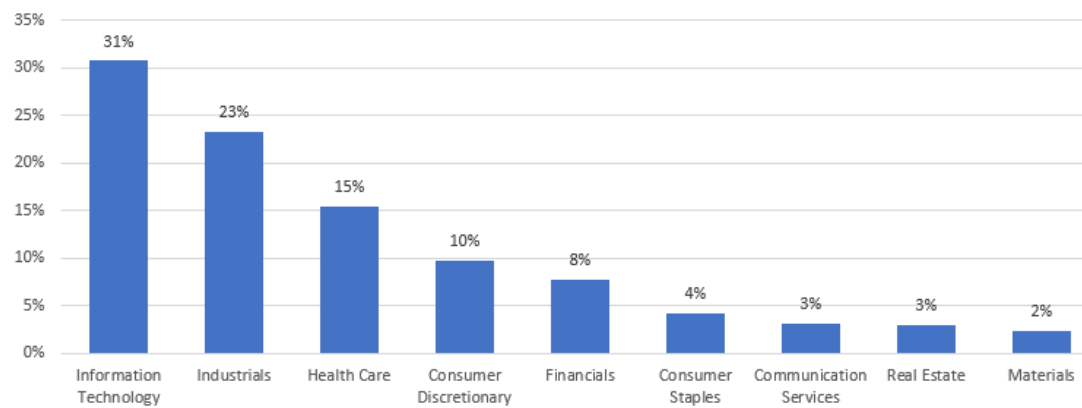
As at 30 September 2023



Source: Montanaro Asset Management Limited

## Sector Analysis

As at 30 September 2023



Source: Montanaro Asset Management Limited

## **Interim Management Report**

The important events that have occurred during the period under review and the key factors influencing the financial statements are set out in the Chairman's Statement above.

### **Statement of Principal Risks and Uncertainties:**

Most of the principal risks that could threaten the Company's objective, strategy, future returns and solvency are market related and comparable to those of other investment trusts investing primarily in quoted securities. The principal risks faced by the Company are investment and strategic, gearing, financial, discount volatility, regulatory, operational, cyber security, ESG and manager risks. These risks and the way in which they are mitigated are described in more detail under the heading 'Principal and Emerging Risks and Uncertainties and Risk Mitigation' within the Business Model and Strategy section on pages 14 to 17 of the Company's Annual Report for the year ended 31 March 2023. The Company's principal risks and uncertainties have not changed materially since the date of that report and are not expected to change materially for the remaining six months of the Company's financial year.

### **Related Party Transactions:**

Related party transactions are disclosed in note 13 below. There have been no material changes to the related party transactions described in the last Annual Report.

### **Going Concern:**

The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future and for a period of at least 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

## **Directors' Responsibility Statement in respect of the Half-Yearly Report**

We confirm that to the best of our knowledge:

- the condensed set of financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Interim Management Report includes a fair review of the information required by the Disclosure Guidance and Transparency Rule ('DTR') 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the financial statements;
- the Statement of Principal Risks and Uncertainties shown above is a fair review of the information required by DTR 4.2.7R; and
- the Chairman's Statement, together with the condensed set of financial statements, include a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Company during the period, and any changes in the related party transactions described in the last Annual Report that could do so.

The Half-Yearly Report and Accounts were approved by the Board and the above responsibility statement was signed on its behalf by:

**R M CURLING**  
Chairman  
11 December 2023

## Condensed Income Statement (unaudited)

for the six months to 30 September 2023

		Six months to 30 September 2023 £'000			Six months to 30 September 2022 £'000			Year to 31 March 2023 (audited) £'000		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments at fair value through profit or loss		-	(37,997)	(37,997)	-	(88,982)	(88,982)	-	(23,070)	(23,070)
Exchange gains/(losses)			115	115	-	(500)	(500)	-	(542)	(542)
<b>Revenue</b>										
Investment income	3	3,745	-	3,745	2,981	-	2,981	4,130	-	4,130
<b>Total income</b>		<b>3,745</b>	<b>(37,882)</b>	<b>(34,137)</b>	2,981	(89,482)	(86,501)	4,130	(23,612)	(19,482)
<b>Expenditure</b>										
Management expenses	4	(413)	(766)	(1,179)	(396)	(736)	(1,132)	(804)	(1,494)	(2,298)
Other expenses		(362)	-	(362)	(293)	-	(293)	(620)	-	(620)
<b>Total expenditure</b>		<b>(775)</b>	<b>(766)</b>	<b>(1,541)</b>	(689)	(736)	(1,425)	(1,424)	(1,494)	(2,918)
<b>Return before finance costs and taxation</b>		<b>2,970</b>	<b>(38,648)</b>	<b>(35,678)</b>	2,292	(90,218)	(87,926)	2,706	(25,106)	(22,400)
Finance costs		(41)	(97)	(138)	(39)	(73)	(112)	(84)	(156)	(240)
<b>Return before tax</b>		<b>2,929</b>	<b>(38,745)</b>	<b>(35,816)</b>	2,253	(90,291)	(88,038)	2,622	(25,262)	(22,640)
Tax		(340)	-	(340)	(321)	-	(321)	(538)	-	(538)
<b>Return after taxation</b>		<b>2,589</b>	<b>(38,745)</b>	<b>(36,156)</b>	1,932	(90,291)	(88,359)	2,084	(25,262)	(23,178)
<b>Return per share:</b>	5	<b>1.37p</b>	<b>(20.45p)</b>	<b>(19.08p)</b>	1.02p	(47.67p)	(46.65p)	1.10p	(13.34p)	(12.24p)

The total column of this statement represents the Company's Income Statement and Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards.

The supplementary revenue return and capital return columns are both prepared under guidance published by the AIC.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period.



### Condensed Balance Sheet (unaudited) as at 30 September 2023

	Note	As at 30 September 2023 £'000	As at 30 September 2022 £'000	As at 31 March 2023 (audited) £'000
<b>Non-current assets</b>				
Investments held at fair value through profit and loss	7	268,485	247,129	310,308
<b>Current assets</b>				
Trade and other receivables		748	886	880
Cash and cash equivalents		2,808	771	3,225
<b>Total assets</b>		<b>272,041</b>	<b>248,786</b>	<b>314,413</b>
<b>Current liabilities</b>				
Trade and other payables		(1,099)	(472)	(1,260)
Revolving credit facility	8	-	(4,384)	(4,391)
Interest-bearing bank loans	8	-	(8,757)	(8,787)
		(1,099)	(13,613)	(14,438)
<b>Non-current liabilities</b>				
Interest-bearing bank loans	8	(8,582)	-	-
<b>Total liabilities</b>		<b>(9,681)</b>	<b>(13,613)</b>	<b>(14,438)</b>
<b>Net assets</b>		<b>262,360</b>	<b>235,173</b>	<b>299,975</b>
<b>Capital and reserves</b>				
Called-up share capital		9,471	9,471	9,471
Share premium account		44,057	44,057	44,057
Capital redemption reserve		2,212	2,212	2,212
Capital reserve		201,836	175,552	240,581
Revenue reserve		4,784	3,881	3,654
<b>Shareholders' funds</b>		<b>262,360</b>	<b>235,173</b>	<b>299,975</b>
<b>NAV per share</b>	10	<b>138.5p</b>	124.1p	158.4p

## Condensed Statement of Changes in Equity

for the six months ended 30 September 2023 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 April 2023	9,471	44,057	2,212	240,581	3,654	299,975
Return after taxation	-	-	-	(38,745)	2,589	(36,156)
Dividends paid	-	-	-	-	(1,459)	(1,459)
<b>Balance at 30 September 2023</b>	<b>9,471</b>	<b>44,057</b>	<b>2,212</b>	<b>201,836</b>	<b>4,784</b>	<b>262,360</b>

for the six months ended 30 September 2022 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 April 2022	9,471	44,057	2,212	265,843	3,322	324,905
Return after taxation	-	-	-	(90,291)	1,932	(88,359)
Dividends paid	-	-	-	-	(1,373)	(1,373)
Balance at 30 September 2022	9,471	44,057	2,212	175,552	3,881	235,173

for the year ended 31 March 2023 (audited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital Reserve £'000	Revenue reserve £'000	Total £'000
As at 1 April 2022	9,471	44,057	2,212	265,843	3,322	324,905
Return after taxation	-	-	-	(25,262)	2,084	(23,178)
Dividends paid	-	-	-	-	(1,752)	(1,752)
<b>Balance at 31 March 2023</b>	<b>9,471</b>	<b>44,057</b>	<b>2,212</b>	<b>240,581</b>	<b>3,654</b>	<b>299,975</b>

**Condensed Statement of Cash Flows (unaudited) for the six months ended 30 September 2023**

	<b>Six months to 30 September 2023 £'000</b>	Six months to 30 September 2022 £'000	Year to 31 March 2023 (audited) £'000
Net cash inflow from operating activities	<b>5,376</b>	4,717	7,701
Net cash outflow from financing activities	<b>(5,968)</b>	(5,813)	(6,316)
	<b>(592)</b>	(1,096)	1,385
Exchange gains	<b>64</b>	46	19
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(528)</b>	(1,050)	1,404
Reconciliation of profit before finance costs and tax to net cash inflow from operating activities			
Return before taxation	<b>(35,678)</b>	(88,038)	(22,640)
Losses on investments held at fair value	<b>37,997</b>	88,982	23,070
Exchange gains/(losses)	<b>(115)</b>	500	542
Finance costs	<b>226</b>	112	240
Withholding tax	<b>(340)</b>	(373)	(450)
Purchases of investments	<b>(14,403)</b>	(22,614)	(31,524)
Sales of investments	<b>17,805</b>	26,243	38,643
Changes in working capital and other non-cash items	<b>(116)</b>	(95)	(180)
<b>Net cash inflow from operating activities</b>	<b>5,376</b>	4,717	7,701

## Notes to the Accounts (unaudited)

1. The condensed unaudited financial statements have been prepared in accordance with International Financial Reporting Standard ('IFRS') IAS 34 'Interim Financial Reporting' and the accounting policies set out in the statutory accounts of the Company for the year ended 31 March 2023. The condensed financial statements do not include all of the information required for a complete set of IFRS financial statements and should be read in conjunction with the financial statements of the Company for the year ended 31 March 2023, which were prepared under full IFRS requirements.
2. Earnings for the first six months should not be taken as a guide to the results for the full year.
3. Income for the period is derived from:

	<b>Six months to 30 September 2023 £'000</b>	Six months to 30 September 2022 £'000	Year to 31 March 2023 (audited) £'000
Overseas dividend income	<b>3,661</b>	2,933	4,078
Exchange (losses)/gains	<b>(4)</b>	35	23
Other income	<b>88</b>	13	29
Total	<b>3,745</b>	2,981	4,130

4. Management fee:

As set out in the Company's Annual Report, the management fee is linked to the size of the Company, as follows:

- 0.90% p.a. of the amount of the Company's market capitalisation up to £500 million;
- 0.75% p.a. of the amount of the Company's market capitalisation between £500 million and £750 million; and
- 0.65% p.a. of the amount of the Company's market capitalisation above £750 million.

The management fee is payable monthly in arrears.

MAM is also paid a fee of £50,000 per annum for acting as the Company's Alternative Investment Fund Manager ('AIFM').

5. Return per Share

Earnings per Ordinary Share is based on a weighted average of 189,427,600 Ordinary Shares in issue during the period (year ended 31 March 2023: 189,427,600 and six months ended 30 September 2022: 189,427,600), excluding those shares bought back and held in treasury (nil at 30 September 2023).

6. Dividends

The interim dividend relating to the year ended 31 March 2024 of 0.225p per Ordinary Share will be paid on 26 January 2024 to shareholders on the register on 22 December 2023. In accordance with IFRS, this dividend has not been recognised in these financial statements. The ex-dividend date for this payment is 21 December 2023.

A final dividend relating to the year ended 31 March 2023 of 0.77p per Ordinary Share was paid during the six months to 30 September 2023 and amounted to £1,459,000.

7. Investments at fair value through profit or loss

	<b>30 September 2023 £'000</b>	30 September 2022 £'000	31 March 2023 (audited) £'000
Opening book cost	<b>193,796</b>	196,337	196,337
Holding gains	<b>116,512</b>	143,451	143,451
Opening fair value	<b>310,308</b>	339,788	339,788
Purchases at cost	<b>13,991</b>	22,427	32,076
Sales – proceeds	<b>(17,817)</b>	(26,104)	(38,486)
– gains on sales	<b>5,450</b>	4,019	3,869
Holding (losses)/gain	<b>(43,447)</b>	(93,001)	(26,939)
Closing fair value	<b>268,485</b>	247,129	310,308
Closing book cost	<b>195,420</b>	196,679	193,796
Holding gains	<b>73,065</b>	50,450	116,512
Closing valuation	<b>268,485</b>	247,129	310,308

8. Borrowings

Revolving credit facility

	<b>Six months to 30 September 2023 £'000</b>	Six months to 30 September 2022 £'000	Year to 31 March 2023 (audited) £'000
Opening balance	<b>4,391</b>	-	8,450
(Repaid)/drawn down	<b>(4,327)</b>	4,439	(4,325)
Foreign currency exchange (gain)/loss	<b>(64)</b>	55	266
Closing balance	<b>-</b>	4,384	4,391

The Company's €15 million three year secured revolving credit facility with ING matured on 13 September 2023. The Company entered into a three year secured revolving credit facility which will mature on 13 September 2026.

As at 30 September 2023, no amounts were drawn down under this facility.

Interest bearing bank loans

	<b>Six months to 30 September 2023 £'000</b>	Six months to 30 September 2022 £'000	Year to 31 March 2023 (audited) £'000
Opening balance	<b>8,787</b>	8,434	8,434
Loan set up costs	<b>(99)</b>	-	-
Amortisation of set-up costs	<b>6</b>	5	10
Non-cash foreign currency movements	<b>(112)</b>	318	343
Closing balance	<b>8,582</b>	8,757	8,787

The Company's fixed rate loan facilities totaling €10 million matured on 13 September 2023. The Company refinanced €10 million by entering into a three year secured loan at a fixed rate of 5.105% per annum (previously 1.33%) with ING Bank N.V. ('ING'). This loan will mature on 13 September 2026.

The carrying value of the balances above approximates to fair value.

9. Share Capital

	30 September 2023		31 March 2023 (audited)	
	Number of shares	£'000	Number of shares	£'000
Allotted, called-up and fully paid:				
Ordinary shares of 2p each (31 March 2023: 2p each)				
Balance at beginning of period	189,427,600	9,471	189,427,600	9,471
Balance at end of period	189,427,600	9,471	189,427,600	9,471

10. Net Assets Value per Ordinary Share

The NAV per Ordinary Share was based on 189,427,600 Ordinary Shares in issue at the end of the period (31 March 2023: 189,427,600 and 30 September 2022: 189,427,600), excluding those shares bought back and held in treasury. As at 30 September 2023, there were no Ordinary Shares held in treasury (31 March 2023: nil and 30 September 2022: nil).

11. Fair Value Hierarchy

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

- Level 1 – valued using quoted prices unadjusted in active markets for identical assets or liabilities.
- Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included within Level 1.
- Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

The tables below set out fair value measurements of financial instruments as at the period end, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>30 September 2023</b>				
Investments	268,485	-	-	268,485
Loan	-	(8,582)	-	(8,582)
<b>30 September 2022</b>				
Investments	247,129	-	-	247,129
Loan	-	(13,141)	-	(13,141)
<b>31 March 2023 (audited)</b>				
Investments	310,308	-	-	310,308
Loan	-	(13,178)	-	(13,178)

There were no transfers between levels during the period ended 30 September 2023 (year ended 31 March 2023 and period ended 30 September 2022: None).

Other aspects of the Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements, as at and for the year ended, 31 March 2023.

12. Rates of Exchange (to Sterling)

	<b>30 September 2023 £'000</b>	30 September 2022 £'000	31 March 2023 (audited) £'000
Danish Krone	<b>8.60</b>	8.48	8.48
Euro	<b>1.15</b>	1.14	1.14
Norwegian Krone	<b>13.03</b>	12.17	12.95
Swedish Krona	<b>13.32</b>	12.40	12.82
Swiss Franc	<b>1.12</b>	1.10	1.13

13. Related Parties

The following are considered related parties: the Board of Directors. The Directors of the Company received fees for their services and dividends from their shareholdings in the Company as outlined below.

The amount charged by the Manager during the period was £1,179,000 (six months to 30 September 2022: £1,132,000; year to 31 March 2023: £2,298,000). At 30 September 2023, the amount due to the Manager, included in creditors, was £575,000. The existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies.

*Directors' Emoluments*

At 30 September 2023, the Board consisted of three non-executive Directors. All Directors are considered to be independent of the Manager. None of the Directors has a service contract with the Company. The Chairman receives an annual fee of £41,000, the Chair of the Audit Committee receives an annual fee of £35,500 and non-executive Directors receive £29,500 per annum.

At 30 September 2023, the amount outstanding in respect of Directors' fees was £nil (31 March 2023: £nil).

At 30 September 2023, the interests of the Directors in the Ordinary Shares of the Company were as follows:

	<b>30 September 2023 No. of shares</b>	<b>31 March 2023 No. of shares</b>
R M Curling	100,000	100,000
G Neilly	62,178	61,867
C A Roxburgh	62,352	62,352

The following changes in the Directors' interests occurred between 30 September 2023 and the date of this report:

C A Roxburgh acquired 382 shares on 12 October 2023.

14. Statutory Accounts

These are not statutory accounts in terms of Section 434 of the Companies Act 2006 and have not been audited or reviewed by the Company's Auditor. The information for the year ended

31 March 2023 has been extracted from the latest published financial statements and which have been filed with the Registrar of Companies. The Auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006. No statutory accounts in respect of any period after 31 March 2023 have been reported on by the Company's Auditor or delivered to the Registrar of Companies.



## Alternative Performance Measures (“APMs”)

The Company uses the following APMs:

### Capital Return – NAV and Share Price Returns

Capital returns measure the effect of any rise or fall in the share price or NAV, excluding any dividends paid. As at 30 September 2023, the 6 month NAV Capital Return was (12.5%), and the 6 month Ordinary share price Capital Return was (13.2%), as shown in the Highlights above.

#### NAV Capital Return calculation as at 30 September 2023

NAV per share as at 30 September 2023	138.50	(a)
NAV per share as at 31 March 2023	158.40	(b)
<b>NAV Capital Return</b>	<b>(12.5%)</b>	<b>((a-b)/b)</b>

#### Share Price Capital Return calculation as at 30 September 2023

Share Price as at 30 September 2023	119.40	(a)
Share Price as at 31 March 2023	137.60	(b)
<b>Share Price Capital Return</b>	<b>(13.2%)</b>	<b>((a-b)/b)</b>

### Total Return – NAV and Share Price Returns

Total returns measure the effect of any rise or fall in the share price or NAV, plus dividends paid which are reinvested at the prevailing NAV or share price on the ex- dividend date. As at 30 September 2023, the 6 month NAV Total Return was (12.1%), and the 6 month Ordinary share price Total Return was (12.7%), as shown in the Highlights above.

#### NAV Total Return calculation as at 30 September 2023

NAV per share as at 30 September 2023	138.50	(c)
NAV per share as at 31 March 2023	158.40	(d)
Dividend adjustment factor (+1)	1.0053	(a)
Pre-Dividend Reinvestment Factor	0.8744	(b)(b=c/d)
<b>NAV Total Return</b>	<b>(12.1%)</b>	<b>((a*b)-1)</b>

#### (a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	NAV at Dividend XD date	Share price Multiplier
Final dividend	0.77	18.Aug.23	145.51	0.0053

#### Share price Total Return calculation as at 30 September 2023

Share Price as at 30 September 2023	119.40	(c)
Share Price as at 31 March 2023	137.60	(d)
Dividend adjustment factor (+1)	1.0061	(a)
Pre-Dividend Reinvestment Factor	0.8677	(b)(b=c/d)
<b>Share price Total Return</b>	<b>(12.7%)</b>	<b>((a*b)-1)</b>

#### (a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	Share price at Dividend XD date	Share price Multiplier
Final dividend	0.77	18.Aug.23	127.00	0.0061

### Discount or Premium to NAV

If the share price of an Investment Trust is less than its NAV per share, the shares are trading at a discount. If the share price is greater than the NAV per share, the shares are trading at a premium.

As at 30 September 2023, the NAV per share was 138.41p and the share price was 119.40p. The discount is therefore calculated at 13.73% as shown in the highlights above.

### Net gearing employed

Unlike open-ended investment companies, Investment Trusts have the ability to borrow to invest. This term is used to describe the level of borrowings that an Investment Trust has undertaken and is stated as a percentage of shareholders' funds. The higher the level of borrowings, the higher the gearing ratio.

Net gearing is calculated as total debt, net of cash and cash equivalents, as a percentage of the total shareholders' funds.

As at 30 September 2023, interest bearing bank loans were (£8,582,000), cash and cash equivalents were £2,808,000 and net assets were £262,360,000. As at 30 September 2023, Gearing was therefore equal to 2.20% as shown in the highlights above.

### Ongoing charges (expressed as a percentage)

Ongoing charges are the Company's revenue and capital expenses (excluding finance costs and certain non-recurring items) expressed as a percentage of the average daily net assets of the Company during the period.

### Ongoing charges calculation

		<b>Six months to 30 September 2023 £'000</b>	Six months to 30 September 2022 £'000	Year to 31 March 2023 (audited) £'000
Total expenditure	(a)	<b>1,541</b>	1,425	2,917
Average daily net assets	(b)	<b>291,230</b>	279,257	279,739
Ongoing charges (c = a/b)*	(c)	<b>1.1%</b>	1.0%	1.0%

\* 30 September 2023 and 30 September 2022 figures annualised for comparison (c = (a/b) x 2).

## **Glossary of terms**

### **AIFMD**

Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires that all investment vehicles in the European Union, including Investment Trusts, must, with effect from 22 July 2014, appoint a Depositary and an AIFM. The Board of Directors of an Investment Trust, nevertheless, remains fully responsible for all aspects of the Company's strategy, operations and compliance with regulations.

### **AIC**

The Association of Investment Companies is the trade body for Closed-end Investment Companies ([www.theaic.co.uk](http://www.theaic.co.uk)).

### **Benchmark**

This is a measure against which an Investment Trust's performance is compared. The benchmark of the Company is the MSCI Europe SmallCap (ex UK) Index (capital return in Sterling terms). The index averages the performance of a defined selection of companies listed in European smaller company stock markets and gives an indication of how those markets have performed in any period.

### **Closed-end Investment Company**

A company, including an Investment Trust, with a fixed issued ordinary share capital which is traded on an exchange at a price not necessarily related to the NAV of the company and where shares can only be issued or bought back by the company in certain circumstances. This contrasts with an open-ended investment company, which has units not traded on an exchange but issued or bought back from investors at a price directly related to the NAV.

### **Custodian**

A specialised financial institution responsible for safeguarding, worldwide, the listed securities and certain cash assets of the Company, as well as the income arising therefrom, through provision of custodial, settlement and associated services. The Company's Custodian is Bank of New York Mellon SA/NV.

### **Depositary**

Under AIFMD rules applying from 22 July 2014, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. The Depositary has strict liability for loss of any investments or other assets where it has safekeeping duties. The Depositary's oversight duties include, but are not limited to, oversight of share buybacks, dividend payments and adherence to investment limits. The Company's Depositary is The Bank of New York Mellon (International) Limited.

### **Dividend**

The income from an investment. Some Investment Trusts pay dividends on a quarterly or monthly basis. Montanaro European Smaller Companies Trust plc currently pays dividends twice a year.

### **Gearing**

Gearing is calculated as total liabilities less current assets divided by net assets.

### **IFRS**

International Financial Reporting Standards.

### **Investment Manager**

The Company's Investment Manager is Montanaro Asset Management Limited.

### **Investment Trust**

A Closed-end Investment Company which satisfies the requirements of Section 1158 of the Corporation Tax Act 2010. Companies which meet these criteria are exempt from having to pay tax on the capital gains they realise from sales of the investments within their portfolios.

**Leverage**

As defined under the AIFMD rules, Leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to Gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowings). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash and cash equivalents, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash and cash equivalents and after certain hedging and netting positions are offset against each other.

**Marked to Market**

Accounting for the fair value of an asset or liability that can change over time and reflects its current market value rather than its book cost.

**Market Capitalisation**

The stock market value of a company as determined by multiplying the number of shares in issue, excluding those shares held in treasury, by the market price of the shares.

**NAV per Ordinary Share**

This is calculated as the net assets of an Investment Trust divided by the number of shares in issue, excluding those shares held in treasury.

**Net Assets (or Shareholders' Funds)**

This is calculated as the value of the investments and other assets of an Investment Trust, plus cash and debtors, less borrowings and any other creditors. It represents the underlying value of an Investment Trust at a point in time.

**Net Gearing**

Net Gearing is calculated as total debt, net of cash and cash equivalents, as a percentage of the total shareholders' funds.

**Ordinary Shares**

The main type of equity capital issued by conventional Investment Trusts. Shareholders are entitled to their share of both income, in the form of dividends paid by the Investment Trust, and any capital growth. Montanaro European Smaller Companies Trust plc has only Ordinary Shares in issue.

**Portfolio Turnover**

Calculated using total sales proceeds as a percentage of the average monthly net assets during the period, annualised.

**Related Party Transactions**

Under the Listing Rules, the Manager is regarded as a related party of the Company.

**Share Price**

The value of a share at a point in time as quoted on a stock exchange. The shares of Montanaro European Smaller Companies Trust plc are quoted on the Main Market of the London Stock Exchange.

**SORP**

Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the AIC.

**Total Assets**

This is calculated as the value of the investments and other assets of an Investment Trust, plus cash and debtors.

**Montanaro European Smaller Companies Trust PLC**  
**Registered in Scotland No. SC074677**  
**An investment company as defined under section 833 of the Companies Act 2006**

**Directors**

R M Curling (Chairman)  
G Neilly  
C A Roxburgh

**Registered Office**

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**Principal Advisers**

**AIFM and Investment Manager**

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**Sources of Further Information**

Information on the Company, including this Half-Yearly Report is available on the Company's website: <https://montanaro.co.uk/trust/montanaro-european-smaller-companies-trust/>

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on this announcement (or any other website) is incorporated into, or forms part of, this announcement.