

MONTANARO

ASSET MANAGEMENT

Montanaro European Smaller Companies Trust (“MESCT”)

AGM Presentation

7 September 2023

“No one knows Smaller Companies like we do”



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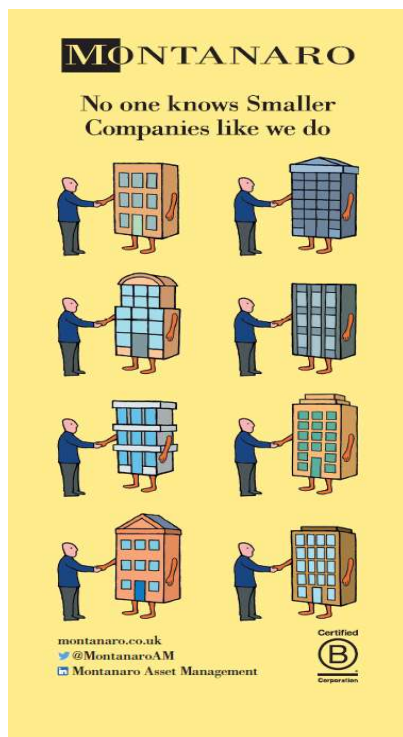
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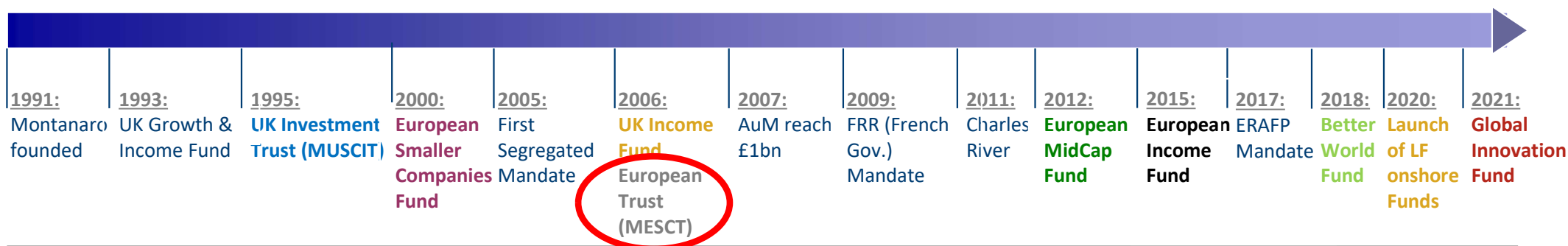
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Montanaro



- Established by Charles Montanaro in **1991**
- Specialists in **quoted, Global Small & MidCap**
- AUM of **£3.5 billion**
- MAM has been managing MESCT for **17 years**
- One of the **largest Small & MidCap Teams in Europe**



Source: Internal.

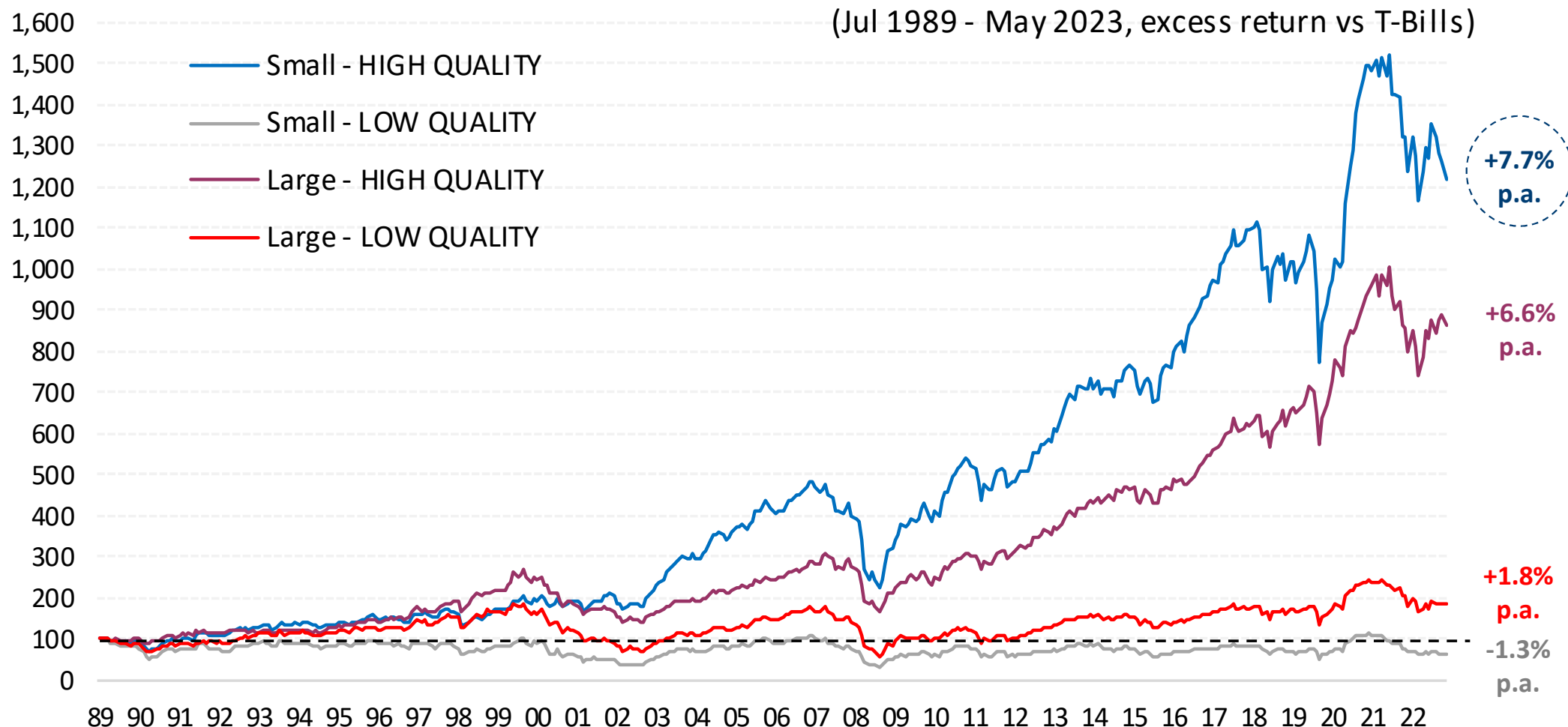
What is a “Montanaro” company?

1. **Well-established** with a business model **we can understand**
2. **Focused, market leading** business
3. **Structurally growing**
4. **High returns on capital; strong balance sheet; excellent cash generation**
5. Outstanding **Management**
6. One we can hold for the **long term**

“Quality Growth” investment approach

“Quality Growth” has delivered the best returns historically

Global Excess Returns by Size & Quality
(Jul 1989 - May 2023, 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.

Our Investment Process

Stage 1: Is it a good Business?

NEW IDEAS:

- Sector reviews
- Proprietary screens
- Growth themes
- Referrals

QUALITY ANALYSIS:

- Quality Checklist
- ESG Checklist
- Financial Profile
- Management

GROWTH ANALYSIS:

- Growth Checklist
- Company Drivers
- Industry Analysis
- Cyclicalities

**INVESTMENT
COMMITTEE**
Approval
Decision

**APPROVED
LIST**

~250
Companies

Stage 2: Is it a good Investment?

VALUATION:

- Intrinsic Value
- Target & BUY Price
- Peer Comparison
- Reverse DCF

RISK / REWARD:

- Liquidity
- Scenario Analysis
- Downside Risk
- Catalysts

RECOMMENDATION:

- Strong Buy
- Buy
- Under
- Sell

**INVESTMENT
COMMITTEE**
Valuation
Review

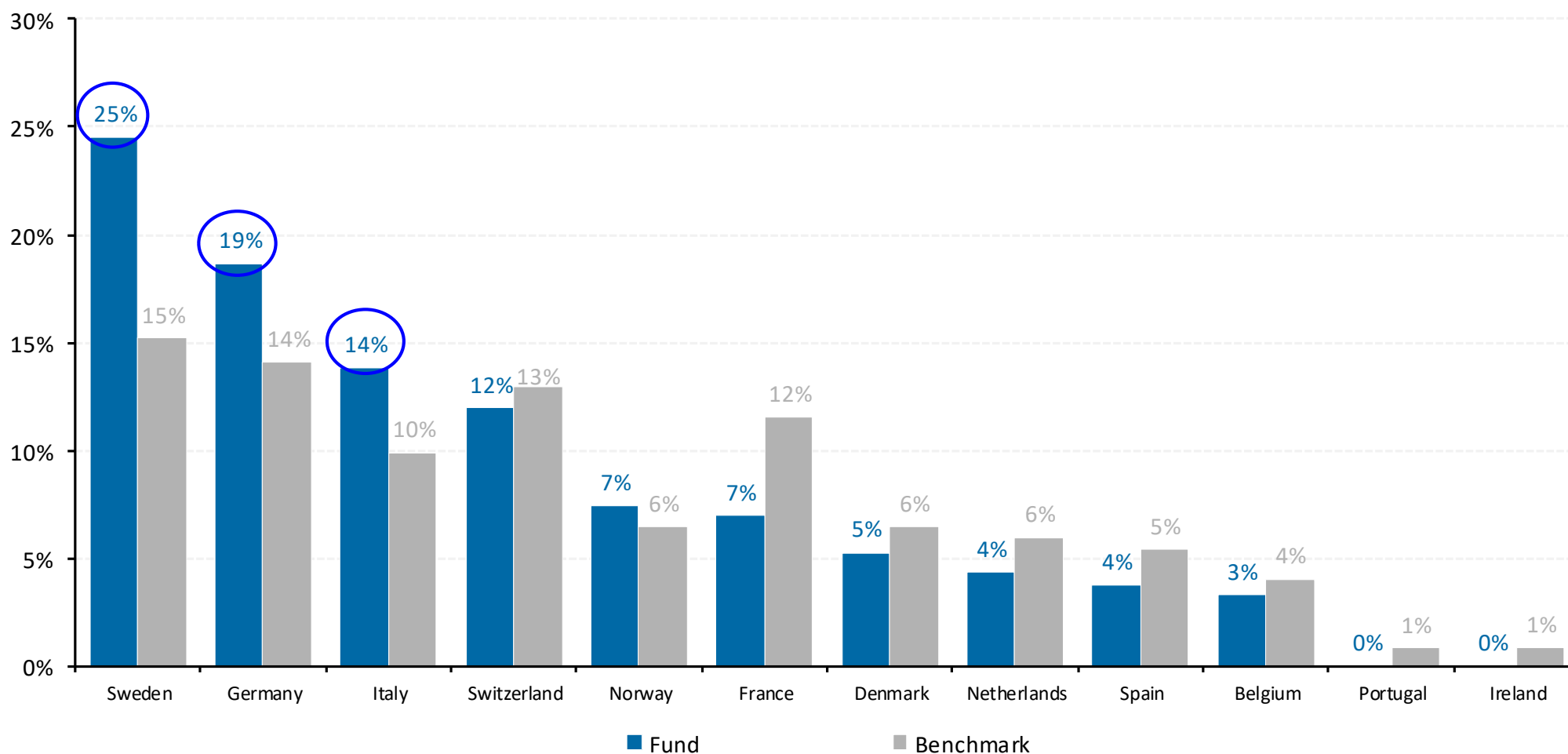
**Potential
Inclusion in
Portfolios**

Our Top 20 holdings

Company	Country	%
NCAB	Sweden	6.0%
Kitron	Norway	4.7%
MTU Aero Engines	Germany	4.7%
VZ	Switzerland	3.5%
Fortnox	Sweden	3.5%
Atoss	Germany	3.5%
Melexis	Belgium	3.3%
Brembo	Italy	3.2%
IMCD	Netherlands	3.1%
CTS Eventim	Germany	3.0%
Top 10		38.6%

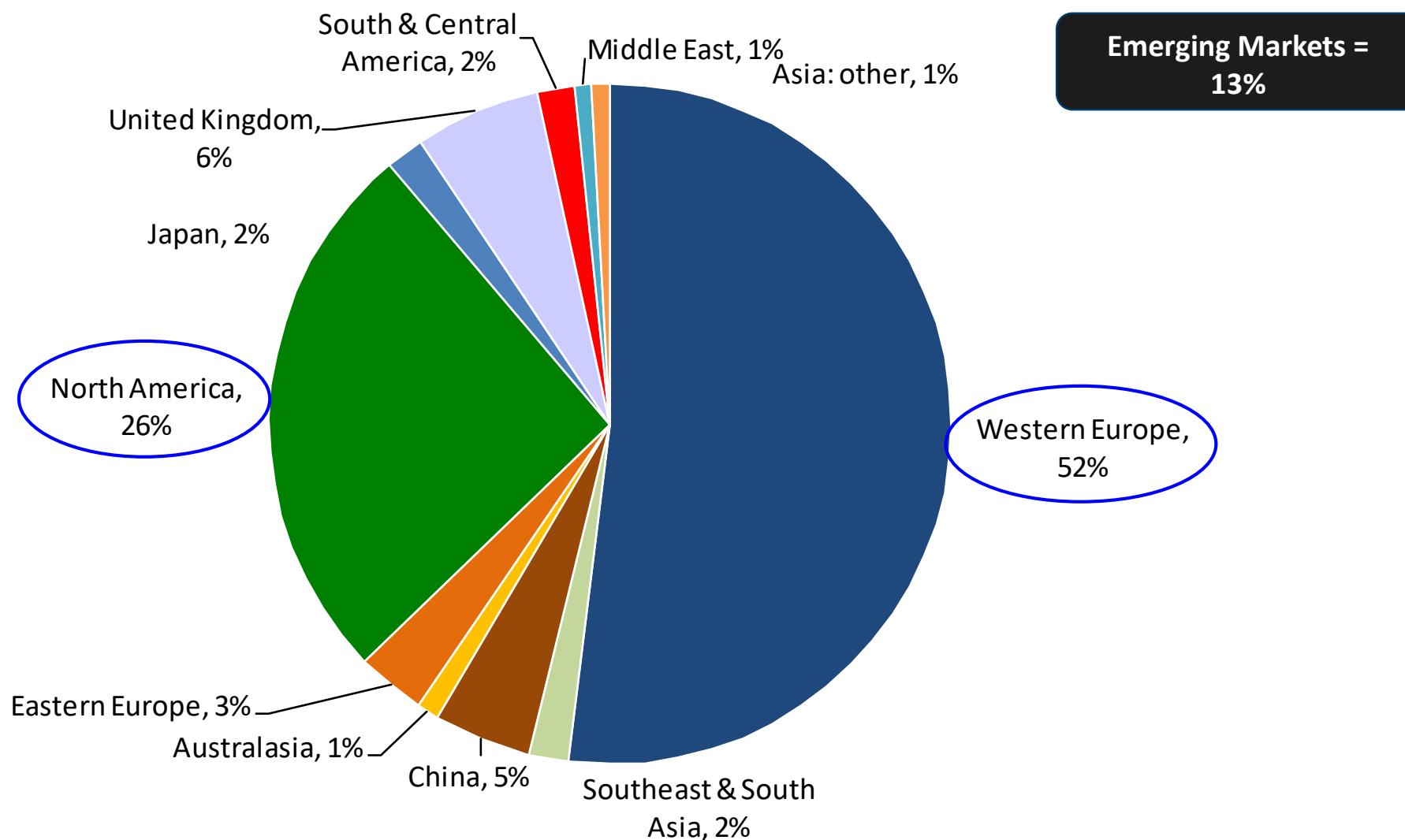
Company	Country	%
Brunello Cucinelli	Italy	2.8%
Esker	France	2.5%
Amadeus Fire	Germany	2.5%
Belimo	Switzerland	2.4%
Reply	Italy	2.3%
Christian Hansen	Denmark	2.3%
Thule	Sweden	2.3%
Sartorius Stedim Biotech	France	2.2%
Bachem	Switzerland	2.2%
Viscofan	Spain	2.2%
Top 11 - 20		23.9%

Countries: The result of bottom-up stock-picking



Source: Internal, MSCI, Bloomberg.
Benchmark = MSCI Europe ex-UK Small Cap Index.

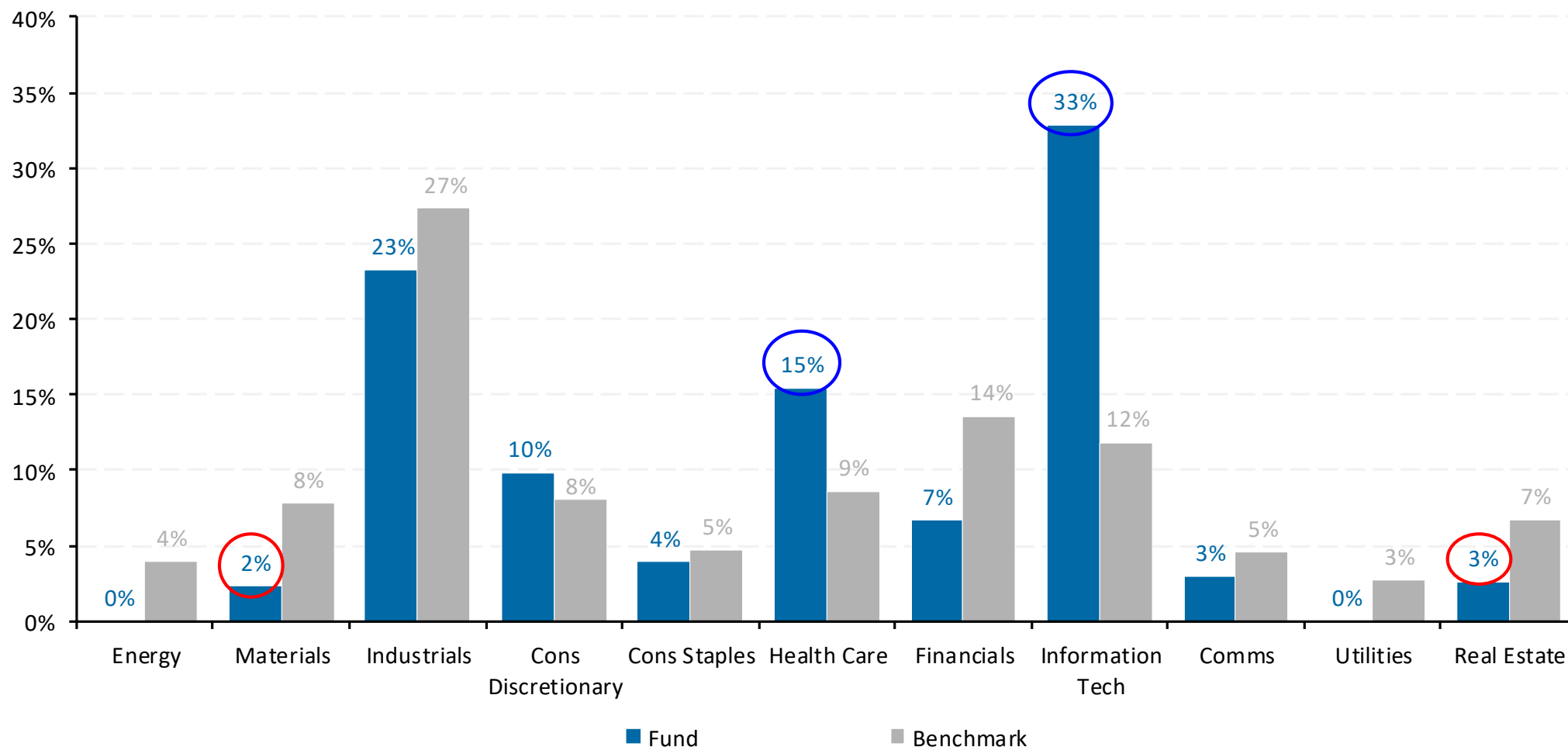
Our companies sell all around the world



Source: Internal, Bloomberg.

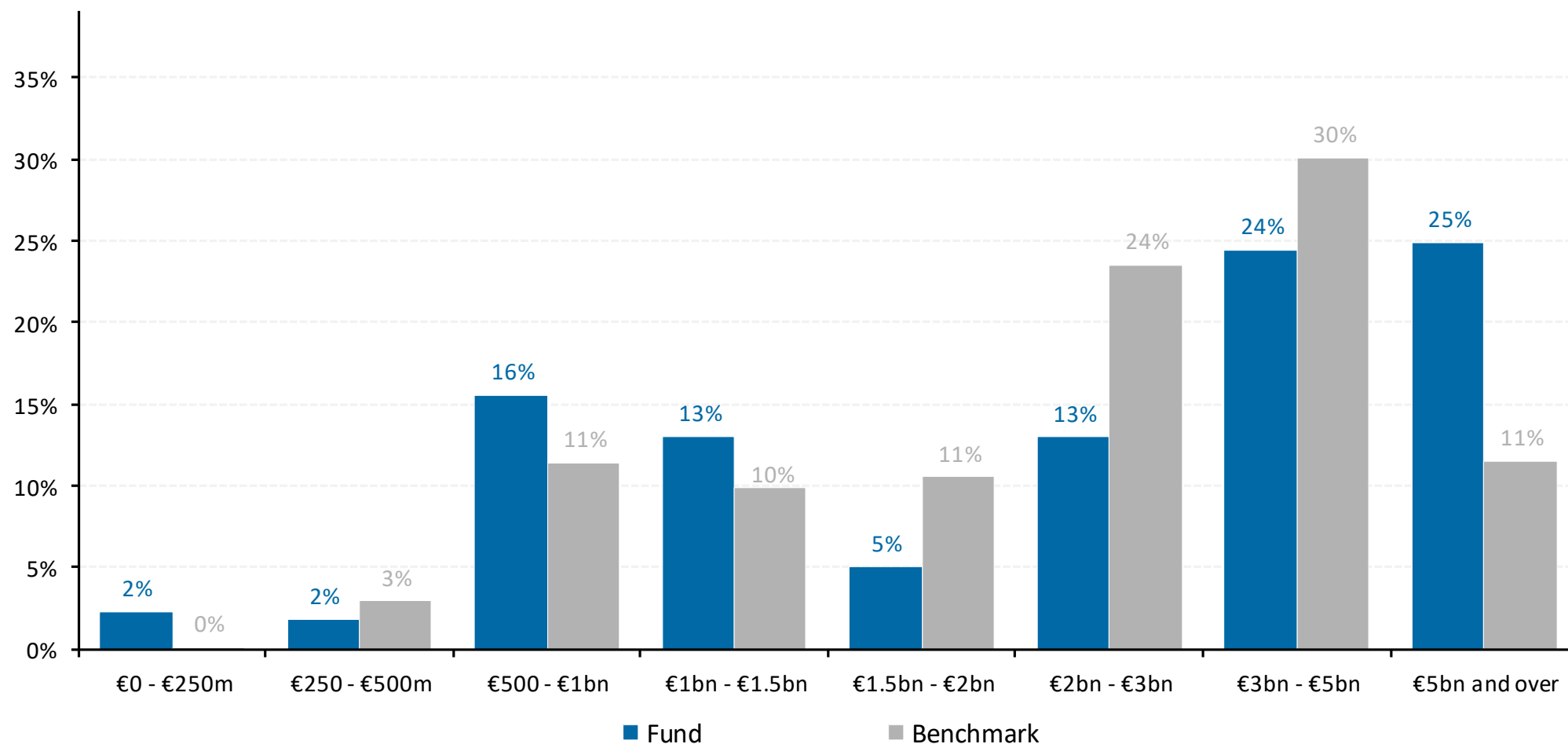
Note: Totals may differ slightly from the sum of the constituents due to rounding.

Sectors: Overweight IT & Health Care, underweight Materials & Property



Source: Internal, MSCI, Bloomberg.
Sectors are based on GICS; vs MSCI Europe ex-UK Small Cap Index.
Benchmark = MSCI Europe ex-UK Small Cap Index.

Size: a balanced portfolio



Source: Internal, MSCI, Bloomberg.
Benchmark = MSCI Europe ex-UK Small Cap Index.
Note: 7.8% of the Trust are €10bn or over.

A consistently High Quality Portfolio with low turnover

	2016	2017	2018	2019	2020	2021	2022	2023e	Average
Revenue Growth	8%	12%	10%	12%	7%	26%	22%	8%	14%
10Y EPS Growth	12%	13%	11%	13%	14%	16%	16%	n/a	14%
EBIT Margin	20%	21%	21%	20%	19%	19%	18%	21%	20%
RoE	22%	22%	22%	23%	21%	24%	22%	23%	22%
Net Gearing	16%	18%	15%	7%	11%	-3%	7%	3%	10%
Net Debt / EBITDA	0.6	0.7	0.5	0.3	0.3	0.1	0.3	0.6	0.4
Interest Cover	15.2	17.8	19.8	27.4	20.4	24.2	25.1	28.5	21.4

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Average
Portfolio Turnover *	19%	25%	35%	22%	25%	15%	18%	20%	14%	20%	21%

Source: Internal, Factset, Bloomberg.

* Portfolio Turnover = (Purchases + Sales) / 2 * Average NAV.

ESG Dashboard: a Portfolio with low Carbon Intensity

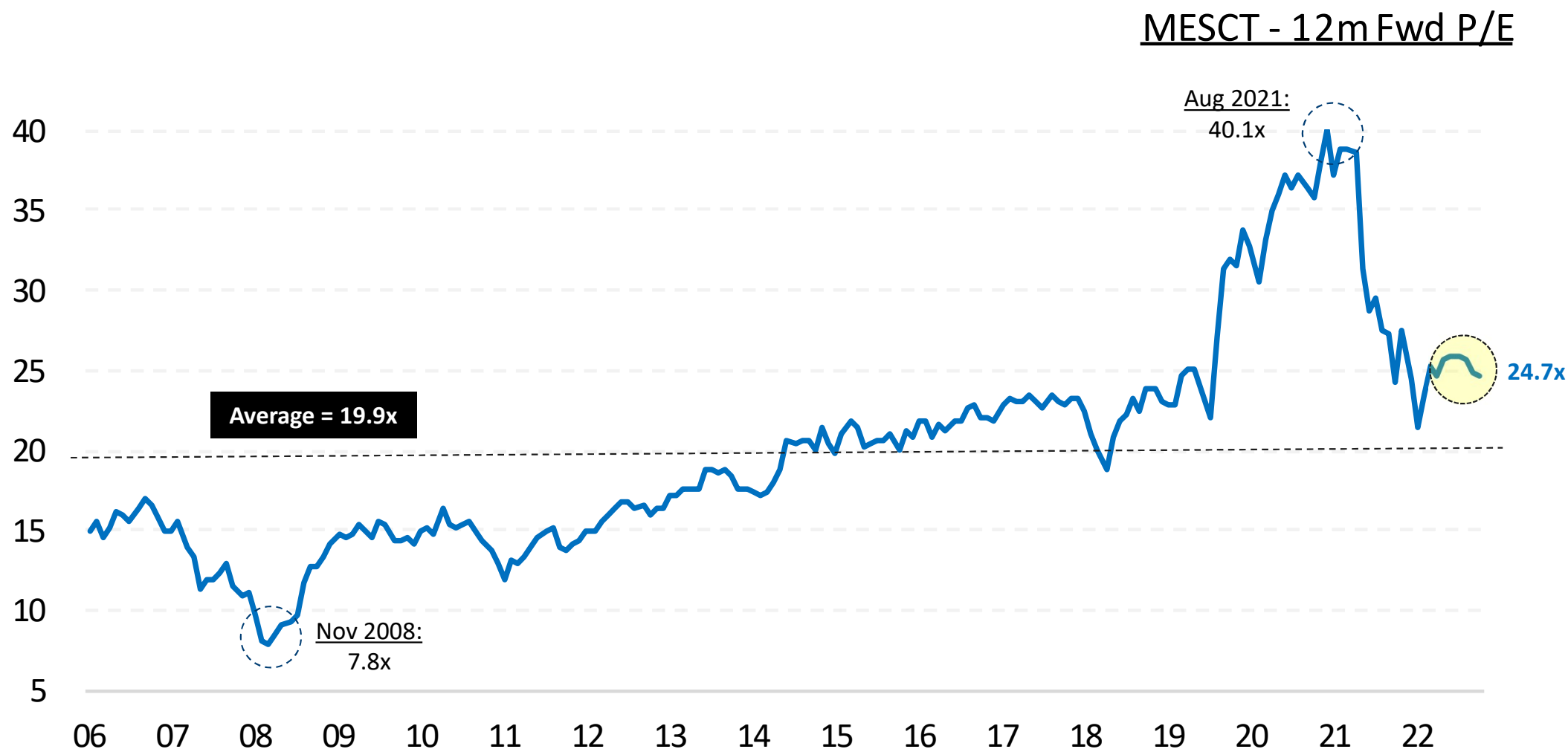
CLIMATE			
	Source	MESCT	Bench.
Carbon Intensity (Scope 1 & 2 / Sales)	MSCI	32.1	132.0
% Scope 3 Emissions available	MSCI	45%	53%
MSCI Low Carbon Transition Score (1 to 10)	MSCI	6.2	6.2

ENVIRONMENT			
	Source	MESCT	Bench.
MSCI Environmental Score (1 to 10)	MSCI	5.7	5.9
Polution & Waste Score (1 to 10)	MSCI	4.9	4.4
Biodiversity & Land Use Exposure Score	MSCI	1.6	1.9

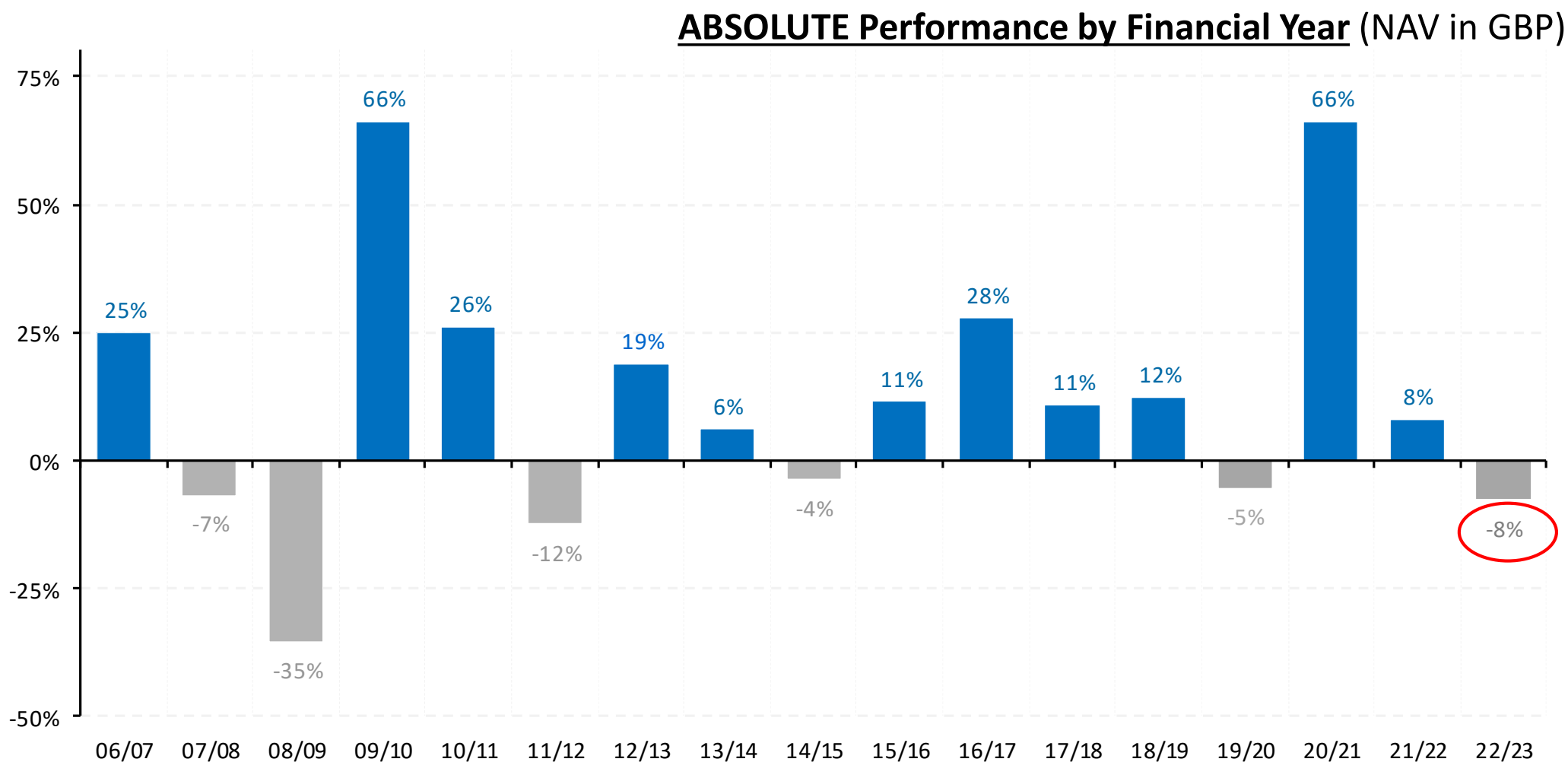
SOCIAL			
	Source	MESCT	Bench.
MSCI Social Score (1 to 10)	MSCI	4.8	5.1
% Employee Turnover	Bloomberg	13%	15%
% Women in Workforce	Bloomberg	38%	34%

GOVERNANCE			
	Source	MESCT	Bench.
MSCI Governance Score (1 to 10)	MSCI	6.1	6.5
% Non-Executive Directors	Bloomberg	88%	93%
% Women on Boards	Bloomberg	33%	35%

The Trust's P/E has normalised since reaching a peak in mid-2021

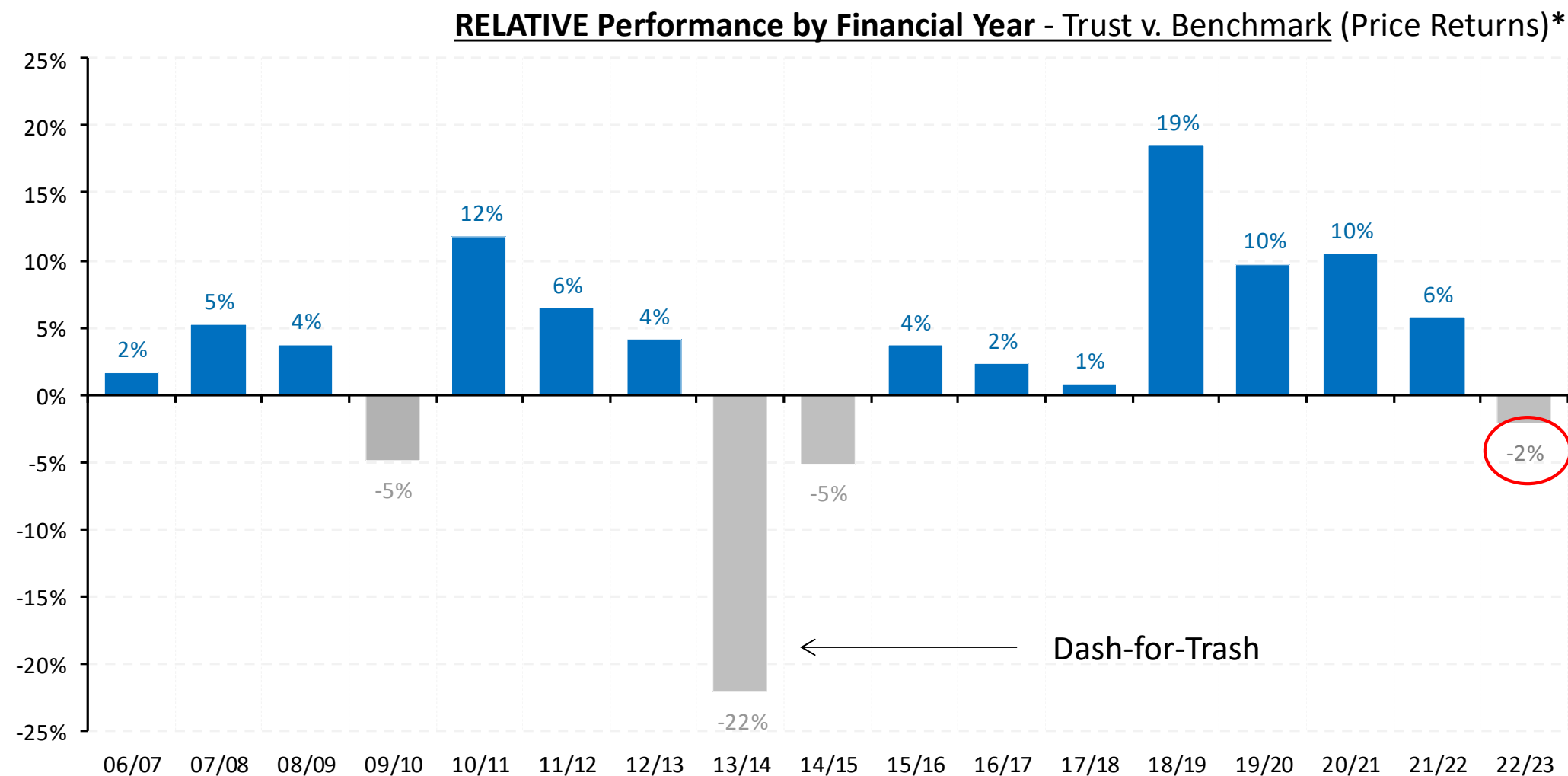


Absolute returns by Financial Year (March to March)



Source: Internal.
Based on the Cum-Income NAV.

Relative returns by Financial Year (March to March)

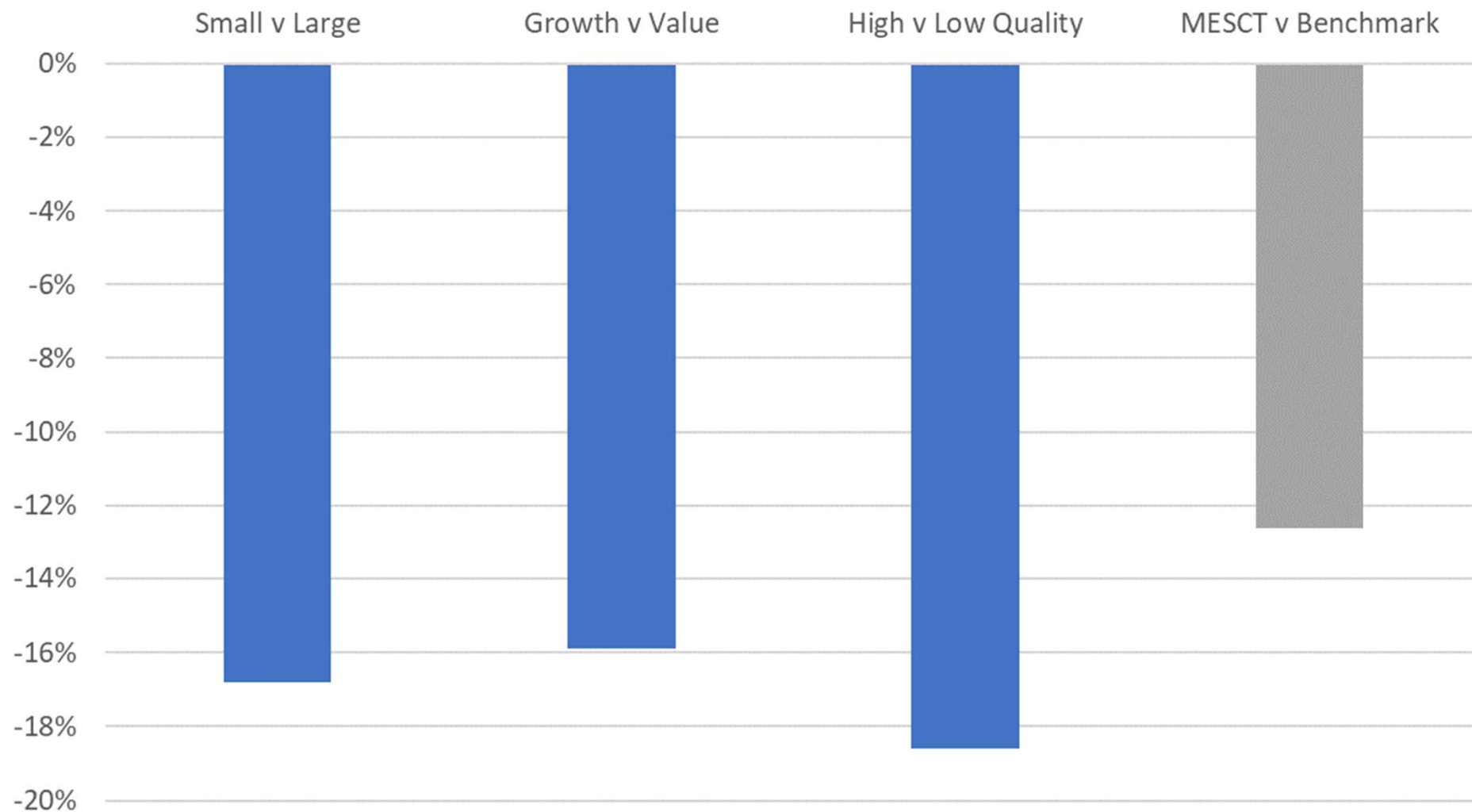


Source: Internal, MSCI. Based on the Cum-Income NAV.

* Effective June 1st 2009 the index used for comparison purposes is the MSCI European Smaller Companies Index ex-UK.

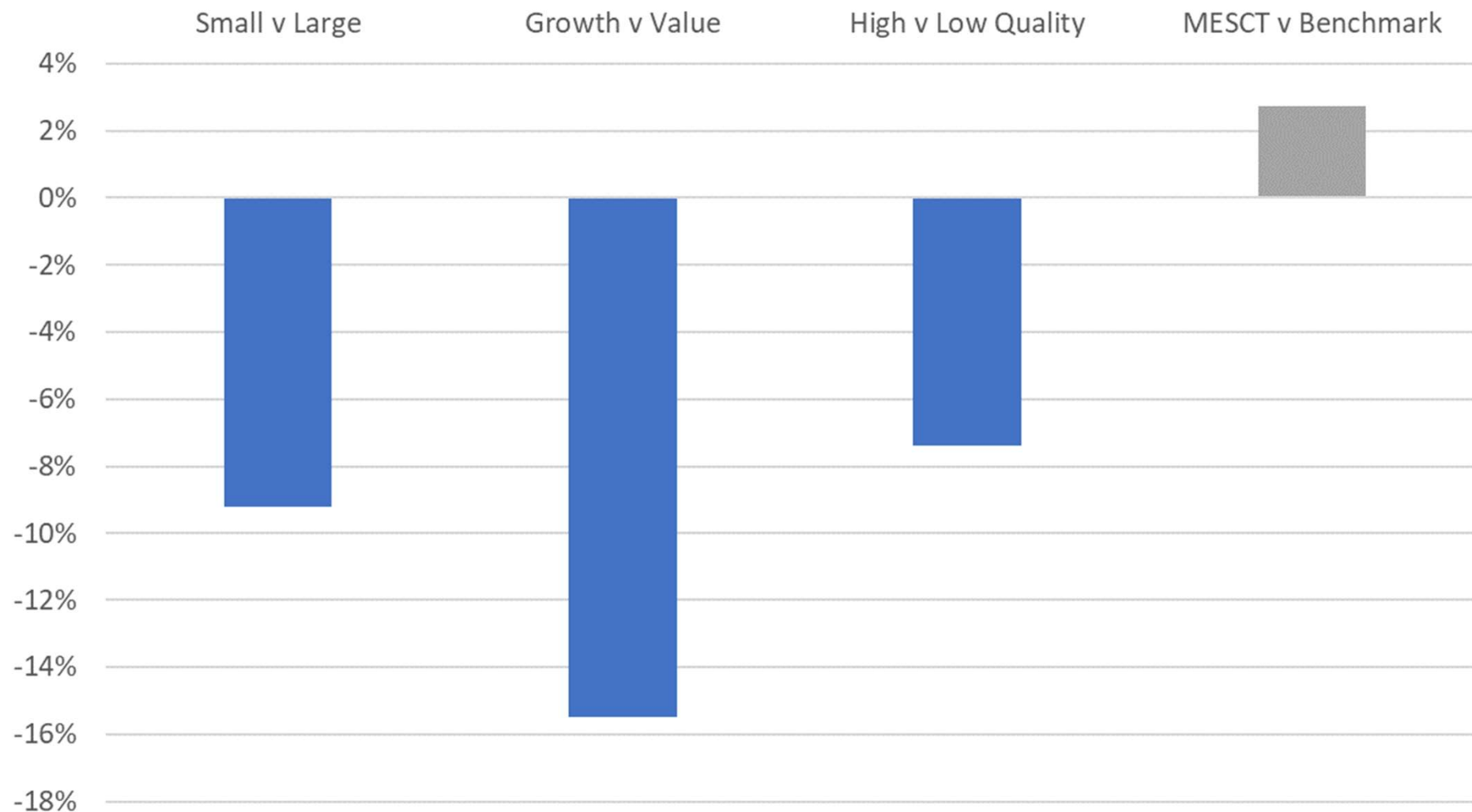
The benchmark history for the European Trust prior to June 1st 2009 was the MSCI European Smaller Companies Index.

Factor influences – 18 months to June 2023



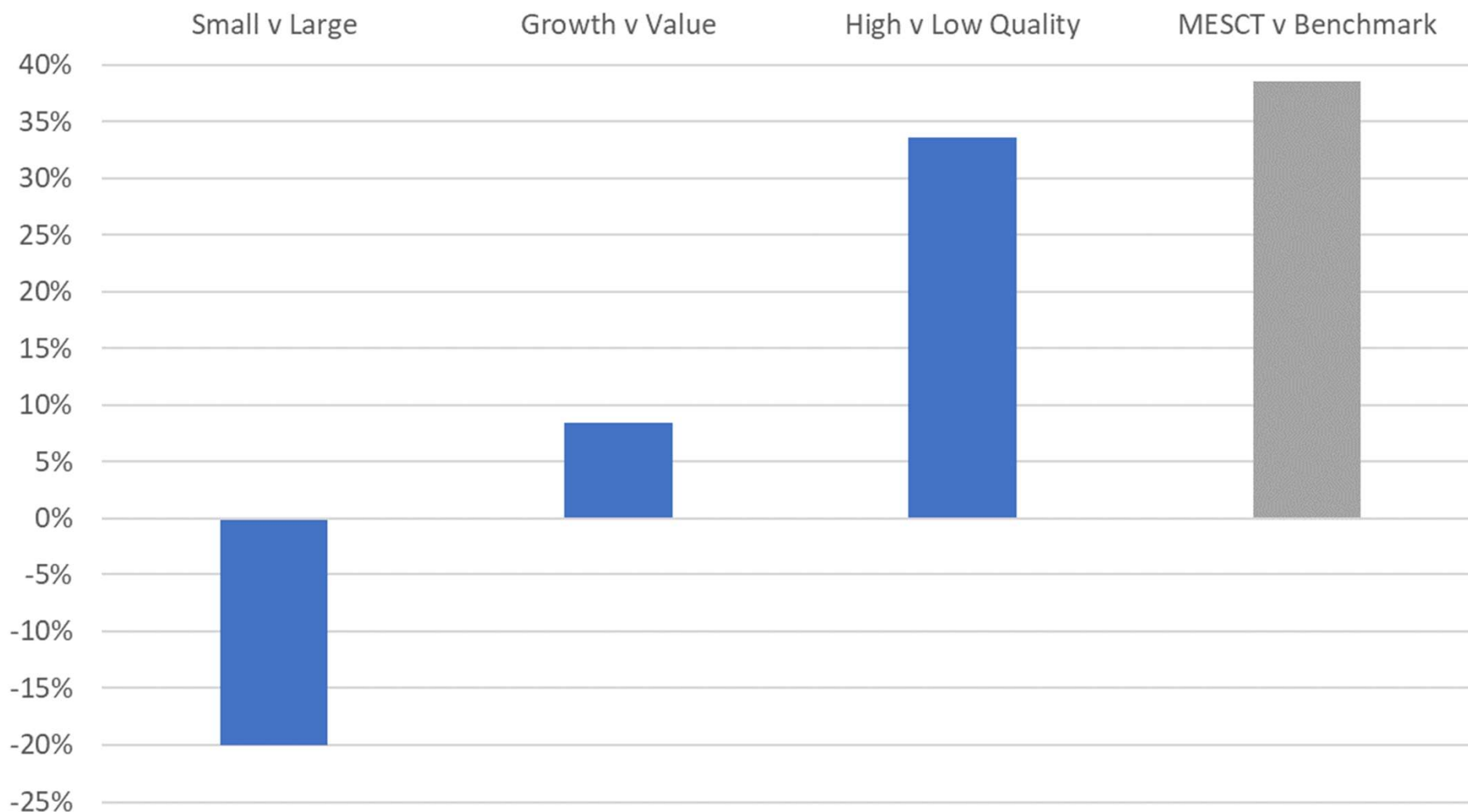
Source: Internal, MSCI. GBP. Small v Large = MSCI Europe ex-UK Small Cap vs MSCI Europe ex-UK; Growth v Value = MSCI Europe ex-UK Small Cap Growth vs MSCI Europe ex-UK Small Cap Value; High vs Low Quality = MAM proprietary indices based on MSCI Europe ex-UK Small Cap constituents. Relative performance based on the Cum-Income NAV TR.

Factor influences – 3y to June 2023



Source: Internal, MSCI. GBP. Small v Large = MSCI Europe ex-UK Small Cap vs MSCI Europe ex-UK; Growth v Value = MSCI Europe ex-UK Small Cap Growth vs MSCI Europe ex-UK Small Cap Value; High vs Low Quality = MAM proprietary indices based on MSCI Europe ex-UK Small Cap constituents. Relative performance based on the Cum-Income NAV TR.

Factor influences – 5y to June 2023



Source: Internal, MSCI. GBP. Small v Large = MSCI Europe ex-UK Small Cap vs MSCI Europe ex-UK; Growth v Value = MSCI Europe ex-UK Small Cap Growth vs MSCI Europe ex-UK Small Cap Value; High vs Low Quality = MAM proprietary indices based on MSCI Europe ex-UK Small Cap constituents. Relative performance based on the Cum-Income NAV TR.

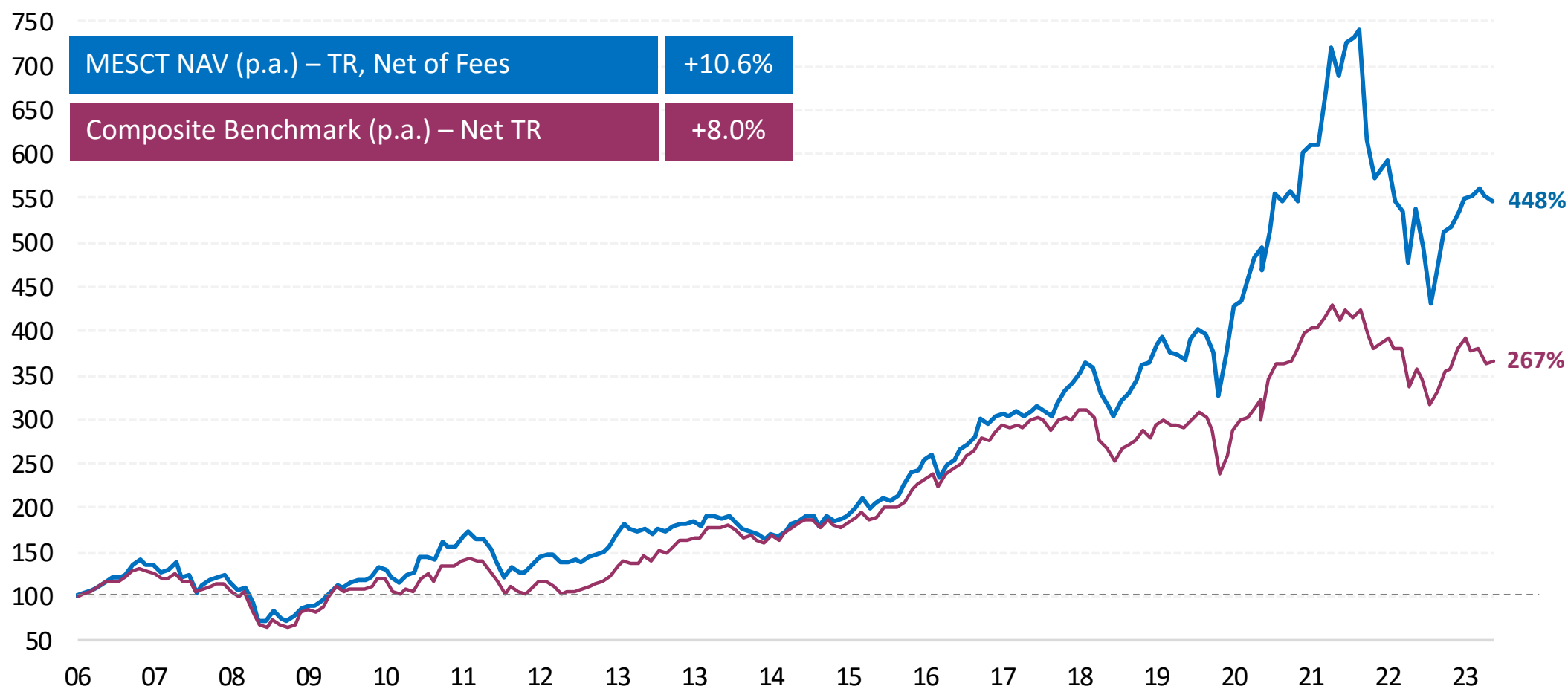
Returns

<i>(Total Returns, GBP)</i>	MESCT (NAV)	MESCT (Share Price)	Benchmark (Composite)	Relative	
				NAV	Share Price
Q2 2023	-0.8%	1.2%	-2.9%	2.1%	4.1%
H1 2023	5.7%	2.9%	3.1%	2.6%	-0.2%
1 Year	14.7%	16.8%	9.1%	5.6%	7.6%
3 Years p.a.	8.0%	5.8%	7.2%	0.8%	-1.4%
5 Years p.a.	10.0%	9.7%	4.1%	5.9%	5.5%
10 Years p.a.	12.4%	12.4%	10.2%	2.2%	2.2%
15 Years p.a.	10.9%	10.8%	8.8%	2.2%	2.0%
Launch p.a. (Sep 2006)	10.6%	10.4%	8.0%	2.6%	2.4%

Source: Internal, MSCI. Based on the Cum-Income NAV. Note: Effective June 1st 2009 the index used for comparison purposes is the MSCI European Smaller Companies Index ex-UK. The benchmark history for the European Trust prior to June 1st 2009 was the MSCI European Smaller Companies Index. Q2 and H1 refer to calendar periods.

Solid performance since MAM was appointed: +10.6% p.a. (after fees)

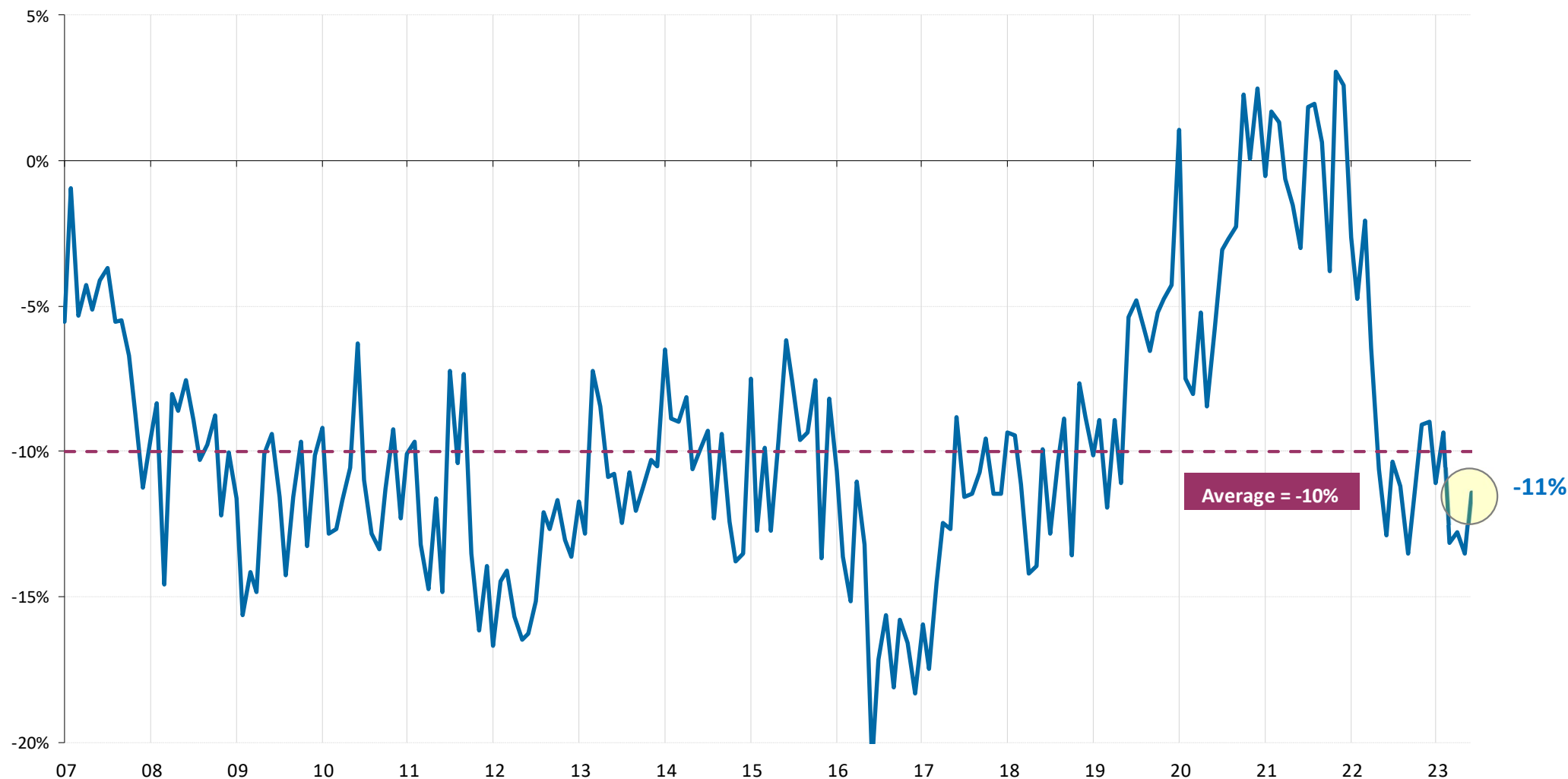
Net Total Returns (to 30 June 2023, in GBP)



Source: Internal, MSCI. Note: MAM was appointed Manager to MESCT in September 2006.

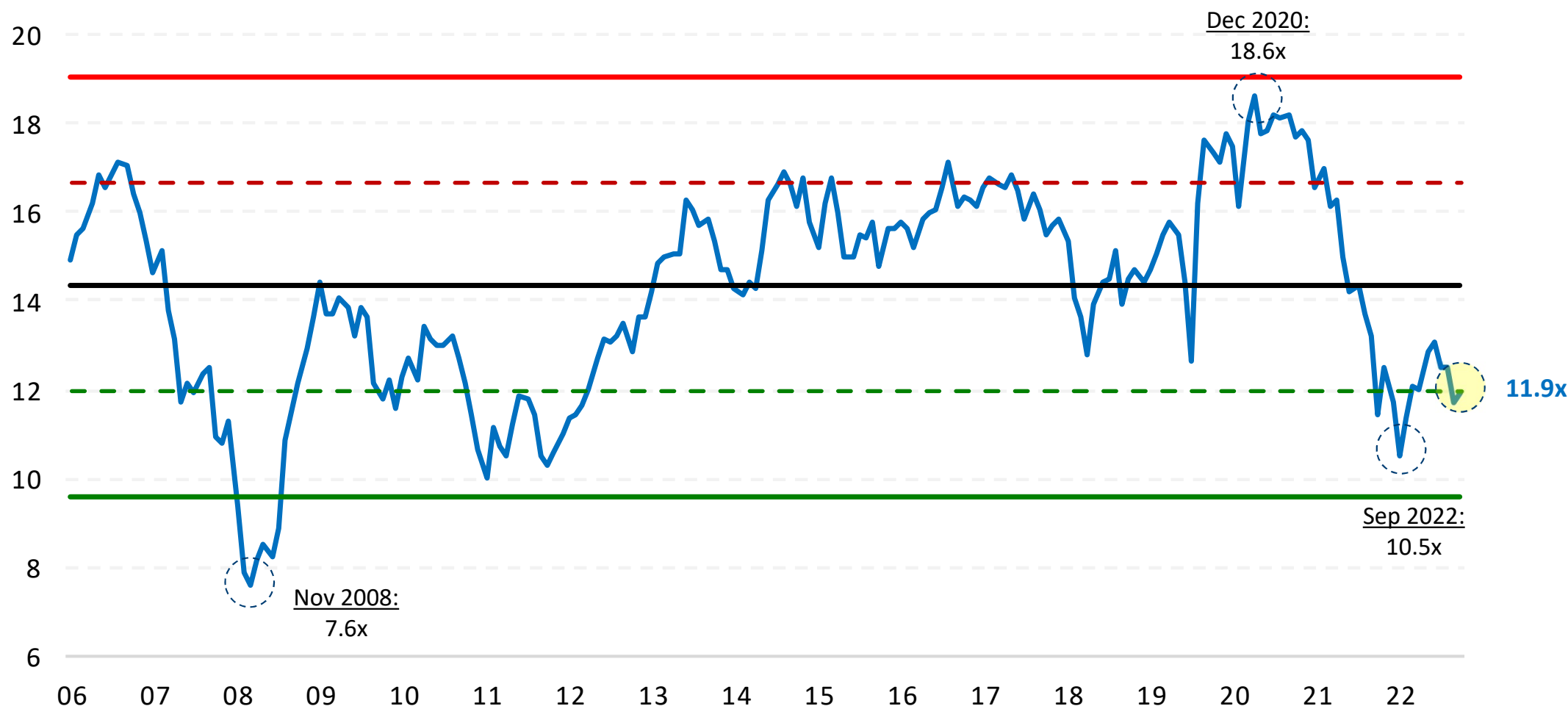
Note: Effective June 1st 2009 the index used for comparison purposes is the MSCI European Smaller Companies Index ex-UK. The benchmark history for the European Trust prior to June 1st 2009 was the MSCI European Smaller Companies Index.

The Trust remains on an attractive discount of over 10%



European SmallCap is trading well below its long-term average P/E

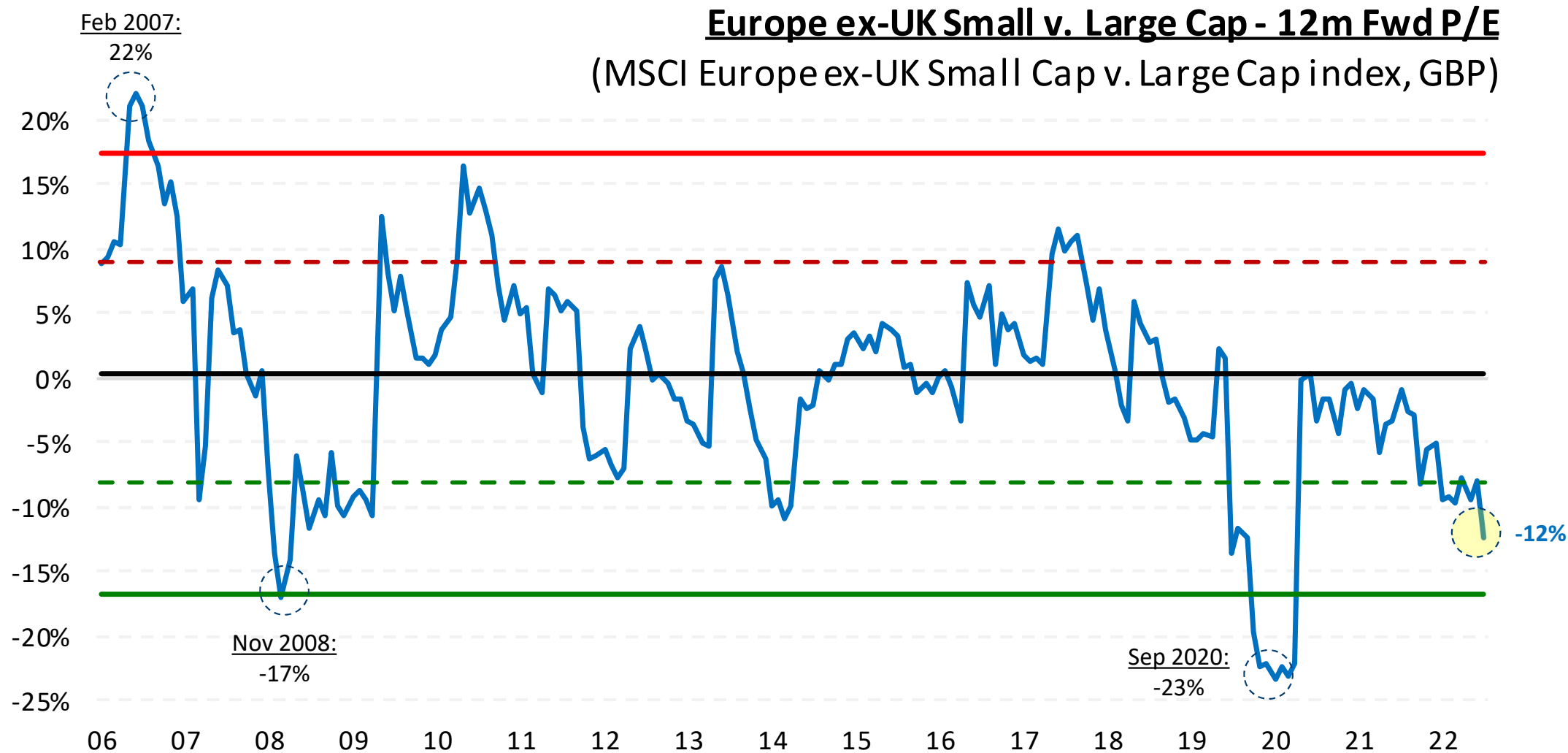
MSCI Europe ex-UK Small Cap - 12m Fwd P/E



Source: Internal, Bloomberg.

Note: The dotted red line indicates 1 Standard Deviation above the mean (thick red line = 2 STDEV above the mean). The dotted green line indicates 1 Standard Deviation below the mean (thick green line = 2 STDEV below the mean).

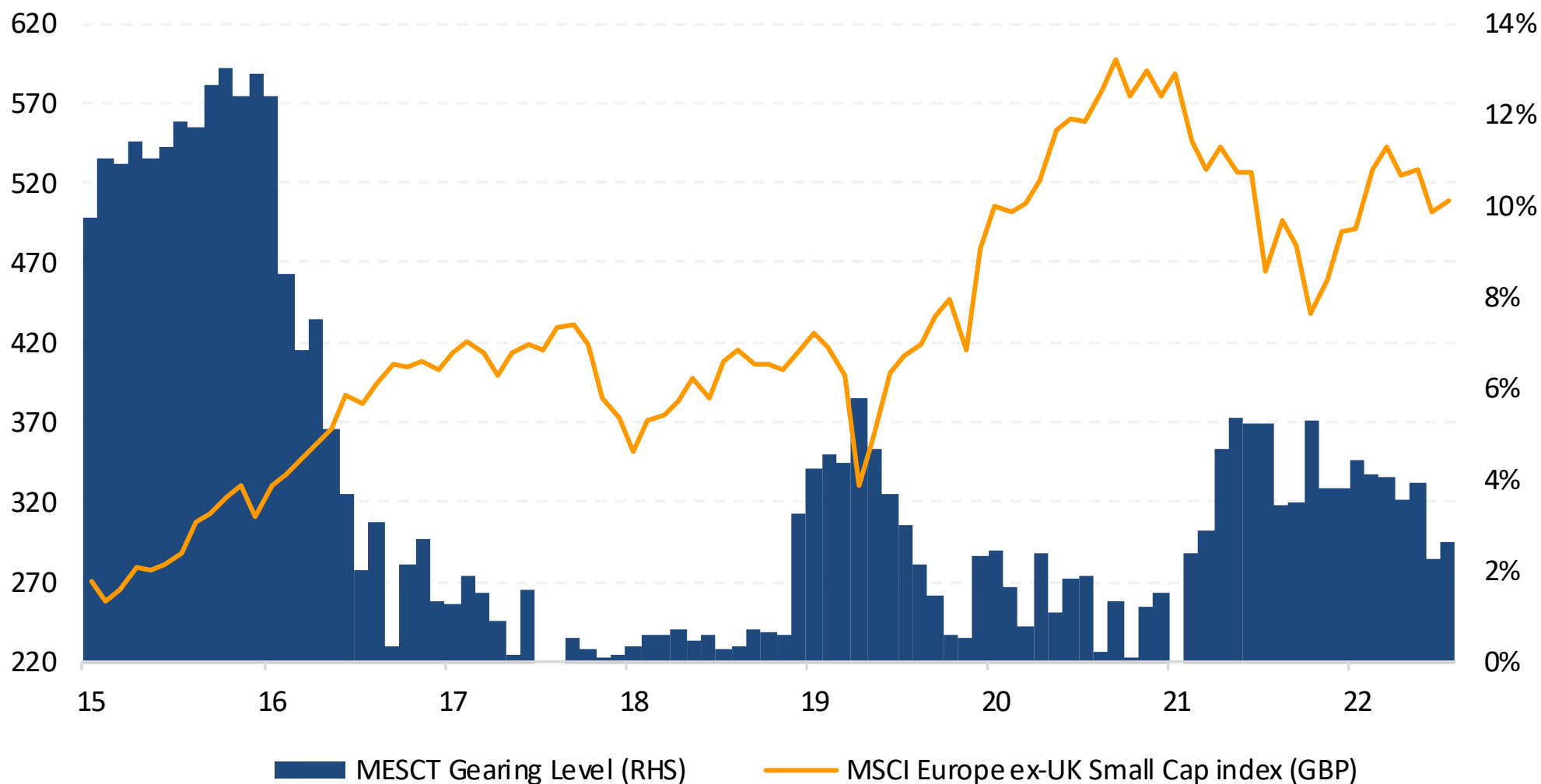
... and is looking increasingly cheap relative to LargeCap



Source: Internal, Bloomberg.

Note: The dotted red line indicates 1 Standard Deviation above the mean (thick red line = 2 STDEV above the mean). The dotted green line indicates 1 Standard Deviation below the mean (thick green line = 2 STDEV below the mean).

We have dry powder available if needed...



Thank you!