



ASSET MANAGEMENT

## Montanaro European Smaller Companies Trust (“MESCT”) — FAQs

*Finding tomorrow’s European champions at today’s prices*

### What is MESCT?

A closed-end investment trust, launched in 1981 and listed on the London Stock Exchange (ticker MTE), managed by Montanaro Asset Management since 2006. The idea is simple: buy tomorrow’s champions while they are still small — high-quality European businesses growing their earnings at double-digit rates — and hold them for years.

### What does it invest in?

A focused portfolio of around ~50 high-quality Continental European smaller companies, each chosen for the same traits: a simple, market-leading business; recurring revenue and pricing power; structural growth that lasts years, not quarters; strong cash generation; and management with real skin in the game. Today’s holdings sit behind long-term growth themes such as AI infrastructure, European defence, the electricity grid and modern medicine.

### Who manages it, and are their interests aligned with mine?

Montanaro Asset Management, an independent, owner-managed boutique founded in 1991 that specialises in Global Small & MidCap companies. The lead portfolio manager is George Cooke. Alignment is central: Montanaro is itself a major shareholder in the Trust (over 10%). As we put it — we invest alongside you, not just for you.

### Why European smaller companies and why now?

Smaller companies have out-grown larger ones for decades — European SmallCap has beaten LargeCap by roughly 4% a year since 2000 — yet they have rarely been as cheaply valued relative to LargeCap as they are today. In 2023, the Trust traded at a premium to its assets; today it sits at a discount. In effect, Quality Growth at a lower price than usual.

### What is the track record?

Since Montanaro took over in 2006 the Trust has delivered ~10% per annum net of fees. The Trust’s companies have grown earnings about 15% a year over the past decade and holding quality growth for years means the winners can become very big winners, with holdings such as Belimo and CTS Eventim rising many times over.

### What is the discount, and how is it controlled?

An Investment Trust’s shares can trade below the value of its underlying portfolio — a “discount” to net asset value (NAV). In normal conditions the Board targets a single-digit discount, using a combination of regular tender offers and share buybacks, guided by regular reporting from its broker.

### How does the share buyback scheme work?

When the shares trade at a discount, the Trust may buy back its own shares in the market. Because it buys below NAV, each buyback lifts NAV per share for remaining shareholders. Bought-back shares are held in Treasury rather than cancelled and can be re-issued in future. It is the Board’s policy that shares will only be re-issued from Treasury either at a price representing a premium to the NAV per share at the time of re-issue, or at a discount to the NAV per share provided that such discount is lower than the weighted average discount to the NAV per share when they were bought back by the Company

### What are the tender offers — and what else should I know?

Twice a year, around the interim and final results, shareholders can sell (“tender”) a portion of their shares back to the Trust at NAV less a 5% discount, with each tender capped at 5% of shares in issue — giving regular, predictable liquidity. The Trust also uses modest gearing (borrowing to invest) and aims primarily at capital growth, so the dividend is modest.

## MESCT at a glance

|                      |                                                    |                         |                                         |
|----------------------|----------------------------------------------------|-------------------------|-----------------------------------------|
| <b>Ticker</b>        | MTE (London Stock Exchange)                        | <b>Manager</b>          | Montanaro Asset Management (since 2006) |
| <b>Structure</b>     | Closed-end investment trust, est. 1981             | <b>Chairman</b>         | Gordon Neilly                           |
| <b>Benchmark</b>     | MSCI Europe ex-UK SmallCap Index                   | <b>Lead manager</b>     | George Cooke                            |
| <b>AIC sector</b>    | European Small Companies                           | <b>Investment style</b> | Quality Growth                          |
| <b>How to invest</b> | Most platforms & stockbrokers; ISA & SIPP eligible | <b>Year end</b>         | 31 March                                |