

UK Smaller Companies Investment Trust (“MUSCIT”)

2021 AGM - Presentation to Investors

Review of Q2 2021 & Outlook



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The value of securities may go down as well as up. As the discount or premium to which the investment trust shares trade relative to the NAV per share may vary significantly, the shorter term share price movements of the listed investment trust shares may not reflect the shorter term underlying investment performance in terms of NAV per share. The Board of Directors of the investment trust has authorised the Investment Manager to use bank borrowings, allowing increased portfolio investment, and therefore potentially to leverage the overall portfolio. This gearing as well as foreign exchange exposure may increase the volatility of returns.

MAM is authorised and regulated by the Financial Conduct Authority (“FCA”) FRN: 183211. Company registration number 03246931.

Key messages

1. **A strong start to the new Financial Year (ending March 2022):**
 - NAV up 12% YTD and c.7% ahead of the Benchmark *
 - style rotation in favour of Value has abated (fears of inflation are fading)
2. **Significant inflows into UK SmallCap in recent months – this could continue **:**
 - investors recently began investing in the UK after being underweight for 7 consecutive years
3. **MUSCIT is the highest yielding UK SmallCap Trust (income and growth) *****
4. **Charles Montanaro will stay on as Manager for at least another 5 years**
5. **Continuation Vote** on MUSCIT at the AGM in August 2021:
 - please vote in favour of Agenda item 12

We would really appreciate your support at the Continuation Vote
MUSCIT is our flagship UK SmallCap product and our largest investment
(AGM on 12 August 2021)

Returns – a strong start to the new Financial Year

Share Price: **+12.1%**

NAV returns to 30 June 2021 (GBP):

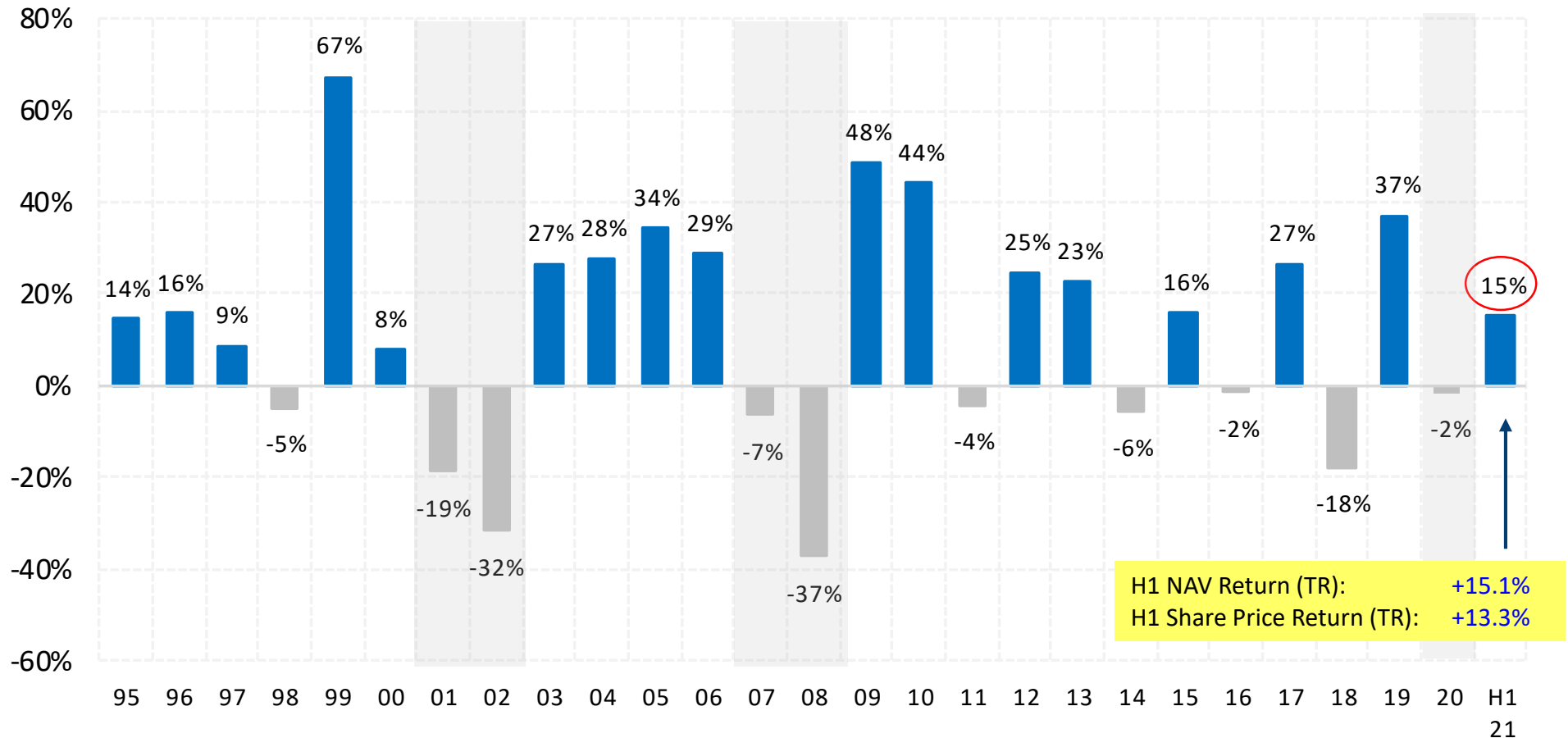
Annualised

	Montanaro NAV	UK Small Cap Composite (ex ICs) (£)***	Relative
3 Months	12.0%	5.5%	6.6%
6 Months	15.1%	17.4%	-2.3%
1 Year	36.1%	49.8%	-13.7%
3 Years	8.3%	6.1%	2.2%
5 Years	11.9%	9.4%	2.5%
10 Years	7.6%	7.8%	-0.2%
15 Years	8.0%	3.6%	4.3%
20 Years	7.3%	3.4%	3.9%
Launch (03/95)	8.8%	4.7%	4.1%

Source: Internal, Numis. All returns in Sterling. Note: Dividends reinvested with effect from 1 April 2018 both for the Trust and the Benchmark. Prior to this date both were capital return. ***: The benchmark for the UK Trust changed from the FTSE SmallCap Index (ex-IC) to the Numis Smaller Companies Index (ex-IC) effective 1 April 2013. The benchmark shown here is a composite of the two.

Returns by Calendar year

MUSCIT - Calendar Year Returns (TR, GBP)

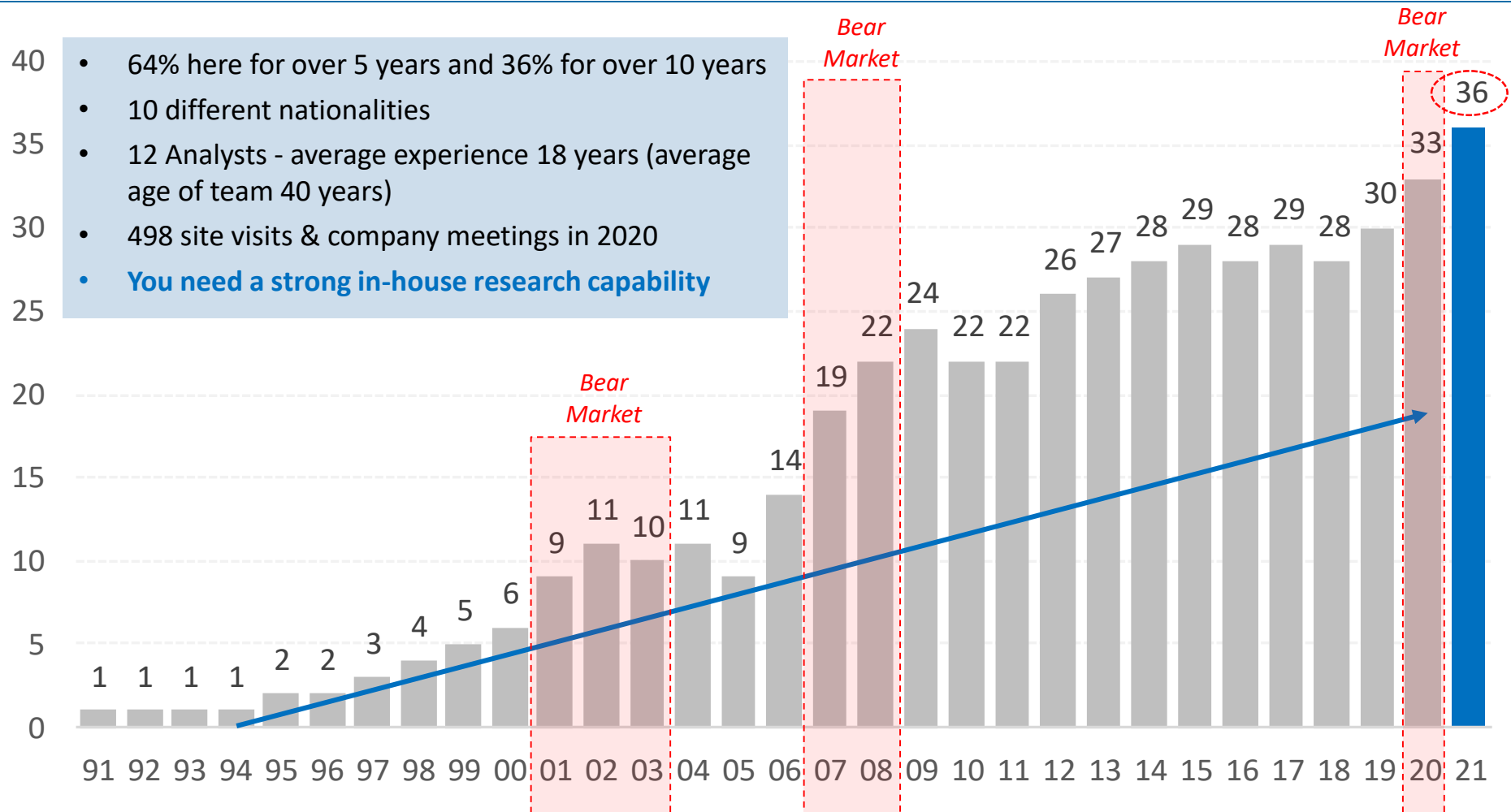


Update on Montanaro

- **AuM of over £4 billion**
- **Montanaro Global Innovation Fund** launched at the end of June 2021:
 - offers access to the most promising Technology names in Global Small & MidCap
 - Montanaro has invested £4.5 million of its own money
- **Team is complete at 36 – no new appointments planned:**
 - Manroop Bal (Analyst) starting in September 2021
- Signatory to the **2021 Global Investor Statement to Governments on the Climate Crisis:**
 - also joined the **Net Zero Asset Managers Initiative** in March 2021



We have grown to a Team of 36 and hire in Bear Markets



Montanaro is different

1. It is our business - we look after £4 billion
2. One big family - no big egos
3. Conservative - we invest in our own funds
4. Long-term investors (we think 10 years +)
5. We avoid brokers
6. Focused - Small & MidCap are all that we do
7. We are a “B” Corp
8. **It carries Charles’s family name**

Our investment philosophy: QUALITY & GROWTH

1. Simple businesses we can understand
2. Profitable
3. Niche businesses in growth markets
4. Market leaders
5. Businesses with **High Operating Margins** and a **High Return on Capital**
6. Good **Management** we trust
7. **Don't Trade**

Focus on “Quality Growth”

Our Investment Process is all about identifying Quality

Stage 1: Is it a good business?

NEW IDEAS:

- Proprietary Screens
- Growth Themes
- Referrals

QUALITY CHECKLIST:

- Financial Model
- S.W.O.T. analysis
- ESG analysis

**INVESTMENT
COMMITTEE**
Decision

"QUALITY"
**APPROVED
LIST**
*~200
Companies*

Stage 2: Is it a good investment?

VALUATION:

- DCF Model
- PE, FCF Yield
- Peer Group
- Dividend Yield

UPSIDE & RISK:

- Intrinsic Value
- Margin of Safety
- Dividend Safety
- Risk Factors

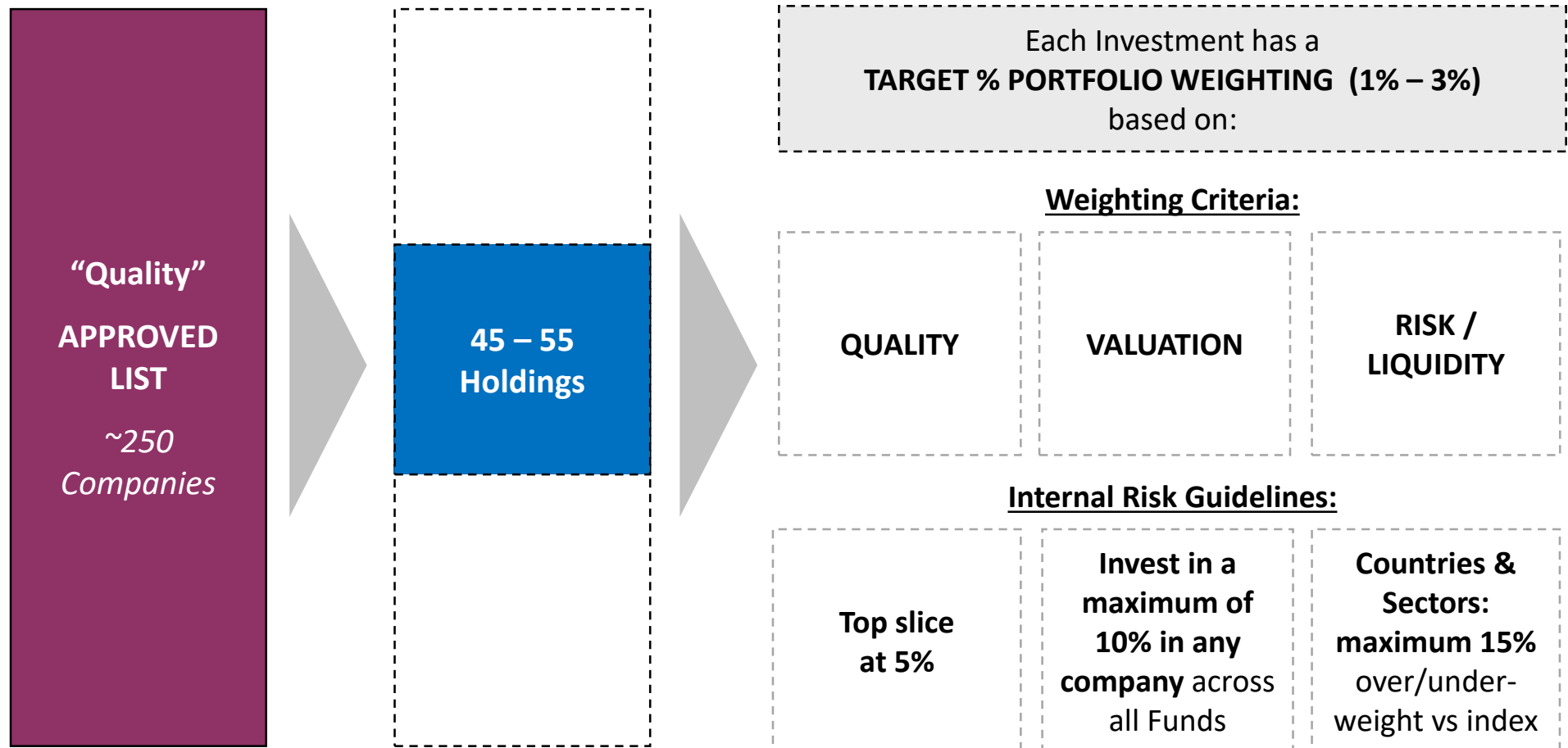
ANALYST
Recommendation

**STRONG
BUY**

BUY

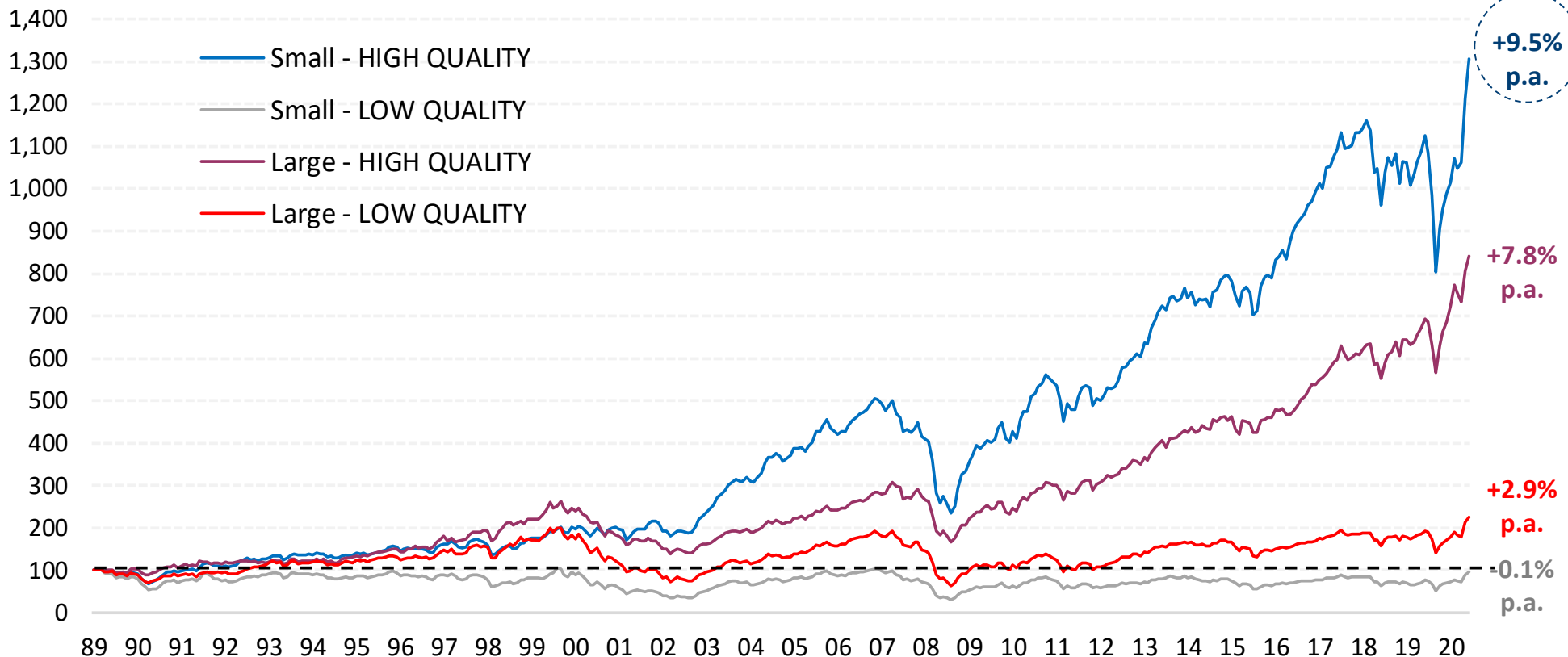
UNDER

We are disciplined in portfolio construction to manage risk



Over the long run SmallCap “Quality Growth” has performed best

Global Excess Returns by Size & Quality (1989 - Dec 2020, 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 Top 20 holdings

Company	Country	%
Discoverie Group	UK	4.8%
NCC Group	UK	4.2%
Trealt	UK	4.0%
Liontrust Asset Management	UK	3.8%
XP Power	UK	3.8%
Dechra Pharmaceuticals	UK	3.7%
Kainos	UK	3.5%
Big Yellow Group	UK	3.3%
Diploma	UK	3.2%
4Imprint Group	UK	3.2%
Top 10		37.6%

Company	Country	%
Marshalls	UK	3.1%
YouGov	UK	3.0%
Ideagen	UK	2.7%
Integrafin	UK	2.6%
Tracsis	UK	2.3%
Hilton Food Group	UK	2.2%
Clarkson	UK	2.2%
Boku	UK	2.1%
Porvair	UK	2.0%
Auction Technology	UK	2.0%
Top 11 - 20		24.2%

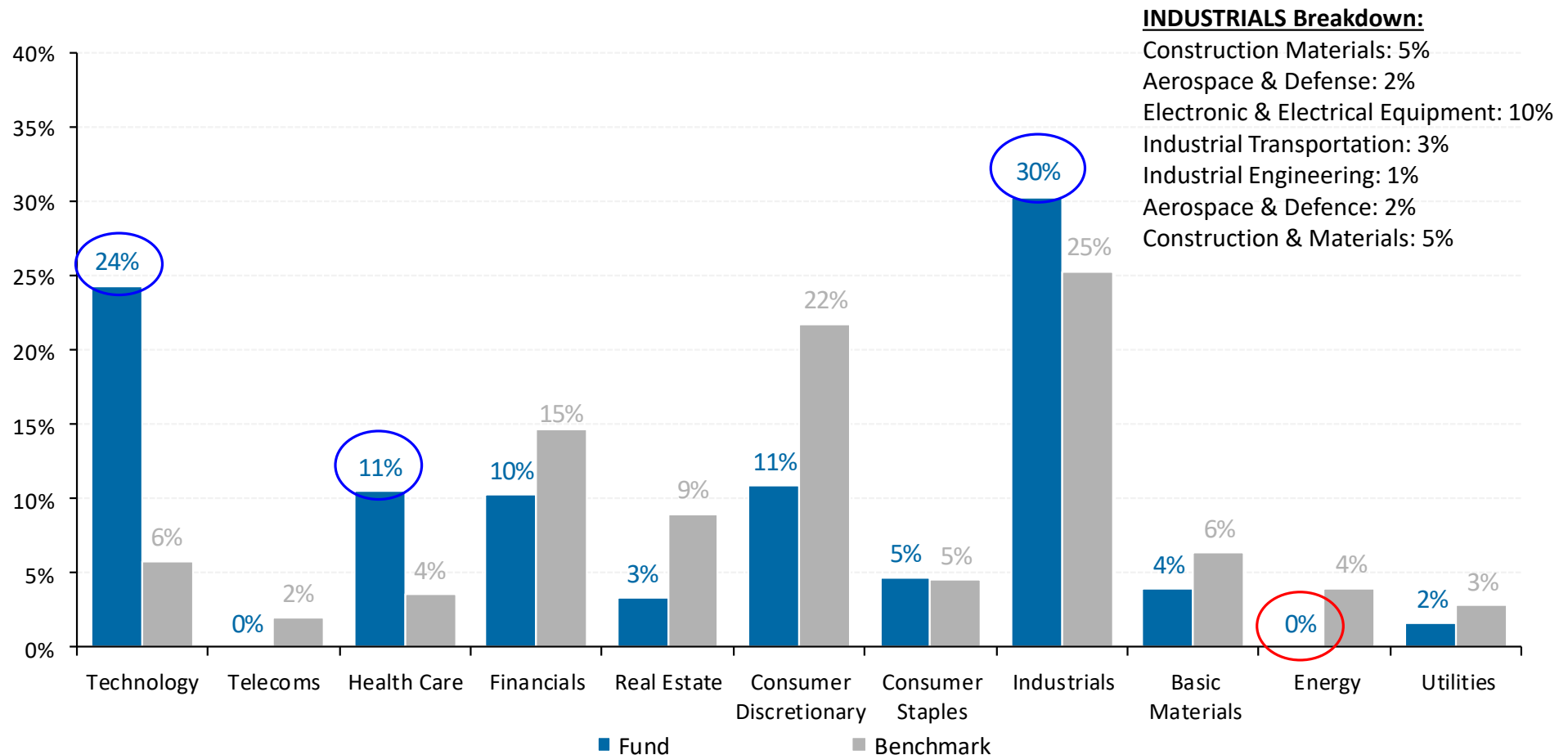
Major Buys / Sells in Q2 2021

PURCHASES	Value (£m)
Maxcyte	1.5
Boku	0.9
Polar Capital	0.8
Frontier Developments	0.7
Kainos	0.7

SALES	Value (£m)
GB Group	-1.2
RWS	-1.1
Eco Animal Health	-0.7
Strix Group	-0.7
First Derivatives	-0.6

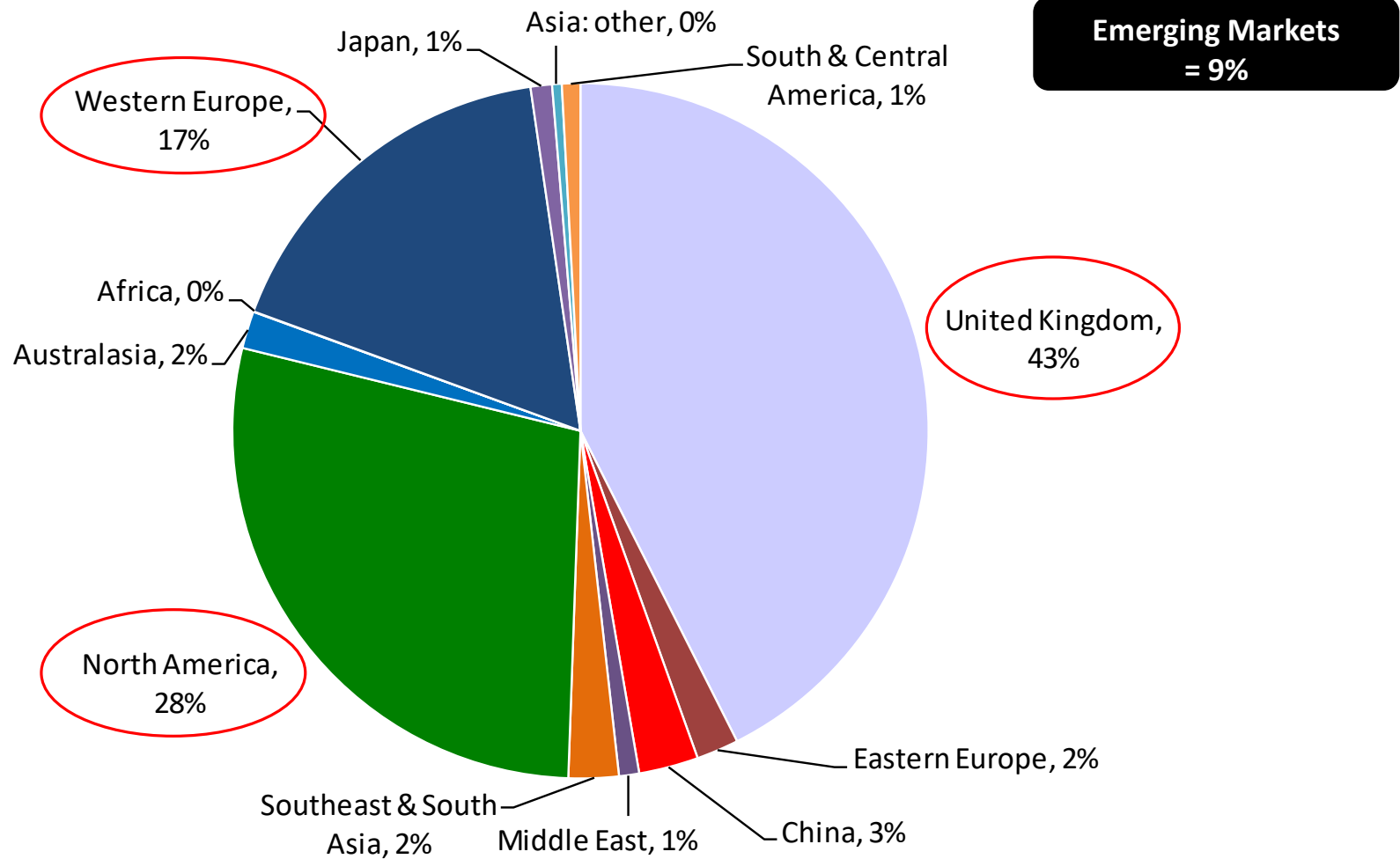


Sectors – overweight Industrials, IT & Health Care; no Energy



Source: Internal, Numis, Bloomberg.
 Based on the ICB Classification. Weightings may not total 100% due to rounding.

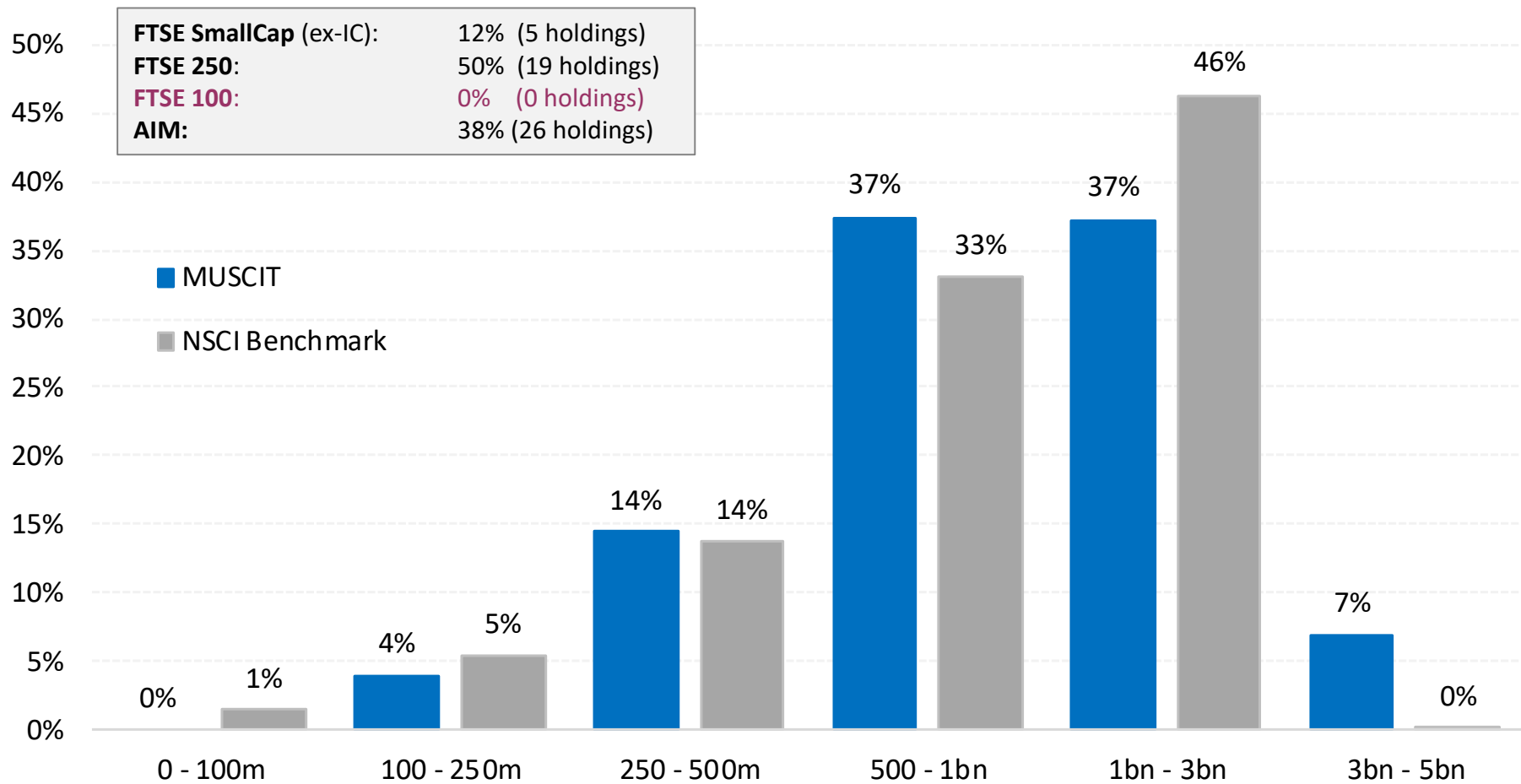
Revenues by Country



Source: Internal, Bloomberg.

Note: The Country weightings may not add up to 100% due to the presence of Cash.

Size - a SmallCap portfolio with no exposure to the FTSE-100



A portfolio of High Growth companies with strong balance sheets

Portfolio Characteristics		
	MUSCIT	Numis SmallCap (ex-IC) Index
# Stocks	50	323
Weighted Market Cap (£bn)	1.2	1.02
EBIT Margin (21F)	20%	16%
RoE (21F)	17%	11%
% Companies with Net Cash (21F)	50%	22%

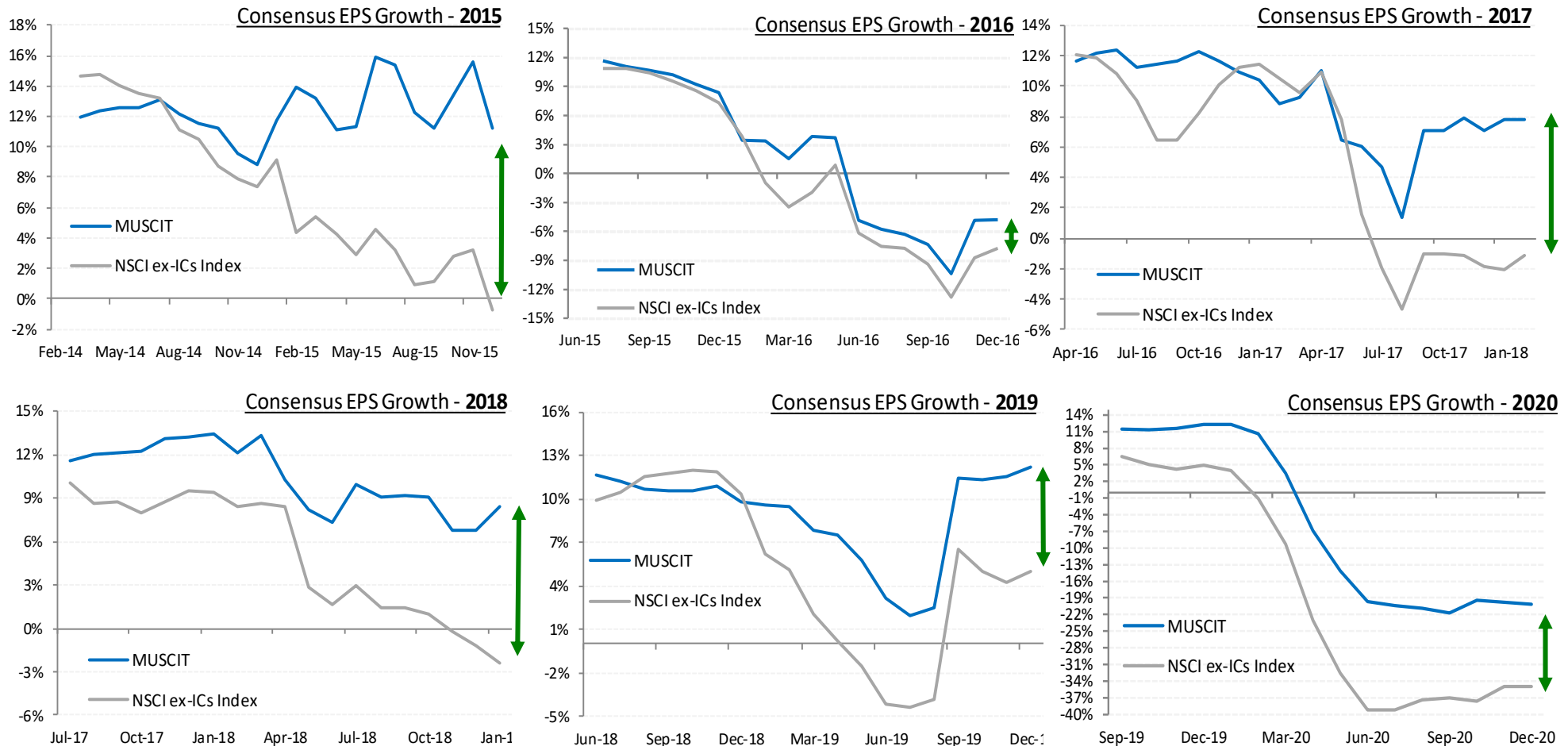
Growth (2021F)		
	MUSCIT	Numis SmallCap (ex-IC) Index
Sales Growth	16.0%	6.6%
EPS Growth	21.1%	16.5%

Valuation (2021F)		
	MUSCIT	Numis SmallCap (ex-IC) Index
P/E	30.9	14.7

A portfolio of High Quality companies

	2015	2016	2017	2018	2019	2020	2021e	
	MUSCIT							Bench.
Revenue Growth	11%	12%	14%	11%	10%	4%	15%	7%
10Y EPS Growth (Trail.)	n/a	11%	11%	12%	11%	12%	n/a	n/a
EBIT Margin	20%	19%	16%	16%	16%	17%	20%	16%
RoE	17%	18%	18%	16%	17%	15%	17%	11%
Net Gearing	15%	17%	38%	10%	9%	5%	5%	44%

Our companies typically deliver higher EPS growth than the index



Source: Internal, Factset, Bloomberg. Note: PE & EPS growth figures are calculated excluding loss-makers.

Relative performance attribution – Q2 2021 (a quiet quarter)

POSITIVE	
DiscoverIE	1.2%
Cerillion	0.7%
Dechra Pharmaceuticals	0.7%
Liontrust Asset Management	0.7%
Tracsis	0.7%
TOTAL	4.0%

NEGATIVE	
Ideagen	-0.4%
Avon Rubber	-0.3%
First Derivatives	-0.3%
Judges Scientific	-0.3%
Frontier Developments	-0.3%
TOTAL	-1.7%

 AIM

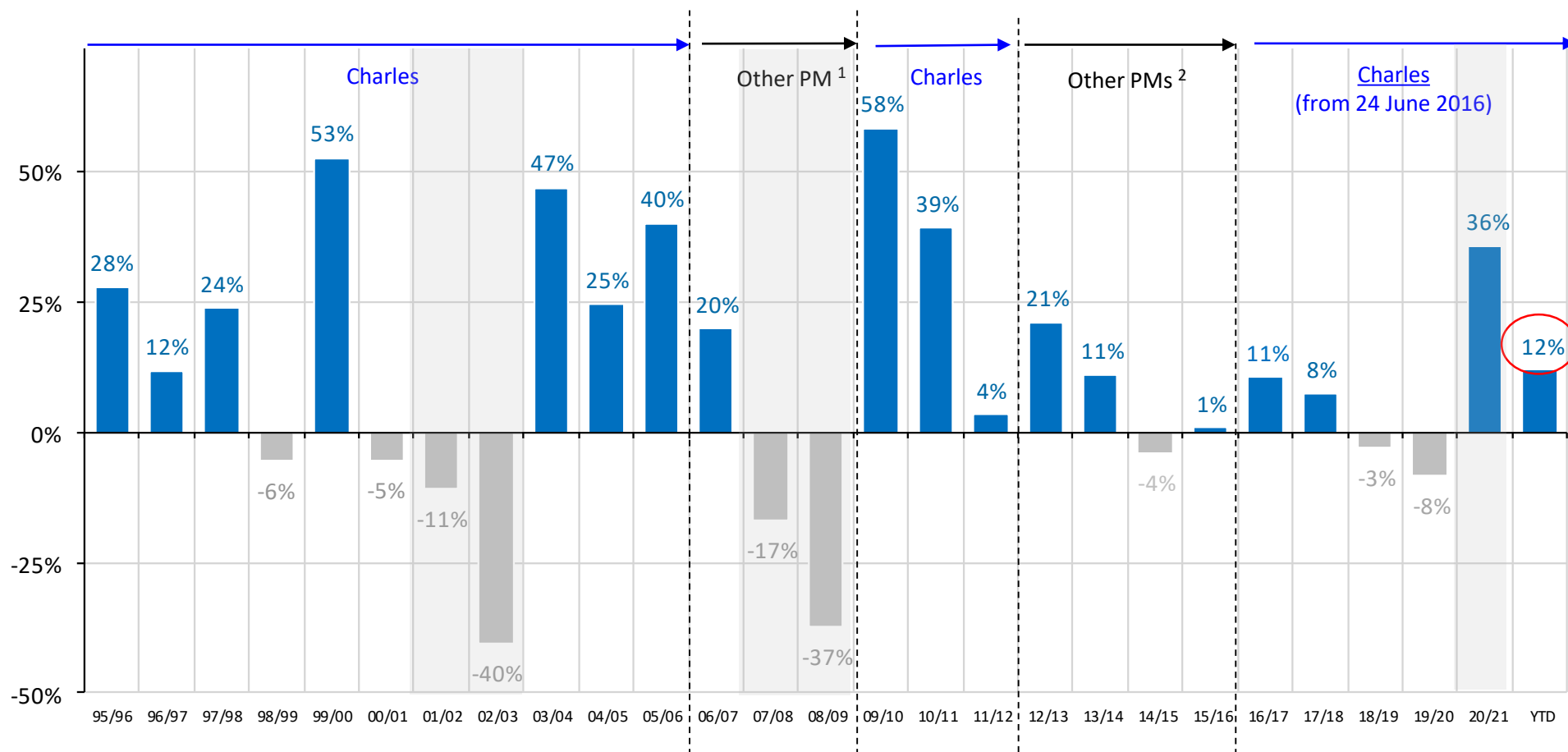
Relative performance attribution – 12 months

POSITIVE	
Treatt	1.4%
DiscoverIE	0.9%
Kainos	0.8%
Cerillion	0.7%
Auction Tech. Group	0.5%
TOTAL	4.4%

NEGATIVE	
Avon Rubber	-1.4%
Hilton Food	-1.3%
Marshalls	-1.1%
4imprint	-1.1%
James Fisher and Sons	-1.1%
TOTAL	-6.0%

 AIM

Absolute NAV returns by Financial Year (March to March)

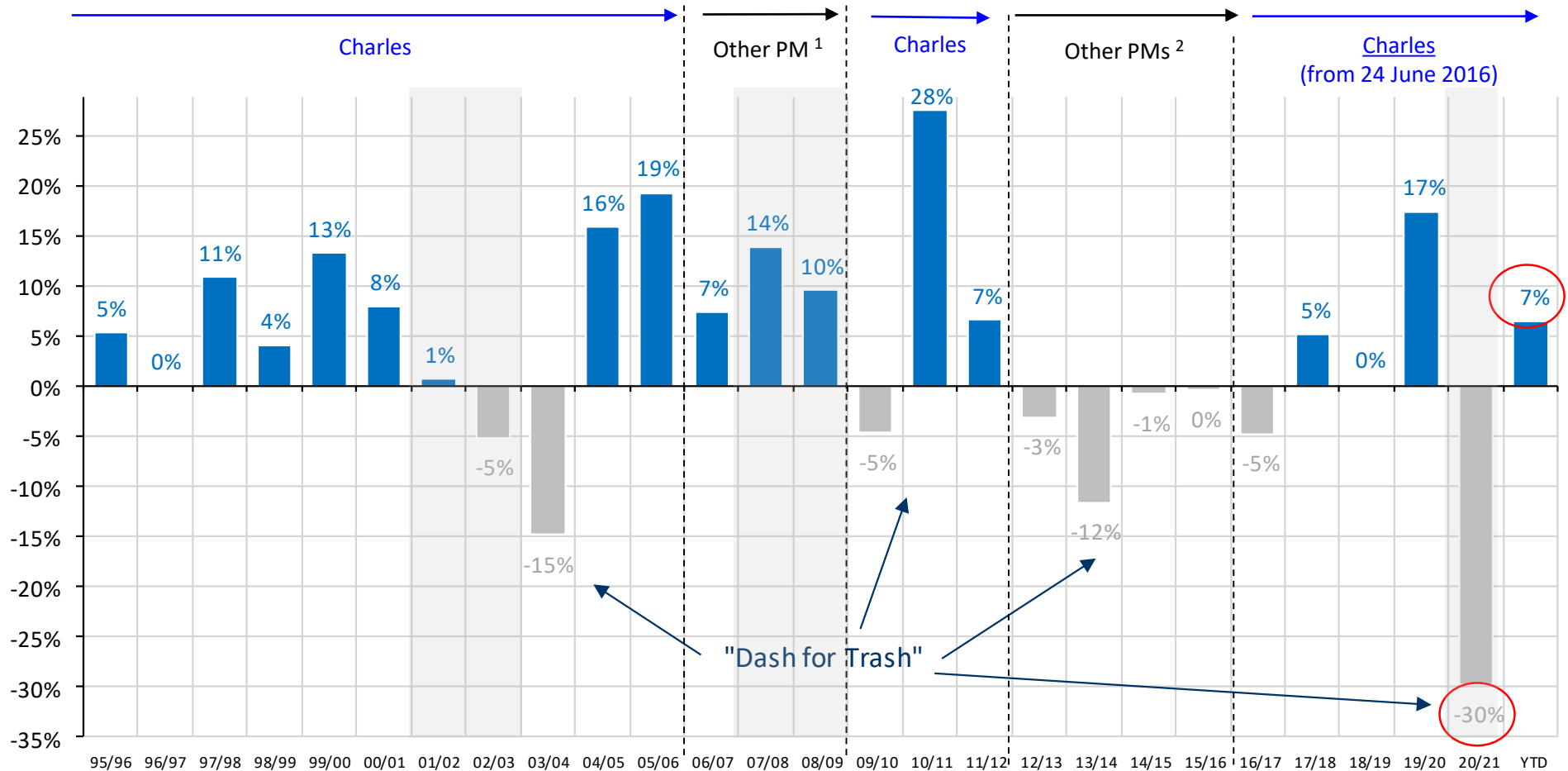


Source: Internal. Note: Dividends reinvested with effect from 1 April 2018 both for the Trust and the Benchmark. Prior to this date both were capital return.

Other PMs: Dan Harlow (2006 – 09); David Lindley (2011 – 2014); Anna Lundén (2014 – 2016). Investment Committee started in 2015.

Note: Years 1-3 undiluted NAV, years 4-5 diluted NAV and years onwards basic NAV as no longer any warrants in issue.

Relative NAV returns by *Financial Year* – a good start to FY22



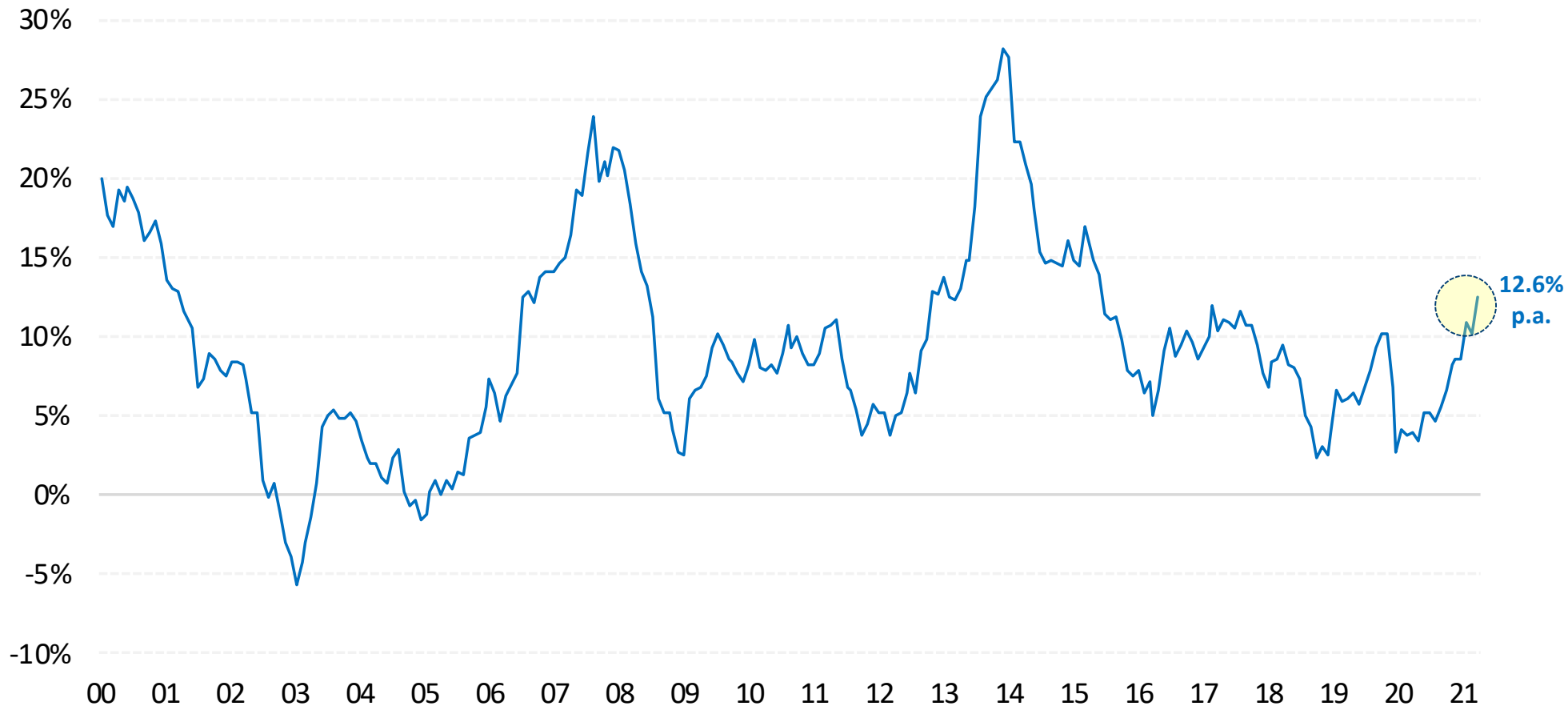
Source: Internal.

Note: Years 1-3 undiluted NAV, years 4-5 diluted NAV and years onwards basic NAV as no longer any warrants in issue.

Note: Dividends reinvested with effect from 1 April 2018 both for the Trust and the Benchmark. Prior to this date both were capital return.

Over 5 years MUSCIT delivered positive returns 95% of the time

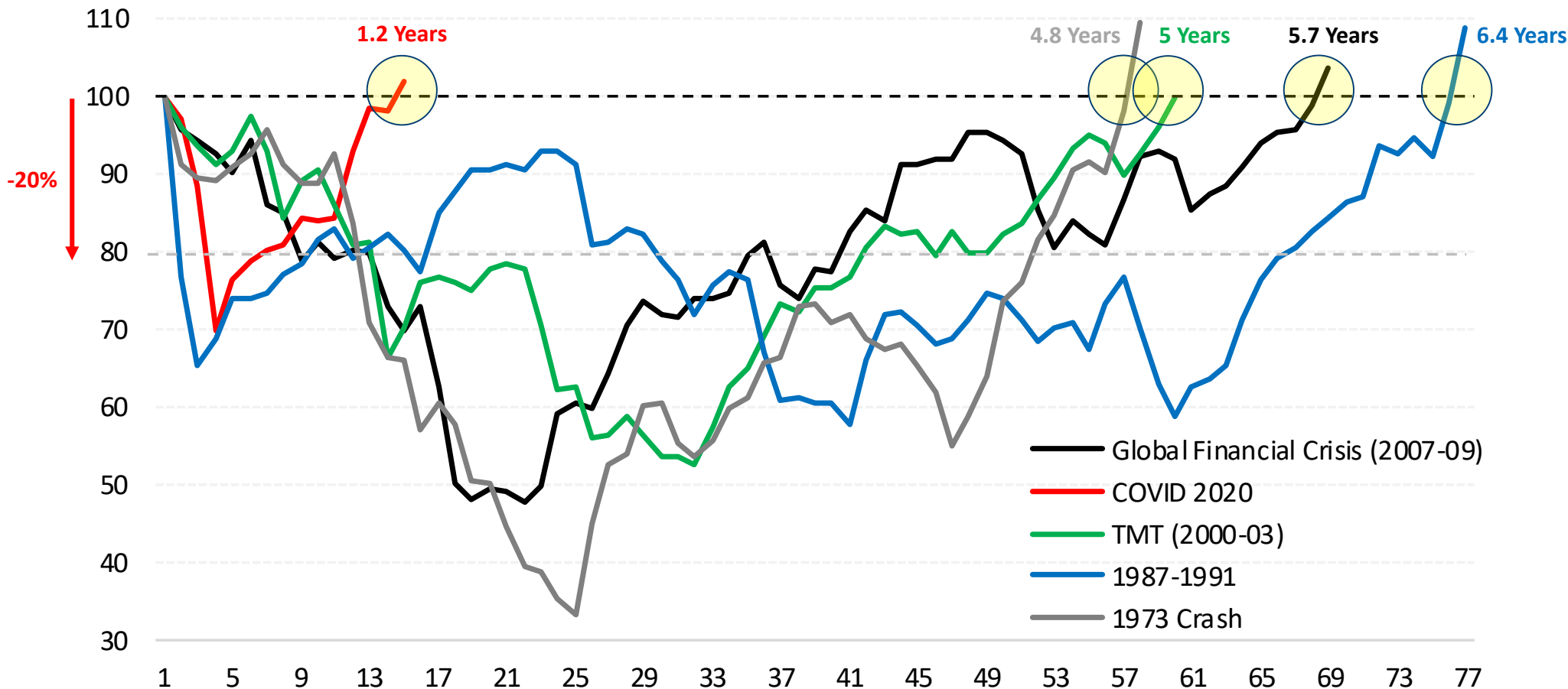
MUSCIT - 5-year NAV Rolling Return (annualised, Net Total Returns)



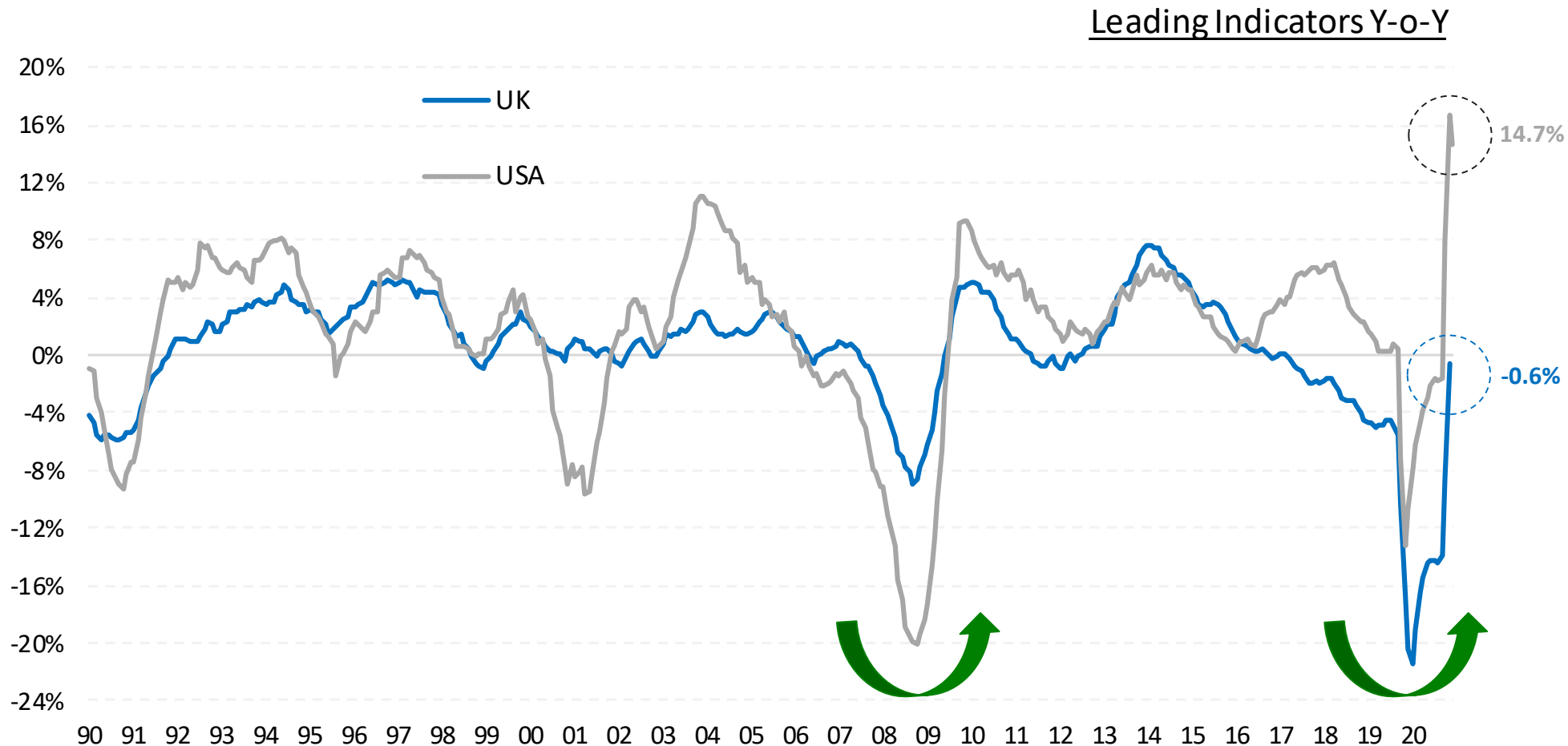
Outlook

The COVID Bear Market recovery was the fastest of the past 50 years

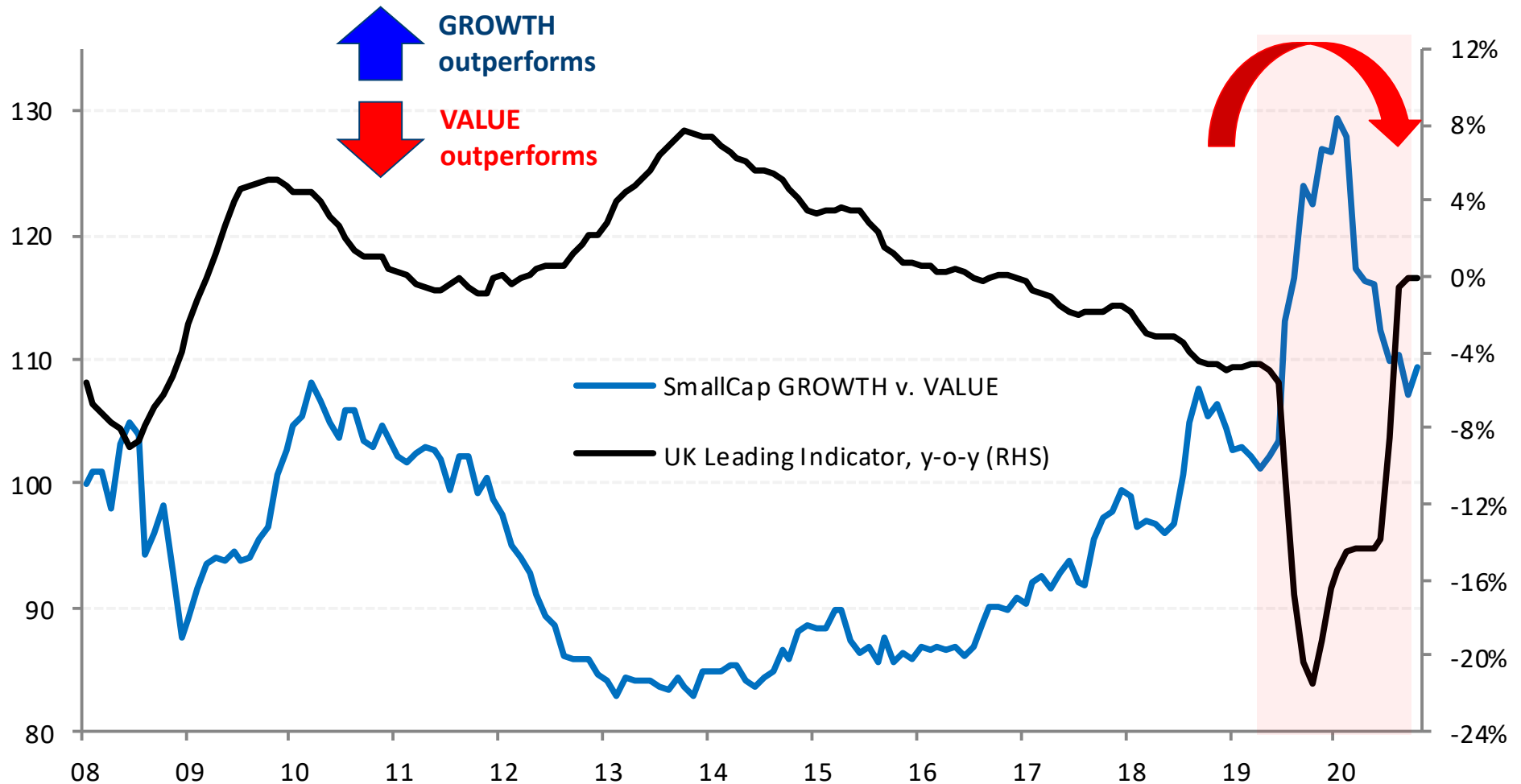
UK SmallCap - Number of months to recover losses after a Bear Market



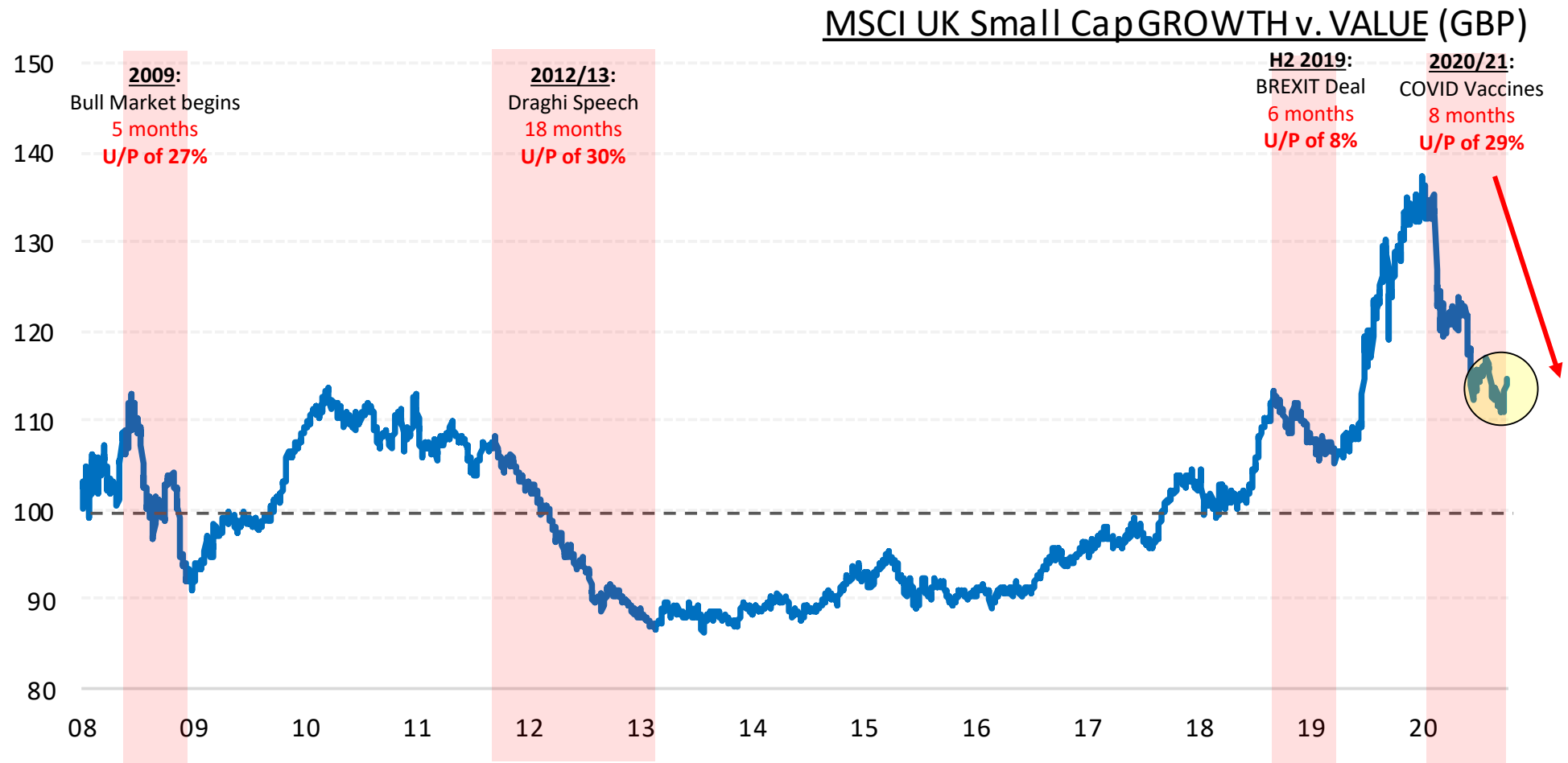
... reflecting the speed of the post-COVID global economic recovery



... which sparked a strong recovery in Value since November 2020

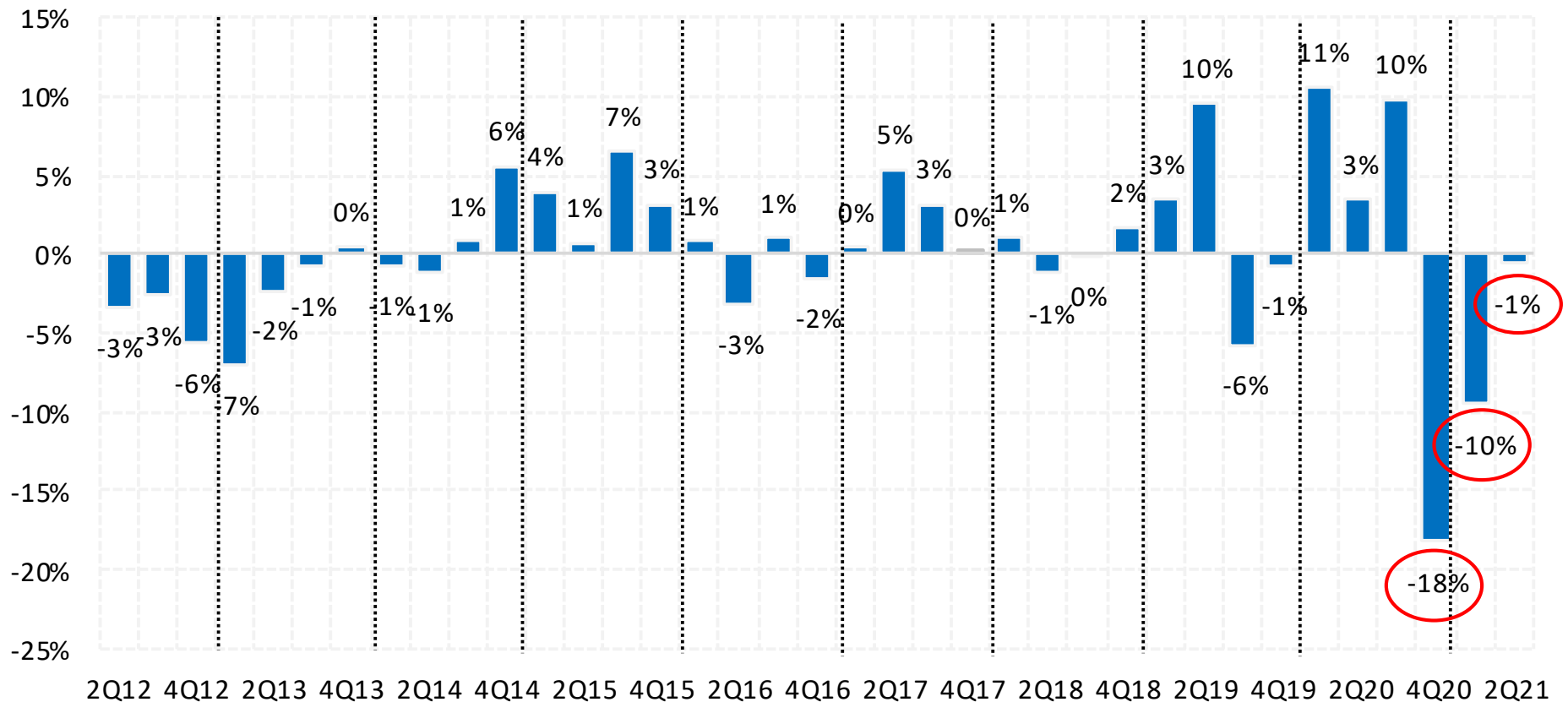


Value outperformed Growth by 29% between Nov 2020 and Jun 2021

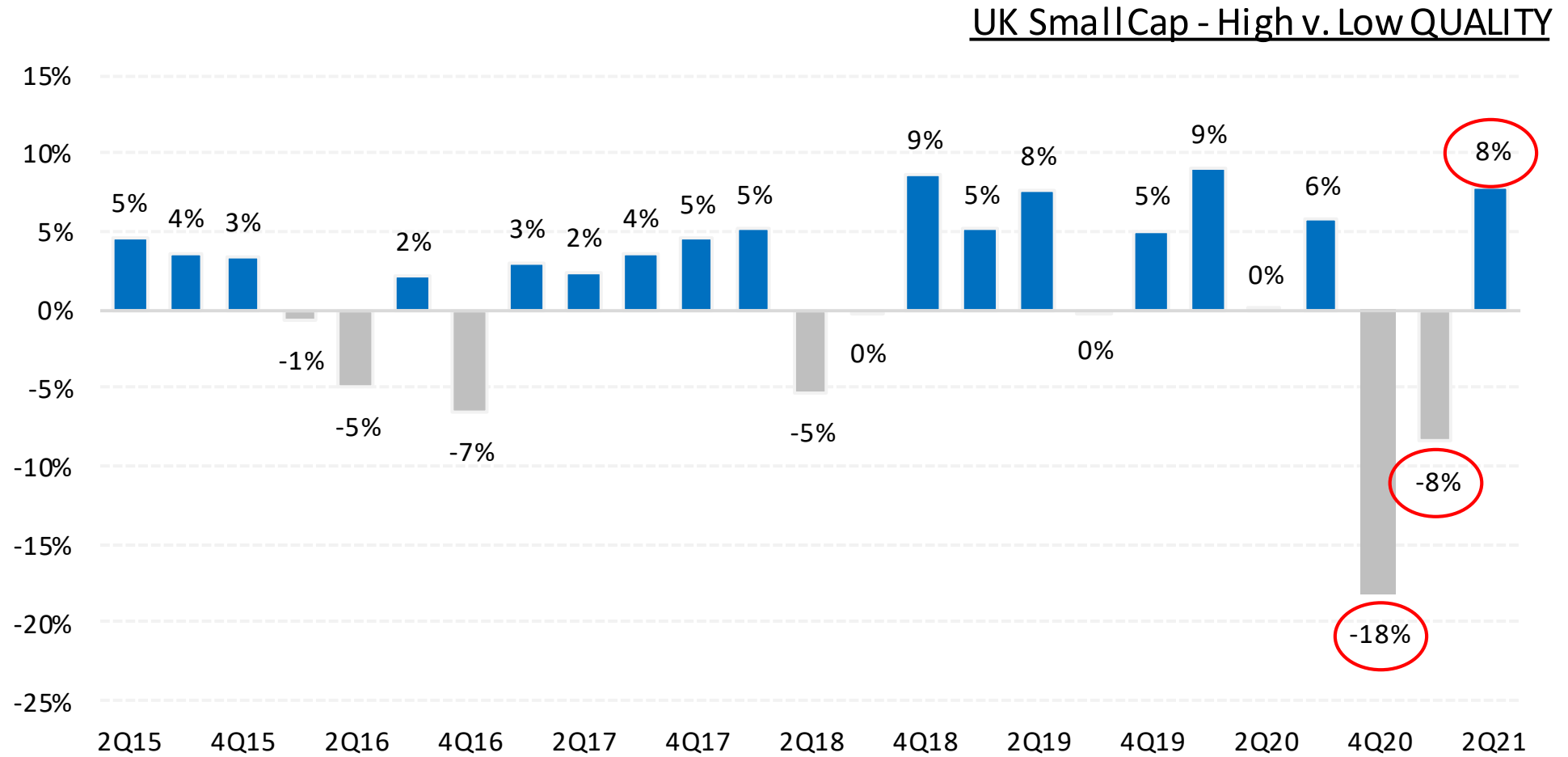


... but the style rotation started to abate through the second quarter

UK SmallCap - GROWTH minus VALUE



... and High Quality even managed to outperform



... as US Treasury yields settled down after peaking in March



... and inflation expectations stopped rising

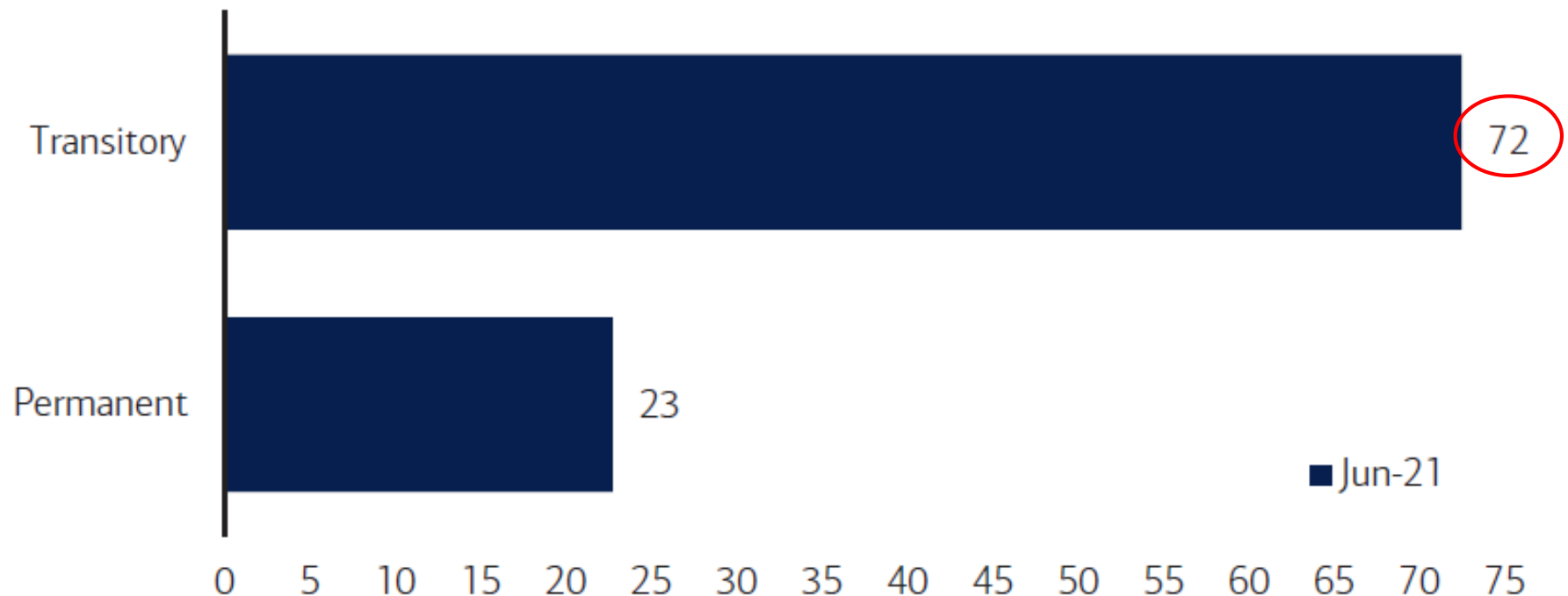
5-Year Breakeven Inflation Rate



Fund Managers now think that inflation will only be transitory

Exhibit 1: 72% of investors think inflation is transitory

Do you think inflation is transitory or permanent?



Source: BofA Global Fund Manager Survey

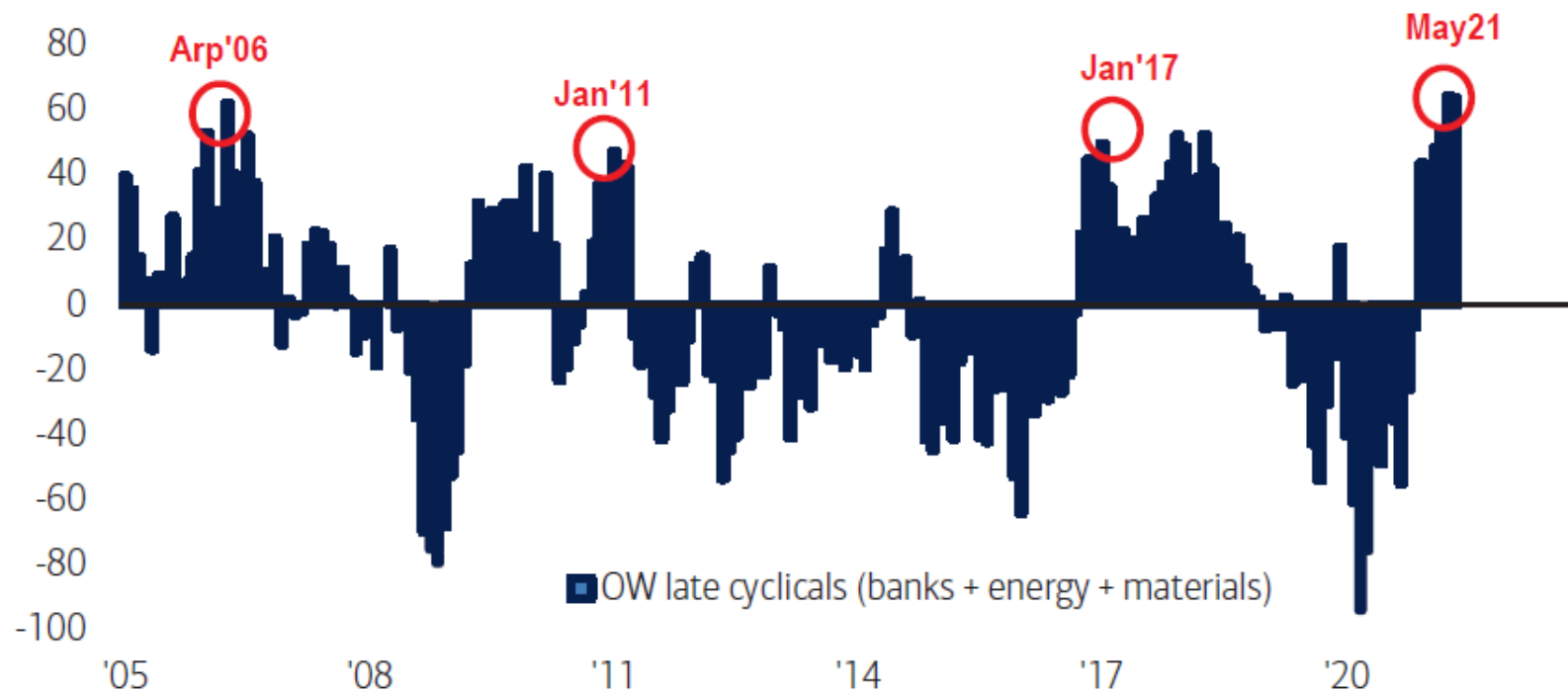
BofA GLOBAL RESEARCH

Fund Managers are still heavily overweight Cyclical

Exhibit 21: FMS investors still substantially overweight late cyclicals

Net 30% of FMS investors OW banks, net 11% OW energy, net 23% OW materials

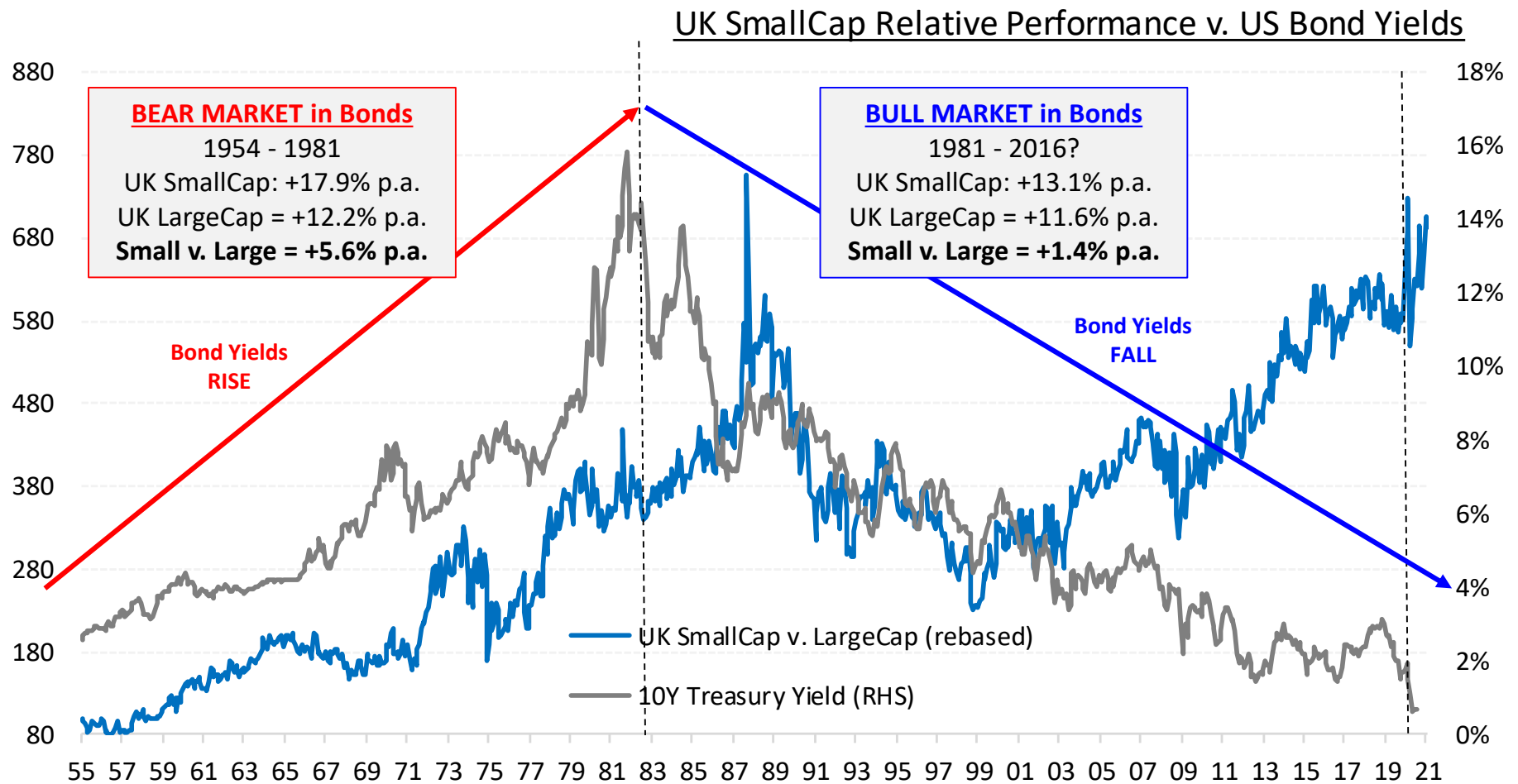
FMS are now significantly overweight cyclical...with a net 30% overweight banks, a net 11% overweight energy and a net 23% overweight materials.



Source: BofA Global Fund Manager Survey

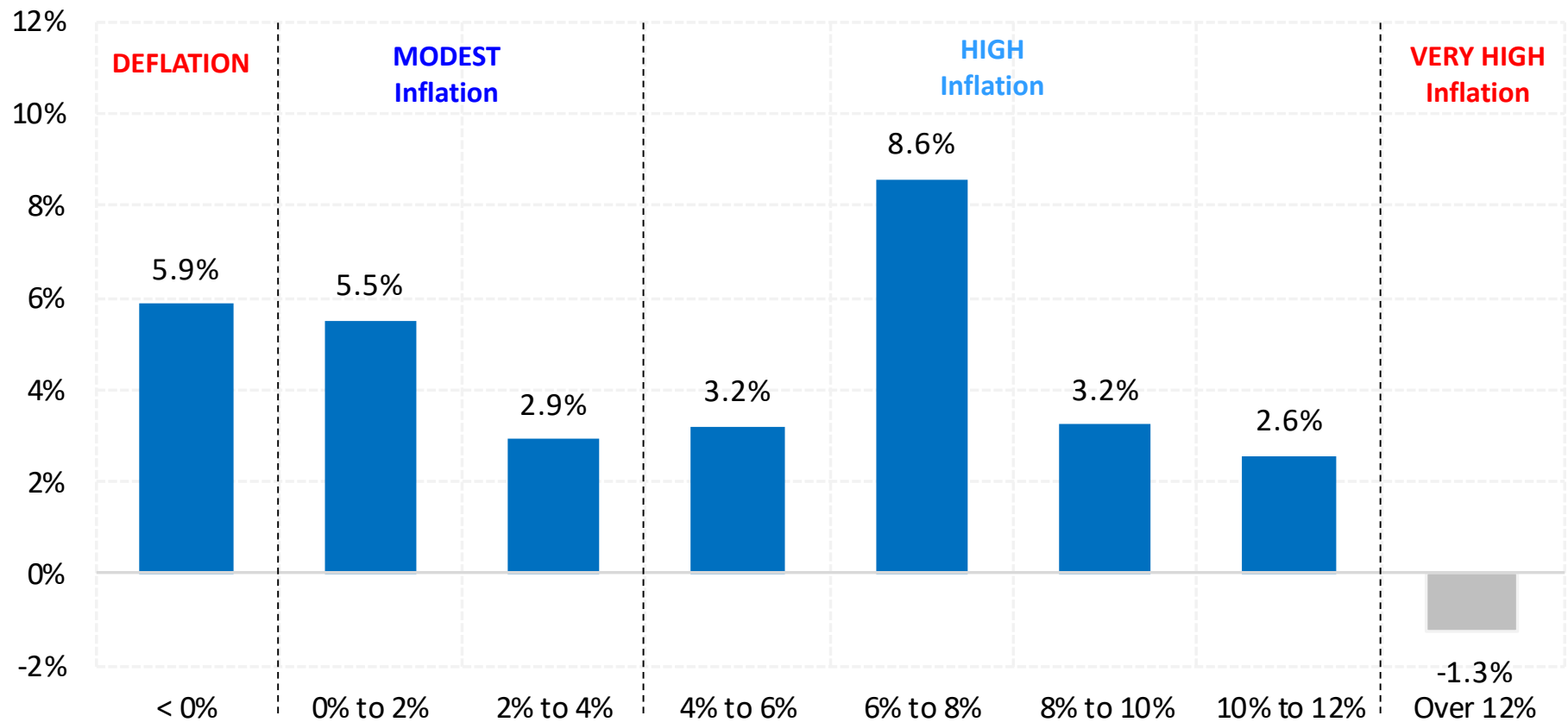
BofA GLOBAL RESEARCH

Historically, SmallCap has done well when bond yields were rising



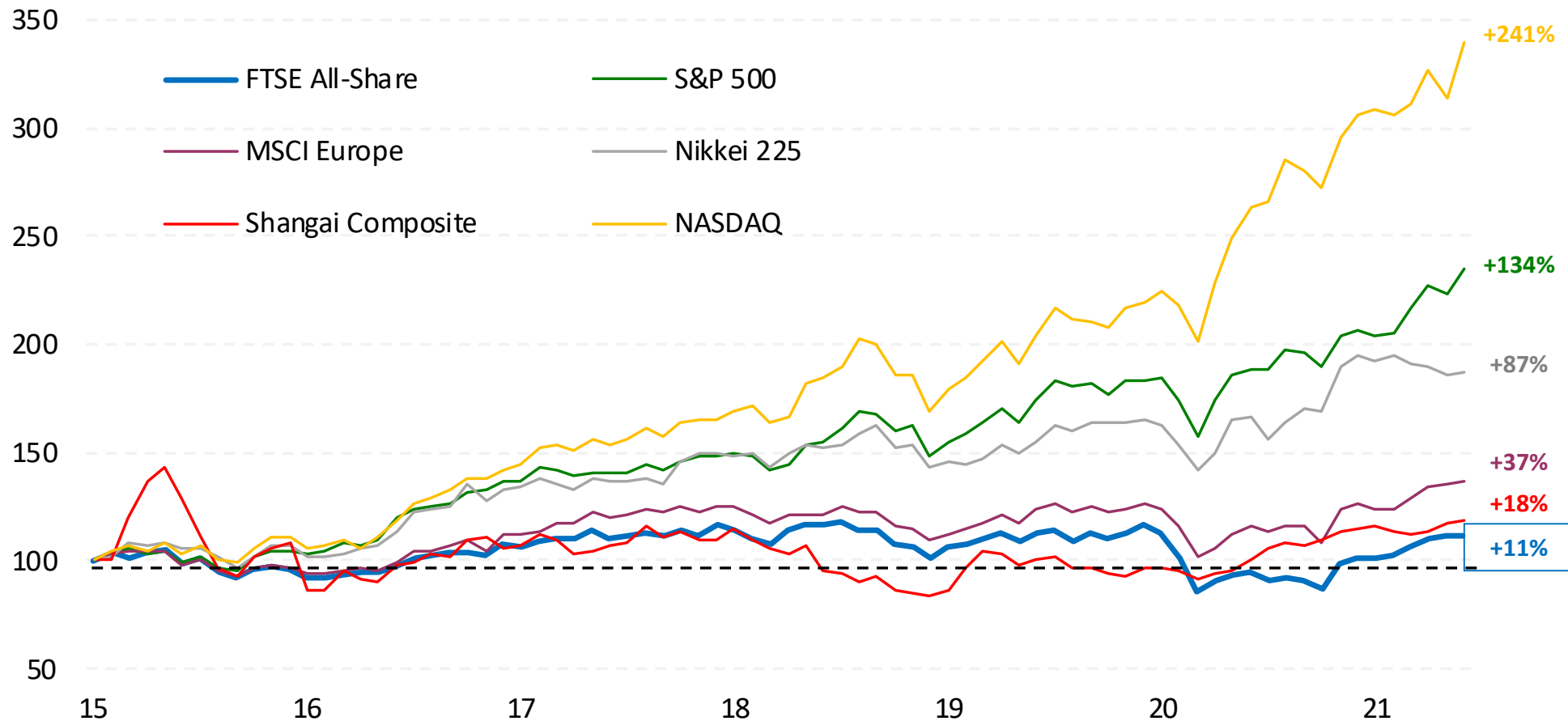
... and in most environments except galloping inflation

Small v. LargeCap under Different Inflation Conditions
(12m Relative Performance vs UK RPI y-o-y, 1962 - 2016)



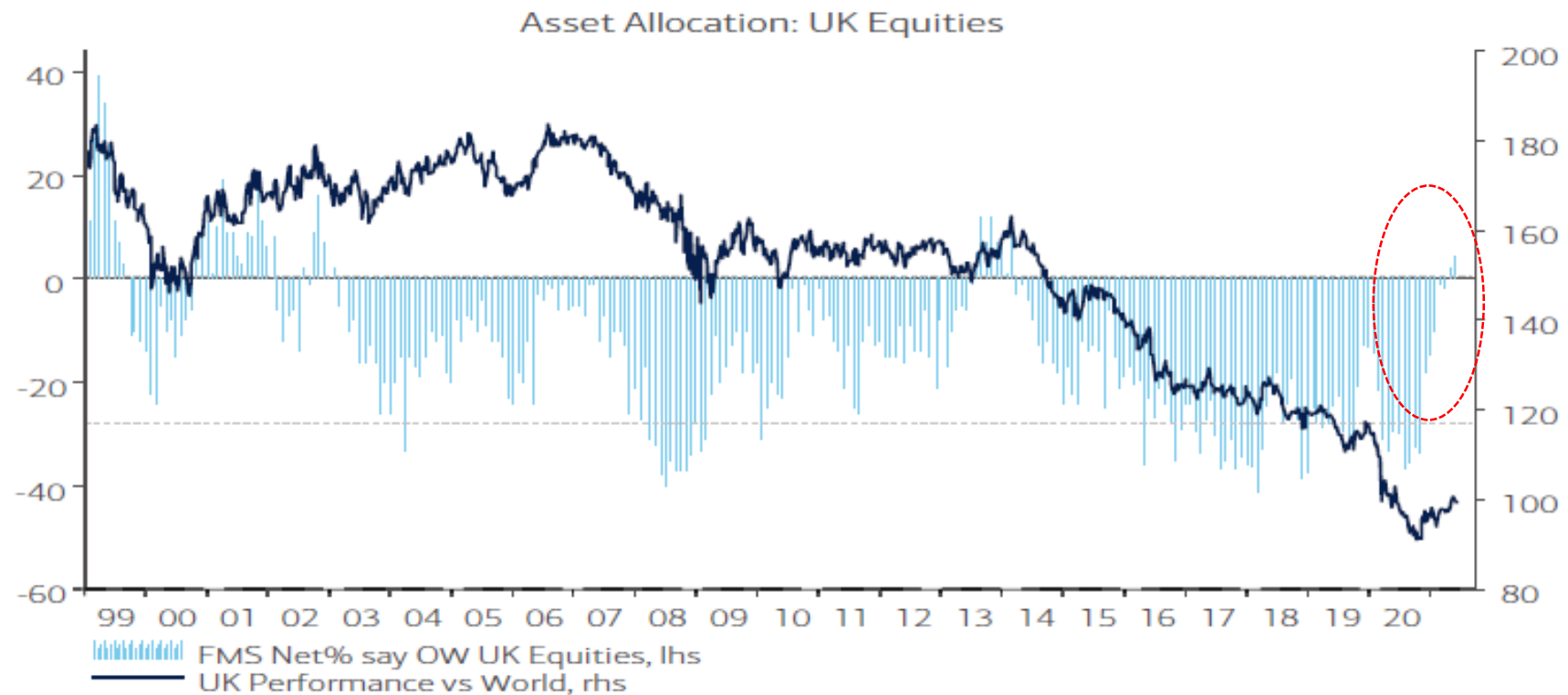
With Brexit out of the way, UK equities are due a catch-up

Index Performances since 31 January 2015 (rebased, all in GBP)



Global investors started returning to the UK in May after 7 years

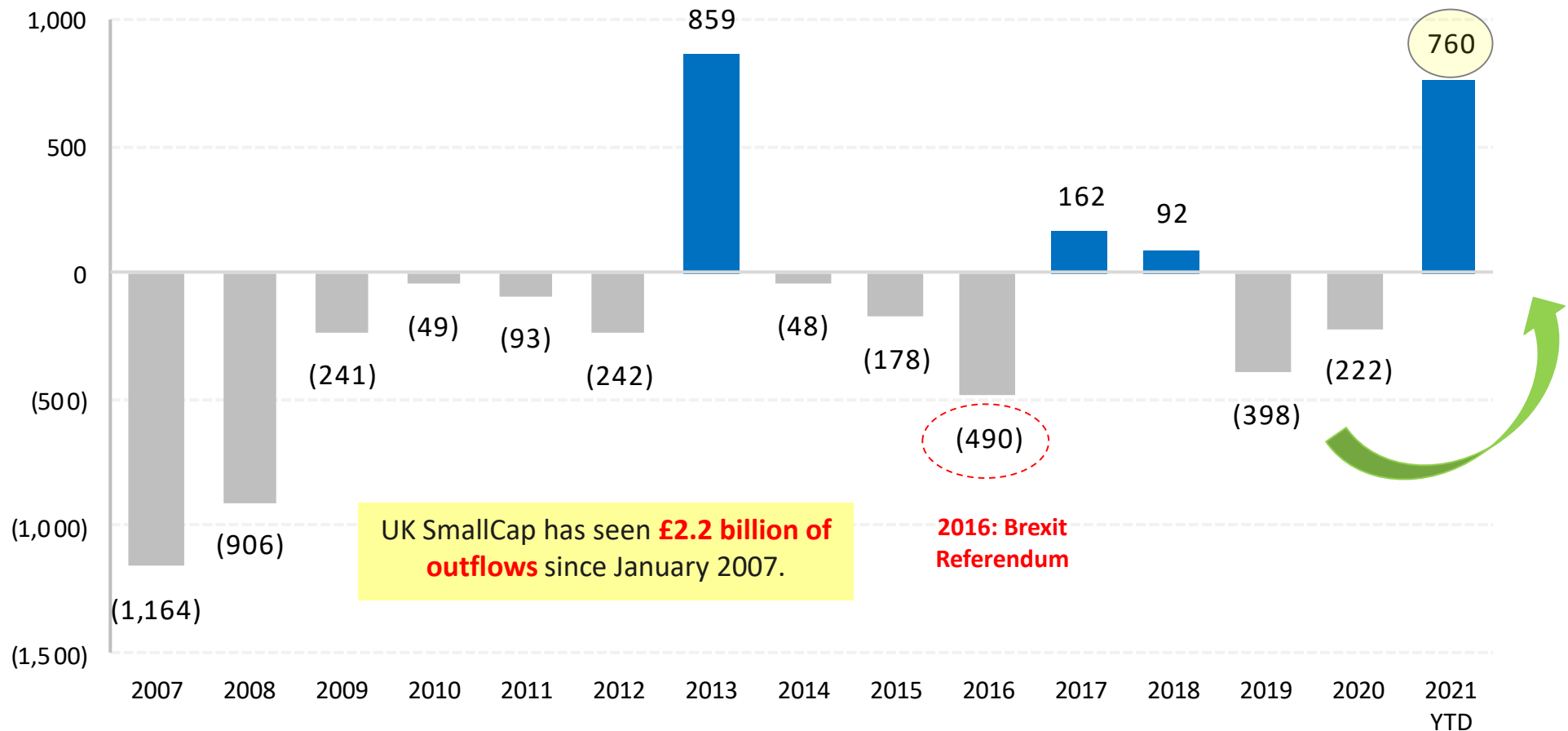
Exhibit 9: A net 4% of global investors say they are OW UK equities, the second consecutive month of OW (following a net 2% last month) after seven years of being UW



Source: BofA Global Fund Manager Survey

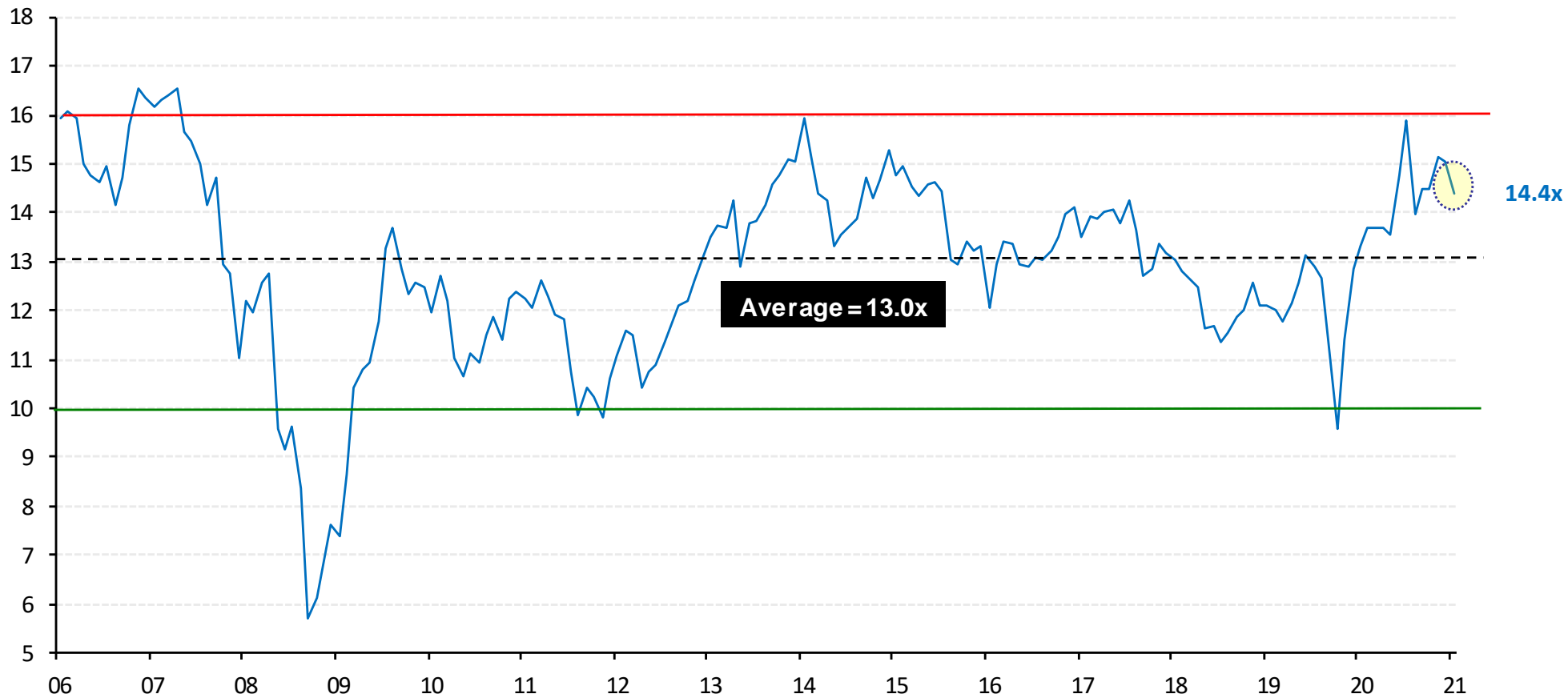
... and UK SmallCap is attracting large inflows once again

Net Flows into UK SmallCap Funds (£ million)



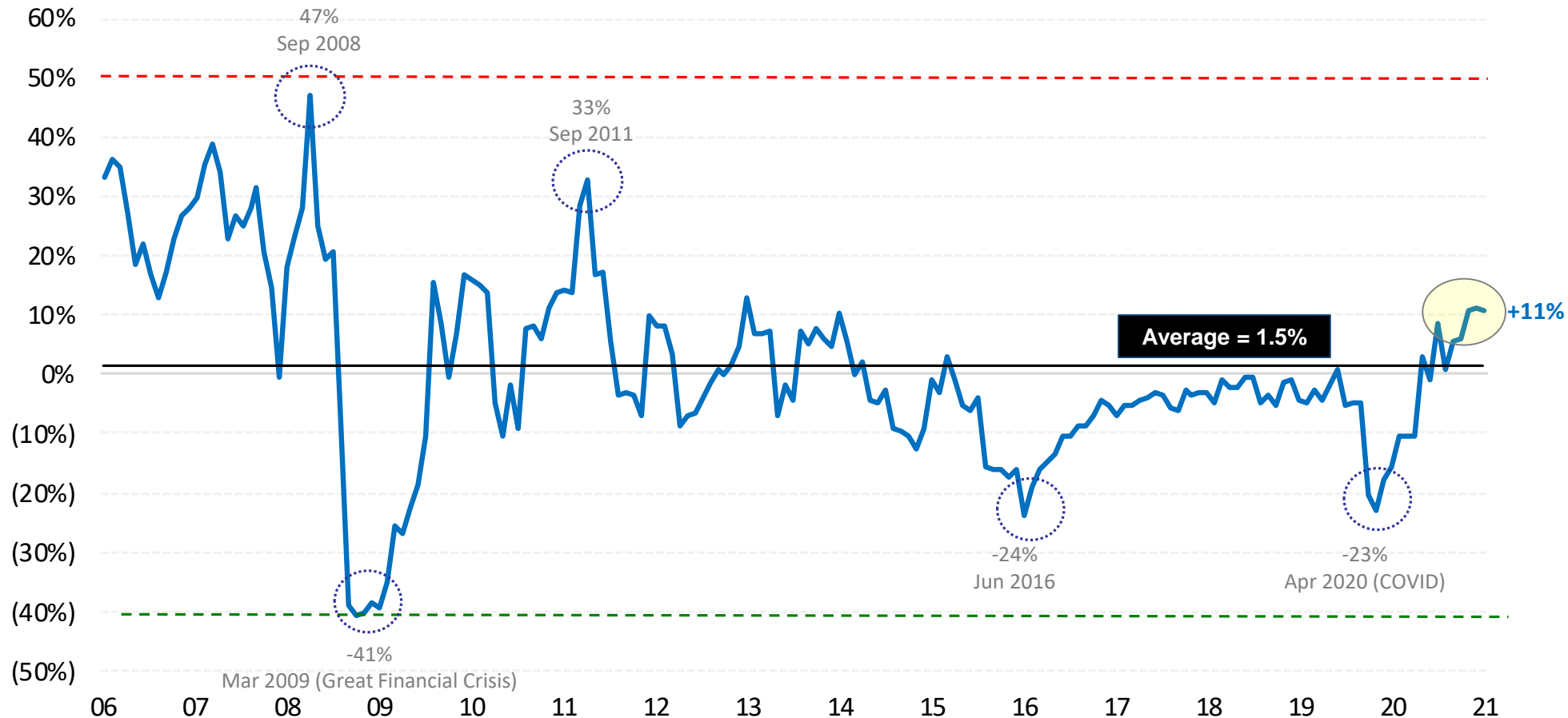
UK SmallCap is trading slightly above its long-term P/E average

UK SmallCap (NSCI ex-IC index) - 12m Fwd P/E



... and it is on a small P/E premium to LargeCap

12m Fwd P/E Small v. LargeCap (NSCI ex-IT v. FTSE All-Share)



Our number crunching suggests UK SmallCap offers plenty of upside

Estimated Annualised Total Returns over the next 7 years *:

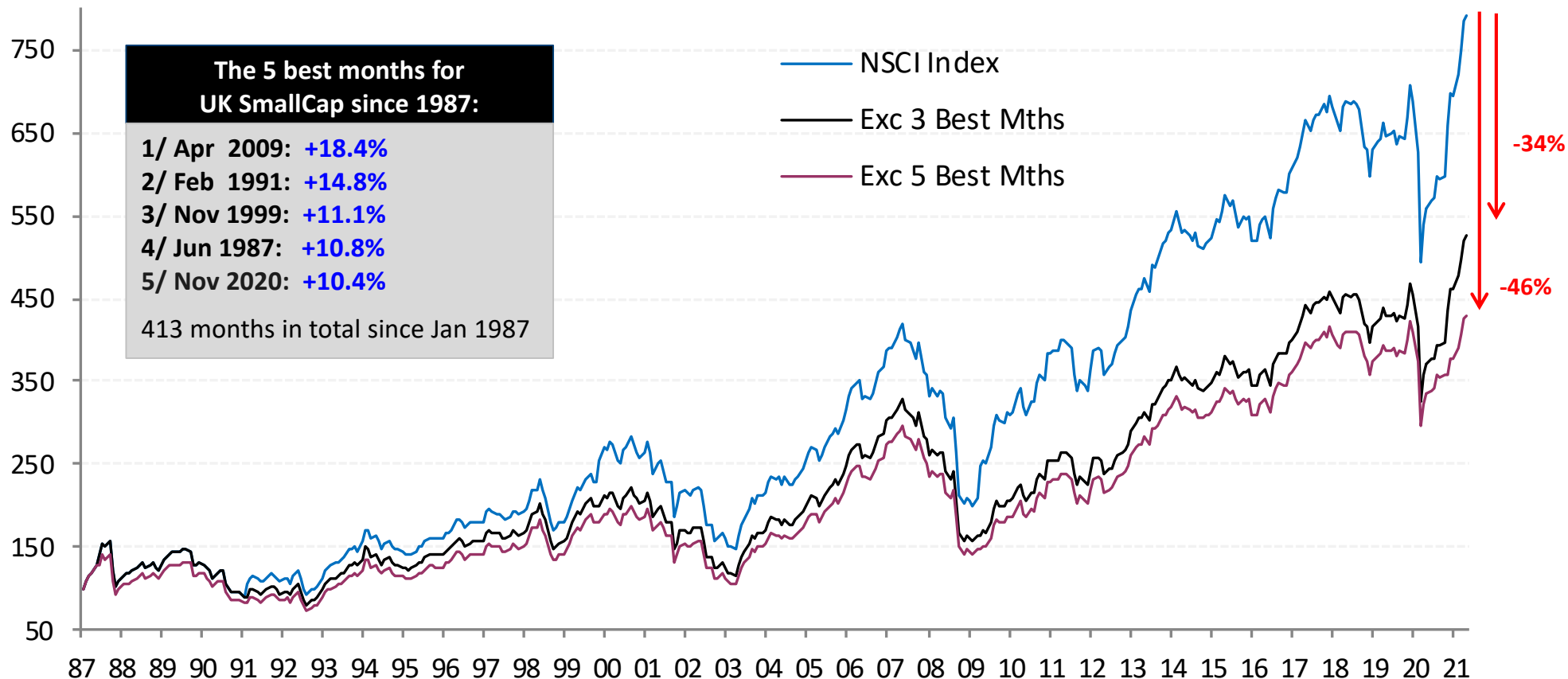
<i>(per annum)</i>	Dividends	EPS Growth	P/E Change	Total Return
Numis SmallCap (ex.IT)	2.3%	13.6%	-3.4%	12.7%
FTSE All-Share	3.2%	12.3%	-3.5%	12.2%
MSCI Europe MidCap	2.4%	13.1%	-3.7%	12.0%
MSCI Europe SmallCap	2.3%	13.0%	-4.2%	11.2%
MSCI Europe LargeCap	2.9%	12.8%	-5.6%	10.0%
S&P 500	2.1%	6.7%	-7.1%	1.2%

HIGHEST
Expected Returns

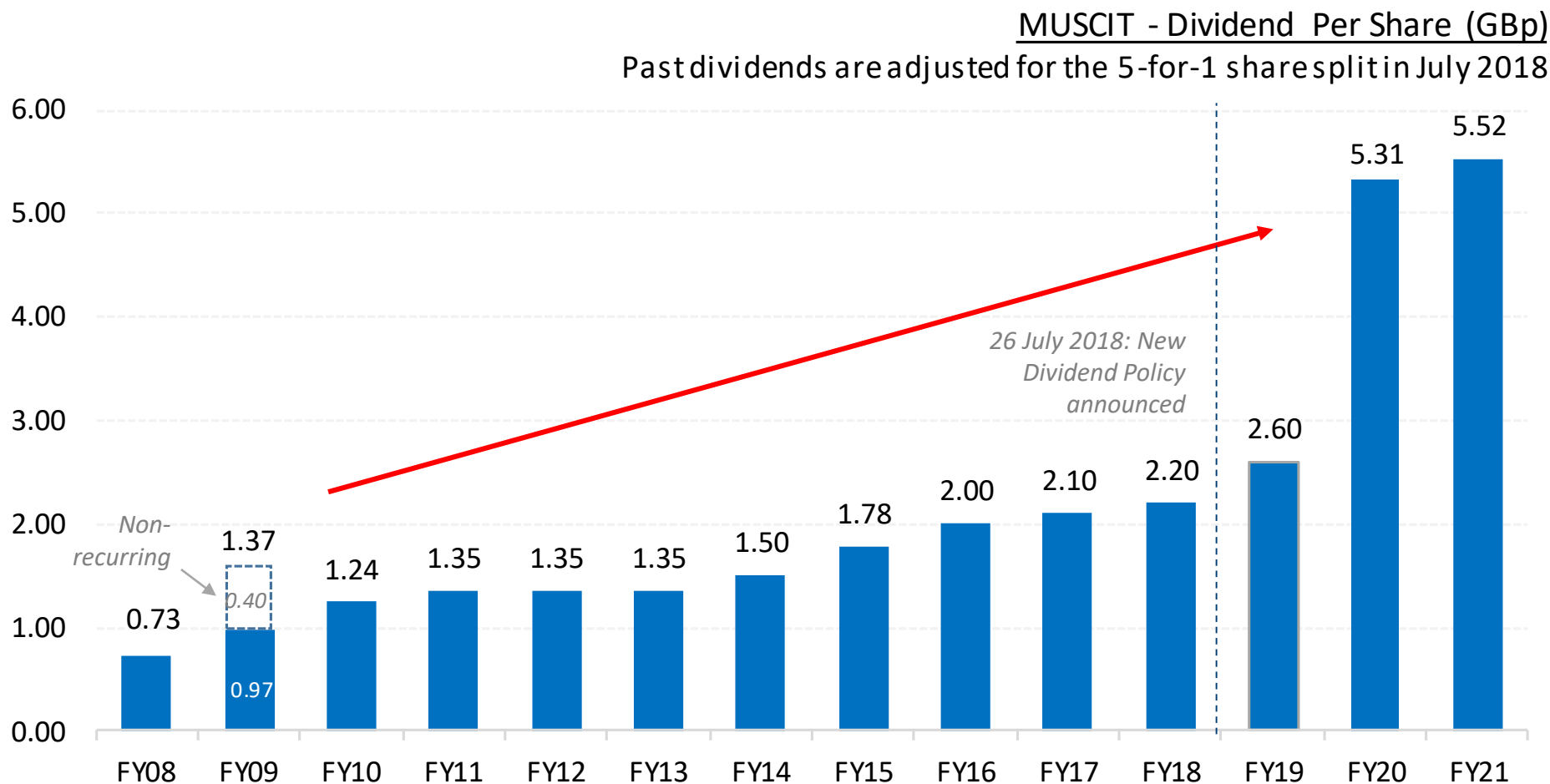
LOWEST
Expected Returns

Market timing is hard - and missing the recovery can be costly

Numis UK Smaller Companies Index - Price Returns (in GBP, Jan 1987 - Jun 2021)



Our Dividend Policy: 1% of NAV paid out each quarter

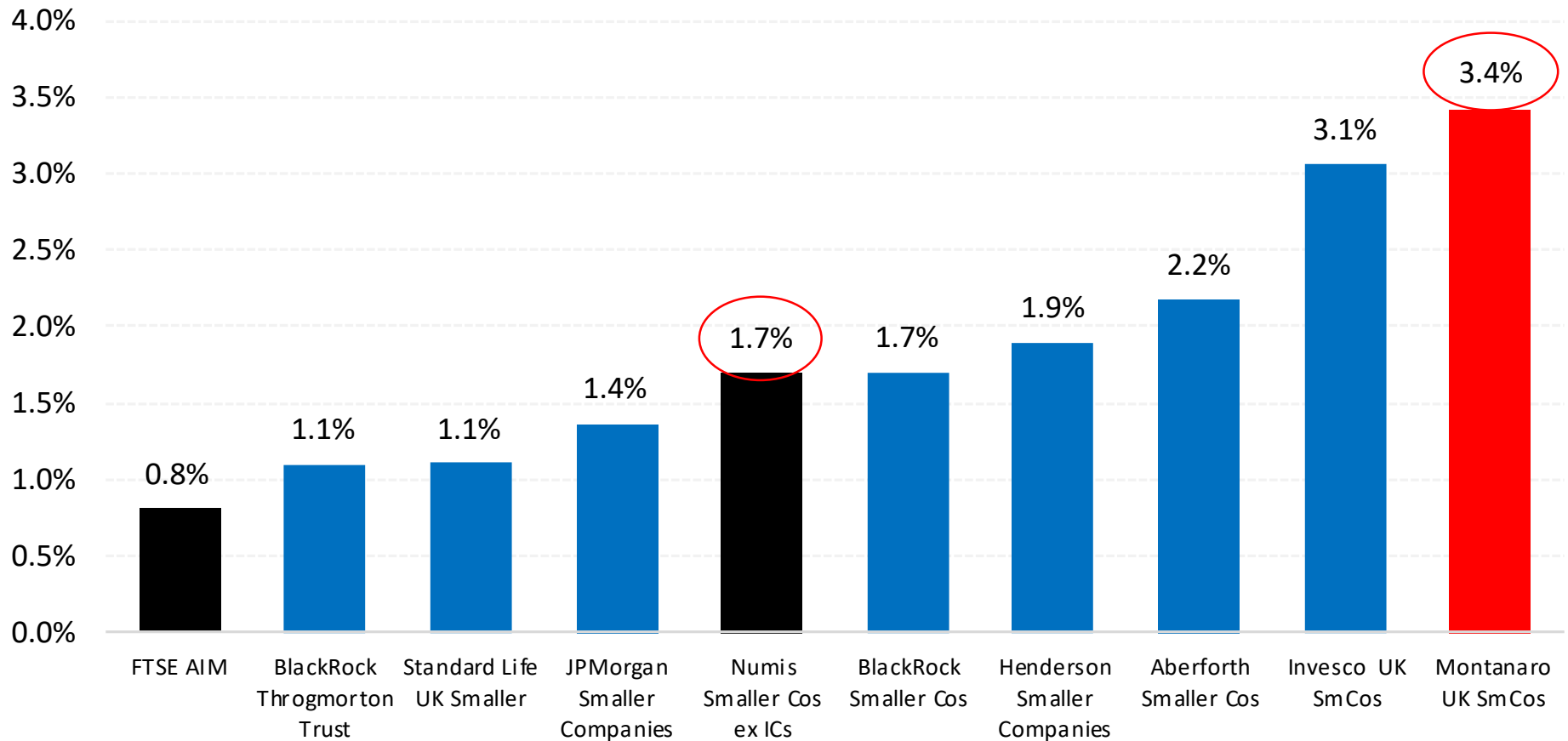


Source: Internal. Financial Year end is 31 March.

Note: On 27 July 2018 the Board announced a change of Dividend Policy. With effect from 30 September 2018, MUSCIT began paying quarterly dividends equivalent to 1% of the NAV (or roughly 4% per annum). The first quarterly dividend was paid on 23 November 2018.

MUSCIT has the highest yield within its peer group

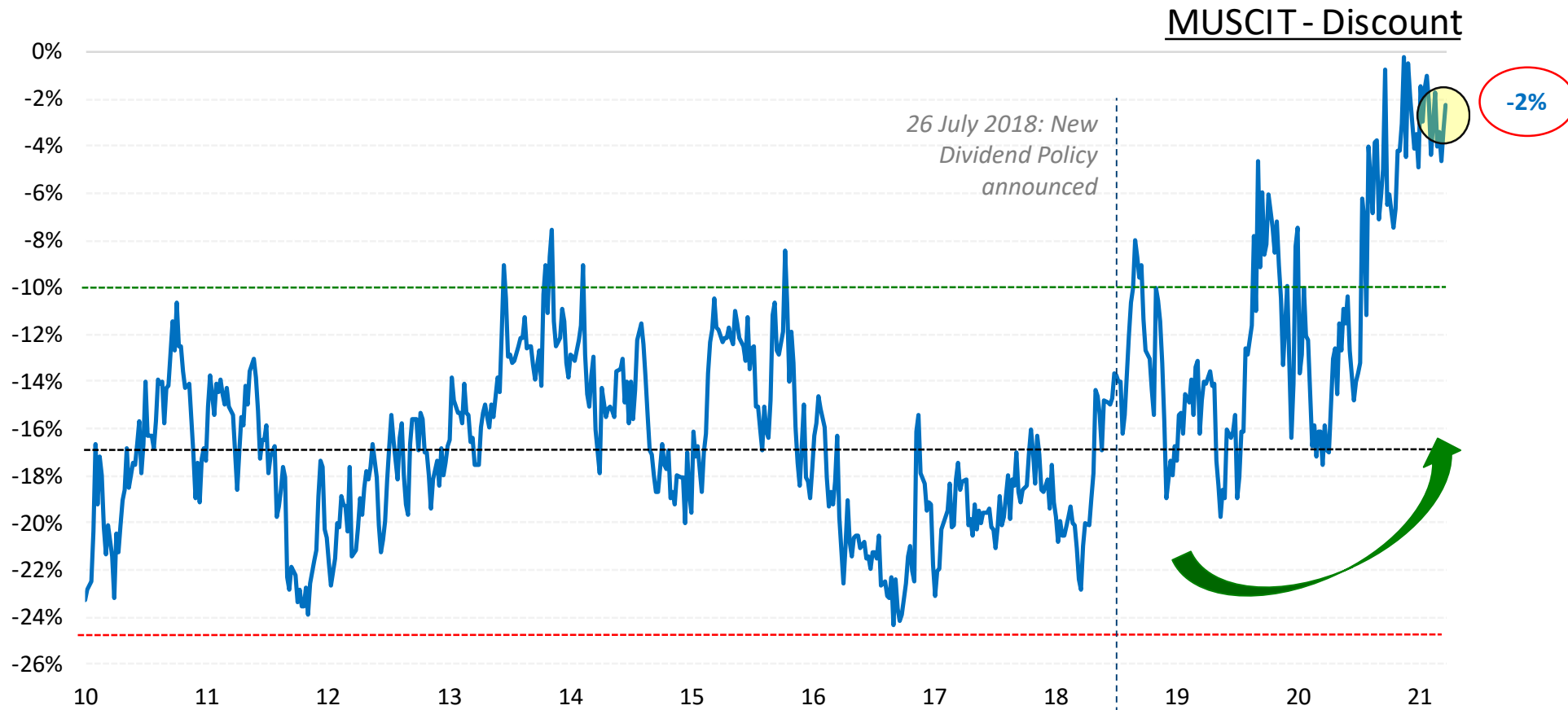
12m Historic Yield (as at 30 June 2021)



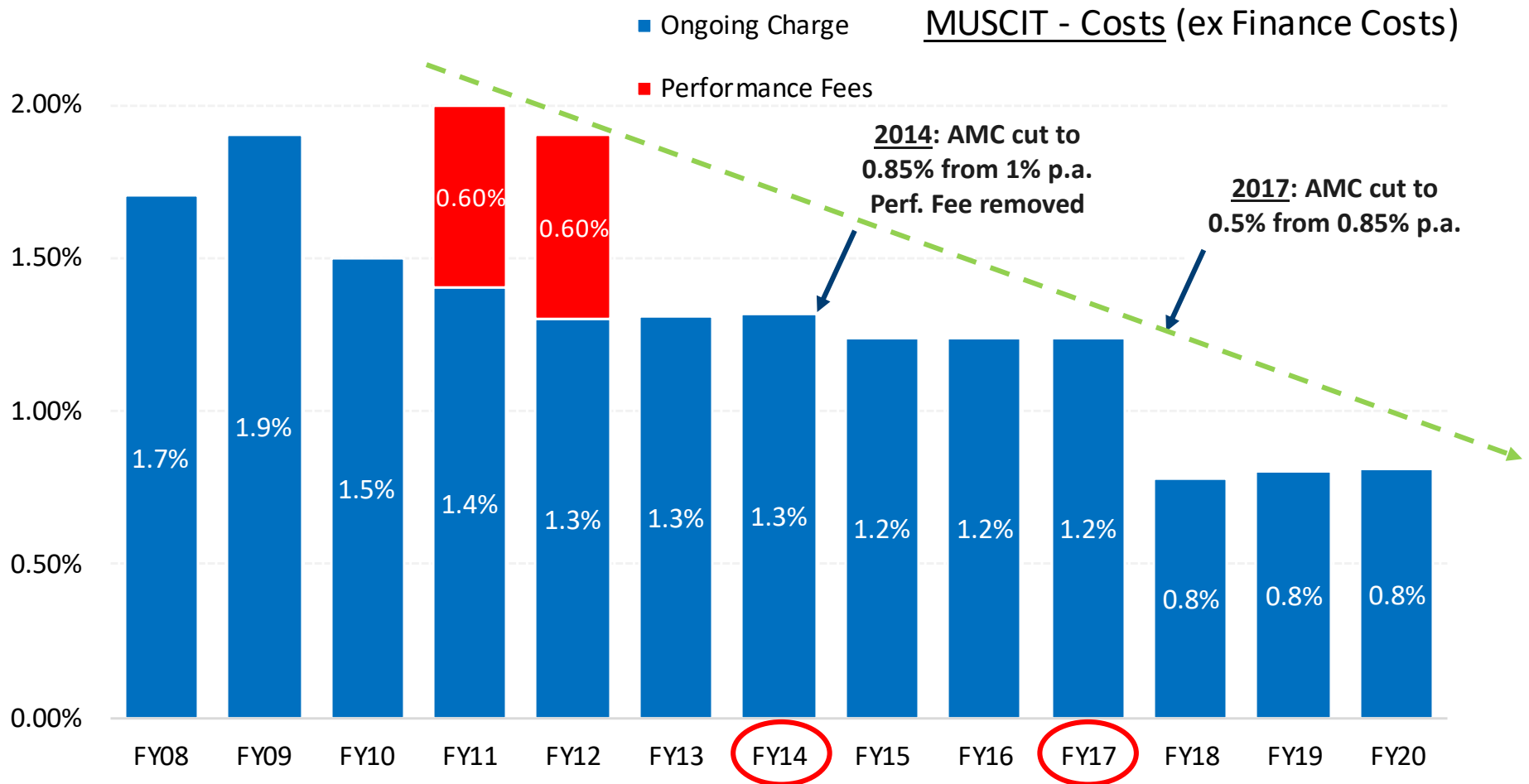
Source: Numis, Internal.

The Peer group is composed of all comparable UK SmallCap investment Trusts. MicroCap trusts are excluded.

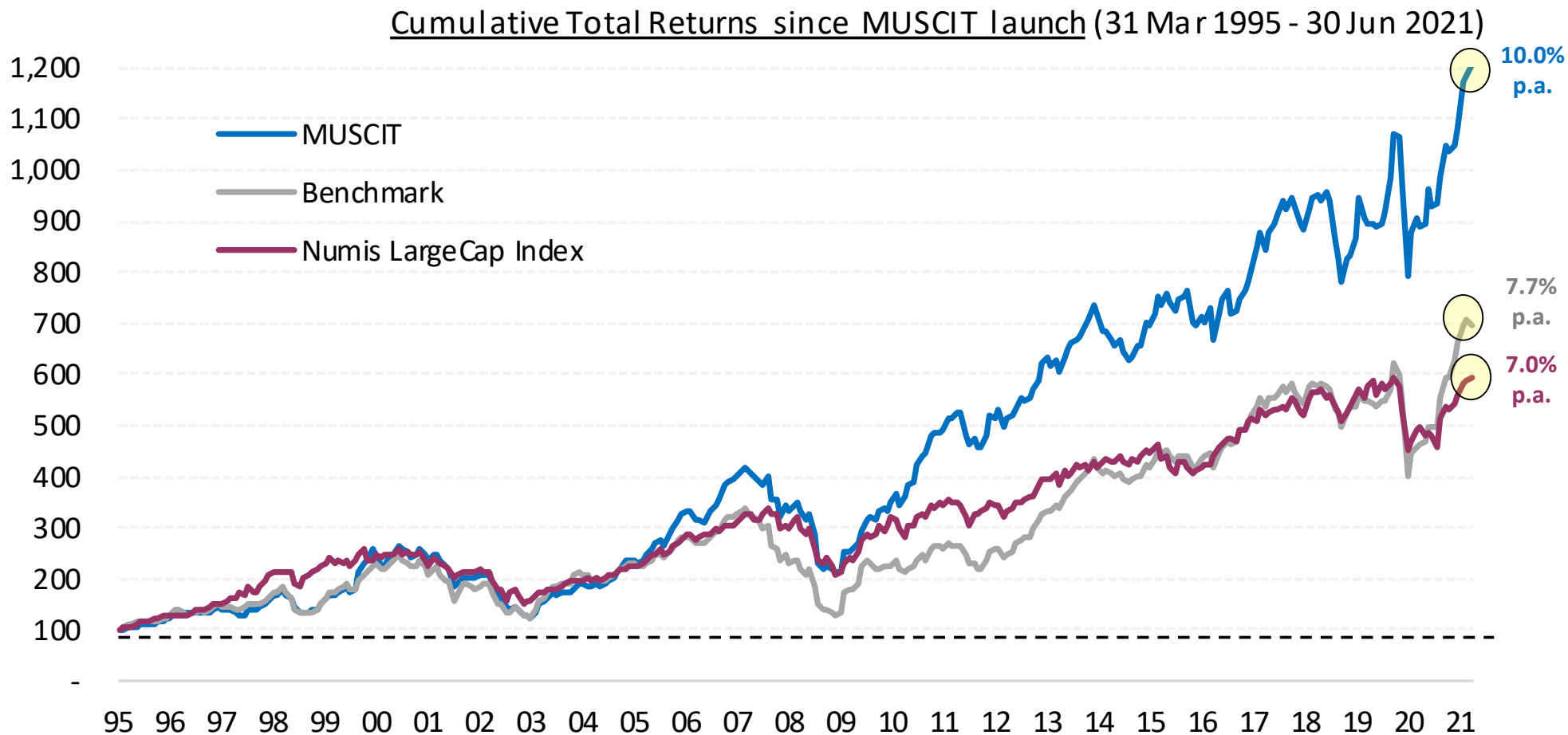
Offering an attractive income has led to the discount narrowing



We have cut costs significantly and halved our management fee



MUSCIT has performed well since 1995

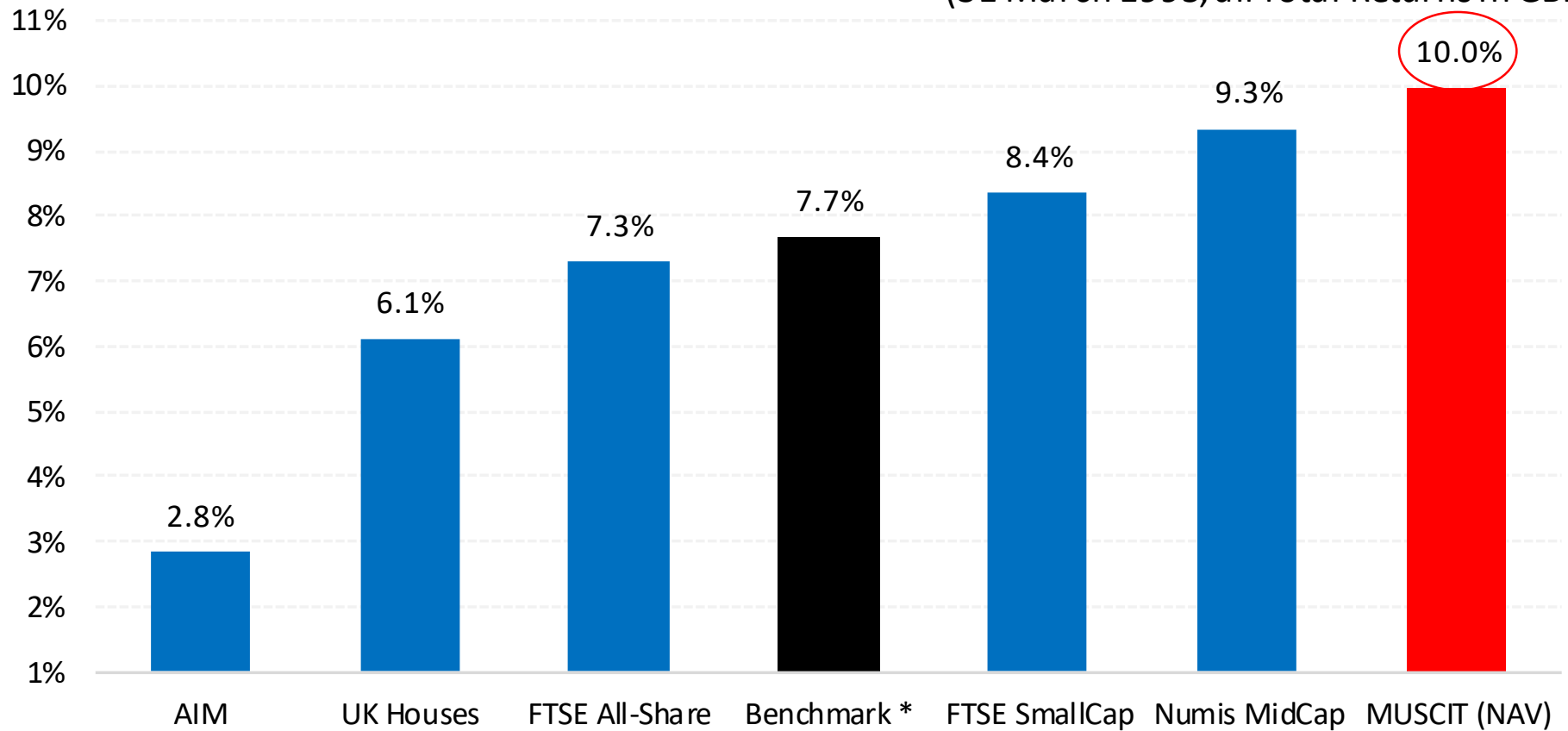


Source: Internal, Bloomberg.

Benchmark: Composite of the FTSE Small Cap (ex-ICs) until 1 April 2013 and the Numis Smaller Companies (ex-ICs) since then.

... and it has grown its NAV at 10% p.a. since launch (after fees)

Annualised Return since MUSCIT Launch
(31 March 1995, all Total Returns in GBP)



Source: Internal, Bloomberg, Nationwide (house prices). Note: All returns include dividends reinvested except House Prices.

* The benchmark for MUSCIT changed from the FTSE SmallCap Index (ex-IC) to the Numis Smaller Companies Index (ex-IC) effective 1 April 2013. The benchmark shown here is a composite of the two.

Summary

1. A strong start to the new Financial Year (ending March 2022):

- NAV up 12% YTD and c.7% ahead of the Benchmark *
- style rotation in favour of Value has abated (fears of inflation are fading)

2. Significant inflows into UK SmallCap in recent months – this could continue **:

- investors recently began investing in the UK after being underweight for 7 consecutive years

3. MUSCIT is the highest yielding UK SmallCap Trust (income and growth) ***

4. Charles Montanaro will stay on as Manager for at least another 5 years

5. Continuation Vote on MUSCIT at the AGM in August 2021:

- please vote in favour of Agenda item 12

We would really appreciate your support at the Continuation Vote
MUSCIT is our flagship UK SmallCap product and our largest investment
(AGM on 12 August 2021)

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