

MONTANARO

ASSET MANAGEMENT

UK Smaller Companies Investment Trust (“MUSCIT”)

AGM Presentation

18 July 2018



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What is a “Montanaro” company?

1. Simple business **we can understand**
2. **Niche business** in a growth market
3. **Market leader**
4. Business with **high operating margins**
5. **Profitable** company at a sensible valuation
6. **Good management we trust**

Top 20 holdings

Company	Country	%	Company	Country	%
Hilton Food	UK	3.2%	Rathbone Brothers	UK	2.5%
Big Yellow	UK	3.1%	4Imprint	UK	2.5%
Cranswick	UK	3.0%	Polypipe	UK	2.5%
Dechra Pharmaceuticals	UK	2.9%	GB	UK	2.3%
Entertainment One	UK	2.9%	FDM	UK	2.3%
Consort Medical	UK	2.8%	XP Power	UK	2.3%
Smart Metering Systems	UK	2.7%	Clipper Logistics	UK	2.2%
Marshalls	UK	2.6%	Brewin Dolphin	UK	2.2%
Restore	UK	2.6%	Cineworld	UK	2.1%
Diploma	UK	2.6%	Ricardo	UK	2.1%
Top 10		28.3%	Top 11 - 20		23.0%

A high quality portfolio

Portfolio Characteristics		
	Portfolio	Benchmark
# Stocks	54	344
Weighted Market Cap	£1.1b	£889m
EBIT Margin (19F)	19%	18%
RoE (19F)	15%	12%

Risk		
	Portfolio	Benchmark
Beta*	1.09	1.00
Standard Deviation*	12.5%	10.4%
Tracking Error*	5.3%	n/a
Net Debt/Equity (19F)	0%	10%
% Companies with Net Cash (19F)	28%	19%

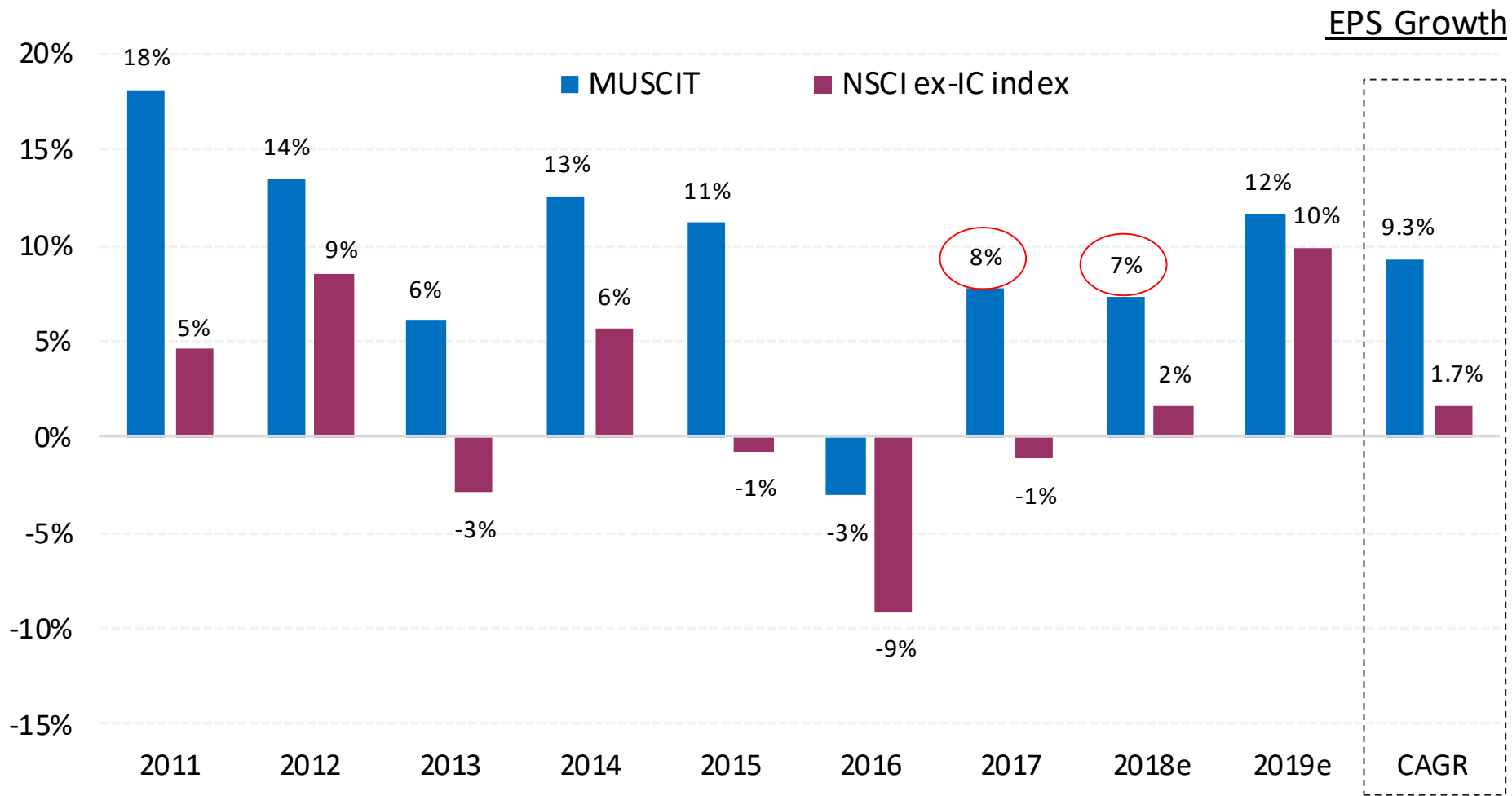
# AIM Companies	19
% AIM	30%

... offering higher EPS growth than the market

Growth (2019F)		
	Portfolio	Benchmark
Sales Growth	7.1%	4.7%
EPS Growth	11.7%	9.9%
DPS Growth	8.8%	8.7%

Valuation (2019F)		
	Portfolio	Benchmark
P/E	18.0	12.2
P/E Premium v. Index	48%	n/a

MUSCIT typically delivers higher EPS growth



Source: Montanaro, Factset.

Note: EPS growth figures are calculated excluding loss-makers.

A good start to FY19 after a strong FY18 (+5% vs index)

Annual Returns to June 2018

	Montanaro NAV	UK Small Cap Composite (ex ICs) (£)***	Relative
3 Months	7.8%	4.9%	2.9%
6 Months	-0.4%	-2.7%	2.3%
1 Year	11.0%	4.7%	6.3%
3 Years	7.2%	6.0%	1.1%
5 Years	7.8%	8.4%	-0.6%
10 Years	9.4%	6.6%	2.8%
15 Years	11.2%	5.5%	5.7%
20 Years	7.7%	3.0%	4.7%
Launch (03/95)	8.9%	4.5%	4.4%

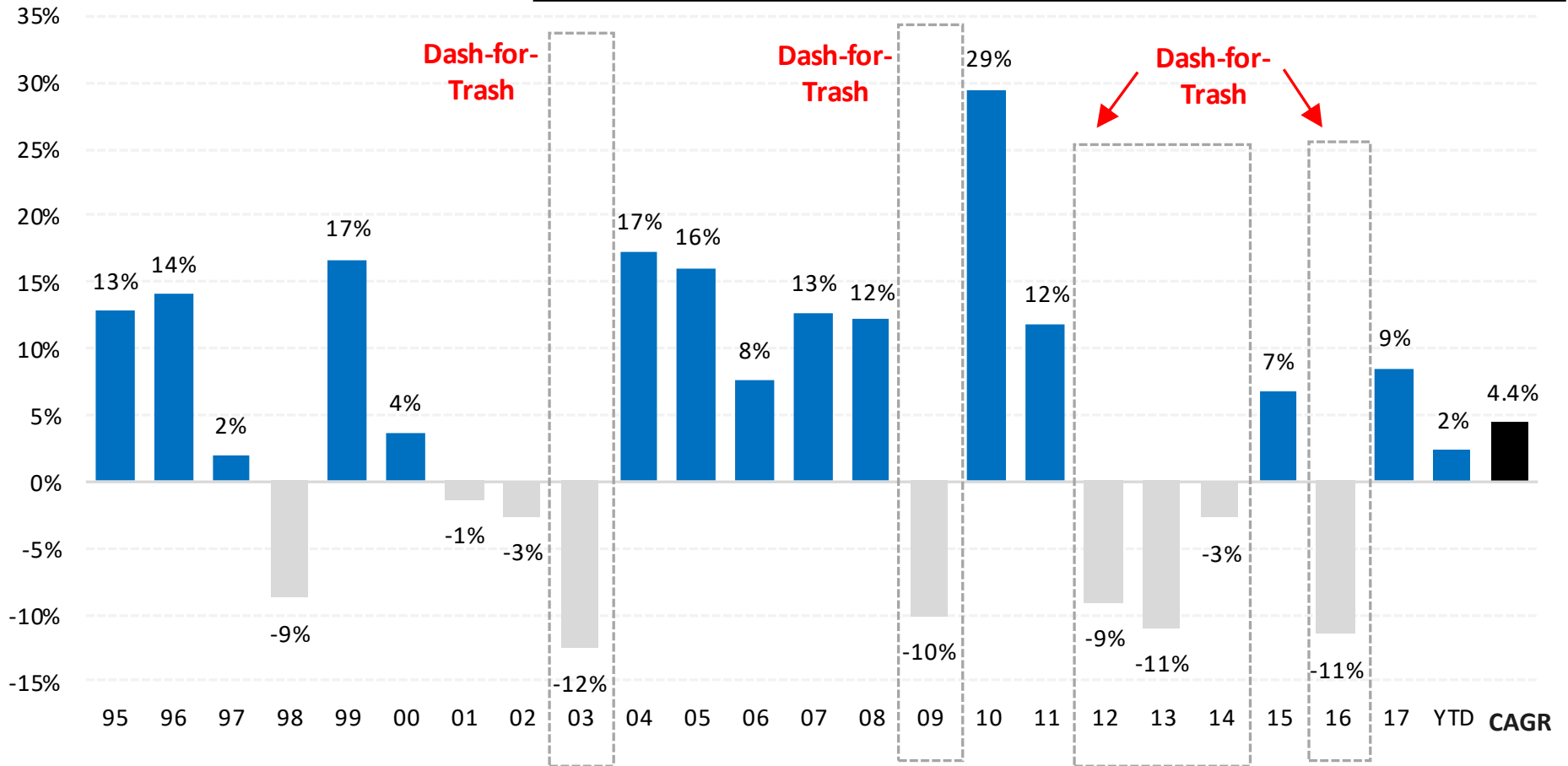
Annualised NAV Returns

Source: Montanaro, Numis. All returns in Sterling.

***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.

Relative outperformance of 4.4% p.a. over 23 years

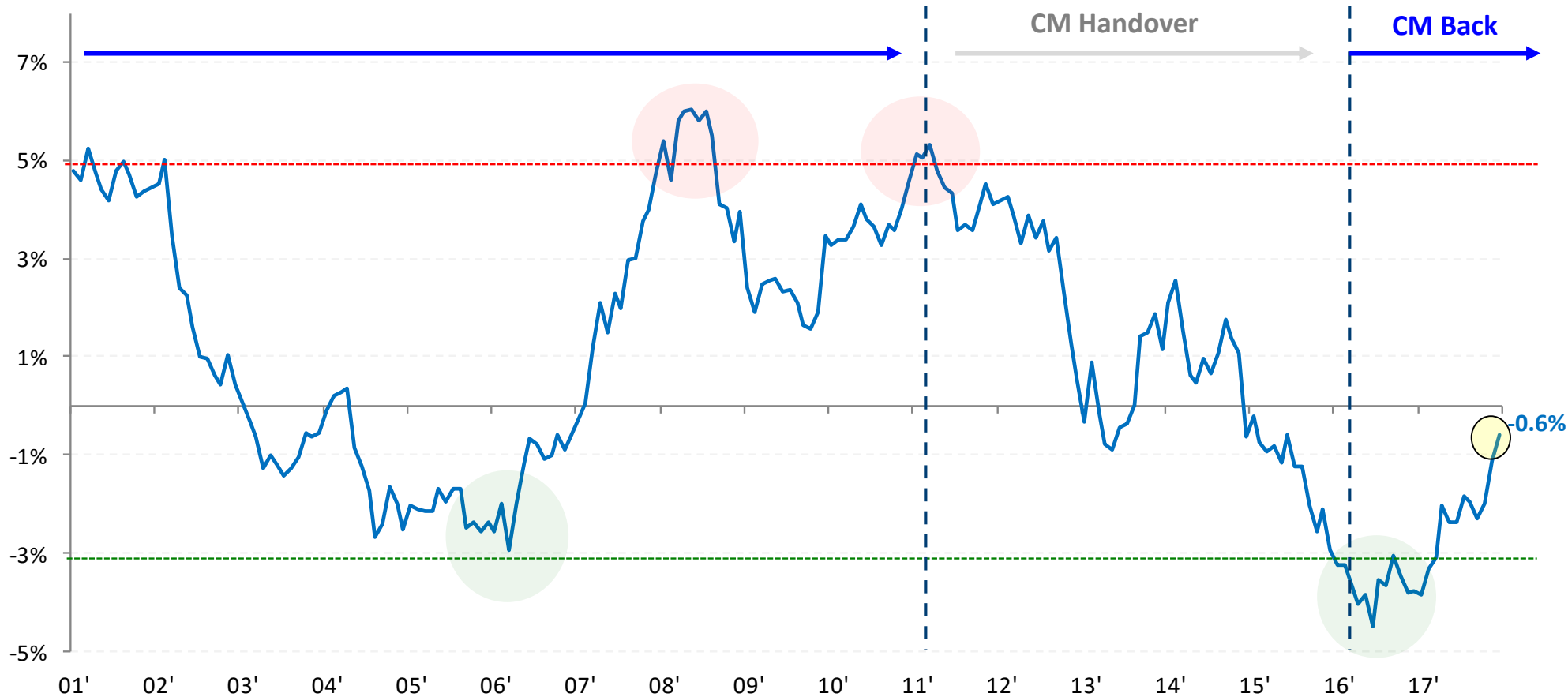
MUSCIT v. Benchmark - Relative Returns per Calendar Year (NAV)



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

The recent underperformance appears to be coming to an end

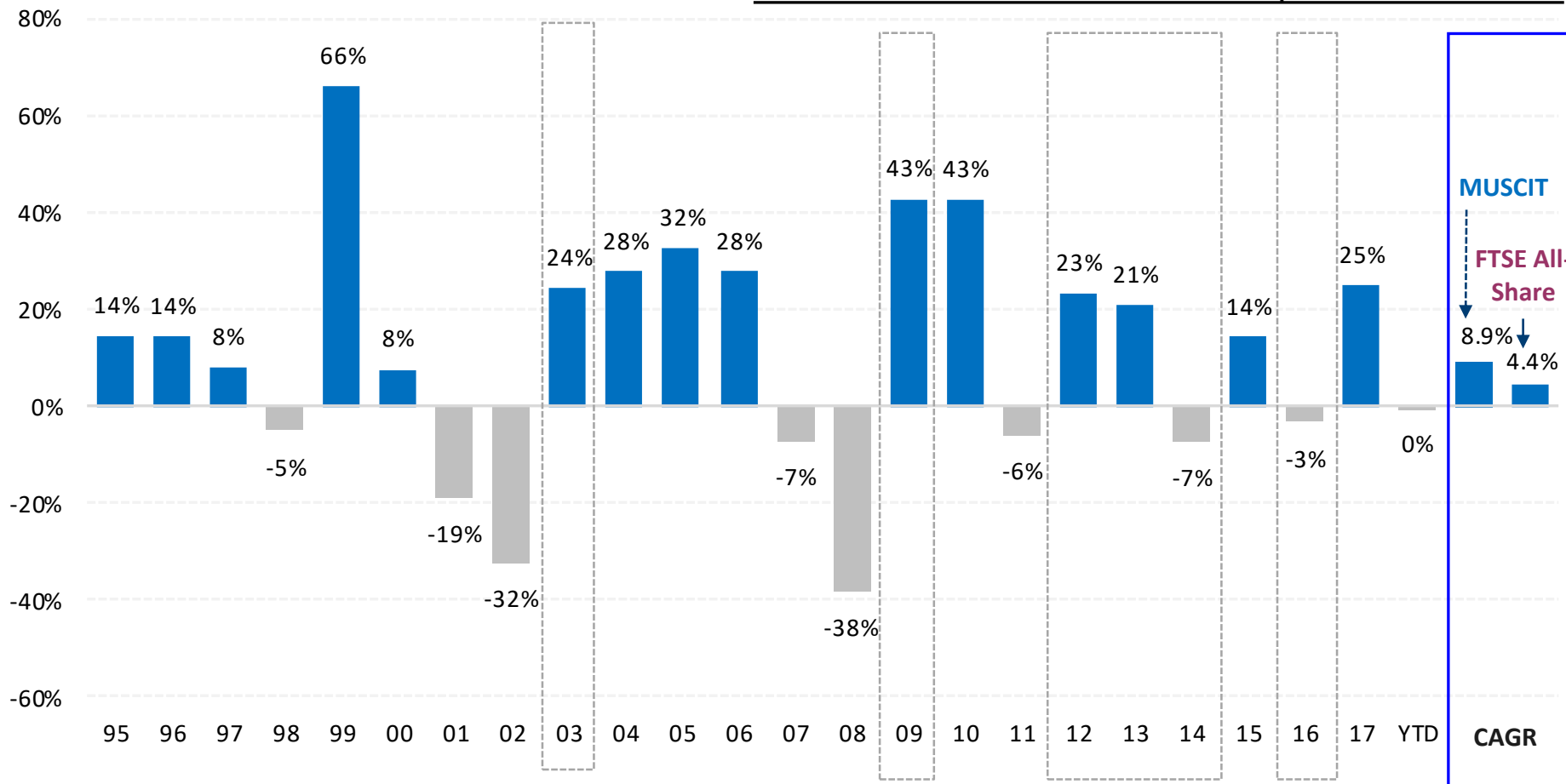
5-Year rolling relative performance of MUSCIT v. NSCI ex-ICs



Source: Montanaro, Bloomberg.

Absolute returns since launch more than double the All-Share

MUSCIT - Absolute NAV Returns per Calendar Year

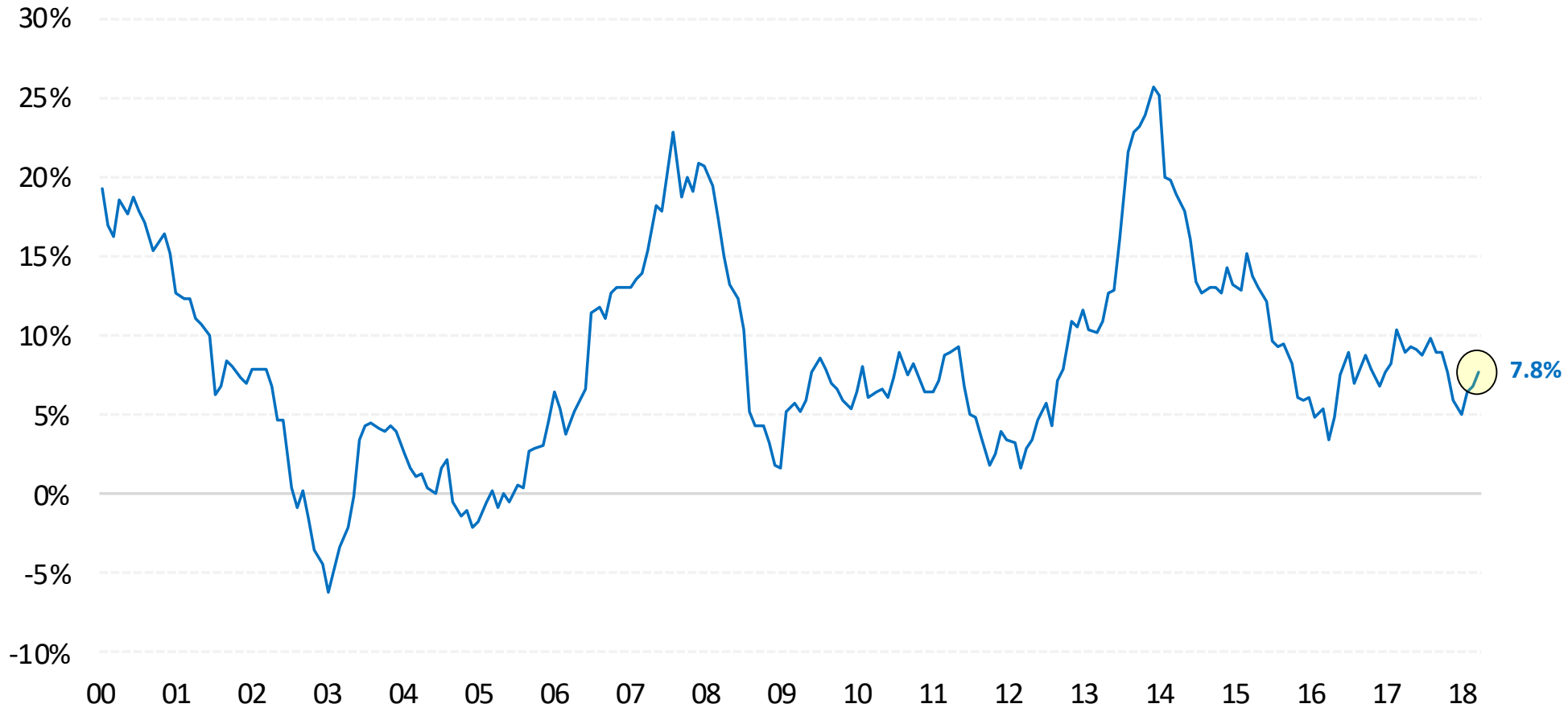


Source: Montanaro.

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

Over almost all 5-year periods MUSCIT produced positive returns

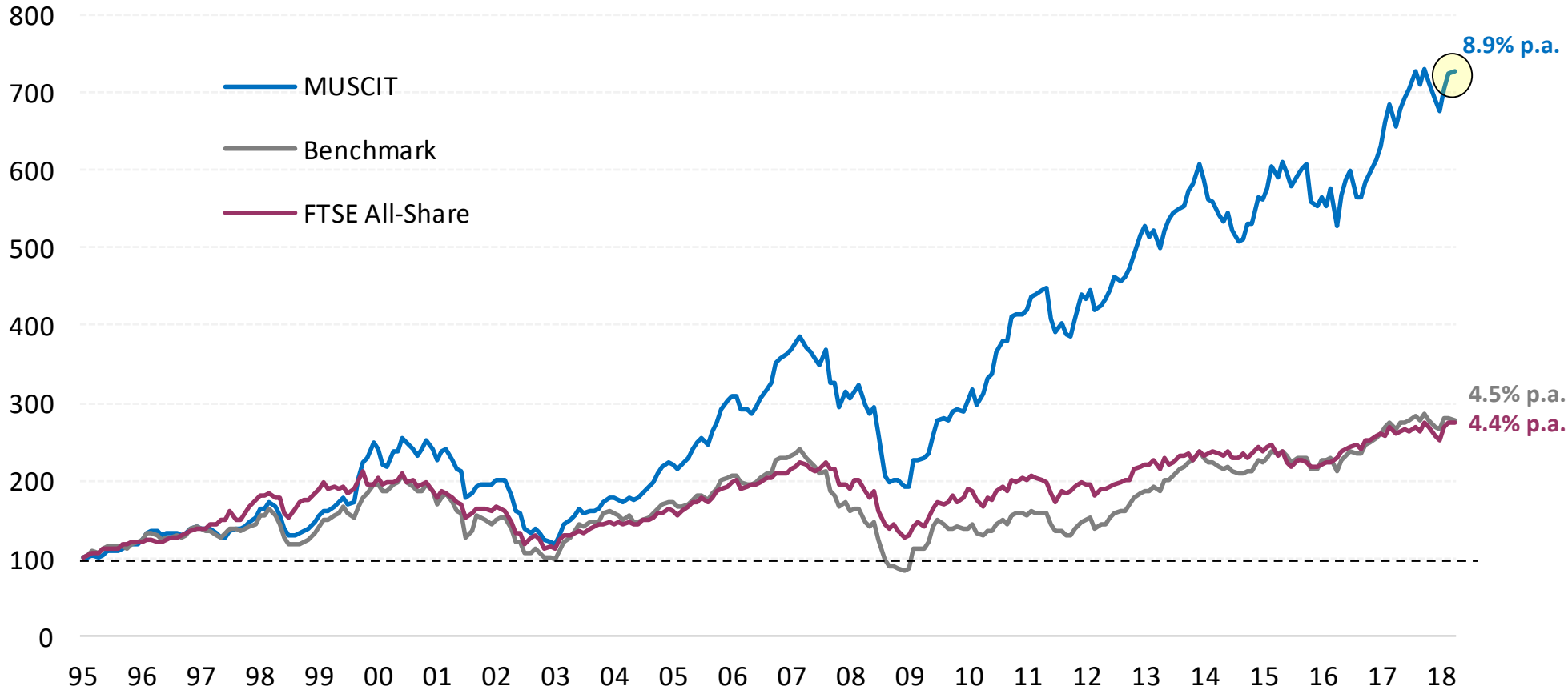
MUSCIT - 5-year rolling NAV return (annualised)



Source: Montanaro, Bloomberg.

MUSCIT has performed well since launch

Cumulative Returns since MUSCIT launch (31 Mar 1995 - 30 Jun 2018)



Source: Montanaro, Bloomberg.

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

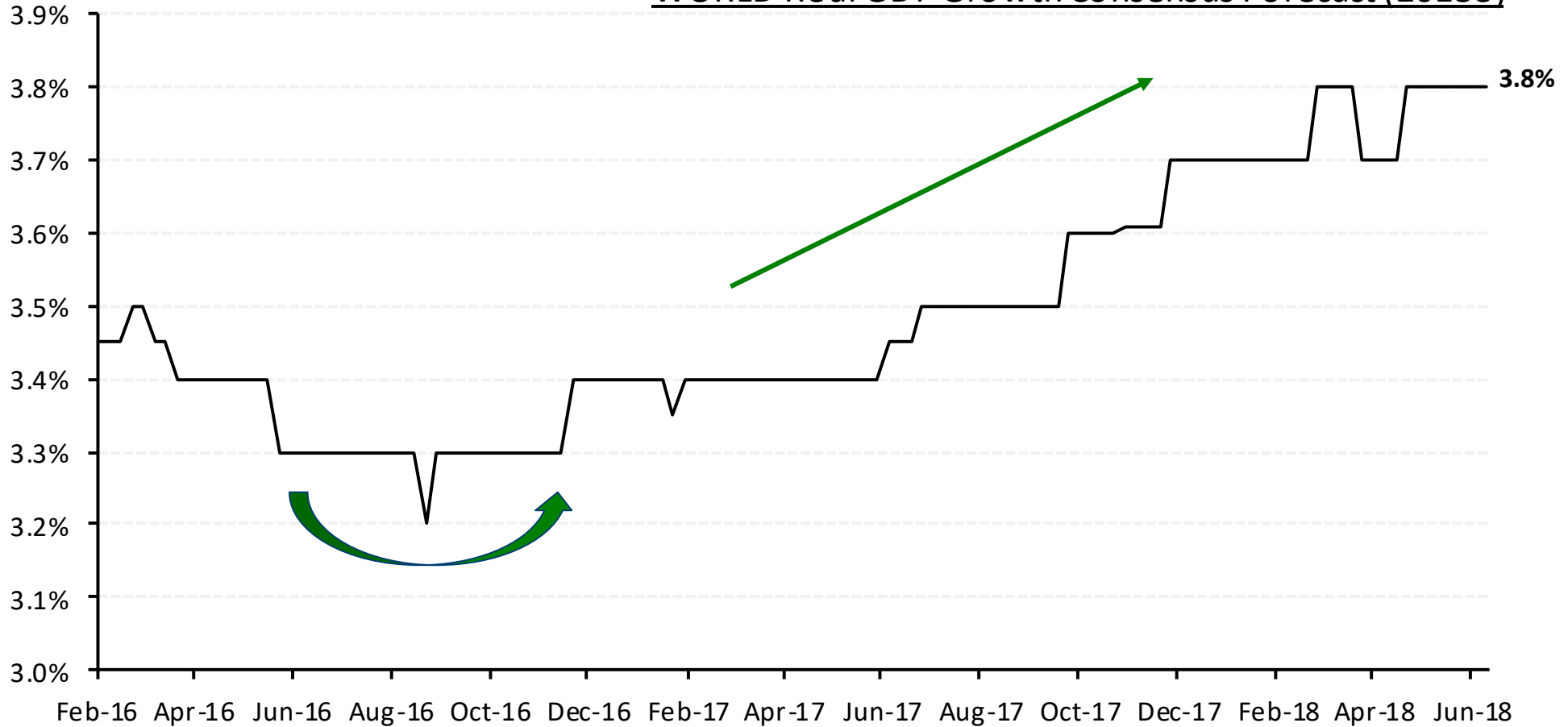
Note: Returns are NAV / Capital Returns.

The last 18 months have been busy

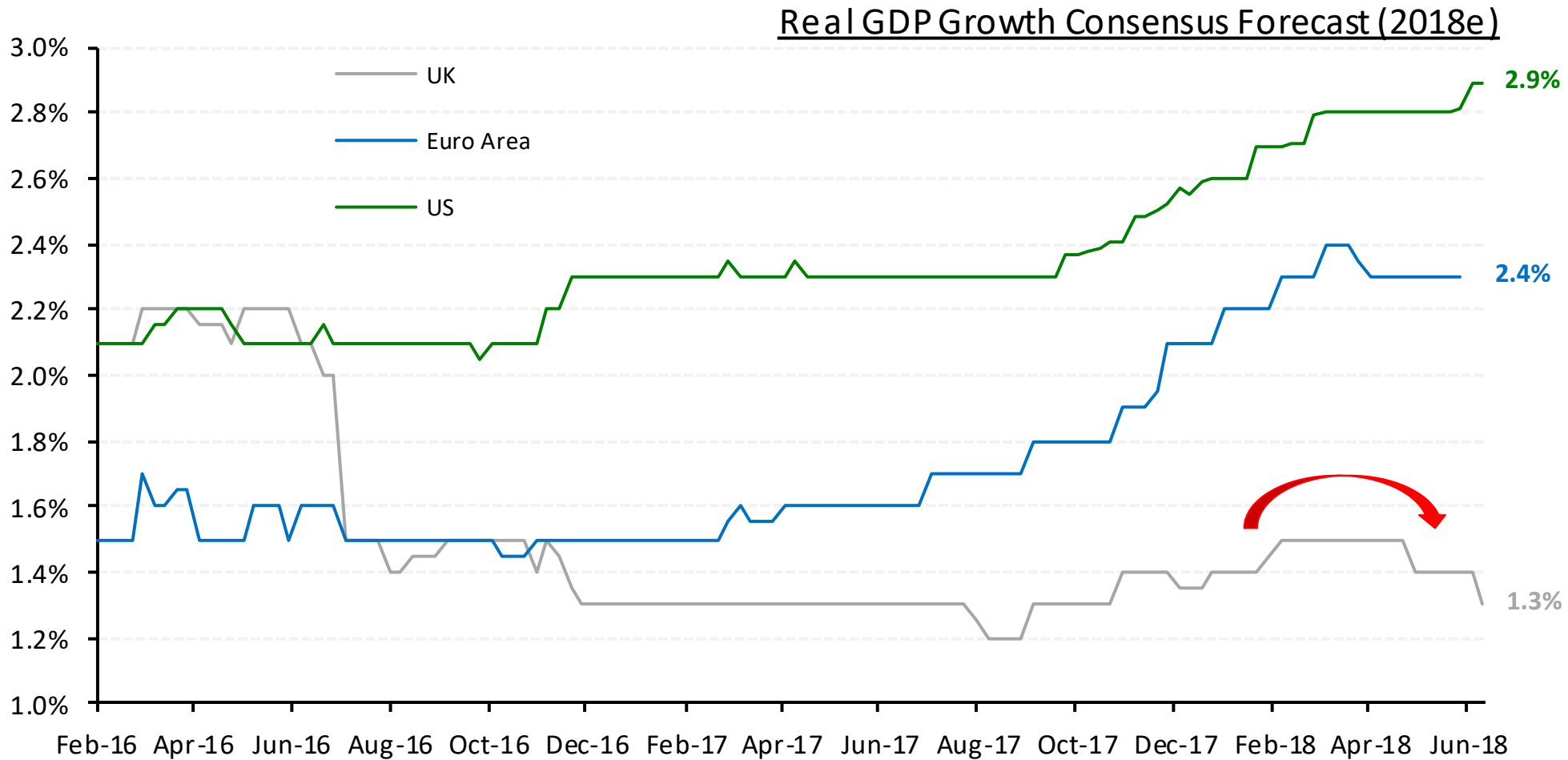
1. April 2017 - we cut our **Management Fee** from 0.85% p.a. to 0.50% p.a.:
 - in addition to other cost savings (gearing, new Company Secretary, new Broker)
 - Ongoing Charge has fallen to 0.8% from 1.2% (down one third)
2. July 2017 - **Continuation Vote** passed with overwhelming support (97.4%)
3. March 2018 – **Strong FY18 results** to March 31st (NAV +7.3% and +5% vs index):
 - Dividend Per Share +5% to 11p (+10% p.a. over the past 5 years)
4. May 2018 – Increased limit on **AIM** to 40% from 30%
5. July 2018 – Proposal for a **5-for-1 share split** → positive for liquidity / discount

Outlook: Global economic growth continues to gain momentum

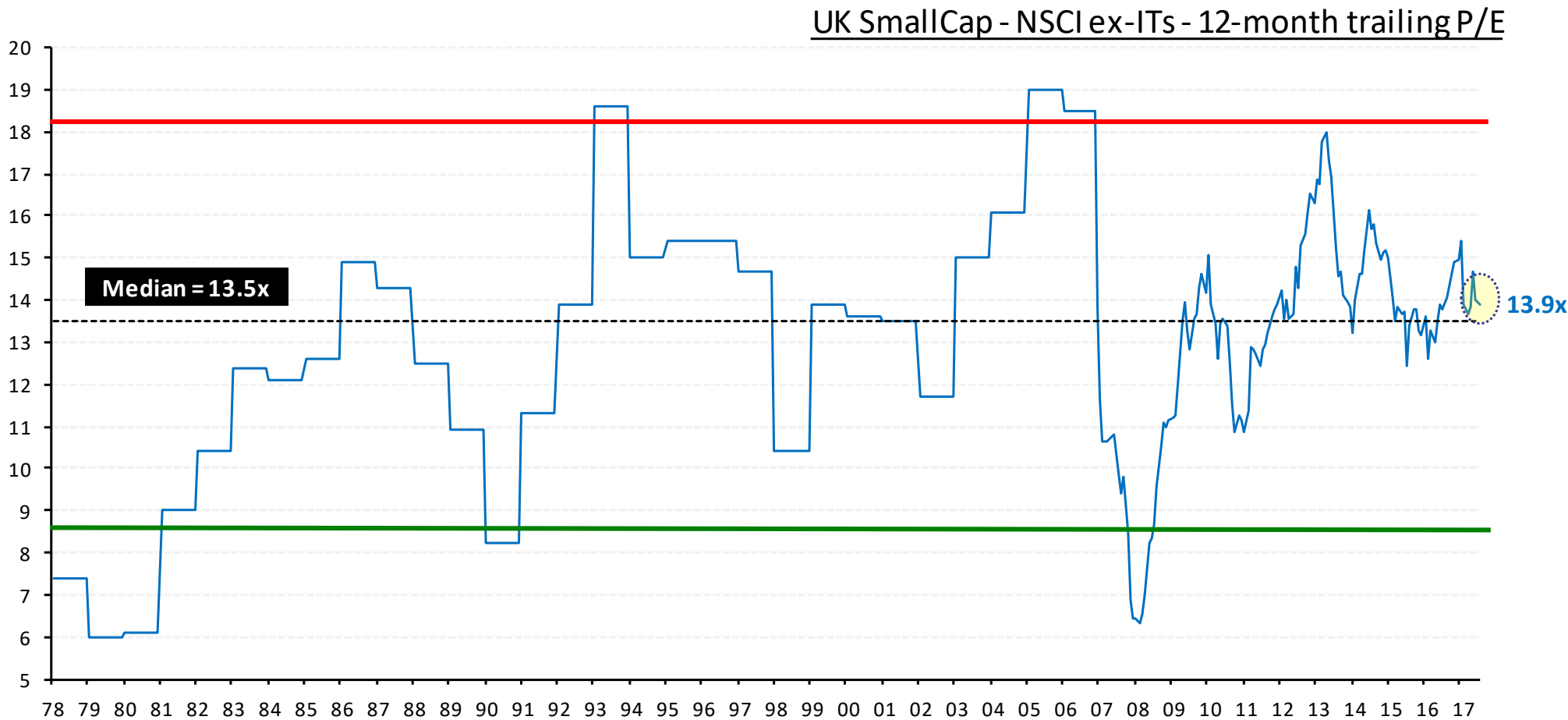
WORLD Real GDP Growth Consensus Forecast (2018e)



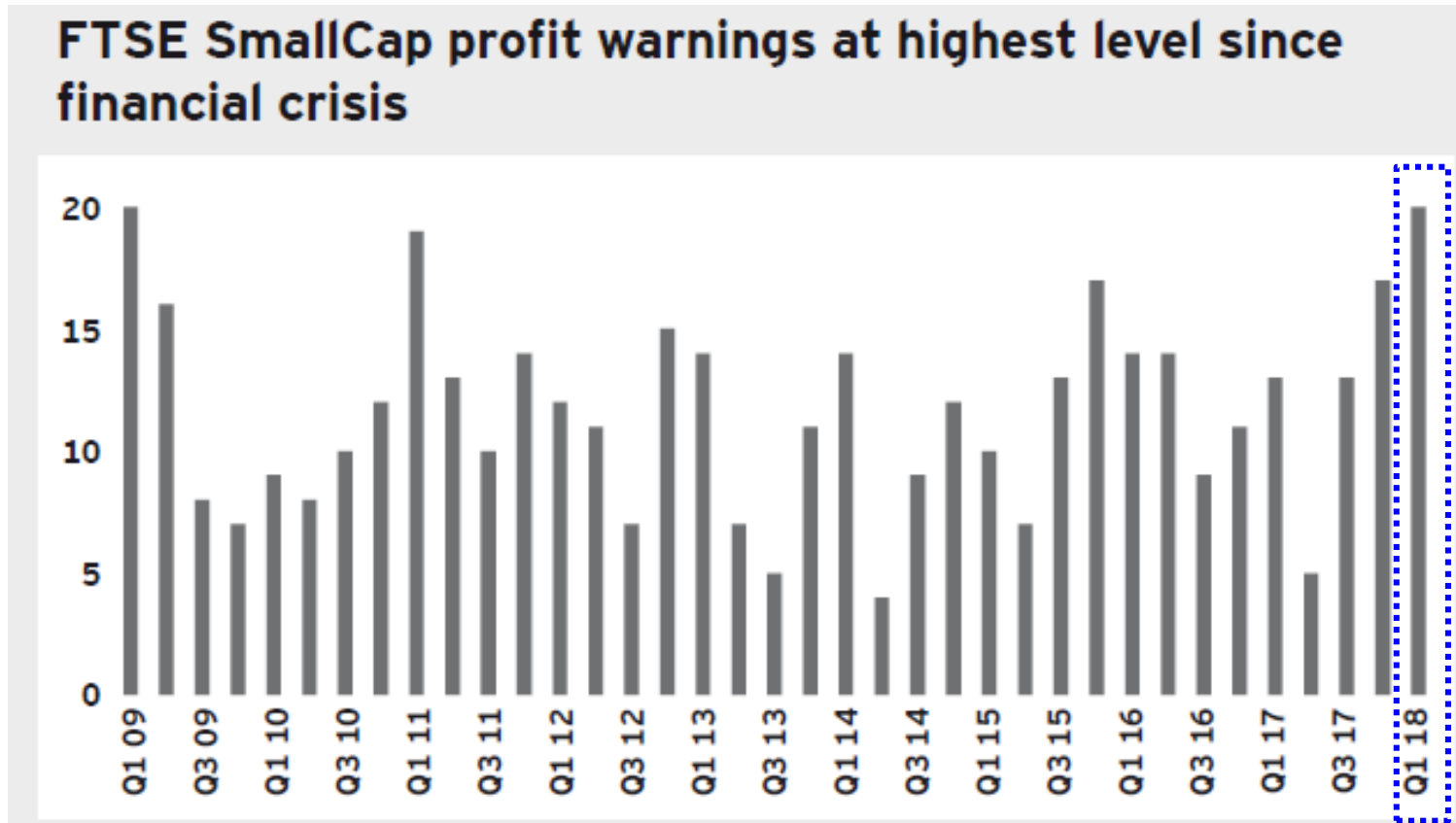
... as the US & Europe are firing on all cylinders (UK is lagging)



SmallCap is trading in line with its long-term average P/E

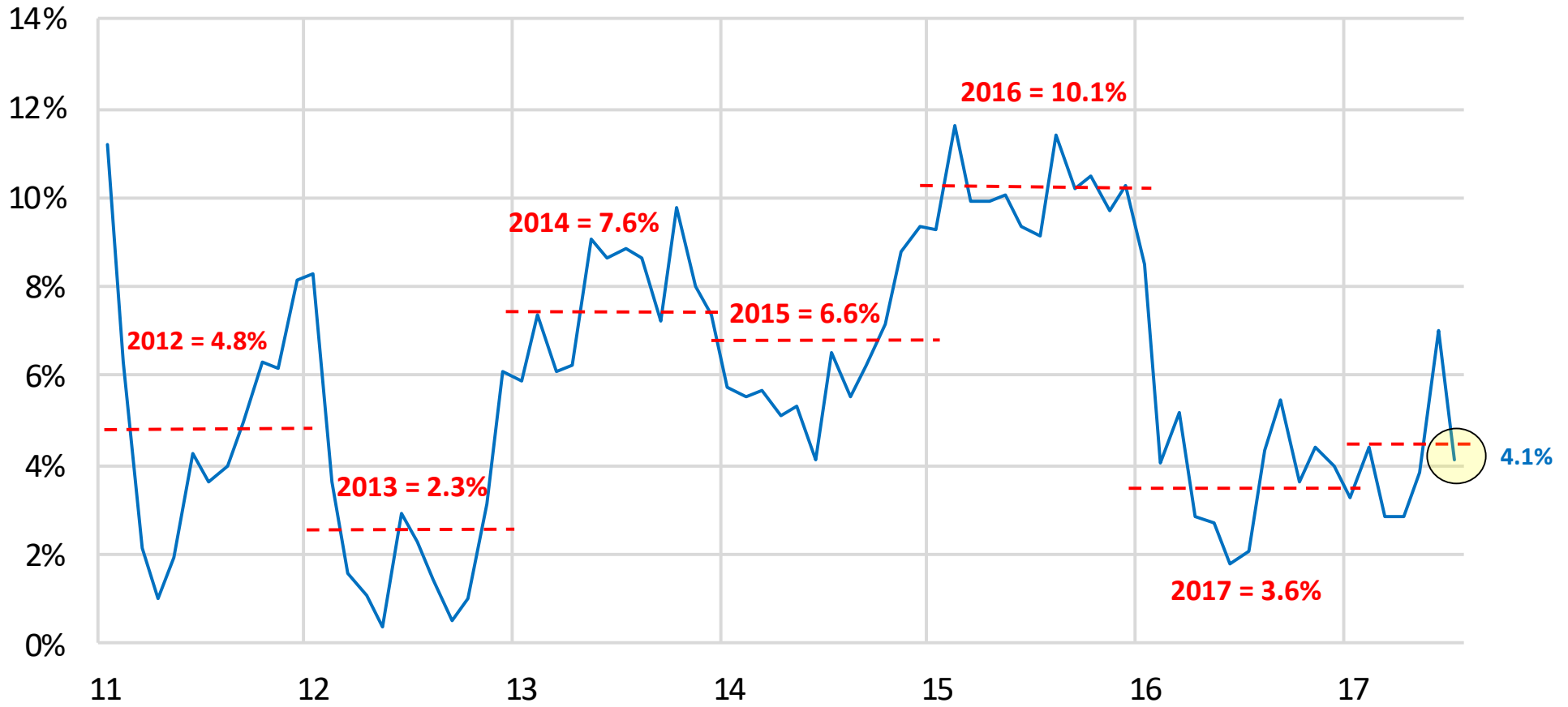


Plenty of profit warnings nowadays – it pays to stick to Quality

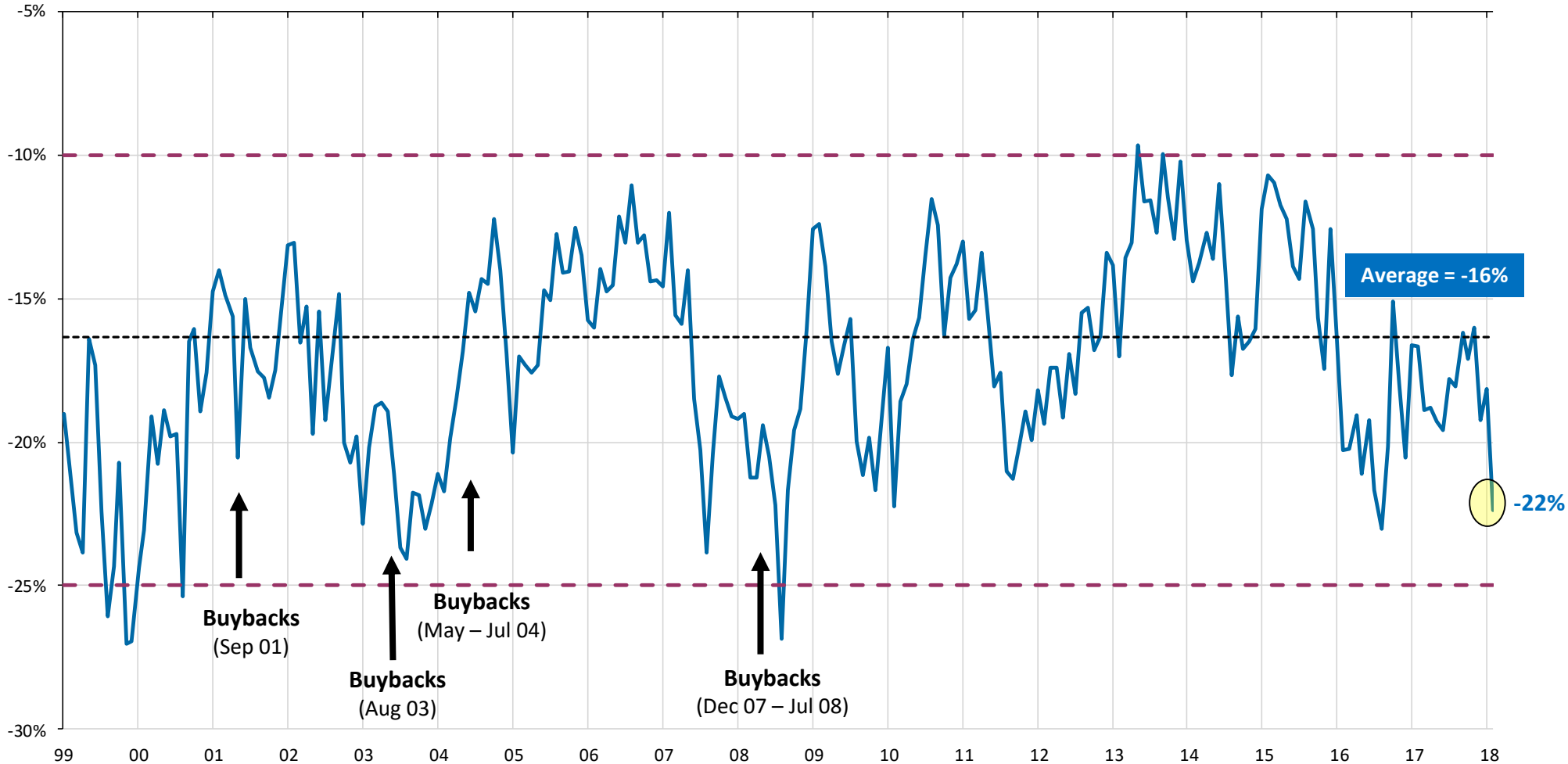


Gearing - just over 4%

MUSCIT Gearing



The discount is above its long-term average → good entry point



Source: Montanaro, Bloomberg.

Summary

1. Back in the saddle after a disappointing period - outperformed by 5% last year
2. The portfolio has been refreshed (more AIM)
3. Fees / costs have been cut
4. Good long-term track record:
 - 4.4% p.a. outperformance over 23 years
 - the sixth most consistent Trust over 10 years according to the AIC
5. UK SmallCap valuations look attractive
6. BUT: Geo-political risks are high ... so best to stick to Quality

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