

UK Smaller Companies Investment Trust PLC (“MUSCIT”) Presentation to Investors

AGM scheduled on 27 July 2022

“No one knows Smaller Companies like we do”



Montanaro Asset Management Ltd

53 Threadneedle Street, London EC2R 8AR

www.montanaro.co.uk enquiries@montanaro.co.uk Tel: +44 (0)20 7448 8600

Follow us on **LinkedIn**: [@MontanaroAssetManagement](https://www.linkedin.com/company/montanaroassetmanagement) **in** Follow us on **Twitter**: [@MontanaroAM](https://twitter.com/MontanaroAM) **tw**

We focus *exclusively* on Small & MidCap

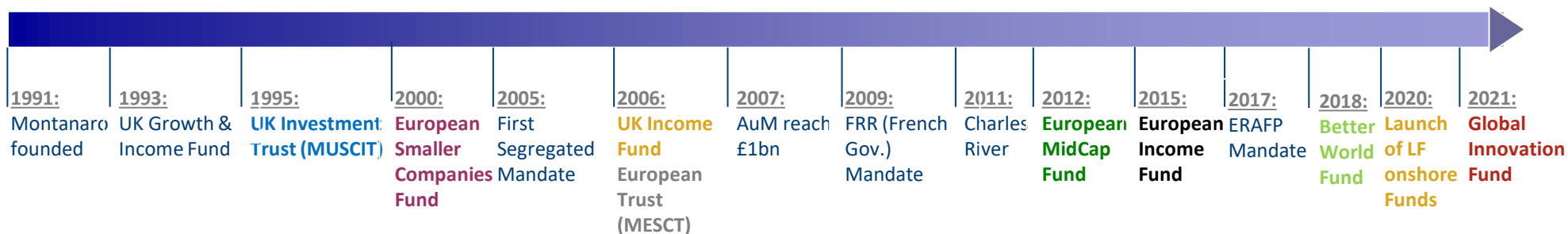
- Established by Charles Montanaro in **1991**
- AUM of **£4 billion**
- MUSCIT has a **track record of over 25 years** (launched March 1995)
- Largest team in the UK** dedicated to SMIDCap (37 people)
- “Best Small & MidCap Sustainable Investment Boutique”** (2022) - Ethical Finance

Certified



Corporation

This company meets the highest standards of social and environmental impact



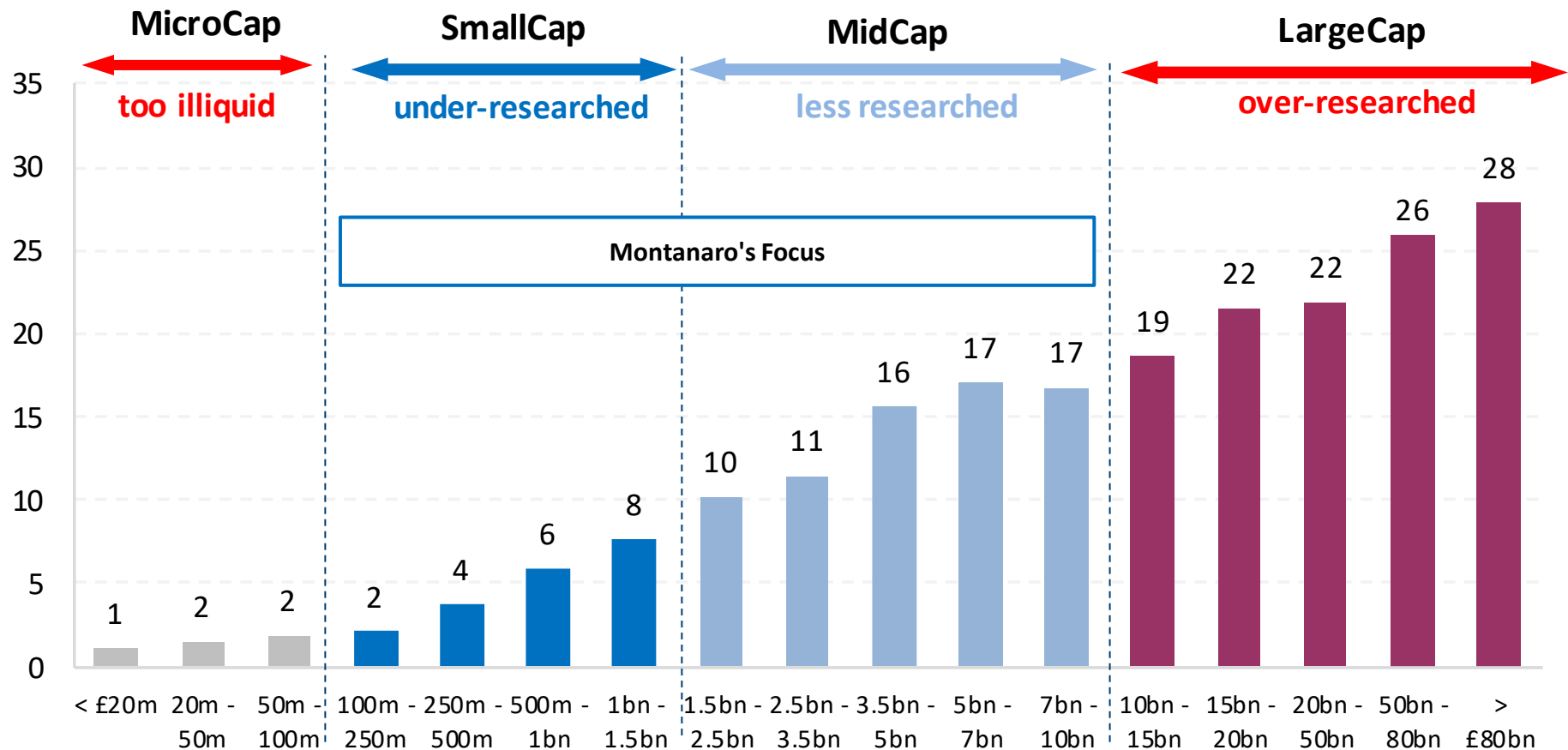
We are different

1. It is our business
2. One big family - no big egos
3. Conservative (no loss-makers, no unquoteds, no derivatives, no stock lending)
4. We invest in our own funds
5. Long-term investors
6. We avoid brokers
7. We are a certified **B Corporation**
8. Small & MidCap are all that we do

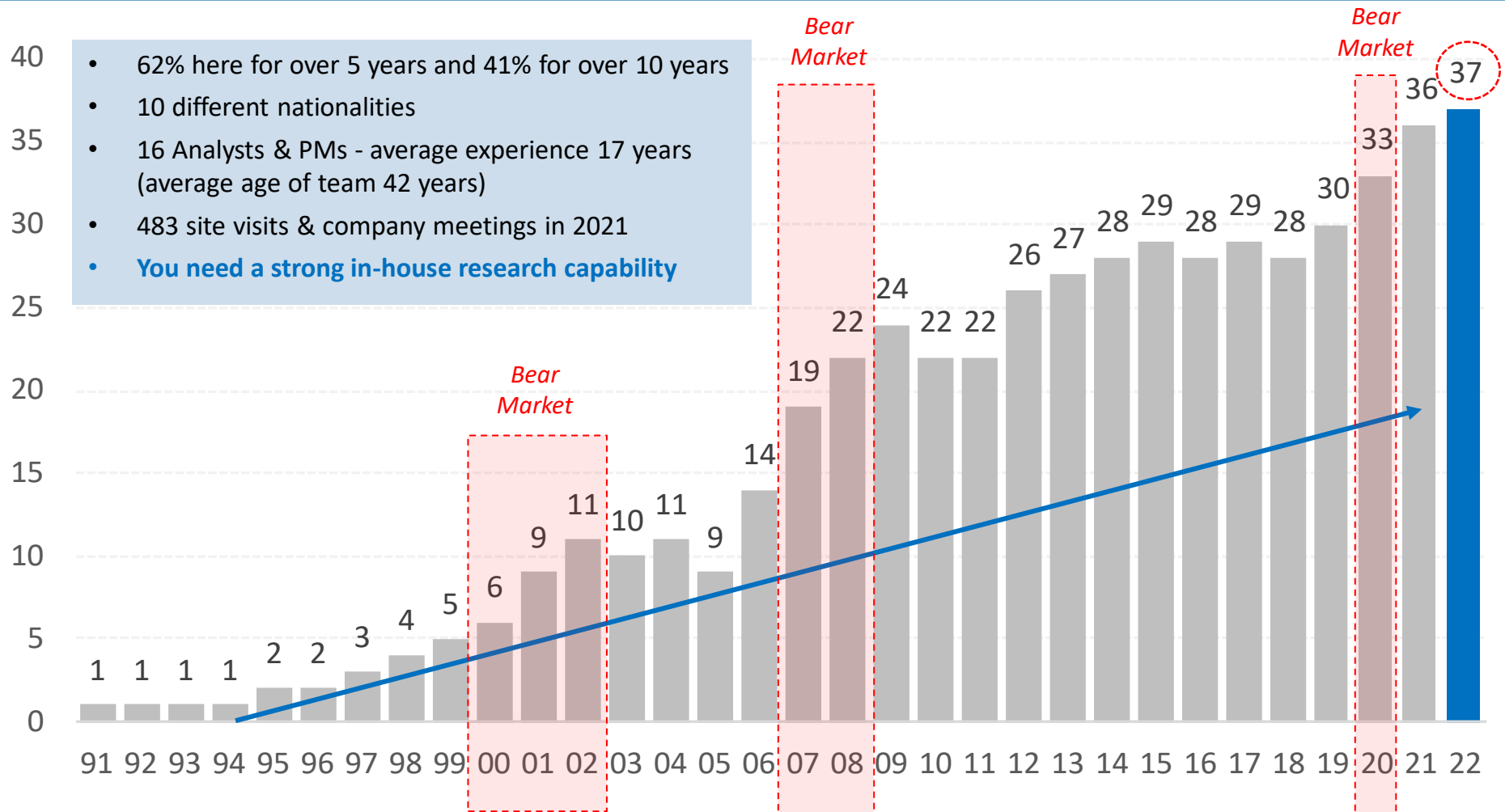


SmallCap is under-researched - you need active management

UK - Average # of Sell-side Analysts by Market Cap Range (£)



A Team of 37 – we have the resources for in-house research



Source: Internal.

What is a “Montanaro” company?

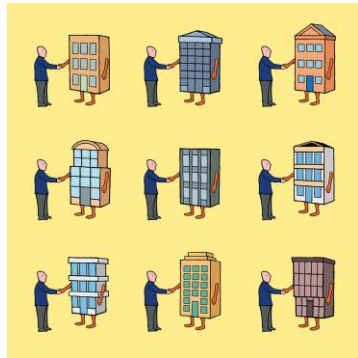
1. Simple business we can understand
2. Profitable
3. Niche business in a Growth market
4. Market leader
5. Business with High Operating Margins and High Return on Capital
6. Good Management we trust
7. One we can hold for the Long-Term

Focus on “Quality Growth”

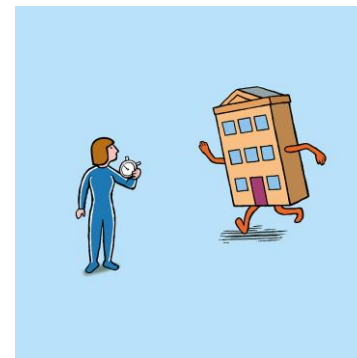


Our Investment Process is all about identifying Quality

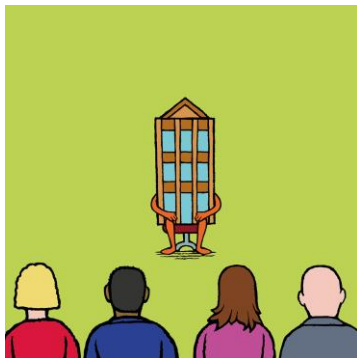
NEW IDEAS



QUALITY Analysis – Is it a good BUSINESS?



VALUATION – Is it a good INVESTMENT?



SITE VISIT



APPROVED LIST



BUY & HOLD



MUSCIT

1	Objective:	To achieve <u>capital growth</u> in excess of the benchmark, the Numis Smaller Companies (ex-IC) index
2	Strategy:	Quoted UK SmallCap (AIM: maximum 40%)
3	Fund Manager:	Charles Montanaro / Guido Dacie-Lombardo (Back-up)
4	Exclusions:	Tobacco; Alcohol; Weapons; Adult Entertainment; Gambling; High-interest Rate Lending; Fossil Fuels E&P, Animal Testing*
5	Style:	“Quality Growth”
6	Holdings:	Target 40 - 50
7	Size:	£190 million
8	Charges:	FY22 Ongoing Charge: 0.8% (Management Fee: 0.5% p.a.**)
9	Dividends:	1% of NAV each quarter (March, June, September, December)

Source: Internal.

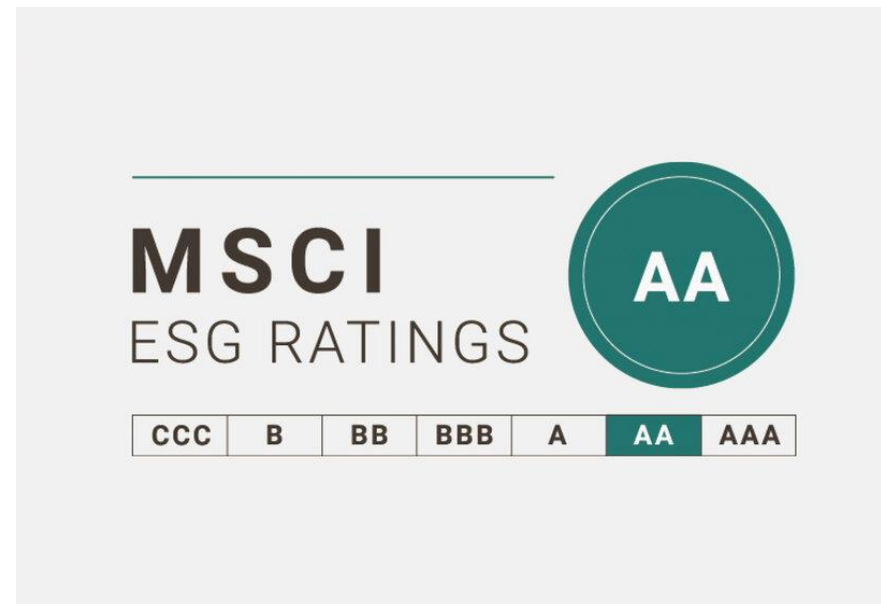
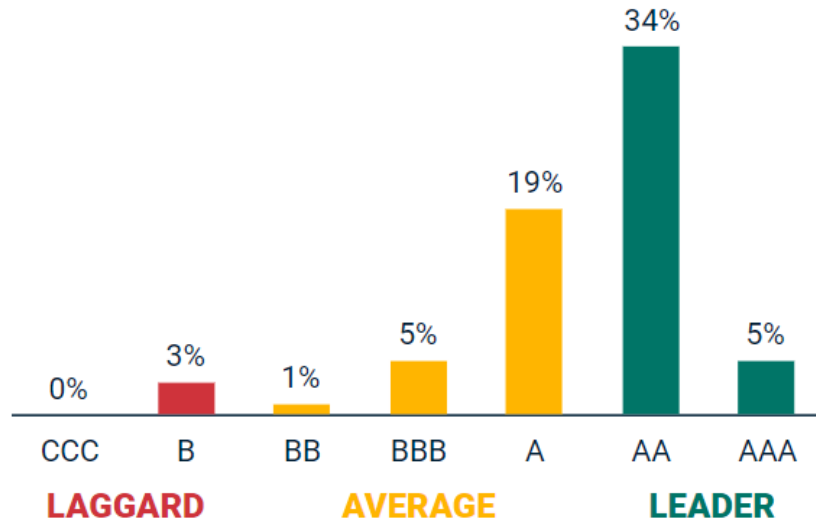
* Animal Testing is permitted only where required by law for human healthcare purposes.

** Based on Gross Assets.

MUSCIT has a strong ESG profile

ESG Rating distribution of fund holdings

38% of the fund's holdings receive an MSCI ESG Rating of AAA or AA (ESG Leaders) and 3% receive an MSCI ESG Rating of B or CCC (ESG Laggards).



Top 20 holdings

Company	Country	%
Big Yellow	UK	4.0%
Clarkson	UK	3.8%
Biffa	UK	3.8%
Tracsis	UK	3.8%
Kainos	UK	3.5%
4Imprint	UK	3.5%
Marshalls	UK	3.4%
NCC	UK	3.2%
discoverIE	UK	3.1%
Hilton Food	UK	3.1%
Top 10		35.2%

Company	Country	%
Games Workshop Group	UK	3.0%
Ergomed	UK	2.9%
Watches of Switzerland	UK	2.9%
XP Power	UK	2.9%
Treatt	UK	2.9%
Diploma	UK	2.8%
Judges Scientific	UK	2.8%
Greggs	UK	2.7%
Porvair	UK	2.7%
Cranswick	UK	2.7%
Top 11 - 20		28.4%

Our companies continue to trade well and are positive

Diploma:

- double-digit organic growth, robust margins (supported by pass-through of cost increases)
- *“H2 has started well ... confident in our materially upgraded April guidance”*

DiscoverIE:

- order book +71% organically vs 2 years ago. Significant debt headroom for M&A
- new financial year has started well – *“continued strong organic growth”*

Kainos

- Sales +29%; backlog +26%. Positive outlook: *“demand for our services has never been higher”*

Games Workshop

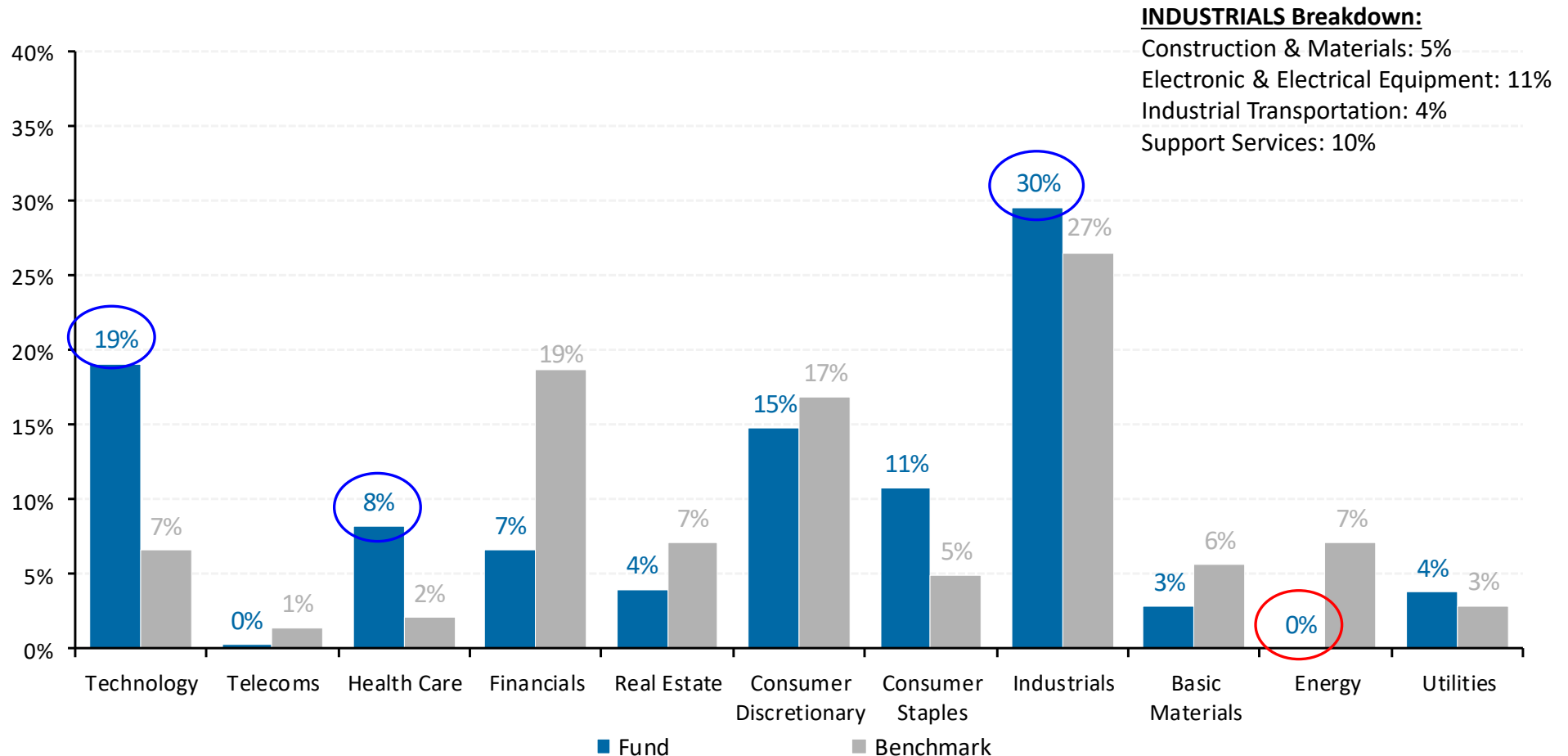
- Sales & PBT met expectations despite concerns about consumer spending and inflation

Dechra Pharmaceuticals

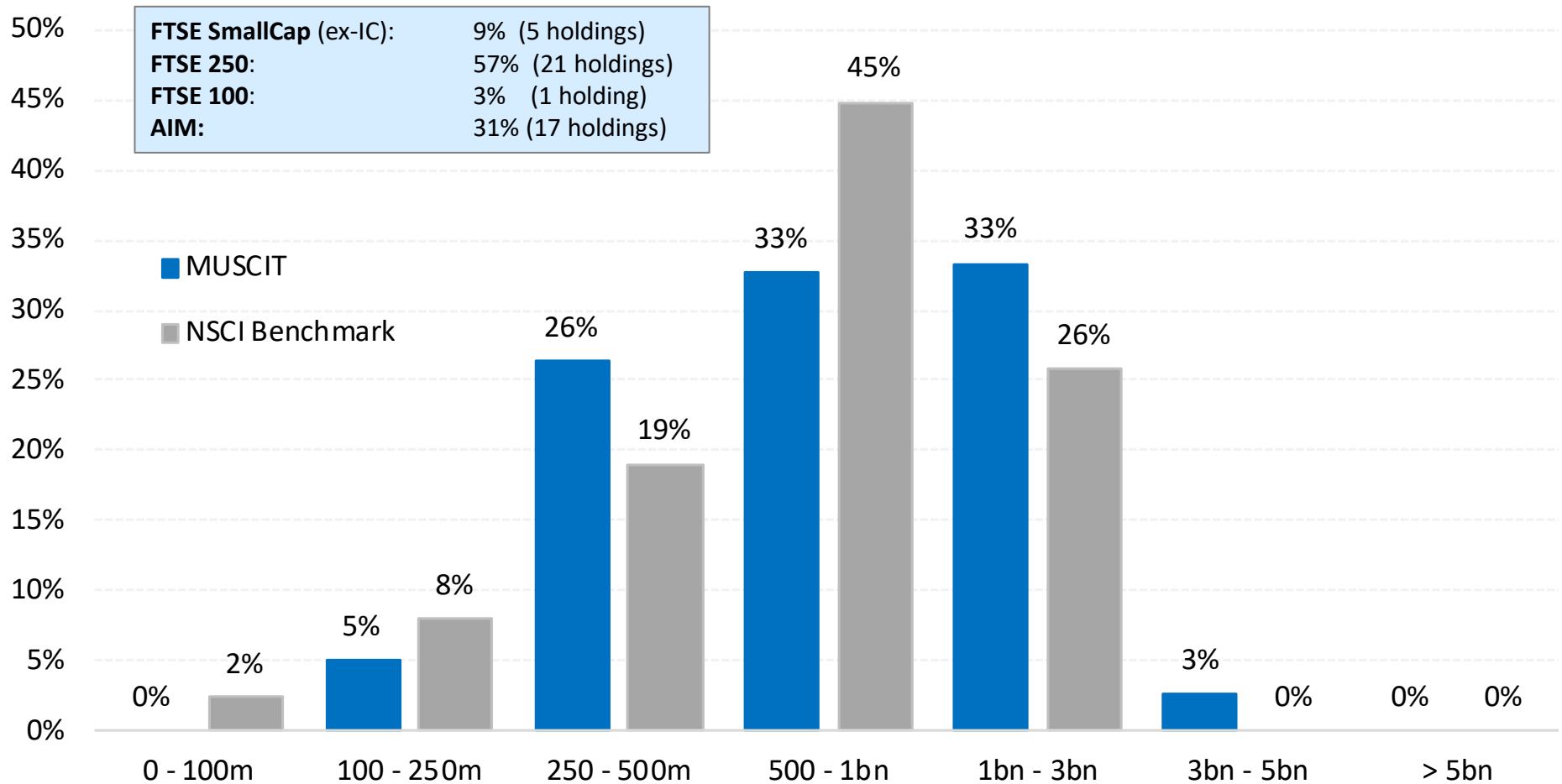
- Solid trading update, driven by continued growth in North America. Sales growth of 14% at constant exchange rate and 12% at actual exchange rate.

Plus: Big Yellow / Clarkson / 4imprint / Marshalls ...

Sectors: overweight Industrials, IT & Health Care; No Energy



Size: a SmallCap portfolio



A portfolio of High Growth companies with strong balance sheets

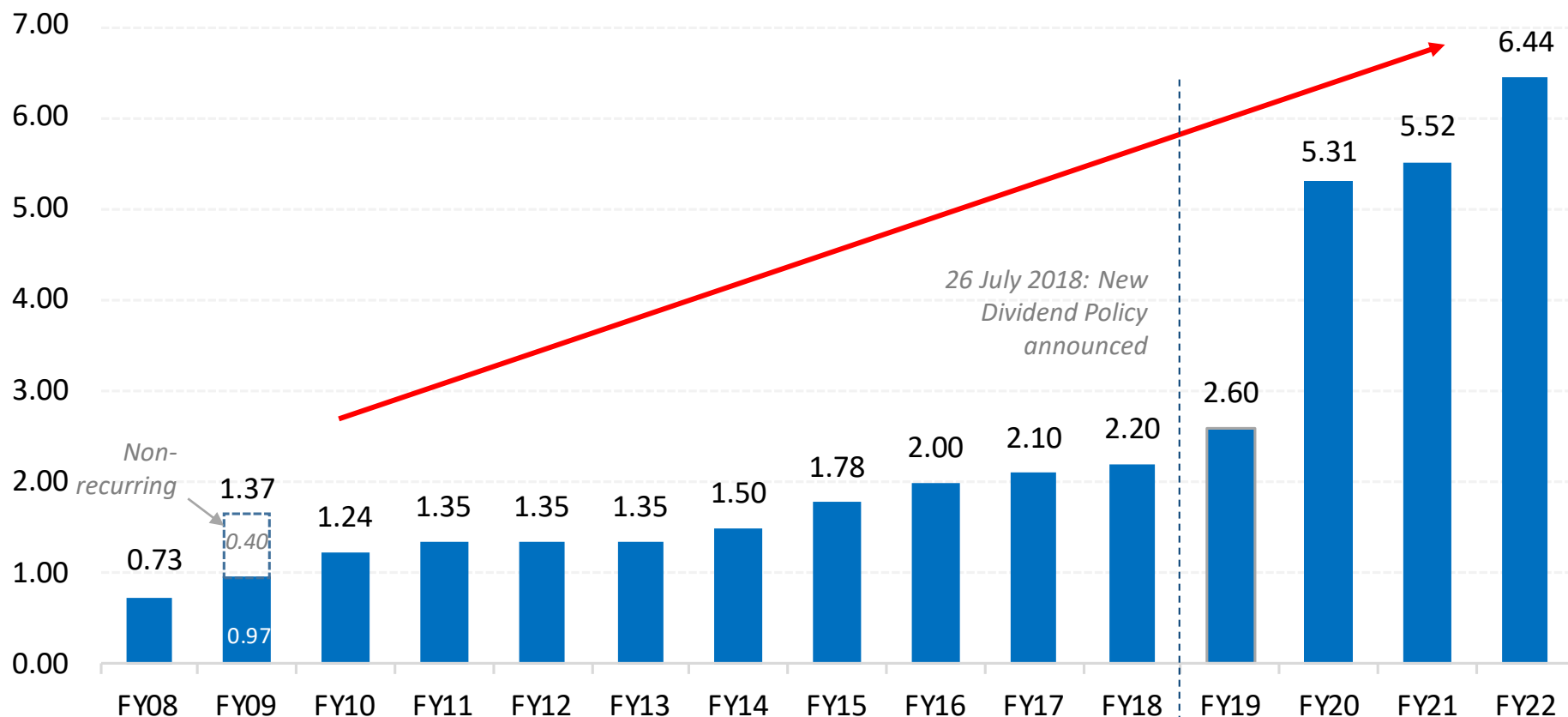
Portfolio Characteristics		
	MUSCIT	Numis SmallCap (ex-IC) Index
# Stocks	44	324
Weighted Market Cap (£bn)	1.0	0.8
EBIT Margin (22F)	20%	19%
RoE (22F)	18.4%	11.6%
% Companies with Net Cash (22F)	51%	32%

Growth		
	MUSCIT	Numis SmallCap (ex-IC) Index
Sales Growth (2022e)	11.5%	8.1%
EPS Growth (2022e)	10.8%	4.8%

Valuation		
	MUSCIT	Numis SmallCap (ex-IC) Index
P/E (2022e)	17.6	9.7
Dividend Yield (2022e)	2.5%	3.4%

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

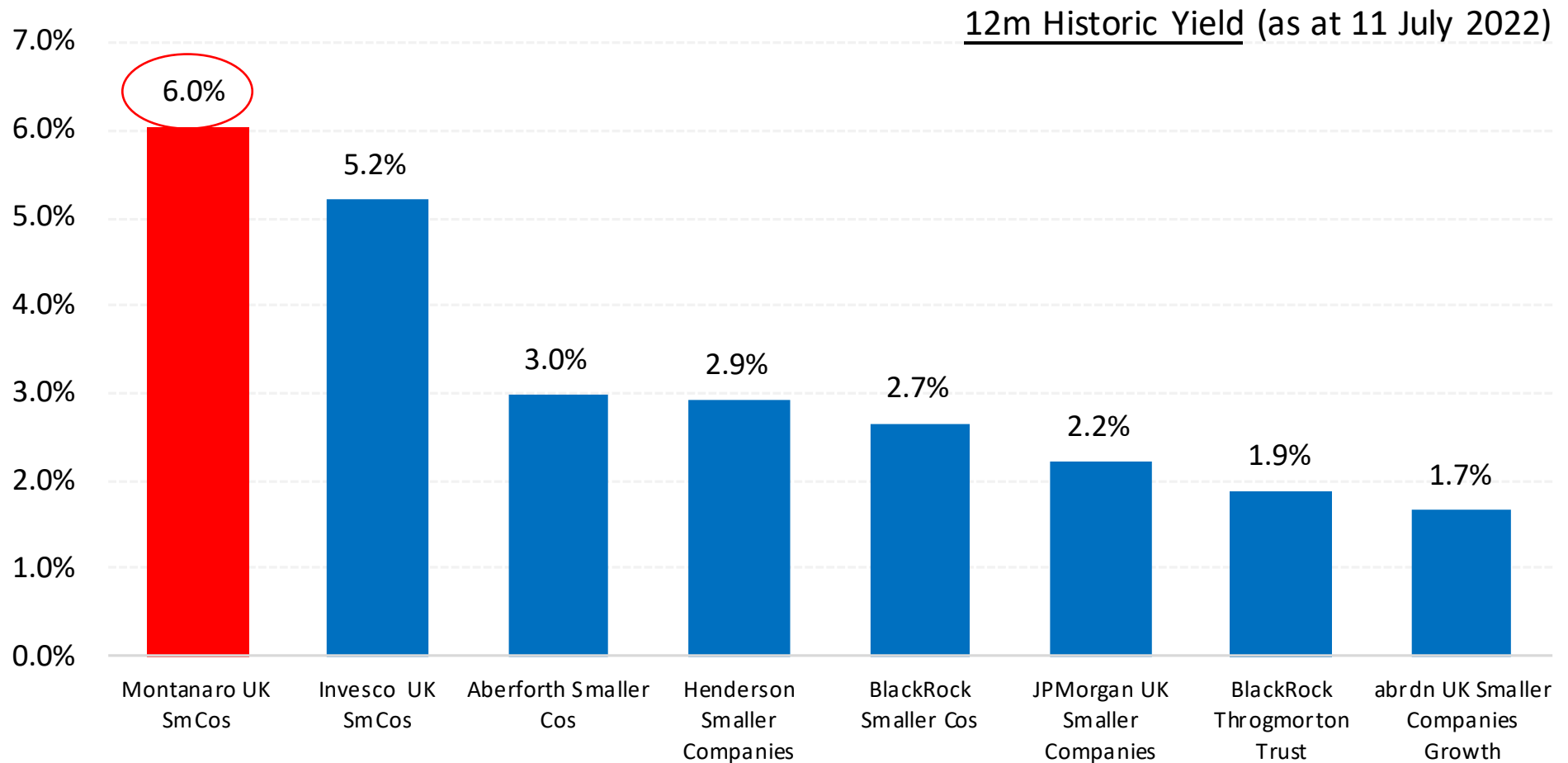
MUSCIT - Dividend Per Share (GBp)
Past dividends are adjusted for the 5-for-1 share split in July 2018



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

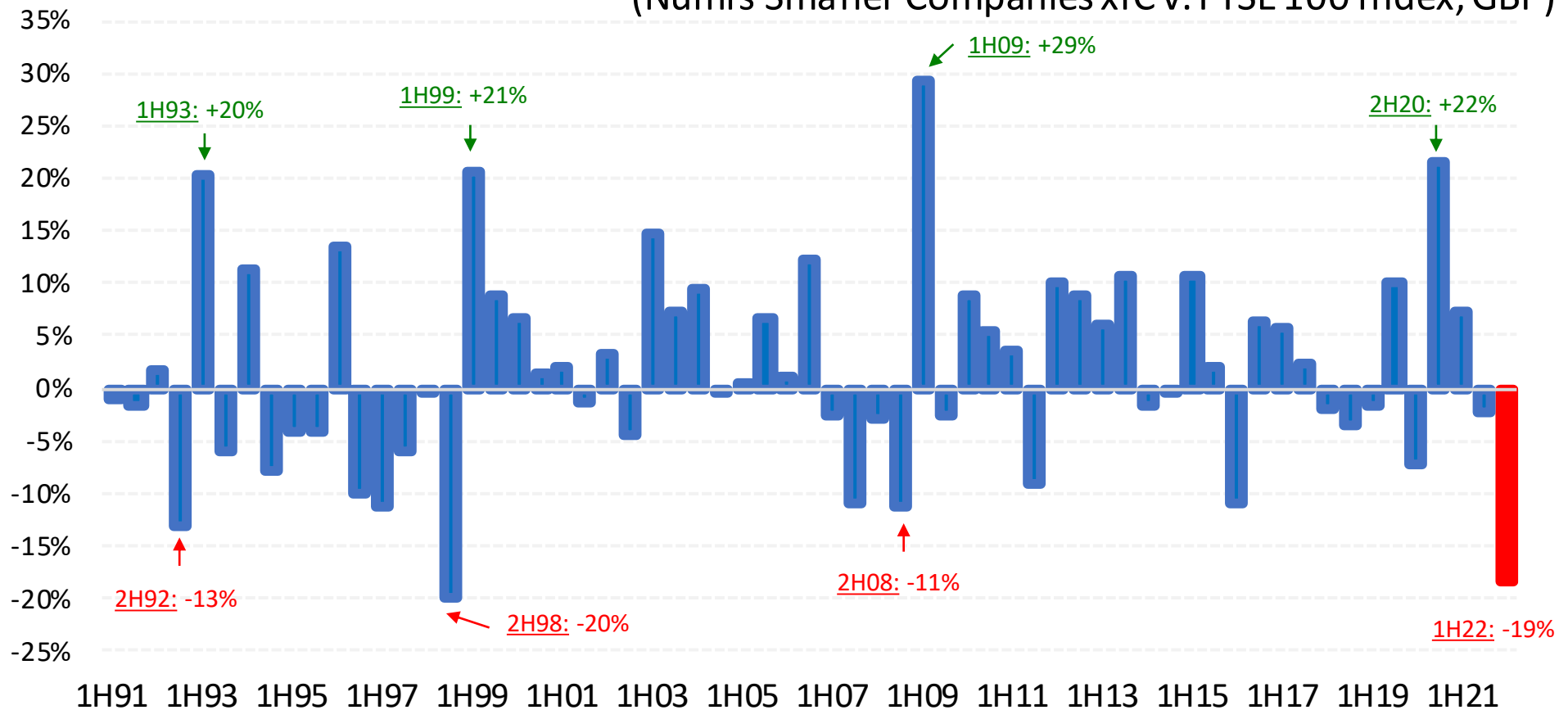


Source: Numis, Internal.

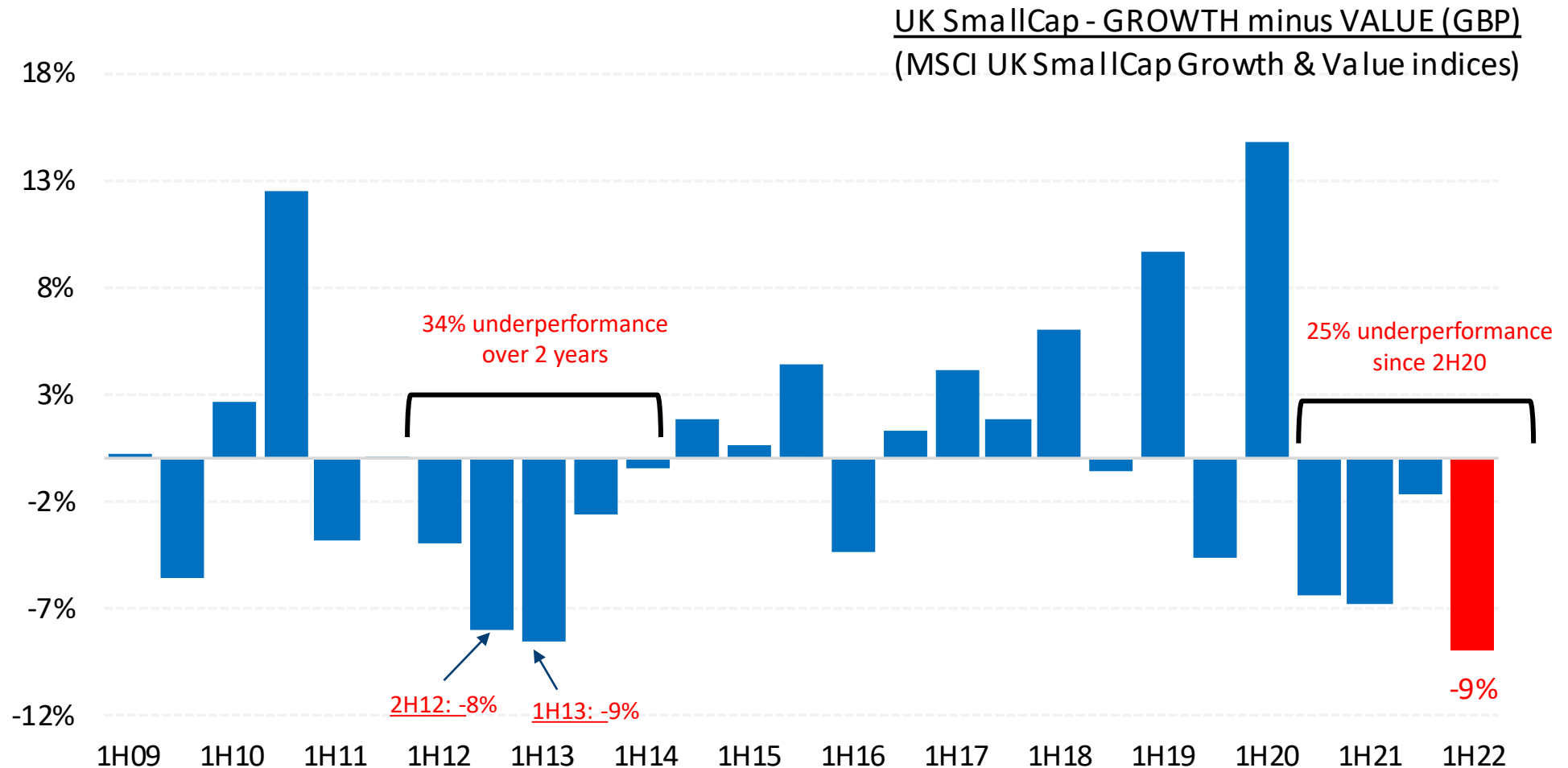
The Peer group is composed of all comparable UK SmallCap investment Trusts. MicroCap trusts are excluded.

UK SmallCap had its worst start to the year v. LargeCap since 1998

UK SmallCap v. LargeCap- Half-Yearly
(Numis Smaller Companies xLC v. FTSE 100 index, GBP)



Biggest underperformance of SmallCap Growth v. Value in a decade



Quality has extended its underperformance by 13% YTD in the UK

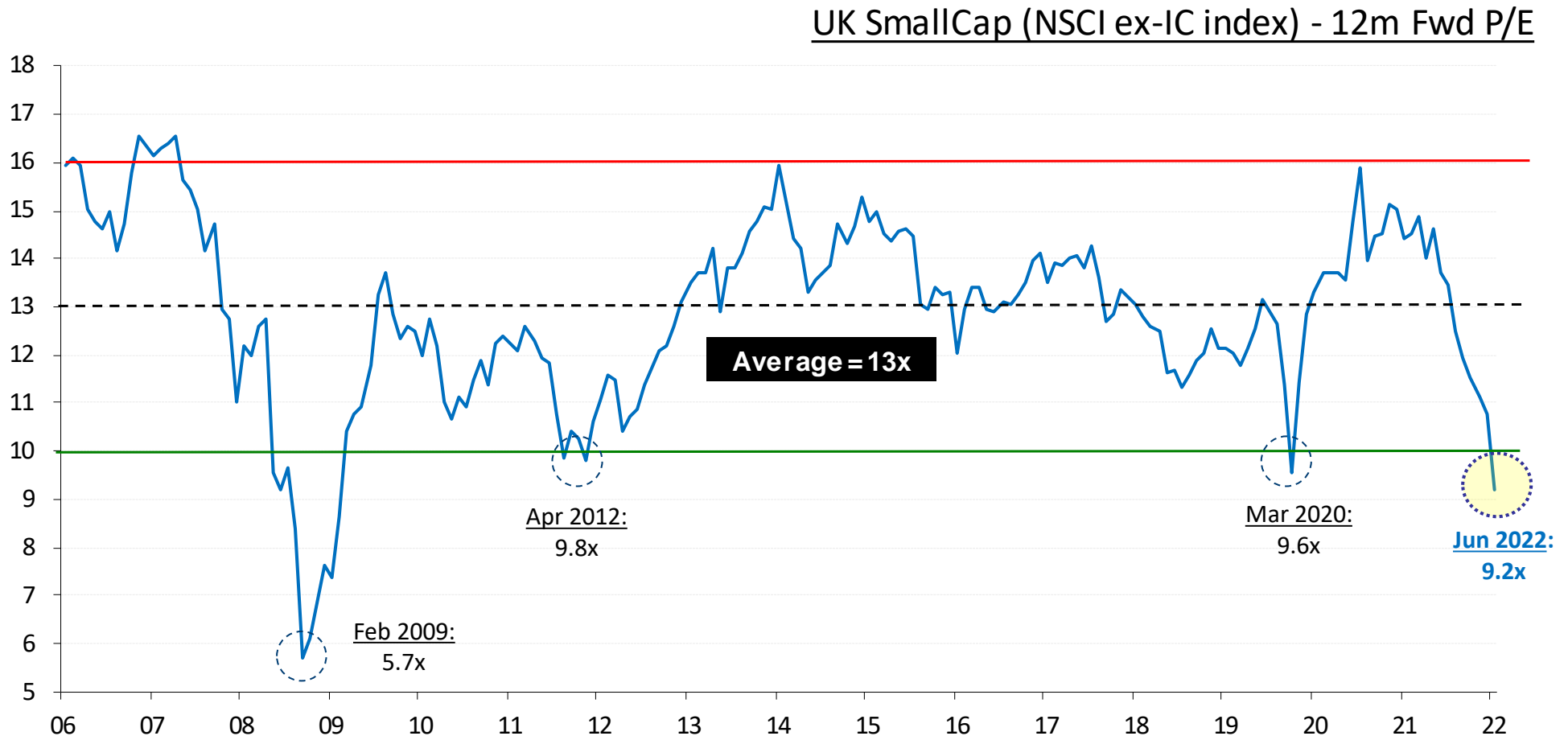
UK - Quality v. Market
(MSCI UK Quality Index v. MSCI UK Index, rebased)



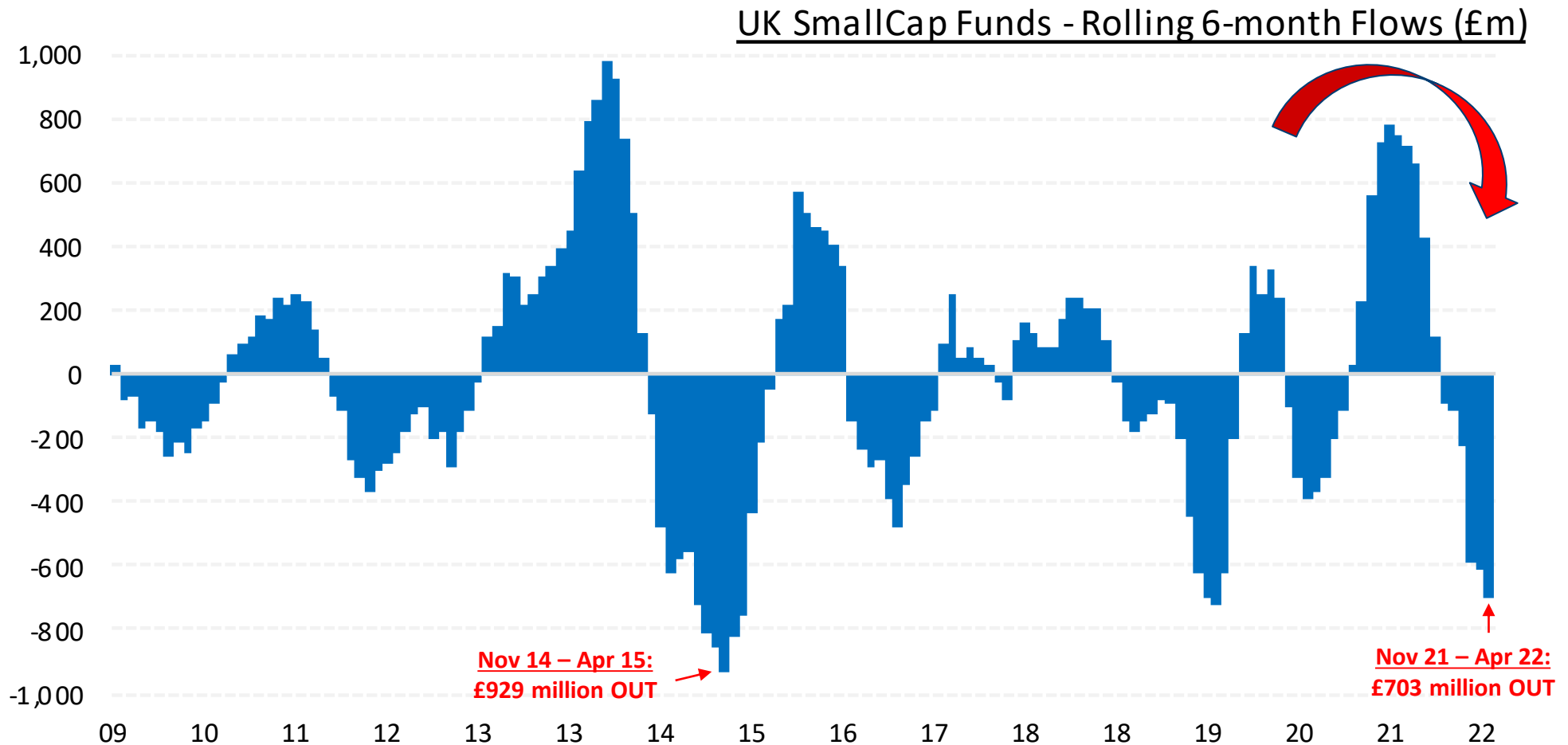
... so MUSCIT was at a 9% discount at the end of June 2022 (a 2Y high)



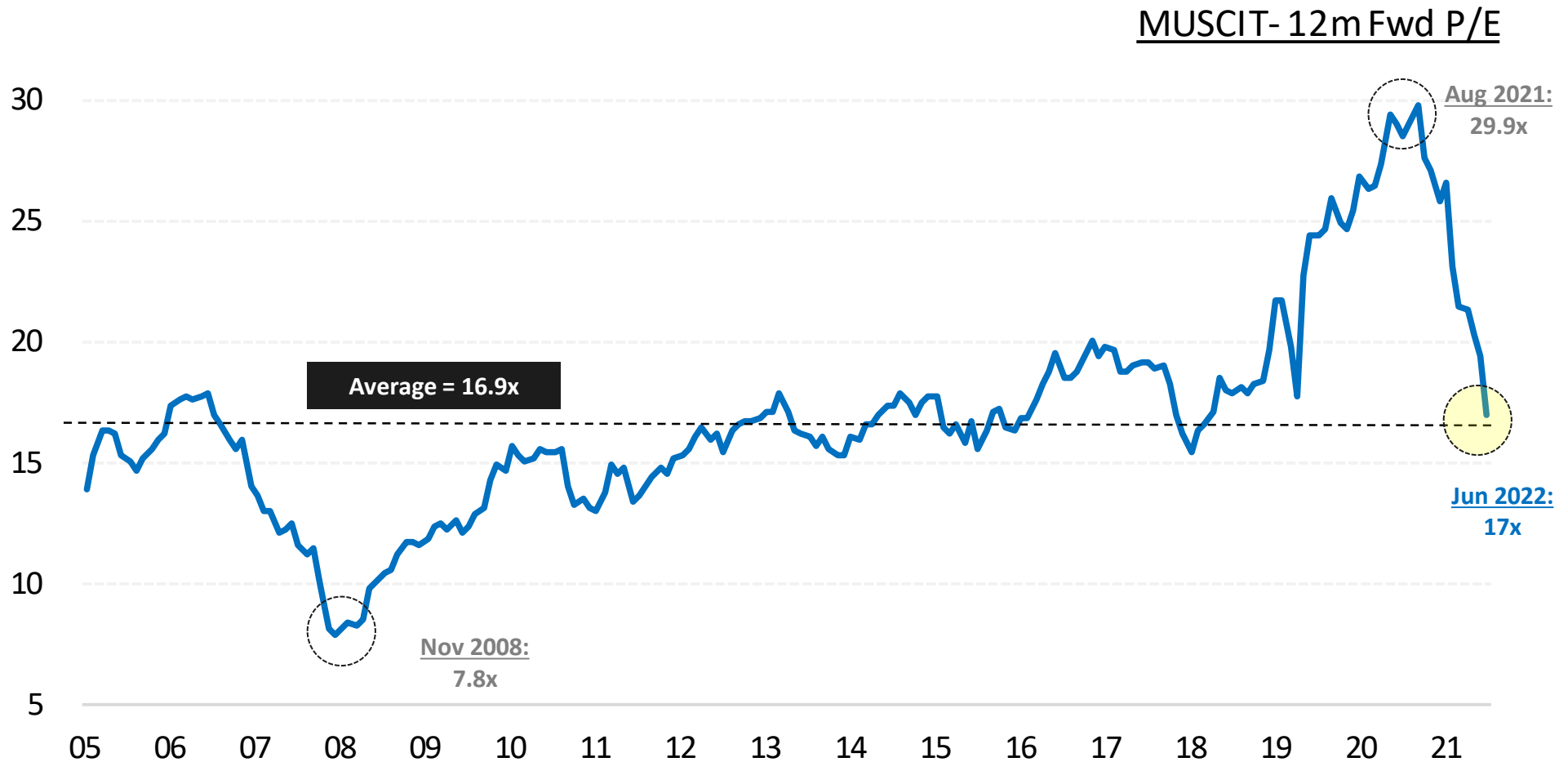
UK SmallCap is trading on its lowest P/E since 2009



Over £700 million has been pulled from UK SmallCap Funds since Nov 21



MUSCIT has mean reverted back to its long-term average P/E



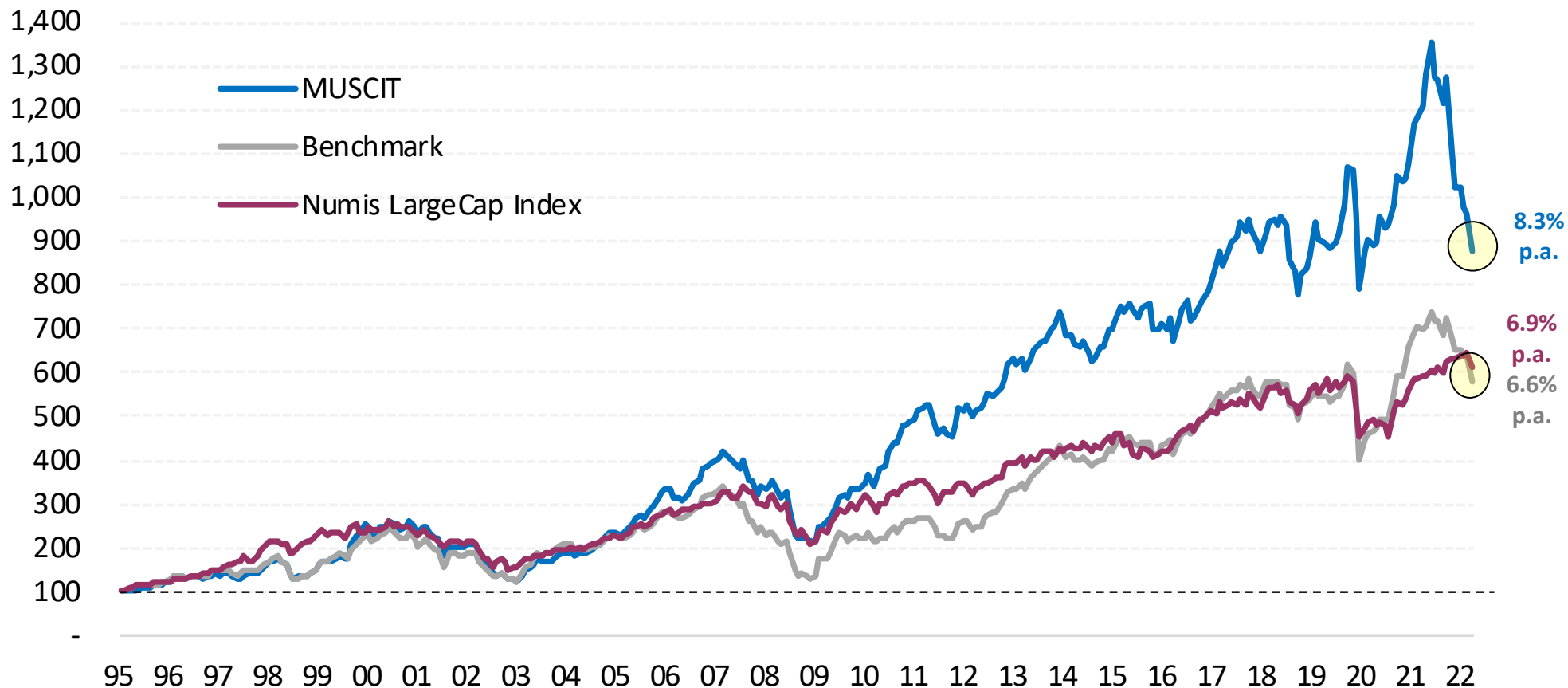
Over rolling 5 years MUSCIT delivered positive returns 95% of the time

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



MUSCIT has performed well since launch over 25 years ago

Cumulative NAV Total Returns since MUSCIT launch (31 Mar 1995 - 31 Mar 2022)



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.

Note that the Numis LargeCap Index is shown for illustration purposes only.

Conclusions

- 1. SmallCap, Growth and Quality have all underperformed in 1H 2022:**
 - after such extremes the worst may be over
- 2. UK SmallCap is trading at lowest P/E since 2009**
- 3. Portfolio of high quality companies with strong balance sheets:**
 - Quality typically outperforms in economic slowdowns
- 4. Two take-overs recently (Ideagen, Biffa)**
- 5. MUSCIT looks good value now:**
 - P/E of 17x down from 30x in August 2021 *
 - 9% discount (highest in 2 years) **
 - 6% dividend yield ***

Disclaimer

IMPORTANT NOTICE

This document is issued by Montanaro Asset Management Limited (“MAM”) for distribution only to persons of the kind described in Article 11(3) of the Financial Services and Markets Act 2000 (Investment Advertisements) (Exemptions) Order 1995, or of a kind to whom this document may otherwise lawfully be issued or passed on. **It may not be copied or distributed or otherwise made available to any recipient without the express written consent of MAM.** The document is neither a prospectus, nor listing particulars, nor an offer or invitation to subscribe for, underwrite or purchase securities.

The information contained in this memorandum is intended for the use of Professional and Institutional Investors only. It is for background purposes, is not to be relied upon by any recipient, and is subject to material updating, revision and amendment. No representation or warranty, expressed or implied, is made, and no liability whatsoever is accepted in relation thereto. This memorandum does not constitute investment advice. References to the outlook for markets are intended simply to help investors with their thinking about markets and the multiple possible outcomes. Investors should always consult their advisers before investing.

All data contained herein have MAM as its source unless otherwise stated. All data contained herein is at the date specified at the top of the page unless stated otherwise. All performance data have been calculated by MAM. Performance Attribution data in particular should be treated as indicative rather than definitive. Past performance is not a reliable indicator of future results. All investments are subject to risk and the value of shares and the income from them can fall as well as rise due to stock market and currency movements. You may not get back as much as you originally invested. Foreign exchange exposure may increase the volatility of returns.

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.