

Montanaro European Smaller Companies Trust

28 February 2020

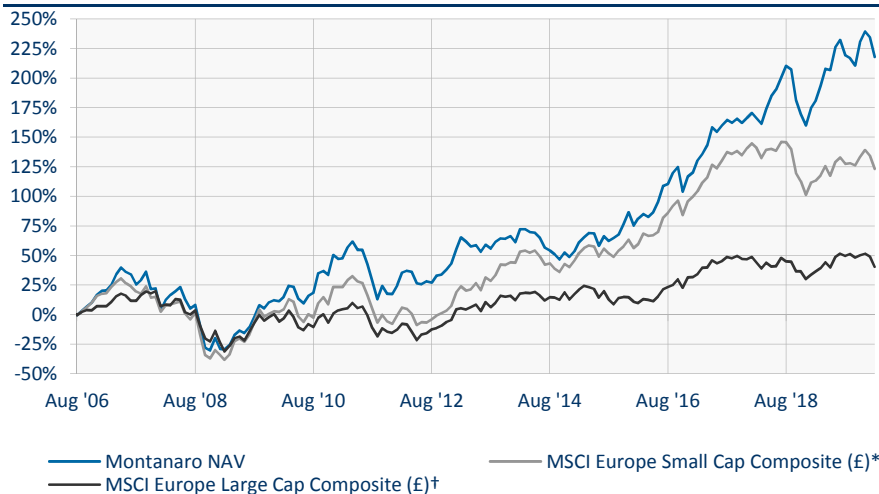
Fund Objective

To achieve capital growth by investing principally in Continental European quoted smaller companies. The Company's benchmark index is the MSCI Europe SmallCap (ex UK) Index (in sterling terms).

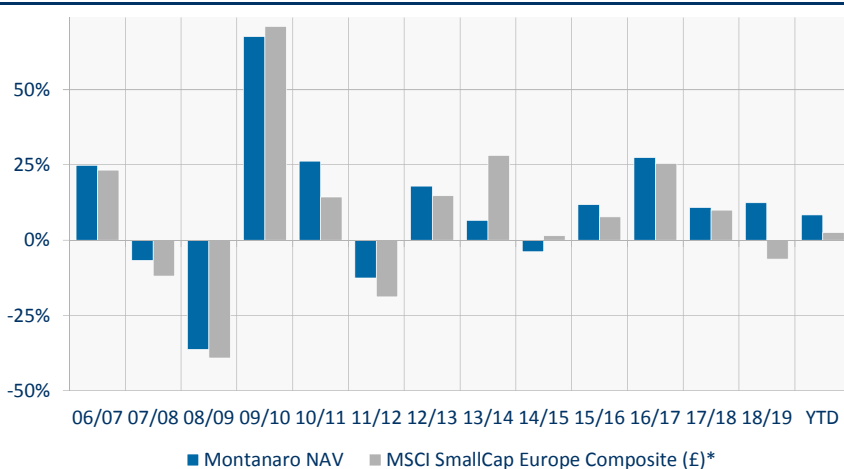
Performance

	FYTD	1M	3M	6M	12M	3Y	5Y	10Y	Montanaro
Fund (Price)	13.9%	-13.0%	-6.8%	-2.5%	15.2%	54.7%	109.4%	194.6%	217.5%
Fund (NAV)**	8.3%	-5.0%	-3.8%	-0.5%	13.3%	38.2%	97.3%	176.8%	217.7%
Index*	2.5%	-4.7%	-4.2%	-1.9%	4.7%	9.3%	46.9%	114.0%	123.1%

Cumulative Performance Since Montanaro



Fiscal Year Returns



Source: Montanaro, Bloomberg. NAV to NAV, fully diluted.

*Effective June 1st 2009 the index used in this factsheet for comparison purposes is the MSCI European Smaller Companies Index ex-UK (Capital Return). The performance history prior to June 1st 2009 was the MSCI European Smaller Companies Index (Capital Return).

**NAV ex income. † The MSCI Large Cap Composite index is for comparison purposes only.

About Montanaro

Montanaro, an independent specialist asset manager, was established in 1991 to research and invest in quoted Small & MidCap companies. Funds under management are currently £2.6 billion.

Fund Facts

Price	1013.5p
NAV**	1086.17p
Discount	-6.7%
Ongoing Charge	1.2% (As at 31 March 19)
Benchmark	MSCI Europe xUK Small Cap (£)

Fund Manager	Montanaro Team
Lead Manager	George Cooke

Management Fee	Annual 0.9% of Market Cap
Performance Fee	Nil

Ticker	MTE LN
ISIN	GB0004543517
Sedol	0454351
Net Assets	£184 million
Gross Assets	£192 million
Gearing	4.4%
No. of Holdings	57
Median Mkt Cap	£2080 million
Managed Since	September 2006
Year End	March
Currency	GBP
Legal Status	UK Investment Trust
Listing	London Stock Exchange
Dividend Date	January and July/August

Trust ESG Score 6.3

The Trust ESG Score is the weighted average of Montanaro's proprietary company ESG Checklist scores (0-10; 10 is best).

Ratings and Awards

★★★★★ – Morningstar Rating™
 (as at 29/02/20)

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The information contained within this document is for the use of Institutional and Professional investors only.

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.

Top 10 Holdings

Fortnox	4.4%
Sartorius Stedim Biotech	3.5%
MTU Aero Engines	3.4%
CTS Eventim	3.3%
VZ Holding	3.1%
Nemetschek	3.0%
MIPS	3.0%
Belimo Holding	2.7%
Esker	2.5%
Simcorp	2.5%
Total	31.4%

Note: % of invested assets

Risk Analysis

	Fund	Index
Jensen's Alpha (annual)	8.4%	
Beta	1.00	1.00
Standard Deviation	12.2%	11.1%
Sharpe Ratio	0.96	0.30
Tracking Error	5.0%	
Information Ratio	1.76	
Active Share	90.1%	

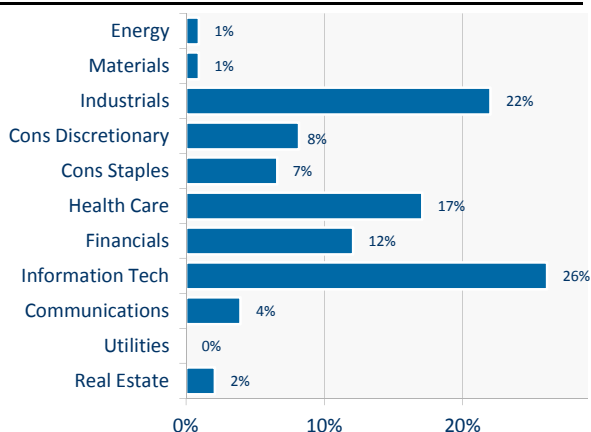
Note: risk statistics over three years

Portfolio Analysis

Price / Earnings 20F	23.9
EPS Growth 20F	13.4%
Dividend Yield 20F	2.2%
Dividend Growth 20F	10.4%
Return on Equity 20F	17.8%
EV/EBITDA 20F	18.9
EBIT Margin 20F	22.3%
Net Debt/Equity 20F	1.0%

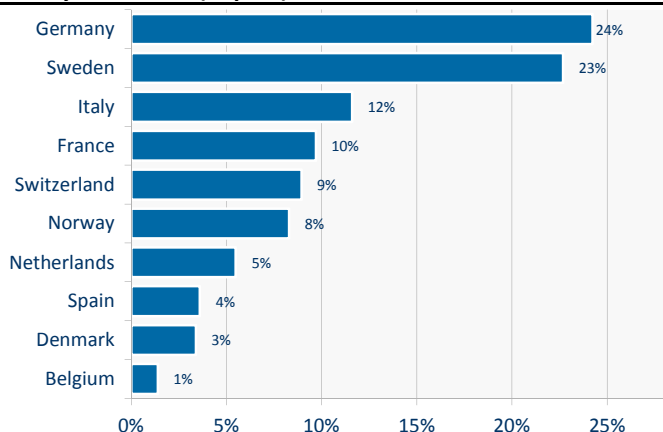
Source: Factset consensus estimates

Sector Allocation



Note: % of invested assets

Country Allocation (Top 10)



Note: % of invested assets

Monthly Commentary

It was Klemens von Metternich, a distinguished diplomat during the Napoleonic era, who came up with one of the most famous phrases about the economy. In an era when Europe dominated the world, he stated: "When France sneezes, Europe catches a cold." Once the United States had acquired economic dominance, this was adapted: "When America sneezes, the world catches a cold."

The same is now true of China, in both economic and health terms. The country has grown to 17% of global GDP. As the Coronavirus spread across the world, China – the workshop of the global economy – closed for business. The result was an indiscriminate sell-off in risk assets as fear overtook greed to become the dominant force in financial markets.

In this context, the NAV of the Trust declined by 5% (in GBP) in February, in line with the MSCI Europe SmallCap (ex UK) benchmark index.

The strongest contribution during the month came from **Fortnox**, the Swedish provider of cloud accounting software, which rose following a very strong set of results. **Sartorius Stedim**, the developer of equipment used in the manufacture of biologic drugs, continued to rise after also delivering strong results and a confident outlook. **Sinch**, the global leader in communications application programming software, rallied after excellent Q4 results showing a step-change in scale following an important acquisition.

The weakest contribution during the month came from **Medistim**, the developer of intraoperative quality control systems for cardiac and vascular surgery, which declined as investors took profits after a very strong run. **MTU**, the aircraft engine manufacturer, declined as investors anticipated a slowdown in air traffic due to the impact of the Coronavirus. **CTS Eventim**, the provider of ticketing services in Europe, also weakened as a result of Coronavirus fears as ticket sales for concerts and public events plummeted.

Nobody knows what the impact of Covid-19 will be. Despite the uncertainty, it is clear that the regularity of daily life across the northern hemisphere is under threat to an extent rarely seen in peace time. Global growth will be negatively impacted due to the double whammy of supply and demand shocks. Yet it is too early to tell if growth will plummet, or be pushed back towards the warmer months of the year when the virus may become less virulent.

Away from predictions about the virus, it is worth pointing out that from a purely financial market standpoint, the fall in equity prices is to some extent welcome. Markets had again reached record highs and the "froth" of expensive valuations has been skimmed away. While the situation may well worsen – both in health and economic terms – we would caution against selling. It rarely pays to run for the hills after the market has fallen. One of the reasons that quality companies outperform over the long-term is because their strong balance sheets provide the resilience to outlive periods of economic turbulence. Market falls provide opportunity to the rational and long-term investor.

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