

Montanaro European Smaller Companies Trust

31 July 2019

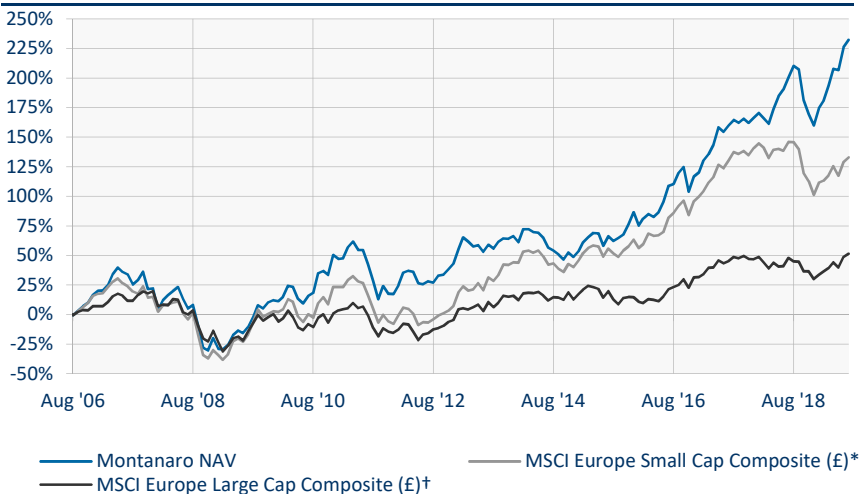
Fund Objective

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).

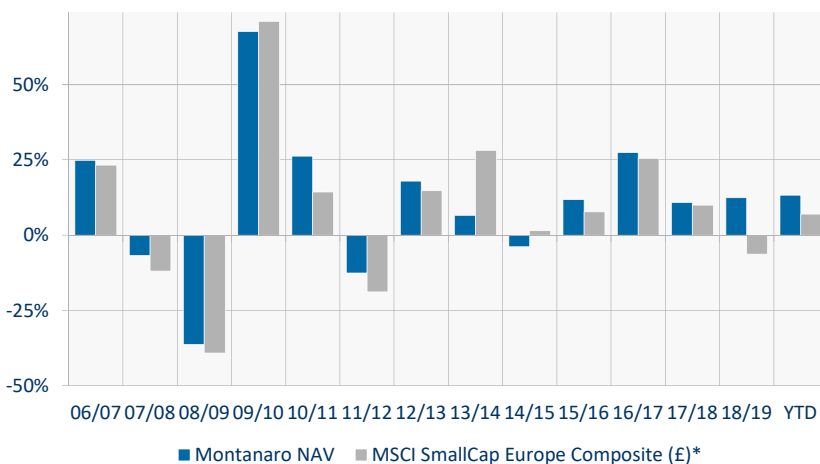
Performance

| | FYTD | 1M | 3M | 6M | 12M | 3Y | 5Y | 10Y | Montanaro |
|---------------------|-------|------|-------|-------|-------|-------|--------|--------|-----------|
| Fund (Price) | 23.6% | 2.6% | 13.6% | 29.4% | 21.5% | 83.5% | 123.4% | 302.2% | 244.6% |
| Fund (NAV)** | 13.2% | 1.9% | 7.9% | 21.1% | 10.5% | 59.1% | 112.4% | 271.8% | 232.2% |
| Index* | 7.0% | 1.7% | 3.2% | 10.1% | -5.3% | 28.1% | 63.9% | 180.4% | 132.9% |

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 £2.2 billion.

Fund Facts

| | |
|-----------------------|-------------------------------|
| Price | 1100p |
| NAV** | 1135.51p |
| Discount | -3.1% |
| 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 £193 million
Gross Assets £193 million
Gearing 0.3%
No. of Holdings 56
Median Mkt Cap £2217 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 31/07/19)

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Important Information

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

| | |
|--------------------------|--------------|
| IMCD | 3.8% |
| MTU Aero Engines | 3.7% |
| Fortnox | 3.4% |
| CTS Eventim | 3.3% |
| Sartorius Stedim Biotech | 3.1% |
| Nemetschek | 2.8% |
| AAK | 2.6% |
| MIPS | 2.6% |
| I.M.A. | 2.5% |
| Belimo Holding | 2.5% |
| Total | 30.3% |

Note: % of invested assets

Risk Analysis

| | Fund | Index |
|-------------------------|-------|-------|
| Jensen's Alpha (annual) | 8.3% | |
| Beta | 0.99 | 1.00 |
| Standard Deviation | 12.8% | 11.9% |
| Sharpe Ratio | 1.32 | 0.74 |
| Tracking Error | 5.1% | |
| Information Ratio | 1.86 | |
| Active Share | 89.9% | |

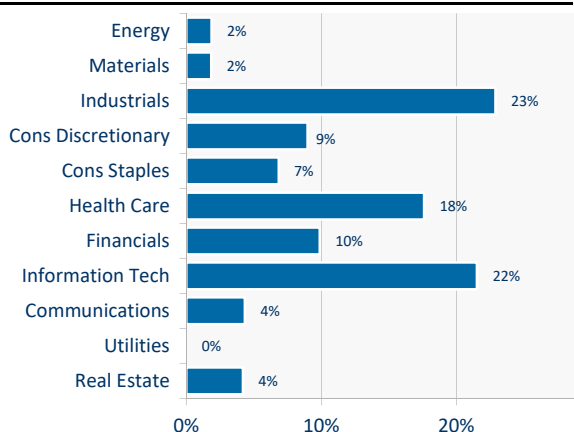
Note: risk statistics over three years

Portfolio Analysis

| | |
|----------------------|-------|
| Price / Earnings 19F | 26.0 |
| EPS Growth 19F | 9.2% |
| Dividend Yield 19F | 2.0% |
| Dividend Growth 19F | 6.6% |
| Return on Equity 19F | 16.6% |
| EV/EBITDA 19F | 20.6 |
| EBIT Margin 19F | 22.4% |
| Net Debt/Equity 19F | 14.9% |

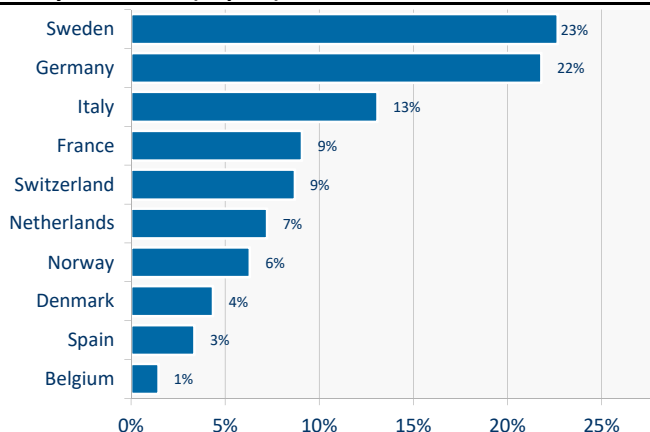
Source: Factset consensus estimates

Sector Allocation



Note: % of invested assets

Country Allocation (Top 10)



Note: % of invested assets

Monthly Commentary

A summer lull fell upon equity markets in July. Amid typically thin trading volumes for this time of year, European SmallCap posted modest declines. This was no bad thing after such a strong opening half to the year. The month was not without its headlines, however. In the US, the Federal Reserve lowered interest rates for the first time in eleven years, while the European Central Bank indicated that further easing measures remained in the monetary pipeline. Thus far, the reporting season indicates a weakening in quarterly earnings and sales growth, although many companies have continued to beat market expectations. This is a true stock picker's market.

In this context, the NAV of the Trust increased by 1.9% (in GBP) in July, an outperformance of 0.2% versus the MSCI Europe SmallCap (ex UK) benchmark index.

The strongest contribution during the month came from CTS Eventim, the provider of ticketing services in Europe, which announced a strategic partnership with the leading ticketing company in France. MTU Aero Engines, the German aircraft engine manufacturer, outperformed following an acceleration in the production of the Geared Turbo Fan engine. AAK, the producer of high-value added vegetable oils and fats, reported a good set of results following the launch of its plant-based ingredients portfolio.

The weakest contribution during the month came from Grenke, the specialist lease finance business for European SMEs, which cited deteriorating credit performance and higher provisioning in its Q2 results. Nilorngruppen, the Swedish clothing labels and hang tag maker, suffered from weaker gross margins and lower operating profit as retail orders declined. Mensch und Maschine, the German provider of computer-aided design software, delivered a good set of results but declined due to concerns about the Germany economy.

A re-escalation of the US/China trade war should come as little surprise to observers of this dispute. The rhetoric between the two countries ebbs and flows between economic resolution and tariff-related conflict. A sceptical analysis suggests that this will be a consistent feature of the investment backdrop in the run-up to 3 November 2020, the date of the next US presidential election. A well-timed "breakthrough" in negotiations could boost the economy – and the prospects of the White House incumbent.

In the meantime, it would be little surprise if investors retained a degree of caution during the remainder of the summer. Certainly, it would be unwise to extrapolate the returns of the last six months. Brexit will dominate headlines over the coming months which may add to uncertainty. Nevertheless, with monetary policy supportive and economic data suggesting a stable backdrop, there remains life in this Bull Market yet. In such an environment, companies that perform well will be rewarded and those that disappoint punished. This is as it should and always will be. We continue to focus on identifying high quality companies that have the potential to generate strong absolute and relative performance for our clients over the long-term.

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