

## Montanaro UK Smaller Companies Investment Trust

30 April 2019

### Fund Objective

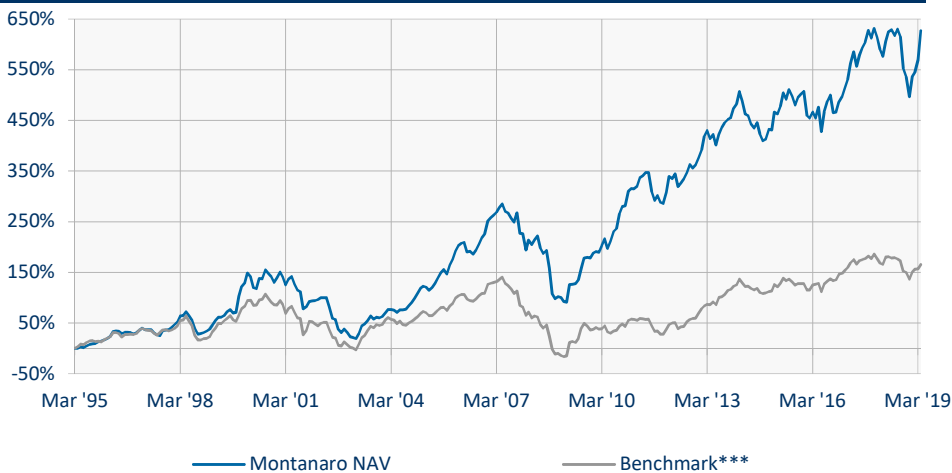
Capital growth by investing in quoted UK smaller companies and to outperform its Benchmark, the Numis Smaller Companies Index (ex-IC). The Trust will invest primarily in quoted UK smaller companies with a market capitalisation smaller than the largest constituent of the Numis Smaller Companies Index at the time of initial investment. The Trust pays a quarterly dividend equivalent to 1% of NAV (roughly 4% p.a).

### Performance

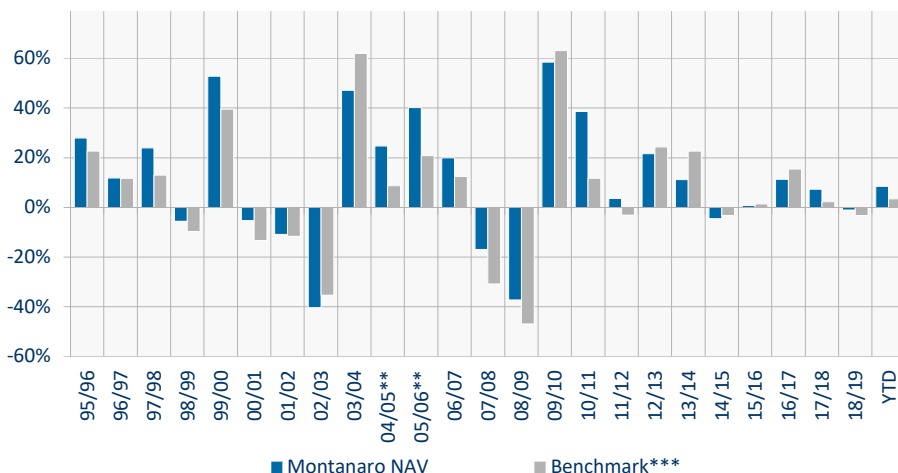
	FYTD	1M	3M	6M	12M	3Y	5Y	Launch
<b>Fund (Price)†</b>	12.1%	12.1%	13.7%	6.7%	8.2%	27.4%	22.2%	540.4%
<b>Fund (NAV)†</b>	8.6%	8.6%	14.1%	11.4%	2.9%	31.1%	29.2%	626.6%
<b>Benchmark***</b>	3.4%	3.4%	6.0%	5.2%	-5.0%	17.3%	19.6%	165.8%

† Effective November 1st 2018 the performance of the Fund and Benchmark is Total Return. Prior to this the performance is Capital Return.

### Cumulative Performance Since Inception



### Fiscal Year Returns\*



Source: Montanaro, Bloomberg. NAV to NAV. \*Years 1-3 undiluted NAV, years 4-5 diluted NAV and years 6 onwards basic NAV as no longer any warrants in issue. \*\*Restated for changes to UK GAAP (all other years have not been restated). \*\*\*Composite benchmark. Effective April 1st 2013 the index used in this factsheet for comparison purposes is the Numis Smaller Companies Index (ex-IC).

### 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 £2.4 billion.

### Fund Facts

<b>Price</b>	117.5p
<b>NAV</b>	139.07p
<b>Premium/(Discount)</b>	-15.5%
<b>Dividend Yield</b>	4.7%*
<b>Ongoing Charge</b>	0.85% (As at 31 March 18)
<b>Benchmark</b>	Numis Smaller Co Indx (ex-IC)
<b>Fund Manager</b>	Charles Montanaro

<b>Management Fee</b>	0.5% p.a. of gross assets
<b>Performance Fee</b>	N/A

<b>Ticker</b>	MTU LN
<b>ISIN</b>	GB00BZ1H9L86
<b>Sedol</b>	BZ1H9L8
<b>Net Assets</b>	£230 million
<b>Gross Assets</b>	£252 million
<b>Gearing</b>	9.2%
<b>No. of Holdings</b>	50
<b>Median Mkt Cap</b>	£716 million
<b>Launch</b>	March 1995
<b>Currency</b>	GBP
<b>Legal Status</b>	UK Investment Trust
<b>Listing</b>	London Stock Exchange
<b>Dividend Pay Dates</b>	May, Aug, Nov & Feb

\* Estimated as 4% of NAV divided by share price as at above date

The Company will not invest more than 15% of gross assets in other closed-ended investment funds.

**Trust ESG Score** 6.2  
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 30/04/19)

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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.

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**Top 10 Holdings**

Marshalls	4.4%
Entertainment One	4.3%
4Imprint Group	4.0%
Big Yellow Group	3.5%
Hilton Food Group	3.3%
Diploma	3.2%
Integrafin	3.1%
Polypipe Group	2.9%
James Fisher & Sons	2.7%
FDM Group	2.5%
<b>Total</b>	<b>33.9%</b>

**Risk Analysis**

	Fund	Index
Jensen's Alpha (annual)	3.2%	
Beta	1.15	1.00
Standard Deviation	14.4%	11.5%
Sharpe Ratio	0.62	0.43
Tracking Error	6.0%	
Information Ratio	0.73	
Active Share	87.1%	

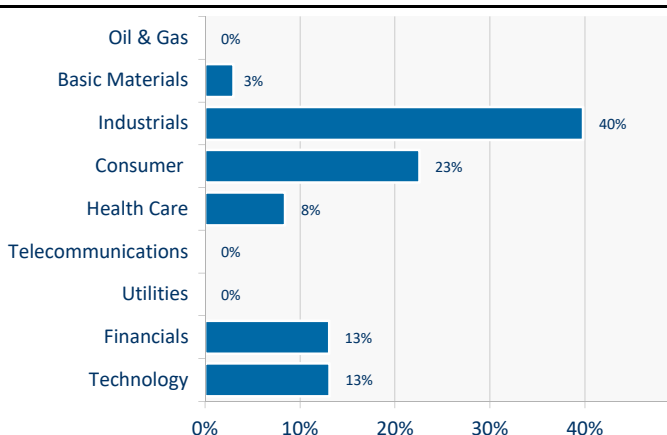
Note: risk statistics over three years

**Portfolio Analysis**

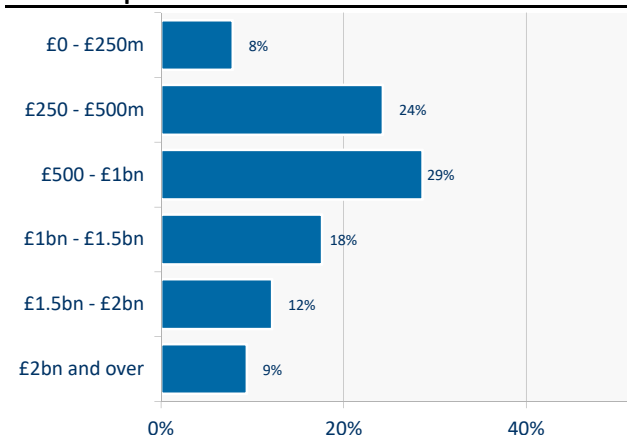
	Fund	Index
Price / Earnings 19F	19.2	12.5
EPS Growth 19F	7.5%	0.2%
Dividend Yield 19F (NAV)	2.4%	3.3%
Dividend Growth 19F	8.0%	4.5%
Return on Equity 19F	15.7%	9.7%
EV/EBITDA 19F	15.1	10.3
EBIT Margin 19F	18.8%	12.6%
Net Debt/Equity 19F	-2.2%	20.7%

Source: Factset consensus estimates

**Sector Allocation**



**Market Capitalisation Allocation**



**Monthly Commentary**

The Goldilocks conditions that have been such a feature of this long Bull Market continued to be “just right” in April. Central Banks remained accommodative, while growth surprised on the upside in China, the US – and most unexpectedly, the UK. As the Easter break allowed the focus to drift momentarily away from Brexit, UK markets posted steady gains. Pleasingly, SmallCap outperformed LargeCap as investors continued to address severe underweights to the asset class, which has been so unloved since the referendum in 2016.

In this context, the NAV of the Trust increased by 8.6% in April, an outperformance of 5.1% versus the benchmark index. Since the beginning of 2019, the NAV has increased by 22%, an outperformance of over 9%.

The strongest contribution during the month came from **GB Group**, the world leader in identity data intelligence, which rose on the back of a trading update that was ahead of expectations. **Scapa**, an industrial and wound-care adhesives specialist, saw a belated recovery from the sell-off in Q4 2018. **RWS**, a leading patent translations and language service business, announced a strong trading update.

The weakest contribution came from **Smart Metering Systems**, the owner and operator of smart meters, which announced strong results that also contained near-term accounting-driven EPS downgrades. **Premier Technical Services**, a specialist support service business, weakened due to Corporate Governance concerns. Following a meeting with management, we sold our holding. **Eco Animal Health**, which sells specialist antibiotics for pigs and poultry, traded lower despite a lack of news flow.

Given the recent rise in equity markets, investors may be forgiven for wanting to draw breath. Indeed, a pause would be welcome. However, we would caution those preparing to “sell in May”. A recent study has shown that £10,000 invested in the FTSE All Share Index at launch in 1986 would now be worth £198,000, with dividends reinvested. By contrast, those who followed the famous adage to “sell in May and go away, and come on back on St. Leger’s Day” (at the beginning of September) would only have £125,000 today. In other words, timing the market is tricky and to be avoided for long-term investors (investors in UK SmallCap should have a sensible time horizon).

It may be more prudent to think about equity exposure strategically. UK SmallCap continues to look cheap compared to equities on the other side of the English Channel and across the Atlantic. Meanwhile, investors with high allocations to overseas equities will address their underweights to sterling one day. It would be little surprise if the currency rebounded in the event of a Brexit breakthrough. In such a scenario, the quality companies within MUSCIT should be well placed to benefit. And in the intervening period, investors are being paid currently a dividend equivalent to 4.7%, one of the highest in the UK SmallCap Investment Trust sector.

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