

Montanaro UK Smaller Companies Investment Trust

30 August 2019

Fund Objective

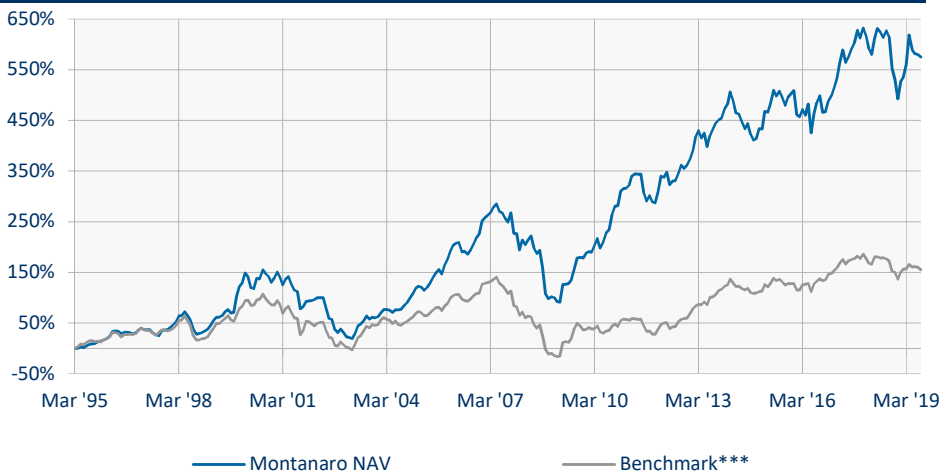
Capital growth by investing in quoted UK smaller companies and to outperform its Benchmark, the Numis Smaller Companies Index (ex-IC). The Trust will invest primarily in quoted UK smaller companies with a market capitalisation smaller than the largest constituent of the Numis Smaller Companies Index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

Performance

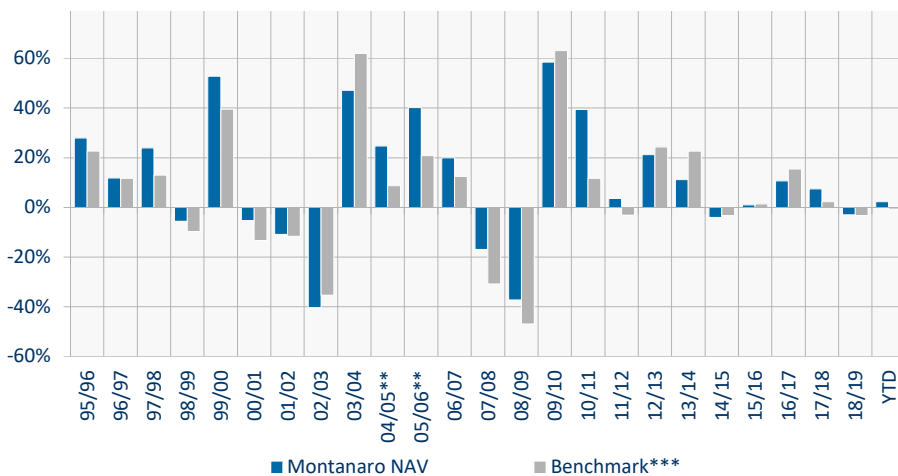
	FYTD	1M	3M	6M	12M	3Y	5Y	Launch
Fund (Price)†	1.7%	-5.6%	-5.6%	-0.8%	-8.4%	17.7%	17.7%	481.2%
Fund (NAV)†	2.2%	-0.7%	-2.1%	6.3%	-7.1%	15.3%	24.1%	575.0%
Benchmark***	-0.7%	-1.8%	-2.2%	-0.4%	-7.7%	9.5%	16.7%	155.1%

† 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. NAVs after 01/04/10 include Current Period Revenue. NAVs prior to 01/04/10 exclude Current Period Revenue. *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 £2.2 billion.

Fund Facts

Price	105.4p
NAV	129.54p
Premium/(Discount)	-18.6%
Dividend Yield	4.9%*
Ongoing Charge	0.80% (As at 31 March 19)
Benchmark	Numis Smaller Co Indx (ex-IC)
Fund Manager	Charles Montanaro

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

Ticker	MTU LN
ISIN	GB00BZ1H9L86
Sedol	BZ1H9L8
Net Assets	£217 million
Gross Assets	£223 million
Gearing	2.8%
No. of Holdings	45
Median Mkt Cap	£739 million
Launch	March 1995
Currency	GBP
Legal Status	UK Investment Trust
Listing	London Stock Exchange
Dividend Pay Dates	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).

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

Entertainment One	5.9%
Marshalls	4.2%
Big Yellow Group	4.1%
4Imprint Group	4.1%
Integrafin	3.7%
Hilton Food Group	3.6%
James Fisher & Sons	3.1%
Ideagen	3.1%
Polypipe Group	2.8%
Brewin Dolphin Holdings	2.7%
Total	37.3%

Risk Analysis

	Fund	Index
Jensen's Alpha (annual)	1.5%	
Beta	1.13	1.00
Standard Deviation	12.8%	10.0%
Sharpe Ratio	0.34	0.25
Tracking Error	6.1%	
Information Ratio	0.31	
Active Share	87.7%	

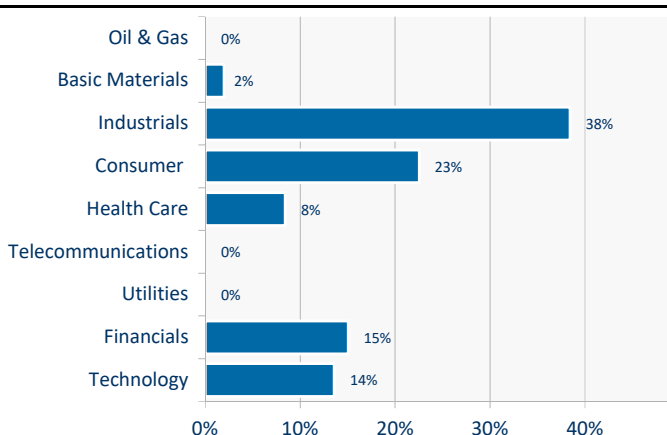
Note: risk statistics over three years

Portfolio Analysis

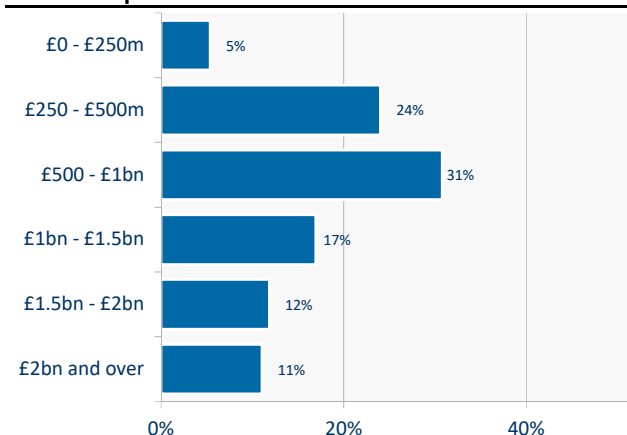
	Fund	Index
Price / Earnings 19F	19.1	11.9
EPS Growth 19F	2.5%	-3.9%
Dividend Yield 19F (NAV)	2.5%	3.5%
Dividend Growth 19F	1.9%	-0.2%
Return on Equity 19F	15.1%	9.6%
EV/EBITDA 19F	15.1	10.2
EBIT Margin 19F	19.6%	12.5%
Net Debt/Equity 19F	3.4%	18.9%

Source: Factset consensus estimates

Sector Allocation



Market Capitalisation Allocation



Monthly Commentary

August proved to be a volatile month for equity markets. A rise in the VIX index (a measure of market volatility) and equity market declines were influenced once again by the social media activity of the US President. Donald Trump announced another escalation in the Trade War with China by threatening to impose additional tariffs on over \$300 billion worth of Chinese imports. With trading volumes thin during the holiday season, demand for “safe haven” assets soared. Global bond yields continued their decline, with the staggering consequence that the total market value of negative yielding debt reached over \$16 trillion. In Europe, the headlines were dominated by weak economic data, especially in Germany, and increasing political uncertainties, notably in Italy and the UK.

In this context, the NAV of the Trust declined by 0.7% in August, an outperformance of 1.1% versus the benchmark index.

The strongest contribution during the month came from **Entertainment One**, the distributor of film, TV and music content, which rose after the company received a take-over bid from US toy maker Hasbro at a 31% premium. **Big Yellow**, the market leader in the UK self-storage sector, benefited from a broker upgrade. **Marshalls**, the leading hard landscaping manufacturer, rose as the company reported an excellent set of results, which saw double digit revenue and earnings growth.

The weakest contribution came from **First Derivatives**, a developer of highly efficient time-series databases, which continued to suffer following the untimely passing of its founder and CEO. **Gooch & Housego**, the leader in photonics technology, declined following a profit warning amid weakness in the industrial lasers division. **Cineworld**, the cinema operator in the UK and US, weakened as the half-year results were impacted by poor box office performance.

The options for Brexit have narrowed. “Plan A” was to use the threat of a “no deal” exit as a way of forcing the EU’s hand in negotiations. This has been scuppered by the passing of a law which effectively removes no deal from the table. “Plan B” was to call a snap general election, something that parliament has twice rejected. Which leaves “Plan C”: renegotiate a deal with the EU and attempt to get parliamentary approval in five weeks’ time after the period of prorogation has ended. Perhaps a “Masterplan D” lies at the ready somewhere within the hallways of 10 Downing Street?

Investors trying to see through this fog face an almost impossible task. Brexit uncertainties appear to be weighing on the UK economy, with second quarter GDP shrinking by 0.2%. Retail sales have also weakened. Little surprise that UK SmallCap remains unloved. Yet Great Britain remains home to many desirable businesses that are performing well (note the takeover of Entertainment One and the strong results delivered by Marshalls). We do not expect this to change. As active stock pickers, we are excited by the opportunity to invest in companies at a time when prices are cheaper than they have been in many, many years.

Important Information

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