

Montanaro UK Smaller Companies Investment Trust

31 December 2019

Fund Objective

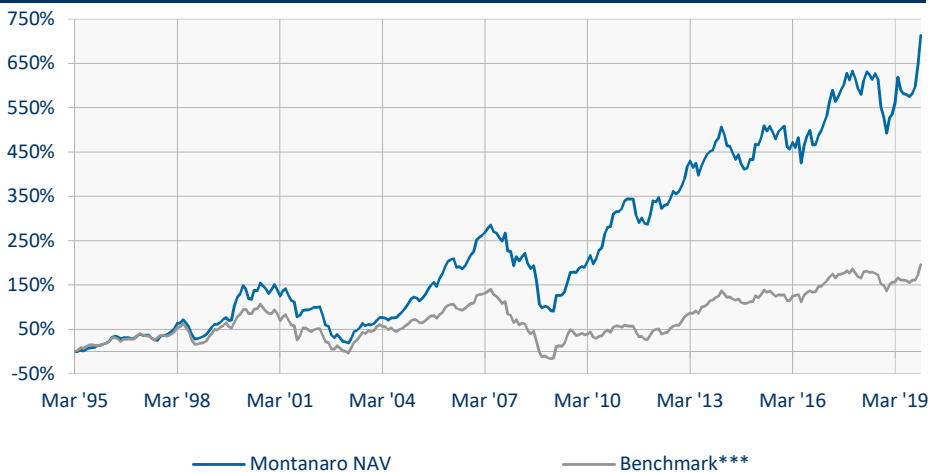
Capital growth by investing in quoted UK smaller companies and to outperform its Benchmark, the Numis Smaller Companies Index (ex-IC). The Trust will invest primarily in quoted UK smaller companies with a market capitalisation smaller than the largest constituent of the Numis Smaller Companies Index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

Performance

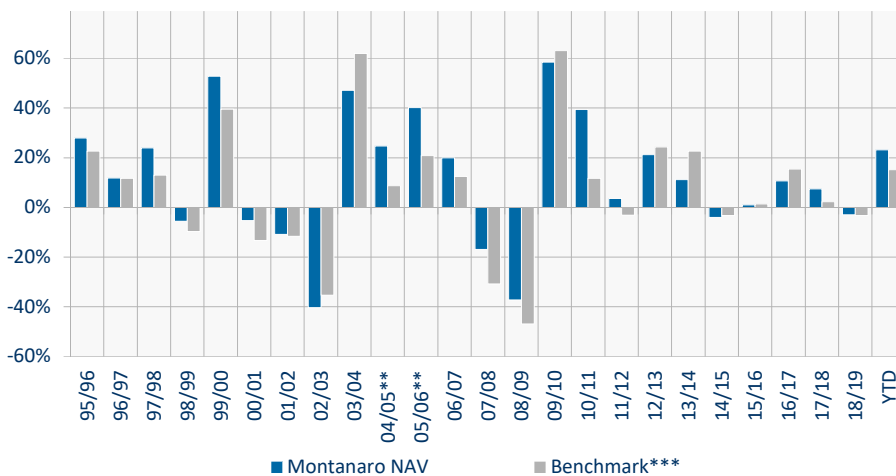
| | FYTD | 1M | 3M | 6M | 12M | 3Y | 5Y | Launch |
|----------------------|-------|-------|-------|-------|-------|-------|-------|--------|
| Fund (Price)† | 42.6% | 11.5% | 35.5% | 32.9% | 45.4% | 73.9% | 79.2% | 714.7% |
| Fund (NAV)† | 23.1% | 8.7% | 19.1% | 19.3% | 37.2% | 38.3% | 52.4% | 712.8% |
| Benchmark*** | 15.1% | 8.1% | 13.3% | 13.3% | 25.2% | 20.1% | 39.4% | 195.9% |

† 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 £2.7 billion.

Fund Facts

| | |
|---------------------------|-------------------------------|
| Price | 146p |
| NAV | 154.46p |
| Premium/(Discount) | -5.5% |
| Dividend Yield | 4.2%* |
| 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 | £259 million |
| Gross Assets | £281 million |
| Gearing | 8.7% |
| No. of Holdings | 52 |
| Median Mkt Cap | £671 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

| | |
|-------------------|--------------|
| 4Imprint Group | 4.0% |
| Marshalls | 3.8% |
| Integrafin | 3.6% |
| Hilton Food Group | 3.3% |
| Restore | 3.2% |
| Ideagen | 3.1% |
| XP Power | 3.0% |
| Discoverie Group | 2.8% |
| GB Group | 2.8% |
| Polypipe Group | 2.7% |
| Total | 32.4% |

Risk Analysis

| | Fund | Index |
|-------------------------|-------|-------|
| Jensen's Alpha (annual) | 4.4% | |
| Beta | 1.13 | 1.00 |
| Standard Deviation | 13.5% | 10.9% |
| Sharpe Ratio | 0.81 | 0.53 |
| Tracking Error | 5.8% | |
| Information Ratio | 0.99 | |
| Active Share | 89.0% | |

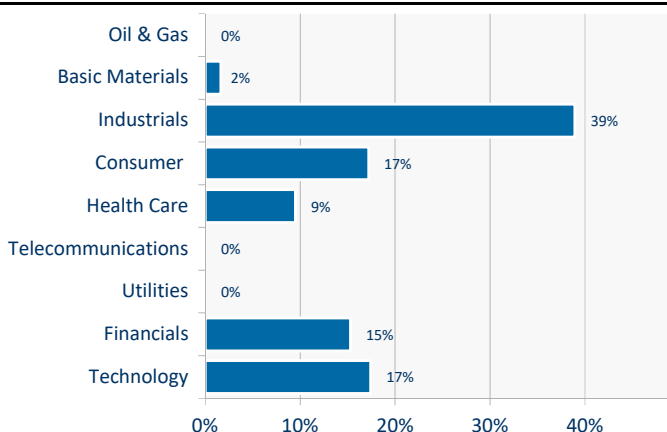
Note: risk statistics over three years

Portfolio Analysis

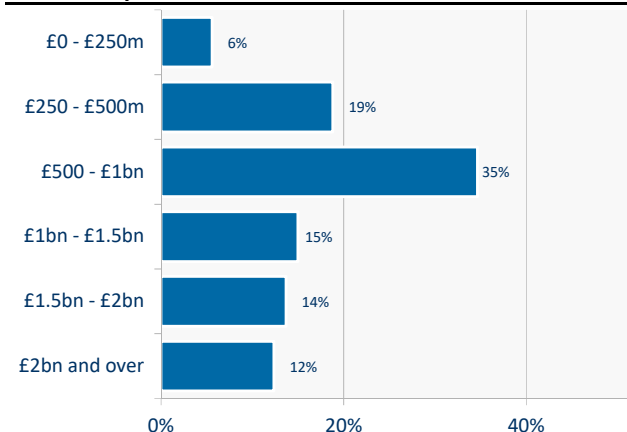
| | Fund | Index |
|--------------------------|-------|-------|
| Price / Earnings 20F | 21.8 | 13.8 |
| EPS Growth 20F | 12.2% | 5.0% |
| Dividend Yield 20F (NAV) | 2.1% | 3.1% |
| Dividend Growth 20F | 6.7% | 5.4% |
| Return on Equity 20F | 16.0% | 12.3% |
| EV/EBITDA 20F | 16.6 | 11.1 |
| EBIT Margin 20F | 20.1% | 16.5% |
| Net Debt/Equity 20F | -0.7% | 22.8% |

Source: Factset consensus estimates

Sector Allocation



Market Capitalisation Allocation



Monthly Commentary

A thumping general election win for the Conservative Party acted as the catalyst for a turn in investment sentiment in December. SmallCap, for so long the unloved asset class, returned to favour with a bang. The asset class rose by some 8% during the month, taking its return for the year above 21%, a healthy outperformance of 9% versus LargeCap.

Few investors forecast such a strong year for equity markets after the declines of 2018. Yet markets responded positively to further support from Central Banks and tepid economic data that was neither too hot nor worryingly cold. Aside from Brexit, the other great political risk – namely the Trade War – showed tentative signs of progress towards the end of the year.

In this context, the NAV of the Trust increased by 8.7% in December, the Trust's highest monthly return in eight years and an outperformance of 0.6% versus the benchmark index. For the calendar year as a whole, the NAV gained by 37.2%, a healthy outperformance of 12%. All year we had predicted a strong fourth quarter. Markets did not let us down.

The strongest contribution during the month came from **Restore**, the document management business, which benefitted from election induced optimism and a well-received Capital Markets presentation. **GB Group**, the world leader in identity data intelligence, continued its upwards momentum following a strong trading update at the end of October. **4imprint**, the supplier of promotional merchandise, also benefitted from a shift in sentiment after the election.

The weakest contribution came from **Midwich**, the distributor of Audio-Visual equipment, which issued a profit warning amid concerns about its growth rate. **RWS**, the global translation business, experienced profit-taking after a strong run in November. **Consort Medical**, the provider of formulation and manufacturing solutions for pharmaceuticals, underperformed a rising market as the stock remained flat following a takeover offer in November.

Commentators are busy gazing into their crystal balls attempting to predict what the New Year has in store for investors. History suggests that this is a difficult task. Attempting to forecast the direction of global macro forces can be akin to reading the tea leaves – and both economists and tasseographers (those who read tea leaves) have a habit of leaving enough room in their predictions to claim that they were "right" after the event.

We do not spend time trying to make such predictions. Macro events that influence markets, such as those currently taking place in Iran and Iraq or the future direction of UK trade negotiations, sit outside our sphere of competence and are virtually impossible to predict. (Although it would be a brave person to expect such strong returns for two years in a row). Rather, we spend our time meeting and listening to our companies. In our experience, this is where we can begin to understand the true drivers of growth that are so important to the trajectory of long-term investment returns.

Important Information

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