

Montanaro UK Smaller Companies Investment Trust

28 February 2020

Fund Objective

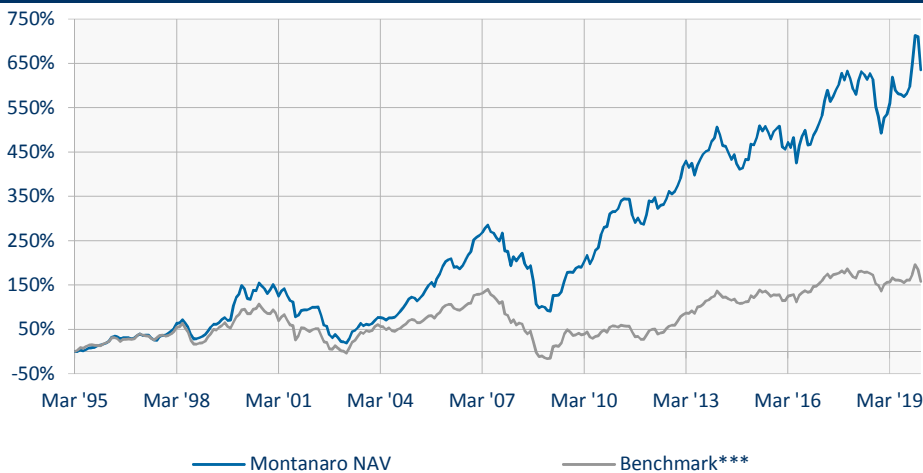
Capital growth by investing in quoted UK smaller companies and to outperform its Benchmark, the Numis Smaller Companies Index (ex-IC). The Trust will invest primarily in quoted UK smaller companies with a market capitalisation smaller than the largest constituent of the Numis Smaller Companies Index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

Performance

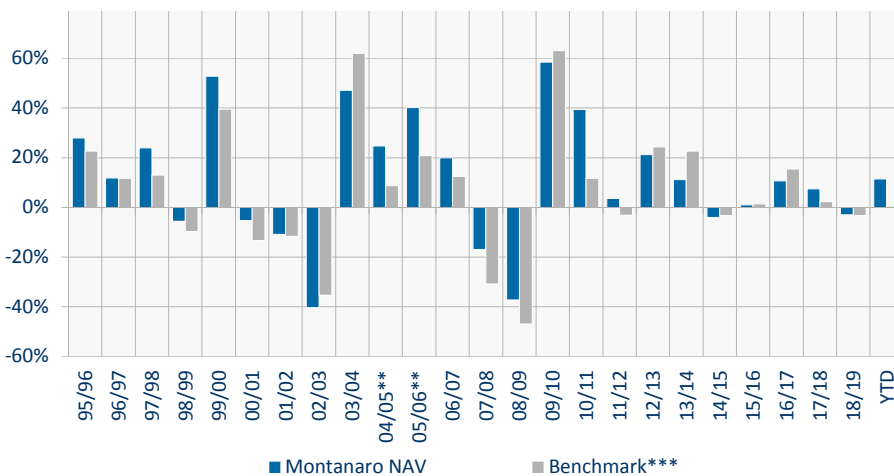
	FYTD	1M	3M	6M	12M	3Y	5Y	Launch
Fund (Price)†	18.4%	-14.0%	-7.4%	16.4%	15.5%	25.3%	38.3%	576.8%
Fund (NAV)†	11.4%	-9.2%	-1.7%	9.0%	15.8%	19.7%	29.6%	635.7%
Benchmark***	0.5%	-9.5%	-5.6%	1.2%	0.8%	1.8%	14.4%	158.2%

† 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 £2.6 billion.

Fund Facts

Price	120p
NAV	138.42p
Premium/(Discount)	-13.3%
Dividend Yield	4.6%*
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	£232 million
Gross Assets	£247 million
Gearing	6.3%
No. of Holdings	50
Median Mkt Cap	£749 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

Integrafin	4.4%
Marshalls	3.7%
4Imprint Group	3.6%
Hilton Food Group	3.4%
Ideagen	3.3%
Polypipe Group	3.0%
Discoverie Group	2.9%
Restore	2.8%
NCC Group	2.7%
Porvair	2.7%
Total	32.6%

Risk Analysis

	Fund	Index
Jensen's Alpha (annual)	5.6%	
Beta	1.08	1.00
Standard Deviation	14.7%	12.5%
Sharpe Ratio	0.38	0.00
Tracking Error	6.0%	
Information Ratio	0.94	
Active Share	88.6%	

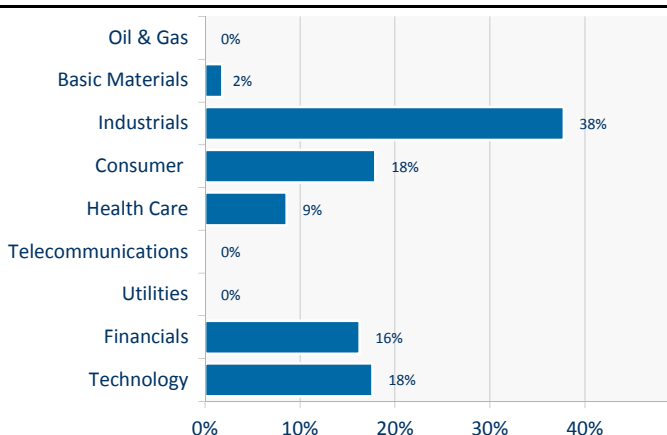
Note: risk statistics over three years

Portfolio Analysis

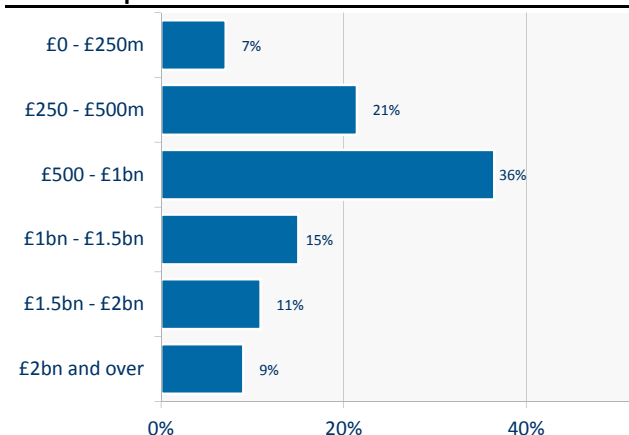
	Fund	Index
Price / Earnings 20F	20.1	11.1
EPS Growth 20F	10.6%	-1.1%
Dividend Yield 20F (NAV)	2.3%	3.8%
Dividend Growth 20F	4.5%	4.8%
Return on Equity 20F	15.4%	11.9%
EV/EBITDA 20F	15.4	9.5
EBIT Margin 20F	20.7%	15.2%
Net Debt/Equity 20F	-0.3%	29.7%

Source: Factset consensus estimates

Sector Allocation



Market Capitalisation Allocation



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 9.2% in February, an outperformance of 0.3% versus the benchmark index.

The strongest contribution during the month came from **Tristel**, the manufacturer of high-level disinfectants used for medical infection control, which benefited on expectations that the Coronavirus may provide a tailwind for its infection control products. **Tracsis**, the provider of software and consulting services to transportation markets, rose on the back of an upbeat trading update. **Midwich**, the leading distributor of AV equipment, announced an acquisition in the US market which was greeted positively by investors.

The weakest contribution came from **RPS**, the global engineering consultancy, which announced a disappointing set of results and the need for further investment in its systems and processes. **4imprint**, the supplier of promotional merchandise, traded lower as their supply chain faced disruption in China. **XP Power**, the provider of power solutions, was negatively impacted by a slowdown in Chinese manufacturing as a result of the Coronavirus outbreak.

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.

Important Information

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