

Montanaro UK Smaller Companies Investment Trust

31 January 2020

Fund Objective

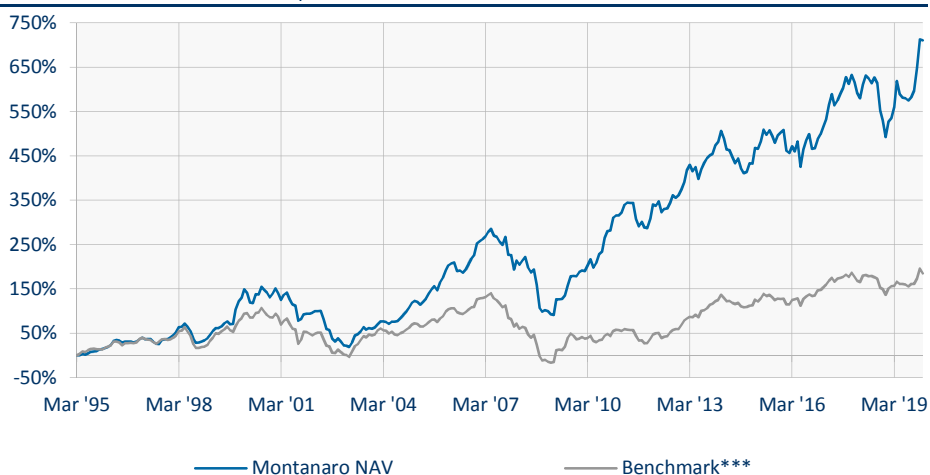
Capital growth by investing in quoted UK smaller companies and to outperform its Benchmark, the Numis Smaller Companies Index (ex-IC). The Trust will invest primarily in quoted UK smaller companies with a market capitalisation smaller than the largest constituent of the Numis Smaller Companies Index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

Performance

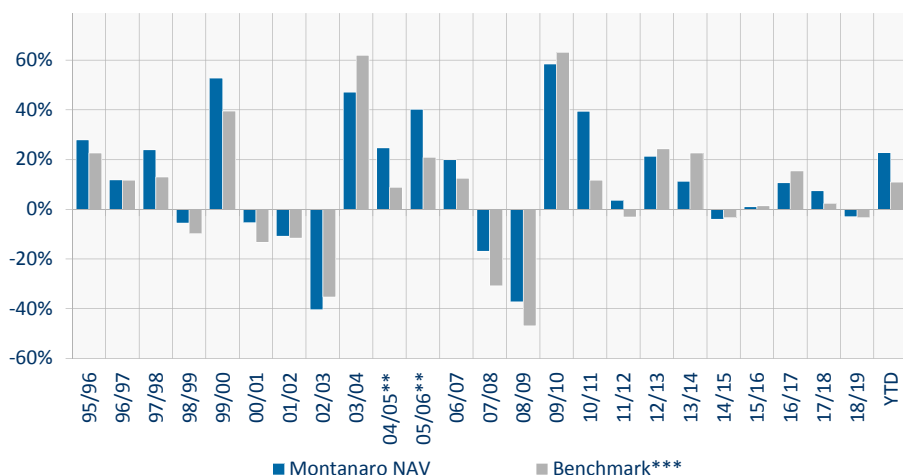
	FYTD	1M	3M	6M	12M	3Y	5Y	Launch
Fund (Price)†	37.7%	-3.4%	27.0%	27.8%	39.7%	58.9%	69.1%	686.8%
Fund (NAV)†	22.8%	-0.3%	16.2%	19.3%	29.3%	35.3%	52.1%	710.7%
Benchmark***	11.0%	-3.6%	9.2%	9.8%	13.7%	15.1%	33.9%	185.2%

† 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 £2.7 billion.

Fund Facts

Price	141p
NAV	154.05p
Premium/(Discount)	-8.5%
Dividend Yield	4.4%*
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 £255 million

Gross Assets £276 million

Gearing 8.4%

No. of Holdings 51

Median Mkt Cap £715 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	4.0%
4Imprint Group	3.9%
Marshalls	3.6%
XP Power	3.6%
Ideagen	3.3%
Hilton Food Group	3.2%
Restore	3.0%
Discoverie Group	2.9%
Porvair	2.8%
Polypipe Group	2.7%
Total	32.9%

Risk Analysis

	Fund	Index
Jensen's Alpha (annual)	5.4%	
Beta	1.09	1.00
Standard Deviation	13.5%	11.2%
Sharpe Ratio	0.74	0.38
Tracking Error	6.0%	
Information Ratio	1.05	
Active Share	88.6%	

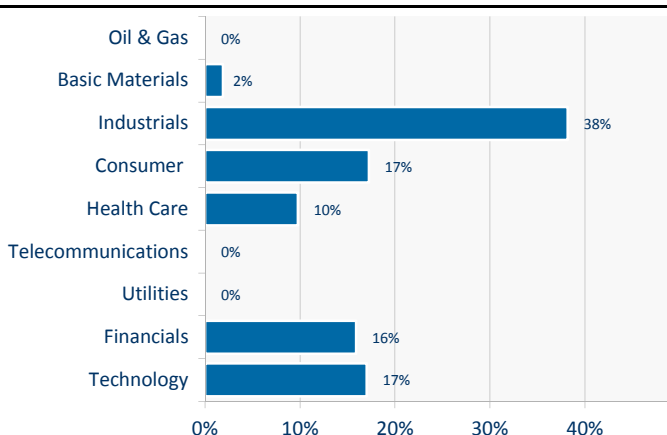
Note: risk statistics over three years

Portfolio Analysis

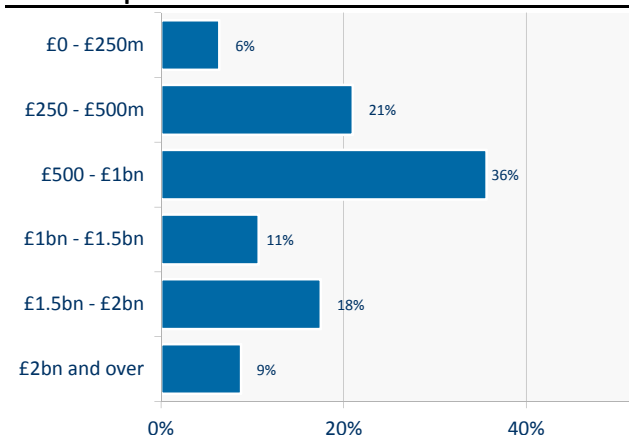
	Fund	Index
Price / Earnings 20F	21.9	12.2
EPS Growth 20F	12.3%	3.9%
Dividend Yield 20F (NAV)	2.1%	3.4%
Dividend Growth 20F	5.6%	5.3%
Return on Equity 20F	15.1%	12.0%
EV/EBITDA 20F	16.7	10.2
EBIT Margin 20F	20.8%	15.5%
Net Debt/Equity 20F	7.5%	35.8%

Source: Factset consensus estimates

Sector Allocation



Market Capitalisation Allocation



Monthly Commentary

SmallCap began the year in high spirits as post-election optimism lingered, before volatility reared its head across the investment landscape. This was largely due to the coronavirus outbreak, although another notable geopolitical event – namely the flare up between the US and Iran – was a further reason for the strong performance of safe haven assets in January. Against this backdrop, it was little surprise that SmallCap delivered negative returns. Markets cannot always go up and after such a strong fourth quarter, a pullback was somewhat welcome.

In this context, the NAV of the Trust declined by 0.3% in January, an outperformance of 3.3% versus the benchmark index.

The strongest contribution during the month came from **XP Power**, the provider of power solutions, which rose after reporting a strong end to the year with sales growth ahead of expectations, driven by improving semiconductor capex demand. **Porvair**, the specialist in industrial filtration and environmental technology, rose ahead of its results announcement. **IntegraFin**, the IFA platform provider, continued to benefit from improved sentiment following the December election.

The weakest contribution came from **Cineworld**, the cinema operator, which declined as the US box office disappointed. **Restore**, the document management and recycling business, saw profit taking after a strong run. **Marshalls**, the leading hard landscaping manufacturer, also experienced profit taking after a very strong 2019.

The US yield curve inverted once again in January as investors fretted over the unknown consequences of the viral outbreak in Wuhan, China. Although at the time of writing this has not yet developed into a full blown pandemic, this is the type of “unknown” that can easily spook markets. Investors are understandably asking if it might be such an “unknown” that eventually calls the end to this Great Bull Market.

For now, however, omens of recession are few and far between. Economic data remains steady and Central Banks supportive. This provides an encouraging backdrop to a notable event that occurred on the final day of the month: a new chapter opened in the history of the United Kingdom following its departure from the European Union. With a strong mandate, the government is in a strong position to begin delivering on its election promise to stimulate growth across the country. If they are successful in this, SmallCap will be an obvious beneficiary.

Important Information

This report is issued monthly by Montanaro Asset Management Limited (MAM), the fund manager, who is Authorised and Regulated in the UK by the Financial Conduct Authority (FCA). It is intended for the use of professional and institutional investors (as defined by the UK FCA) only. It may not be copied or distributed or otherwise made available to any recipient not classified as such.

This material constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (the "Act"). The material included in this report has been prepared by MAM and is provided for information purposes only and does not constitute an invitation or offer to subscribe for or purchase shares in the Fund. Such investments can only be made by completing the application forms that accompany the Fund's Prospectus. Prospective investors should seek independent financial advice before making any investment decisions.

Information and opinions presented in this material have been obtained or derived from sources believed by MAM to be reliable. MAM makes no representation as to their accuracy or completeness. Past performance is not a reliable indicator of future results. 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.

It is the responsibility of all users of this information to be informed and observe all applicable laws and regulations of any relevant jurisdictions where they reside.