

Montanaro UK Smaller Companies Investment Trust

31 July 2019

Fund Objective

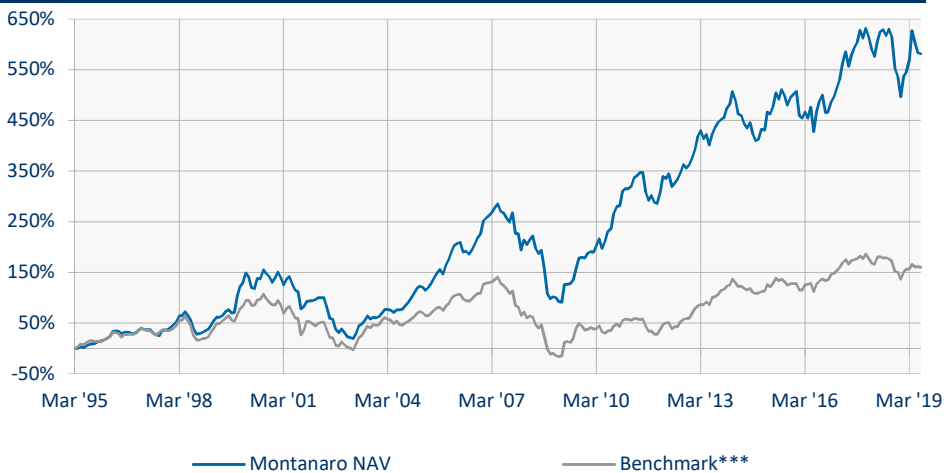
Capital growth by investing in quoted UK smaller companies and to outperform its Benchmark, the Numis Smaller Companies Index (ex-IC). The Trust will invest primarily in quoted UK smaller companies with a market capitalisation smaller than the largest constituent of the Numis Smaller Companies Index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

Performance

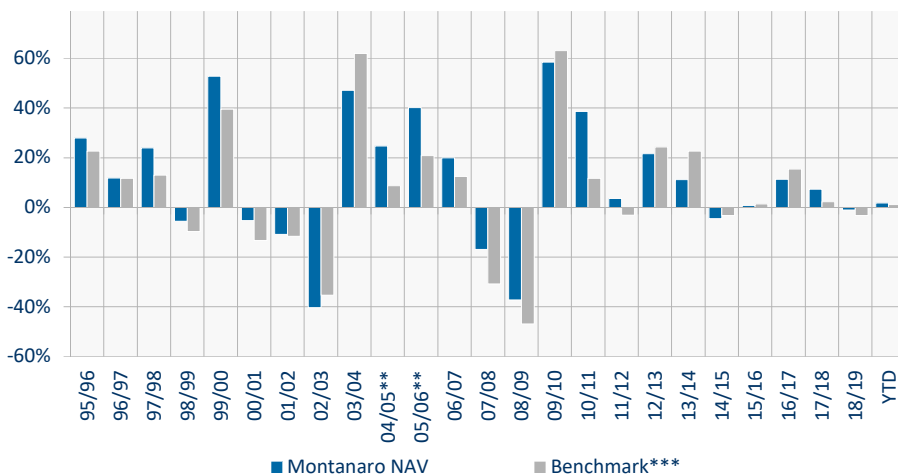
	FYTD	1M	3M	6M	12M	3Y	5Y	Launch
Fund (Price)†	7.7%	0.4%	-3.9%	9.3%	-0.4%	31.1%	28.6%	515.5%
Fund (NAV)†	1.8%	-0.3%	-6.2%	7.0%	-5.1%	20.1%	27.4%	581.1%
Benchmark***	1.1%	-0.5%	-2.3%	3.6%	-6.9%	14.4%	20.6%	159.9%

† 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. *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	111.62p
NAV	129.06p
Premium/(Discount)	-13.5%
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	£219 million
Gross Assets	£223 million
Gearing	2.2%
No. of Holdings	45
Median Mkt Cap	£781 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	4.4%
4Imprint Group	4.1%
Big Yellow Group	3.8%
Marshalls	3.6%
Hilton Food Group	3.5%
Integrafin	3.4%
James Fisher & Sons	3.4%
Polypipe Group	3.0%
First Derivatives	3.0%
Ideagen	3.0%
	35.1%

Risk Analysis

	Fund	Index
Jensen's Alpha (annual)	1.0%	
Beta	1.17	1.00
Standard Deviation	13.1%	10.0%
Sharpe Ratio	0.44	0.41
Tracking Error	6.1%	
Information Ratio	0.31	
Active Share	87.7%	

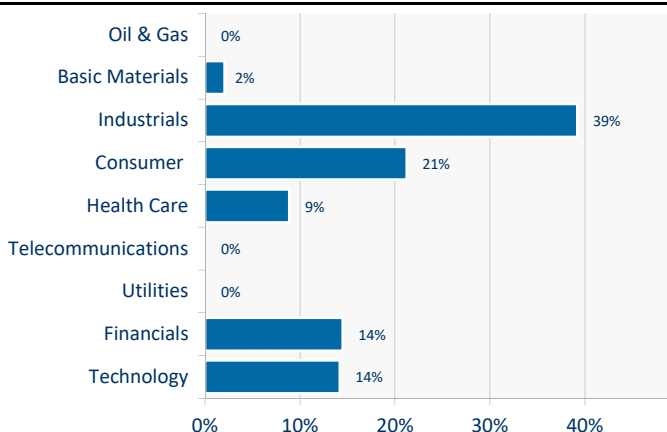
Note: risk statistics over three years

Portfolio Analysis

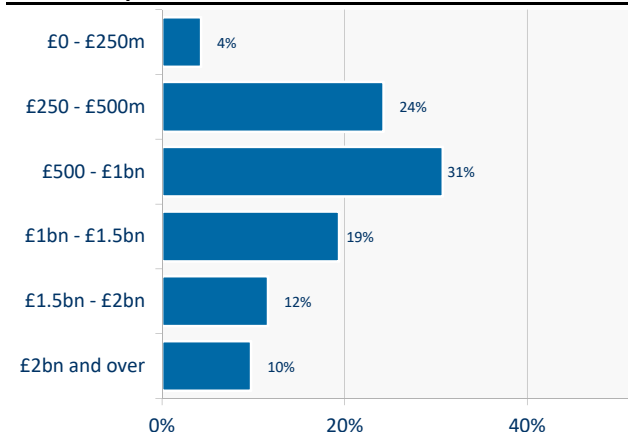
	Fund	Index
Price / Earnings 19F	19.2	12.1
EPS Growth 19F	1.9%	-4.4%
Dividend Yield 19F (NAV)	2.5%	3.5%
Dividend Growth 19F	3.1%	-0.7%
Return on Equity 19F	14.9%	12.4%
EV/EBITDA 19F	15.1	10.2
EBIT Margin 19F	19.3%	11.9%
Net Debt/Equity 19F	2.3%	16.2%

Source: Factset consensus estimates

Sector Allocation



Market Capitalisation Allocation



Monthly Commentary

It is “do or die” for Brexit now. That, at least, is the verdict of the latest Prime Minister, Boris Johnson. Equities in the UK initially reacted with some positivity to the blonde haired optimist, even as the Queen reportedly told him “I don’t know why anyone would want the job”. Yet in reality, the market dynamic hardly changed during July. Investors continued to favour the UK’s largest companies which source much of their revenue from overseas. SmallCap, as a more domestic asset class, was left to trail in the wake of its LargeCap counterpart. As talk of a “no deal” grew, it was little surprise that Sterling took another downwards tumble versus both the Euro and the US Dollar.

In this context, the NAV of the Trust declined by 0.3% in July, a modest outperformance of 0.2% versus the benchmark index.

The strongest contributions during the month came from **Entertainment One**, the distributor of film, TV and music content, which announced that star film producer Mark Gordon would remain with the company. **James Fisher**, the marine services provider, rose after announcing the appointment of a new CEO alongside a number of contract wins in the offshore renewable energy sector. **Gooch & Housego**, the global leader in photonics technology, traded slightly higher on little news.

The weakest contributions came from **First Derivatives**, the database technology and consulting services provider, which retreated following a placing of some of the CEO & Founder’s shares after he was diagnosed with cancer. Very sadly, later in the month, it was announced that he had passed away. Our thoughts are with his family, friends and colleagues. **Consort Medical**, the provider of formulation and manufacturing solutions for pharmaceuticals, weakened after it reported an incident at its Aesica Cramlington API facility. **Polypipe**, the supplier of plastic pipes and ventilation systems for residential, commercial and infrastructure, underperformed as a “no-deal” Brexit has weighed on construction related companies.

Given the uncertainty surrounding Brexit, it is little surprise that SmallCap remains so unloved. Yet there are a number of reasons why investors should not ignore an asset class that has delivered six times higher returns compared to the FTSE All-Share since 1954.

For one, the performance divergence between UK exporters and UK domestics has been extreme. If some certainty emerges in relation to Brexit, SmallCap would benefit if this large performance gap narrowed. Secondly, Sterling may at some point recover from the current 30-year low, lessening the power of overseas earnings. Finally, SmallCap valuations are attractive: UK SmallCap trades close to its long-term average Price-to-Earnings multiple of 13.8x, while the yield of the asset class is close to a 10-year high. It tends to pay to invest when an asset class is unloved and everyone is gloomy – as Boris Johnson might say!

Important Information

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