

## Montanaro UK Smaller Companies Investment Trust

28 June 2019

### Fund Objective

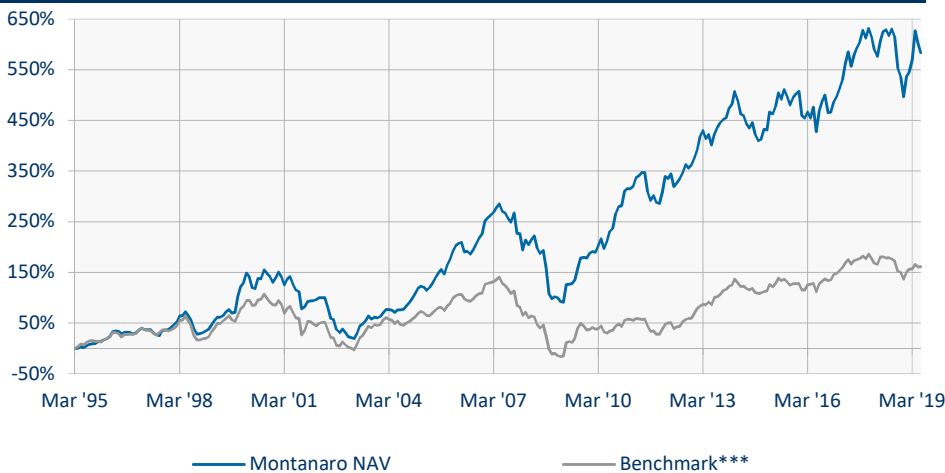
Capital growth by investing in quoted UK smaller companies and to outperform its Benchmark, the Numis Smaller Companies Index (ex-IC). The Trust will invest primarily in quoted UK smaller companies with a market capitalisation smaller than the largest constituent of the Numis Smaller Companies Index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

### Performance

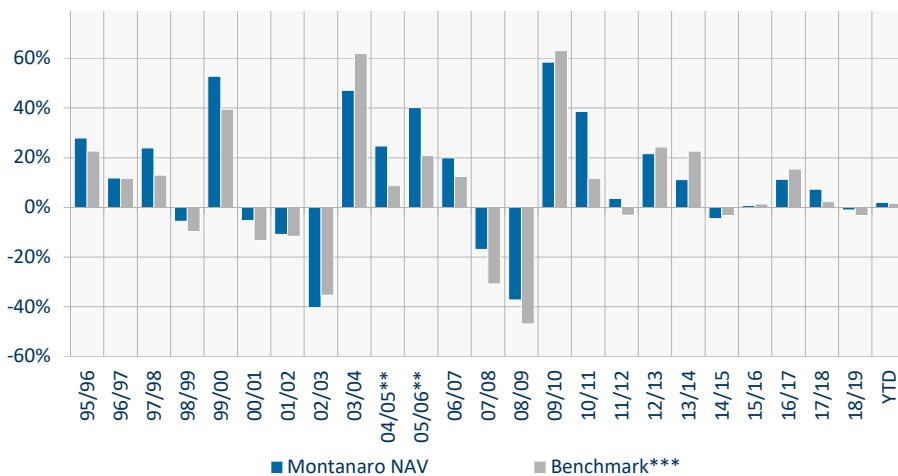
	FYTD	1M	3M	6M	12M	3Y	5Y	Launch
<b>Fund (Price)†</b>	7.3%	-0.4%	7.3%	9.5%	4.4%	40.3%	27.1%	513.1%
<b>Fund (NAV)†</b>	2.1%	-2.6%	2.1%	14.5%	-6.3%	29.4%	25.8%	583.1%
<b>Benchmark***</b>	1.6%	0.1%	1.6%	10.5%	-6.2%	23.0%	19.6%	161.2%

† 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. \*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

<b>Price</b>	112.5p
<b>NAV</b>	130.75p
<b>Premium/(Discount)</b>	-14.0%
<b>Dividend Yield</b>	4.6%*
<b>Ongoing Charge</b>	0.80% (As at 31 March 19)
<b>Benchmark</b>	Numis Smaller Co Indx (ex-IC)
<b>Fund Manager</b>	Charles Montanaro

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

<b>Ticker</b>	MTU LN
<b>ISIN</b>	GB00BZ1H9L86
<b>Sedol</b>	BZ1H9L8
<b>Net Assets</b>	£220 million
<b>Gross Assets</b>	£229 million
<b>Gearing</b>	3.8%
<b>No. of Holdings</b>	47
<b>Median Mkt Cap</b>	£758 million
<b>Launch</b>	March 1995
<b>Currency</b>	GBP
<b>Legal Status</b>	UK Investment Trust
<b>Listing</b>	London Stock Exchange
<b>Dividend Pay Dates</b>	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**

Marshalls	4.0%
Entertainment One	3.9%
4Imprint Group	3.8%
Big Yellow Group	3.7%
First Derivatives	3.5%
Hilton Food Group	3.5%
Integrain	3.3%
Polypipe Group	3.2%
Ideagen	3.1%
James Fisher & Sons	2.9%
<b>Total</b>	<b>35.0%</b>

**Risk Analysis**

	Fund	Index
Jensen's Alpha (annual)	0.8%	
Beta	1.16	1.00
Standard Deviation	13.6%	10.7%
Sharpe Ratio	0.62	0.62
Tracking Error	6.1%	
Information Ratio	0.34	
Active Share	87.5%	

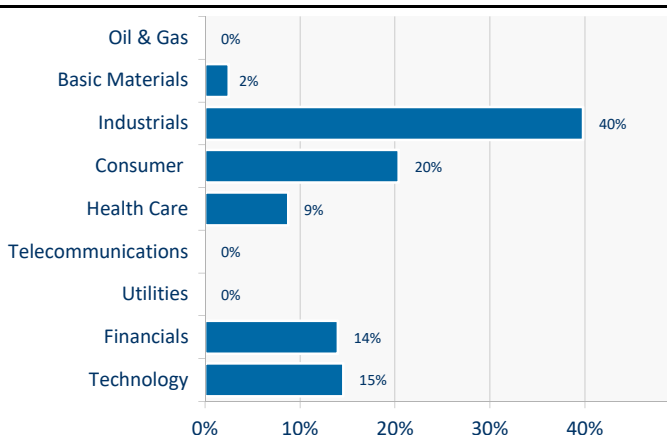
Note: risk statistics over three years

**Portfolio Analysis**

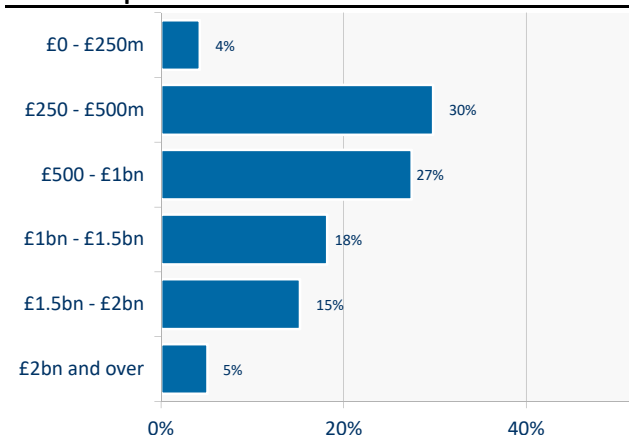
	Fund	Index
Price / Earnings 19F	18.9	12.3
EPS Growth 19F	3.1%	-4.1%
Dividend Yield 19F (NAV)	2.5%	3.4%
Dividend Growth 19F	4.1%	0.3%
Return on Equity 19F	13.9%	9.6%
EV/EBITDA 19F	14.7	10.4
EBIT Margin 19F	19.2%	10.2%
Net Debt/Equity 19F	5.0%	18.1%

Source: Factset consensus estimates

**Sector Allocation**



**Market Capitalisation Allocation**



**Monthly Commentary**

June was dominated by the race for the keys to Number 10. Whatever the outcome (and Boris is clearly the favourite), the new incumbent faces a huge challenge to solve the riddle that lies at the heart of domestic politics: the proximity of the 31 October Brexit deadline and the gridlocked arithmetic of parliament. Despite this headwind, UK equities posted decent returns for the first half of 2019, although SmallCap underperformed LargeCap as investors continued to favour companies with international exposure.

In this context, the NAV of the Trust declined by 2.6% in June, an underperformance of 2.7% versus the benchmark index. The benchmark does not include AIM, which had a poor month. Since the beginning of the calendar year, the NAV has risen by over 14%, an outperformance of 4%.

The strongest contributions during the month came from **Ideagen**, the supplier of software for highly regulated industries, which enjoyed a strong month driven by a very informative capital markets day and an earnings-accretive acquisition. **BCA Marketplace**, the leading B2B used car marketplace, received a takeover bid from private equity firm TDR Capital. **First Derivatives**, the database technology and consulting services provider, drifted upwards as sentiment continued to recover following the short-attack last year.

The weakest contributions came from **RPS**, the global engineering consultancy, which issued a substantial profits warning, blaming the impact of recent elections in Australia which may impact public sector infrastructure spend. **Entertainment One**, the distributor of film, TV and music content, suffered from false press speculation that its Chief Content Officer was leaving the company. **Scapa**, an industrial and medical adhesives manufacturer, announced that ConvaTec had prematurely terminated a manufacturing contract with the company.

UK equities have been unloved on a global basis ever since Brexit. Yet recent fund flow data may point to a change in the wind. For the first time in two years, UK funds experienced net inflows in May and were the best-selling region according to data from the Investment Association. UK SmallCap looks attractively valued relative to other markets and it is therefore no surprise to see investors dipping their toe back into domestic waters.

Set against this is the likelihood that the narrative of the second half of 2019 may mirror that of the first: Brexit and the trade war could dominate the headlines once again. With this in mind, we continue to believe that the environment remains supportive of owning "Quality" companies. Such businesses typically are more in control of their own destiny and have the resilience and strength to weather periods of market turbulence, which any long-term investor should expect to experience from time to time.

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