

## Montanaro UK Smaller Companies Investment Trust

31 May 2019

### Fund Objective

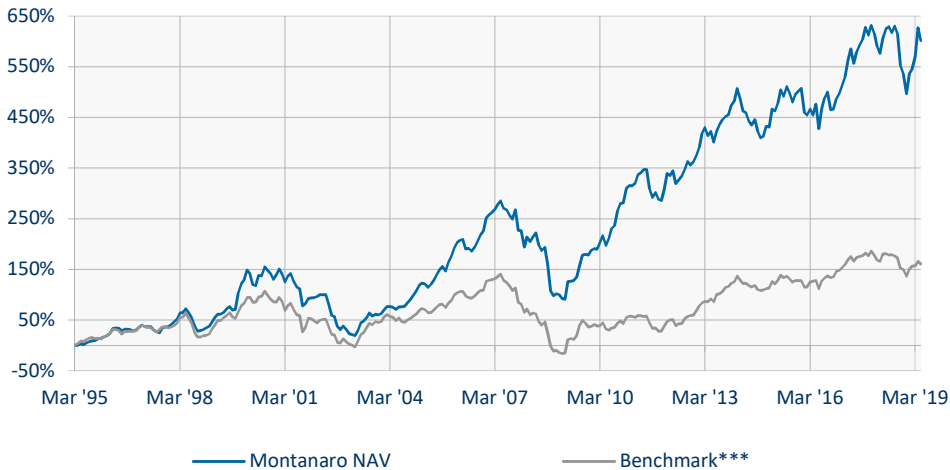
Capital growth by investing in quoted UK smaller companies and to outperform its Benchmark, the Numis Smaller Companies Index (ex-IC). The Trust will invest primarily in quoted UK smaller companies with a market capitalisation smaller than the largest constituent of the Numis Smaller Companies Index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

### Performance

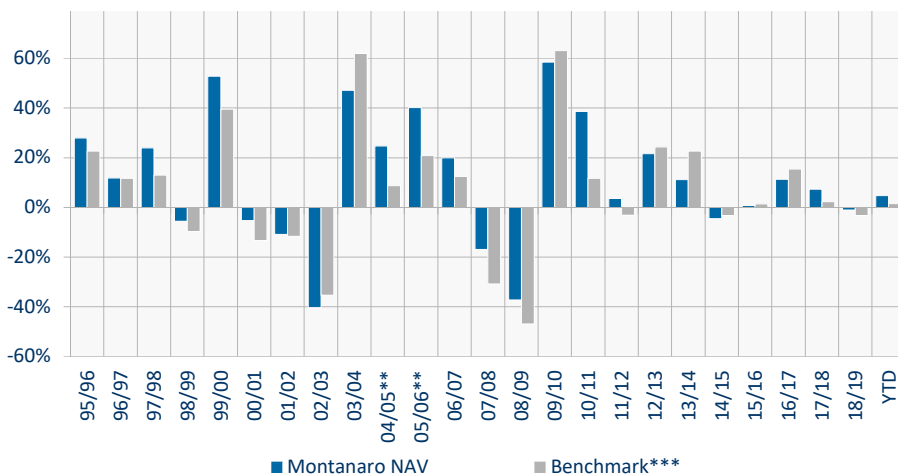
	FYTD	1M	3M	6M	12M	3Y	5Y	Launch
<b>Fund (Price)†</b>	7.8%	-3.8%	5.1%	3.1%	0.0%	23.2%	21.8%	515.8%
<b>Fund (NAV)†</b>	4.8%	-3.5%	8.8%	10.3%	-3.2%	21.8%	25.3%	601.4%
<b>Benchmark***</b>	1.5%	-1.9%	1.9%	4.5%	-7.1%	14.2%	17.2%	160.9%

† 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 £2.1 billion.

### Fund Facts

<b>Price</b>	113p
<b>NAV</b>	134.25p
<b>Premium/(Discount)</b>	-15.8%
<b>Dividend Yield</b>	4.8%*
<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>	£223 million
<b>Gross Assets</b>	£242 million
<b>Gearing</b>	8.2%
<b>No. of Holdings</b>	49
<b>Median Mkt Cap</b>	£741 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).

### Ratings and Awards

★★★ – Morningstar Rating™  
(as at 31/05/19)

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### 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	4.1%
4Imprint Group	4.1%
Marshalls	4.0%
Big Yellow Group	3.6%
Hilton Food Group	3.2%
Integrafin	3.2%
First Derivatives	3.1%
Polypipe Group	2.9%
James Fisher & Sons	2.8%
FDM Group	2.6%
<b>Total</b>	<b>33.7%</b>

**Risk Analysis**

	Fund	Index
Jensen's Alpha (annual)	1.6%	
Beta	1.16	1.00
Standard Deviation	14.5%	11.5%
Sharpe Ratio	0.43	0.35
Tracking Error	5.9%	
Information Ratio	0.42	
Active Share	87.5%	

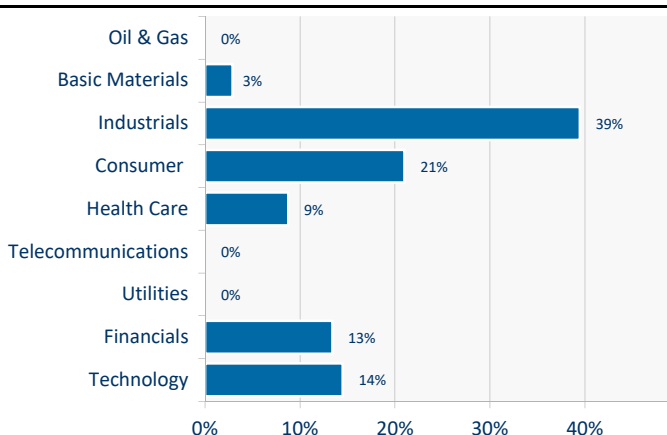
Note: risk statistics over three years

**Portfolio Analysis**

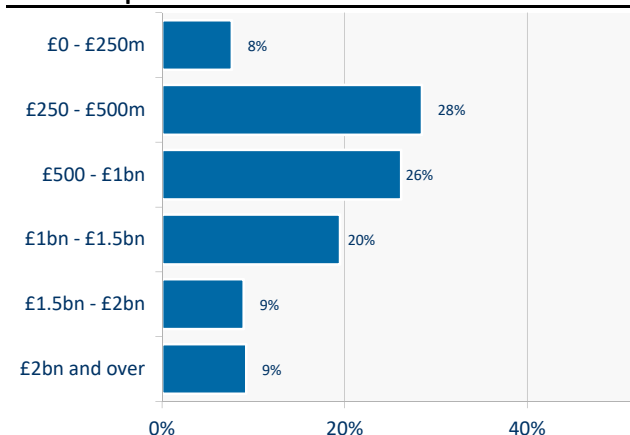
	Fund	Index
Price / Earnings 19F	18.7	12.1
EPS Growth 19F	5.8%	-1.6%
Dividend Yield 19F (NAV)	2.5%	3.4%
Dividend Growth 19F	5.7%	2.7%
Return on Equity 19F	14.7%	9.8%
EV/EBITDA 19F	14.5	10.2
EBIT Margin 19F	19.0%	12.0%
Net Debt/Equity 19F	2.0%	15.7%

Source: Factset consensus estimates

**Sector Allocation**



**Market Capitalisation Allocation**



**Monthly Commentary**

Politics reared its head once again in May, unsettling the market tranquility that had prevailed in the earlier months of the year. The breakdown in trade negotiations between the US and China led to fears of a deterioration in economic conditions: rising inflation; lower growth; job losses; and falling consumer confidence. Meanwhile, European Parliament elections provided further evidence that Europe's political scene is fragmenting. Certainly, the UK remains as split as ever in relation to Brexit. Given this backdrop, it was little surprise that markets gave back some of the returns that investors have enjoyed so far this year.

In this context, the NAV of the Trust declined by 3.5% in May, an underperformance of 1.6% versus the benchmark index. Since the beginning of 2019, the Trust has outperformed by over 7%.

The strongest contributions during the month came from **First Derivatives**, the database technology and consulting services provider, which rose following a good set of results alongside a positive outlook. **GB Group**, the world leader in identity data intelligence, benefited from a strong trading update. **Restore**, the document storage and shredding business, continued to recover after the steep 2018 sell-off.

The weakest contributions came from **Scapa**, an Industrial and Healthcare adhesives manufacturer, which announced mixed interim results and stated that the CEO of 10 years would be resigning. He has since announced a desire to continue. **XP Power**, the provider of power solutions, declined due to trade war worries. **Entertainment One**, the distributor of film, TV and music content, saw some profit taking.

Perhaps a new Prime Minister will be able to solve the Brexit impasse. Any resolution that removes the uncertainty of this political overhang is likely to prove beneficial for SmallCap and Sterling. But politics is an unpredictable business.

What has driven markets higher this year has largely been a re-rating following the correction that occurred at the end of 2018. It is unlikely that valuation expansion will play such a major role in the second half of the year. Rather, the trajectory of markets is likely to be driven by the outlook for growth and earnings. We believe that such an environment supports the case for owning Quality companies that are cash generative, with strong competitive advantages and run by good management teams.

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