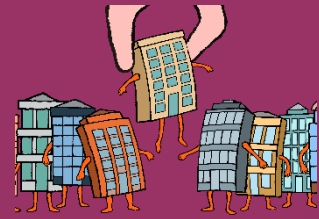


European Smaller Companies Fund

Quarterly review – Q2 2025



Q2 Returns – European “SmallCap Effect” returns:

- European SmallCap outperformed LargeCap by c.4% in Pan-Europe and c.6% in Continental Europe during Q2 (EUR)
- Strong gains across the Continent, highlighting a broadening recovery

Drivers / Catalysts:

- SmallCap rebound supported by rate cuts from ECB and BoE, plus £369m inflows into European equities in May – the strongest since June 2024
- NATO’s 5% defence spending pledge adds tailwind to Defence stocks

Earnings / Valuations:

- European SmallCap valuations remain compelling with P/E discounts vs. LargeCap still near 20-year lows
- Relative earnings momentum stable; growth remains subdued in Europe but improving signs globally, especially in US-led AI and Semis segments

After so long in the investment wilderness, it was heartening – and reassuring – to see the return of the “SmallCap Effect” in Europe during the first half of 2025. The outperformance of smaller companies reflected many of the dynamics we believe make SmallCap compelling: the inherent inefficiencies that arise from limited research coverage; the potential for operational leverage; higher potential for growth; increased M&A activity; and the ability of agile businesses to respond to shifting economic conditions.

Encouragingly, the Fund delivered a strong performance over the quarter despite having limited

direct exposure to the Aerospace & Defence sector, which was a dominant driver of market returns. At the end of June, NATO members committed to increasing defence spending targets from 3.5% to 5% of GDP by 2035. This pledge, alongside heightened geopolitical tensions involving Iran, Israel and ongoing conflicts elsewhere, propelled Aerospace & Defence stocks sharply higher. Within the MSCI World Small Cap Index, the sector is now up 24% YTD — a performance dwarfed by the +83% for Pan-European A&D and an extraordinary +119% for Continental Europe A&D (all in EUR).

These moves were exemplified by companies like Rheinmetall, which has surged from a €4 billion market capitalisation just three years ago to €80 billion today. Against this backdrop, we are pleased that the Fund was able to outperform the benchmark while remaining true to our investment philosophy.

Performance & Portfolio

During the quarter, the NAV of the Euro distribution share class gained by 9.9%, an outperformance of 1.7% versus the MSCI Europe Small Cap benchmark index (in total return terms).

The **strongest contributors** during the quarter were:

- **Belimo** – the Swiss manufacturer of HVAC control systems and actuators upgraded its 2025 guidance for revenue growth and EBIT margin, citing strong momentum in its data center vertical.
- **Plejd** – the Swedish developer of smart lighting and home automation solutions remains on a strong growth trajectory, with a highly scalable business model and positive momentum expected ahead of Q2 results.
- **Sectra** – the Swedish provider of hospital imaging software continued to perform well, supported by new contract wins and rapid growth in its cloud business.

The **weakest contributors** during the quarter were:

- **AAK** – the producer of high-value-added vegetable oils and fats fell after reporting another quarter of declining volumes, extending a negative trend.

- **IMCD** – the leading global specialty chemicals distributor continued to drift lower despite posting reassuring Q1 results.
- **Rational** – the German producer of professional cooking appliances for commercial kitchens released Q1 results that missed analyst estimates on both sales and EBIT, citing softness in Asia due to a tough comparison against a large one-off order last year, as well as higher R&D costs.

Engagement / ESG

We engaged with **CTS Eventim** to raise concerns about board independence, particularly the presence of family members on the Supervisory Board. In response to our previous feedback, the adopted daughter of the company's founder has stepped down, representing a positive step towards strengthening board independence and aligning governance with shareholder expectations. We will continue to monitor the company's implementation of CSRD requirements, which should enhance transparency and update our ESG Checklist accordingly.

We engaged with **NCAB** to evaluate the strength of their audit process as a potential differentiator. The company described its dual-track approach, conducting both quality and sustainability audits. Sustainability audits are carried out biennially for around 20 high-risk factories, covering approximately 75% of production. We also discussed the recent downgrade of their EcoVadis rating from Gold to Silver and noted initiatives to increase awareness of whistleblower mechanisms. We are awaiting follow-up from NCAB with sample audit reports and will continue to monitor developments in audit coverage and customer feedback systems.

Outlook

SmallCap is finally back on the map in Europe, and the case for the asset class is becoming increasingly difficult to overlook. The sustained recovery supports our conviction and highlights the potential for European SmallCap to play a growing role in diversified portfolios. Encouragingly, we continue to identify compelling investment opportunities aligned with our philosophy of investing in high-quality, well-managed businesses.

Recent additions to the Portfolio reflect this approach: we are building our position in **Baltic Classifieds**, a dominant online classifieds platform with strong cash generation and attractive

structural growth prospects; we have continued to add to our position in **Atoss**, a high-quality workforce management software provider with both organic growth potential and appeal as a private equity buyout target; and we initiated a position in Beijer Ref, a global distributor of HVAC and refrigeration equipment which is being spurred by regulatory changes aimed at reducing harmful refrigerants.

These opportunities provide exposure to areas of the market that remain underappreciated and under-owned, especially compared to parts of the market that have already seen substantial gains — such as US MegaCap technology stocks, where many investors remain heavily concentrated. Against this backdrop, we believe European SmallCap offers a powerful combination of attractive valuations, improving fundamentals and diversification benefits at a time when many investors are reassessing their allocations in search of new sources of return.



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