MONTANARO

ASSET MANAGEMENT

MESCT

Montanaro European Smaller Companies Trust

Quarterly review – Q2 2026

Key points:

- Continental European SmallCap made strong progress in the first two months of the quarter, capitalising on compelling opportunities in semiconductors and AI-adjacent themes, while June brought selective profit-taking and political-driven volatility, leading to strong LargeCap outperformance.
- MESCT recovered strongly from a difficult first quarter, driven by positive stock selection.
- Portfolio activity remained modest: one new position was added and one holding sold, while we trimmed two of the Trust's largest winners to manage concentration risk.
- Engagement activity during the quarter spanned biodiversity in the supply chain, access to assistive communication technology, and a governance escalation ahead of an AGM.

European SmallCap experienced a volatile second quarter. April and May delivered strong, broad-based gains as Middle East geopolitical tensions eased and the AI and semiconductor trade reasserted itself. June reversed course sharply, however, with stretched valuations and rotations away from smaller, less liquid growth names leaving the European SmallCap index down almost 5%, some 8% behind its LargeCap peer.

Against this backdrop, MESCT delivered a strong second quarter in both absolute and relative terms, a marked improvement on a difficult first quarter. We have identified and positioned well in companies with meaningful exposure to artificial intelligence and data-centre infrastructure - areas where the market's conviction has been particularly strong. Stock selection has been a clear driver of our outperformance in these areas, which is clearly a hallmark of our approach.

At the same time, we remain disciplined about the risks that elevated thematic enthusiasm can create. Positioning in certain areas has become crowded and the volatility we saw in June is a reminder that trends can reverse quickly.

During the quarter, we initiated a position in **Silex**, a leading independent MEMS foundry that came to market via IPO, and we exited **Amadeus Fire**, the German staffing group. We also trimmed two of our strongest performers, **Technoprobe** and **NCAB Group**, which had grown disproportionately large relative to their position size and the risks they carry. The aim behind these adjustments was to ensure we do not become overly concentrated in any single thematic trade, however promising it may appear today.

Performance & Portfolio

During the quarter, the NAV total return of MESCT was 18% in GBP, an outperformance of 13% relative to the MSCI Europe SmallCap (ex UK) Index.

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

- **Technoprobe** – the Italian developer of semiconductor testing equipment rose sharply as surging AI-related capital spending drove demand for its probe cards, extending a run of strong results through the quarter.
- **NCAB Group** – the Swedish supplier of printed circuit boards continued to benefit from improving order momentum and growing conviction in a cyclical recovery in electronics manufacturing.
- **Belimo** – the Swiss manufacturer of actuators and valves for building climate-control systems gained as demand for building automation and cooling infrastructure, including in data centres, remained resilient.

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

- **Dynavox Group** – the Swedish developer of assistive communication technology gave back some of its recent strong gains amid a broader de-rating of smaller, less liquid growth names in June.

- **INVISIO** – the Swedish maker of communication and hearing-protection systems for military and defence personnel weakened as the Middle East ceasefire reduced the geopolitical risk premium that had earlier supported defence-related names.
- **ATOSS Software** – the German provider of workforce-management software softened as part of the broader sell-off in SaaS names, as investors continued to question the durability of software pricing power in an AI world.

Geography and sector

Stock-specific drivers dominated both country and sector attribution this quarter: the Trust's largest contributors and detractors were spread across Italy, Sweden, Switzerland and Germany, with no single country materially shaping relative performance. At the sector level, Industrials was the standout contributor, adding 3.33% to relative return, reflecting the Trust's exposure to electronics manufacturing and building-technology names within that sector.

Engagement & ESG

AAK – Swedish speciality vegetable oils and fats producer

During the quarter, we contacted AAK to seek additional context on the company's biodiversity and nature-related risk management across its raw material supply chain, focusing on palm and soy traceability, deforestation-free sourcing and biodiversity outcome monitoring. AAK confirmed that the questions would be reviewed internally with the relevant sustainability team. The engagement remains ongoing; we will await a written response and arrange a follow-up call if needed.

Dynavox Group – Swedish developer of assistive communication technology

We engaged with Dynavox to test whether the company can evidence access expansion, user outcomes and inclusive design in its augmentative and alternative communication technology. Dynavox identified prescriber awareness and referral pathways as the most immediate barriers to wider access and reported delivering around 27,000 comprehensive communication solutions in 2025, up from some 21,000 the year before. We are seeking more consistent disclosure of this metric over time, together with further detail behind the company's longer-term access ambitions. The engagement is ongoing.

Pfisterer Holding – German manufacturer of high-voltage connection technology for power grids

Ahead of the AGM, we contacted Pfisterer to seek the company's explanation of ISS concerns over two resolutions: a proposed authorised capital allowing non-pre-emptive issuance of up to 74.2% of issued share capital, and dividend-linked variable pay for supervisory board non-executives. In the absence of a sufficient response, we voted against management at the AGM as an escalation. We will continue to monitor the company's approach to capital authority and board remuneration.

Outlook

We do not attempt to forecast the path of Middle East diplomacy or central bank policy and this quarter's rapid unwind of the war premium that built through the first quarter is itself a reminder of how quickly narratives can reverse. What we can control is the balance of risk within the Portfolio. Having enjoyed a strong recovery led by a handful of AI and data-centre-adjacent holdings, we are using the opportunity to trim position sizes where risk has become concentrated, while continuing to look for new ideas that broaden the Portfolio's sources of return; Silex is an early example.

More broadly, we remain of the view that European Smaller Companies offer attractive value after several difficult years, trading at a wide valuation discount to LargeCaps, and that periods of pronounced style dispersion of the kind seen since the start of the year have historically preceded periods where fundamentals and stock selection reassert themselves. We continue to focus the Portfolio on high-quality, structurally growing Continental European businesses, and our engagement work this quarter, from AAK's supply-chain traceability to Pfisterer's governance escalation, continues to test and strengthen the evidence behind the holdings we own.

George Cooke
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