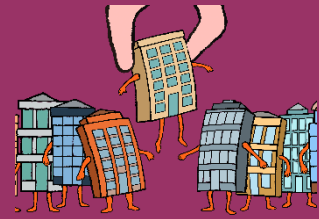


European Smaller Companies Fund

Quarterly review – Q3 2026



Key points:

- European SmallCap beat LargeCap over the quarter, but Value led Growth and September brought higher yields, a second ECB rate rise and a renewed energy price shock.
- AI and data centre exposed industrials gave back part of their second quarter gains, and Industrials was the largest sector detractor.
- We rebalanced the Portfolio, exiting four holdings and adding five new ones to reduce industrial concentration and the Fund's volatility.
- Engagement covered board succession at Games Workshop, executive pay at 4imprint, remuneration disclosure at Sectra and climate resilience at BioGaia.

European SmallCap outperformed LargeCap during the third quarter, although the market continued to favour cheaper, more cyclical businesses over higher-quality growth companies. Rising bond yields and renewed inflationary pressures weighed on equities, particularly in September, when the European Central Bank raised interest rates for the second time this year and higher energy prices added to concerns about inflation. SmallCap Value comfortably outperformed SmallCap Growth, while industrial companies exposed to electrification and data-centre infrastructure came under pressure as investors reduced their exposure to the AI theme. UK SmallCap was a notable exception, delivering the strongest quarterly return among the SmallCap markets we follow.

This environment proved challenging for the Fund, particularly given its significant exposure

to Industrials and Technology hardware. Having contributed strongly to performance in the second quarter, several of our holdings exposed to electrification and data centres experienced share price weakness as investor sentiment towards the sector deteriorated. Industrials accounted for almost 40% of the Portfolio during the quarter, amplifying the impact of this reversal. Although performance recovered somewhat from the lows reached in July, the quarter remained disappointing. In almost all cases, however, share price weakness was not accompanied by a corresponding deterioration in underlying business performance.

We made a number of changes to the Portfolio during the quarter, principally to reduce our exposure to Industrials and improve diversification. We exited four holdings, including: **Beijer Ref**, where earnings growth has disappointed for a prolonged period; **Rational**, where the combination of moderate growth and geopolitical frictions carry a demanding valuation; and **Spirax** amid growing concerns about management traction and the longer-term outlook for industrial steam. Finally, we replaced **IntegraFin** with **AJ Bell**, where we see greater potential to benefit from higher net interest income.

We also introduced four additional holdings, broadening the Portfolio's exposure beyond electrification and the AI infrastructure investment cycle. **Van Lanschot Kempen** is a Benelux wealth manager and fiduciary services business, benefiting from growth in assets under management and higher interest income. **Exosens** is a specialist defence technology company supported by large order books and opportunities to expand into civilian markets. **Galenica**, a leading Swiss healthcare services and pharmaceutical distribution business, offers defensive earnings and low correlation with the rest of the Portfolio. Finally, **Coface** is a leading global trade credit insurer with a solid balance sheet and improving margins.

The Portfolio retains its emphasis on high-quality businesses with attractive long-term growth prospects. We continue to rebalance with the aim of reducing volatility and improving diversification, while maintaining our focus on business quality, earnings growth and valuation.

Performance & Portfolio

During the quarter, the NAV of the Euro distribution share class **declined by 0.6%, an underperformance of 3.5%** versus the MSCI Europe Small Cap benchmark index (in total return terms).

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

- **Mips** – the Swedish developer of helmet safety technology rose as second-quarter results demonstrated organic growth acceleration and strong operating leverage.
- **Clarkson** – the UK shipping services provider specialising in broking, finance and research climbed on record half-year trading, driven by elevated freight rates caused by geopolitical disruption, which led to materially increased full-year profit guidance.
- **ChemoMetec** – the Danish manufacturer of cell counting and analysis instruments advanced as the company reported a commercial partnership with Roche and improving instrument revenues from new product launches and a recovering end-market.

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

- **Games Workshop** – the UK creator of tabletop miniature games and fantasy products declined as the shares de-rated after full-year results on concerns around softer Core revenue growth in the second half.
- **Halma** – the UK group of safety, health and environmental technology companies slipped as the shares stayed under pressure after the disappointing June guidance.
- **Pfisterer** – the German manufacturer of high-voltage cable accessories and overhead line components for power grids traded lower after first-half results showed order intake down 9.4% to €262m despite revenue up 20%, and the shares de-rated further in a wider electrification sell-off.

Geography and sector

France was the strongest country contributor, mainly through stock selection. Italy was the largest detractor, also mainly through stock selection, as Italian ten-year yields rose to near three-

year highs. At the sector level Communication Services led, helped by stock selection with some contribution from allocation. Industrials was the largest detractor, costing 1.09% of relative return mainly through stock selection, as electrification and data centre exposed names de-rated in a wider AI sell-off and higher yields weighed on the sector globally.

Engagement / ESG

Games Workshop – the UK creator of tabletop miniature games

We spoke to Games Workshop to understand its board composition and succession planning, given that it falls short of its 40% female board representation target. The company is in an active period of board and executive succession, with recent appointments and further changes planned, and it meets its other two diversity targets. The discussion reinforced our positive view of the Chair's role in overseeing succession and developing senior executives, and we came away supportive of his re-election. The engagement remains open and we will continue to monitor board gender diversity and succession.

4imprint – the supplier of promotional merchandise

We gave feedback on proposed changes to 4imprint's Executive Director Remuneration Policy and asked what had prompted the wider review. We supported the changes, which balance cash and share-based pay, align practice more closely with the US norms that suit a predominantly US business and executive team, and move base salaries towards the FTSE 250 median. The company confirmed that the proposals followed market benchmarking under its standard triennial review. The engagement is closed and we will monitor implementation of the policy and the remuneration outcomes that follow.

Sectra – the Swedish medical imaging and cybersecurity software company

Ahead of the AGM we asked Sectra to explain recurring ISS concerns on board and audit committee independence, gender diversity, CEO remuneration disclosure and the structure of its 2026 long-term incentive plan. Sectra said that its new board structure complies with the Swedish Corporate Governance Code, although ISS applies stricter independence criteria, and acknowledged the concern on gender representation while noting that the number of female directors is unchanged. It explained that the increase in the CEO's fixed pay and the retroactive payments mainly reflect the end of pension contributions, not an equivalent rise in total pay,

and accepted that this should have been explained more clearly. The engagement is closed and the additional context informed our voting assessment.

BioGaia – the Swedish probiotics company

We asked BioGaia how exposed its operations and supply chain are to physical climate risk, including climate-sensitive raw materials and sourcing regions. The company builds environmental risk into supplier due diligence through Sedex assessments, EcoVadis ratings and third-party audits, and supports resilience through inventory planning, long-term supplier relationships and approved alternative suppliers. It is also phasing palm oil out of its probiotic products by 2027 where regulation allows. The engagement is closed. We will continue to monitor how the company treats shorter-term climate variability and scenario analysis.

Outlook

The outlook for European equities remains uncertain, with rising bond yields and continued inflationary pressures presenting challenges for higher-quality growth companies. The market's preference for cheaper, more cyclical businesses has persisted, despite the encouraging operational progress of many companies within the Portfolio. While it is difficult to predict when this trend will reverse, we believe the prolonged underperformance of Quality Growth has created opportunities to invest in high-quality businesses at increasingly attractive valuations.

Despite the challenging market environment, the underlying characteristics of the Portfolio remain attractive. Our holdings continue to offer high levels of profitability and strong earnings growth, while the Portfolio's valuation is towards the lower end of its historical price-to-earnings range. To illustrate the strength of the underlying performance within the fund, over a third of the Portfolio has seen significant earnings upgrades over the course of the year; upgrades outnumber downgrades by a factor of 3-to-1. And this in a year where earnings growth was already strong, and with current expectations of mid-teens momentum into 2027.

We believe this provides an attractive starting point for long-term investors, particularly as earnings growth continues to support the investment case. We remain focused on the operational progress of our holdings, while continuing to manage the Fund's overall risk profile through a disciplined approach to valuation, diversification and portfolio construction.



Alex Magni



Stefan Fisherfeier

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Montanaro Asset Management Ltd | 53 Threadneedle Street | London EC2R 8AR

T: +44 20 7448 8600 www.montanaro.co.uk