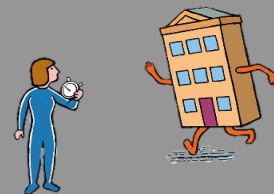


MESCT

Montanaro European Smaller Companies Trust

Quarterly review – Q3 2026



Key points:

- European SmallCaps ended the quarter ahead of LargeCaps, but gave back ground in September as bond yields and energy prices rose and the market again favoured cheapness over Quality Growth.
- Life science tools holdings produced the best results as the recovery in their end-market began to show in orders and guidance. Electrification and data-centre related industrials were the main drag as valuations reset.
- We added two new healthcare holdings, Clinica Baviera and Ypsomed.
- Engagement covered biodiversity risk in AAK's supply chain, climate resilience at Bio-Gaia and remuneration disclosure at Sectra.

European SmallCap outperformed LargeCap during the third quarter of 2026, although markets weakened in September as rising bond yields, further tightening by the ECB and higher energy prices weighed on equities. SmallCap Value rose by around 5% in Euro terms over the quarter, compared with less than 1% for SmallCap Growth, as investors continued to favour cheaper, more cyclical businesses over higher-quality growth companies.

This remained a challenging environment for the Trust's investment style, with growth and earnings yield continuing to detract from relative performance. Our lack of exposure to banks was also a headwind. However, the Portfolio benefited from its overweight position in Healthcare and its lack of exposure to Real Estate, which came under pressure as bond yields rose.

At the stock level, the underlying progress of many of our holdings remained encouraging. Within Healthcare, **Tecan**, **ChemoMetec** and **Schott Pharma** performed well, supported by improving demand, new business wins and stronger guidance. By contrast, industrial companies exposed to electrification and data centres came under pressure as investors reduced their exposure to the AI theme. **Belimo** reported strong sales growth, while **Carel** delivered excellent results, yet both saw their share prices decline. We believe these movements reflected changes in investor sentiment and valuations rather than any deterioration in the underlying businesses.

Pfisterer was a notable exception, with slower order intake raising concerns about the near-term outlook despite continued revenue growth. **Plejd** also marginally disappointed, reporting lower profitability against a demanding comparative period, although sales growth remained strong.

We introduced two new holdings during the quarter, both in Healthcare. **Clinica Baviera** is a leading European operator of ophthalmology clinics, with considerable scope to expand its network across Europe. **Ypsomed** is a specialist manufacturer of autoinjectors, benefiting from the growing use of biologic medicines, the shift towards self-administration of treatments and increasing demand for GLP-1 drugs.

Performance & Portfolio

During the quarter, the NAV total return of MESCT was 0.4% in GBP, an underperformance of 0.3% relative to the MSCI Europe SmallCap (ex UK) Index. Over the past 6 months, the NAV has risen by over 18%.

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

- **ChemoMetec** – the Danish manufacturer of cell counting and analysis instruments rose as it announced a commercial partnership with Roche and reported improving instrument revenues from new product launches and a recovering end-market.
- **Tecan** – the Swiss manufacturer of laboratory instruments and automation solutions climbed as order intake recovered, supported by growing optimism that AI is reviving laboratory automation spending in drug research.
- **Schott Pharma** – the German manufacturer of pharmaceutical packaging solutions advanced after preliminary third-quarter revenue growth of about 8% beat expectations

of 3.5%, 2026 guidance was raised and a syringe dispute was settled.

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

- **Pfisterer** – the German manufacturer of high-voltage cable accessories and overhead line components for power grids declined after first-half results showed order intake down 9.4% against revenue growth of 20%, and the shares were suffered further in a wider electrification sell-off.
- **Plejd** – the Swedish developer of smart lighting and home automation solutions traded lower after a muted second-quarter report, in which sales grew 30% but EBIT came in below forecasts on a tough comparison and higher costs.
- **Belimo** – the Swiss manufacturer of HVAC control systems and actuators declined as investors cut back a richly valued holding in the third-quarter AI and data-centre sell-off, despite first-half sales growth of almost 30%.

Geography and sector

Germany was the strongest country contributor, mainly through stock selection. Sweden was the largest detractor, also through stock selection, with Plejd its weakest holding. At the sector level, Healthcare led, adding 2.7% of relative return mainly through stock selection as life science tools stocks regained favour. Industrials was the largest detractor, costing 2.3%, as electrification and data-centre exposed names de-rated in a wider AI sell-off and higher yields hit the sector globally. The two effects broadly offset one another.

Engagement & ESG

AAK – Swedish speciality vegetable oils and fats producer

We followed up our second-quarter outreach with a discussion of biodiversity and nature-related risk across AAK's raw material supply chain, focusing on palm and soy. AAK confirmed that its 2025 targets have expired and that updated targets are being developed, while it continues to work towards fully verified deforestation-free palm and deforestation- and conversion-free soy. Palm sourced from Indonesia and Malaysia is its highest biodiversity priority, supported by landscape and smallholder programmes, satellite monitoring and a public grievance tracker. Soy

is harder to trace because of AAK's position in the middle of the value chain. We will assess the updated targets when they are published.

BioGaia – 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 its climate risk assessment, in particular how it treats shorter-term climate variability and scenario analysis.

Sectra – 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 the proposed directors already serve as deputies and that the structure complies with the Swedish Corporate Governance Code, although ISS applies stricter independence criteria. It acknowledged the concern on gender representation. On pay, it explained that the increase in the CEO's fixed remuneration and the retroactive payments largely reflect the end of pension contributions and lower employer costs, not an equivalent rise in total pay. The company accepted that this should have been explained more clearly and committed to better reporting. The engagement is closed. The additional context informed our voting assessment and we will keep monitoring board independence and diversity and remuneration disclosure.

Outlook

Despite the difficult market environment, we remain increasingly optimistic about the outlook for European SmallCap. Valuations remain attractive, both relative to their own history and to the wider European market, presenting an opportunity for investors seeking diversification away from larger, increasingly concentrated equity indices. While it may be too early to call a decisive turning point, we believe the conditions for a sustained resumption of the long-term historical trend of SmallCap outperformance, and a more favourable environment for active

stock pickers, are increasingly in place.

The prolonged underperformance of Quality Growth has created opportunities. Rising bond yields and the continued preference for cheaper, more cyclical companies have weighed on valuations, even where underlying business performance remains strong. This was evident during the quarter at Belimo and Carel, both of which continued to deliver good operational results despite weakness in their share prices. We remain focused on the underlying fundamentals of our holdings, particularly the outlook for demand, profitability and cash generation, while recognising that valuations must be supported by continued earnings growth.

Within the Portfolio, we are encouraged by signs of recovery in life-science tools, where improving demand and order trends at Tecan and ChemoMetec suggest that trading conditions are beginning to normalise. We are also mindful of the Portfolio's exposure to electrification and data-centre infrastructure following a prolonged period of strong performance. We continue to review the balance of risks across the Portfolio, taking profits where appropriate and seeking opportunities to diversify into other areas of structural growth.

George Cooke
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