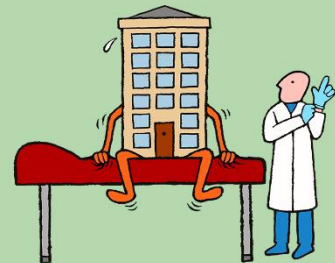


MESCT

Investment Commentary

Q4 2024



Market review

The final quarter of 2024 was marked by persistent challenges for European equities, as recession fears, rising interest rates and political uncertainty weighed on sentiment. Europe faced a mixed macroeconomic backdrop, with inflationary pressures gradually easing but remaining elevated, complicating the outlook for monetary policy.

Political instability in Germany and France added to the uncertainty. Germany's governing coalition collapsed, paving the way for new elections in early 2025, while France's Prime Minister was ousted in a no-confidence vote. Despite these developments, the broader economic impact was limited, with market participants focusing on the resilience of individual companies rather than macro-level disruptions.

Portfolio

During the quarter, the NAV of the Montanaro European Smaller Companies Trust ("MESCT") declined by 3.8% in GBP, an outperformance of over 1.2% relative to the MSCI Europe SmallCap (ex UK) Index.

The strongest contribution during the quarter came from **MTU Aero Engines**, the German aircraft engine component supplier to RTX and one of the largest global maintenance, repair and overhaul (MRO) providers. The shares advanced on continuing strong demand in its MRO business and the appointment of a new CEO, the former CEO of Lufthansa Technik, a key MRO partner. **Kitron**, the Norwegian electronics manufacturing services provider, delivered a positive recent Capital Markets Day, noting that some sectors are turning and recent strategic customer wins will help drive future growth. **Reply**, the leading European IT and software services business, posted strong Q3 results.

The weakest contribution came from **Melexis**, the Belgian sensor provider to the automotive

industry, which underperformed due to an inventory overhang and worries around the overall growth in the sector. **Tecan**, the Swiss manufacturer of laboratory instruments and automation solutions, suffered from continued softness in pharmaceutical CAPEX budgets and delayed government stimulus funding in China. **CTS Eventim**, the German ticketing provider for live events, declined after Q3 profits came in slightly below expectations.

Outlook

It is no secret that smaller companies have been out of favour, overshadowed by the "Magnificent Seven" in the US and the less catchy "GRANOLAS" in Europe. However, there are signs that the thaw in SmallCap may finally be underway. Over the last six months, European SmallCap has outperformed LargeCap by 2%, suggesting that investors are beginning to look beyond the tech giants to other areas of the market that could benefit from any wobble in their stellar performance.

As market dynamics evolve, the Trust's active, bottom-up investment approach will remain essential in identifying under-researched and undervalued opportunities. The combination of a supportive valuation environment, ongoing M&A activity and the relative resilience of our Portfolio should enable the Trust to generate attractive returns over the coming years, even in the face of uncertain macroeconomic conditions. With improving earnings growth and compelling valuations, 2025 could be the year European SmallCap shines once again.

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