



Montanaro European Smaller Companies

Investment companies | Annual overview | 24 March 2022

Unfazed by market turmoil

Montanaro European Smaller Companies (MTE) has built up an enviable track record by backing high-quality growing companies for the long-term. In recent months, fears of interest rate increases (in response to rising inflation) have triggered a sharp reversal of sentiment towards 'growth' stocks. The war in Ukraine has made investors more risk averse, and some have sought safety in large cap stocks. MTE's shares have moved from trading at a small premium relative to net asset value (NAV) to trading on a single-digit discount.

What we will not see in response to this situation is any change in the way in which MTE is managed. MTE has experienced many periods where low-quality stocks outperform or investors retreat to so-called defensive (usually low-growth) stocks. The manager may take advantage of the situation by adding to favoured stocks at attractive prices, but MTE will stick by its portfolio and wait for markets to come back to its way of thinking. The current discount may represent a buying opportunity.

Continental European smaller companies

MTE aims to achieve capital growth by investing principally in Continental European quoted smaller companies. The benchmark index is the MSCI Europe ex UK Small Cap Index (in sterling terms).

Sector	European smaller companies
Ticker	MTE LN
Base currency	GBP
Price	169.2p
NAV	169.7p
Premium/(discount)	(0.3%)
Yield	0.6%



MTE is the best-performing European smaller companies fund over three and five years (see page 13)



The stars aligned for MTE in 2021



MTE's portfolio is well-placed to cope with recession and inflation





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Domicile	Scotland
Inception date	4 September 2006
Manager	George Cooke
Market cap	320.5m
Shares outstanding (exc. treasury shares)	189.4m
Daily vol. (1-yr. avg.)	390,000 shares
Net gearing	2.9%

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Analysts

James Carthew
jc@martendandco.com

Matthew Read
mr@martenandco.com

Jayna Rana
jr@martendandco.com

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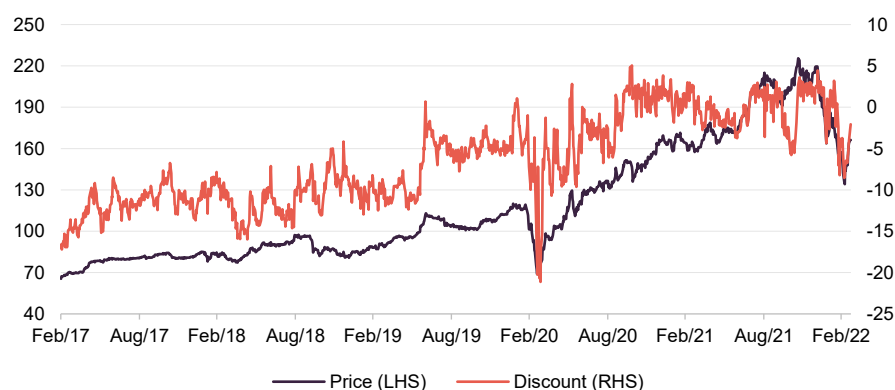


At a glance

Share price and discount

MTE's strong long-term performance helped drive down the discount and move the shares to trade on a premium to asset value. However, the sharp swing in sentiment against growth stocks and heightened uncertainty about the impact of the war in Ukraine have contributed to a widening of the discount in recent weeks.

Time period 28 February 2017 to 22 March 2022

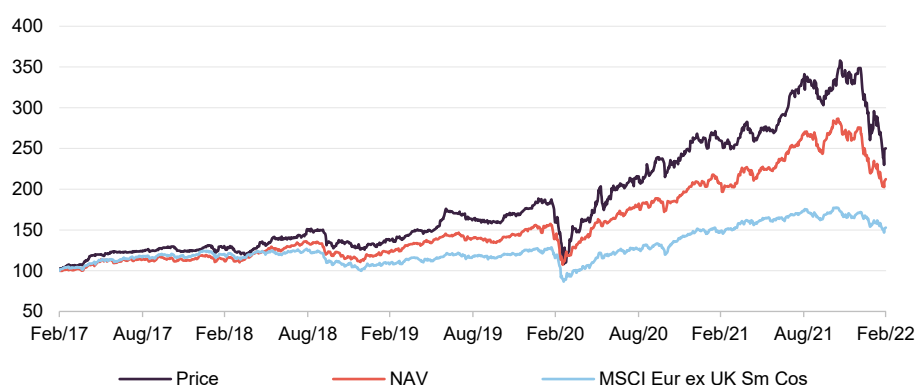


Source: Morningstar, Marten & Co

Performance over five years

MTE has delivered strong absolute and relative performance over the past five years (and before that). The economic recovery as the vaccines took effect provided some headwind from November 2020. However, on average the portfolio continued to generate good growth in revenue and profits.

Time period 28 February 2017 to 28 February 2022



Source: Morningstar, Marten & Co

The recent pull-back in valuations of growth companies comes as investors have become concerned with rising inflation and the prospect of higher interest rates.

Year ended	Share price total return (%)	NAV total return (%)	MSCI Europe ex UK Small cap total return (%)	MSCI Europe ex UK total return (%)	MSCI World total return (%)
28/02/2018	28.0	11.6	20.2	11.2	6.0
28/02/2019	7.0	10.8	(10.0)	(3.6)	4.0
28/02/2020	16.2	12.2	6.8	6.1	9.0
29/02/2021	63.4	49.1	27.0	13.2	18.2
28/02/2022	(3.9)	2.6	4.1	8.4	15.4

Source: Morningstar, Marten & Co

More information is available from the manager's website www.montanaro.co.uk

MAML boasts the largest and most experienced team in Europe

The stars aligned for MTE in 2021

However, the expectation of rate rises triggered a sharp rotation from 'growth' to 'value'

Fund profile

Montanaro European Smaller Companies Trust (MTE) aims to achieve capital growth by investing principally in smaller, quoted, Continental European companies (those within the European Union, Norway and Switzerland) but is not restricted from investing in smaller companies quoted on other European stock exchanges. The benchmark index is the MSCI Europe ex UK Small Cap Index (in sterling terms).

The original company dates back to 1981, but Montanaro Asset Management Limited (MAML) took on the management of the trust in September 2006 and the European small-cap investment approach dates from then.

The manager

MAML was established in 1991 and is chaired and 95% owned by Charles Montanaro and family. Head of investments Mark Rogers owns 5%. However, the wider team has options over about half of the equity. The CEO is Cédric Durant des Aulnois, the lead manager on MTE is George Cooke (who is also head of fund management at MAML), and Stefan Fischerfeier acts as George's back-up. Charles, Mark and George are all members of the investment committee, which also includes Alex Magni (see page 18 for more detail on the team).

They are supported by what MAML believes is the largest and most experienced team in Europe, specialising in researching and investing in quoted small and mid-cap companies. The investment team now numbers 15, as MAML has continued to invest in its business. The team is multi-lingual and multi-national. All but two of the fund managers also have research responsibilities.

In addition to MTE, the team manages a range of funds focused on UK and European equities, the Montanaro Better World Fund (an open-ended fund investing in small and mid-cap companies supporting the UN Sustainable Development Goals), and two recently-launched global equity funds. MAML has about £5bn of assets under management.

Sharp reversal of sentiment after good run

George says that 2021 was a good year for MTE; in his words – the stars aligned. The emergence of new variants of COVID unnerved some investors and the market favoured the solid growing businesses that are typical of MTE's portfolio over stocks sensitive to the economic cycle and structurally-challenged but lowly-valued opportunities.

However, as the year progressed, investors became increasingly worried about inflation. Expectations grew that central banks would raise interest rates in response. The European Central Bank (ECB) was a laggard in this regard but appeared to capitulate early in February 2022. Higher interest rates mean higher discount rates applied to valuations of growth stocks in discounted cash flow valuation models. This triggered a sharp rotation from 'growth' to 'value'.

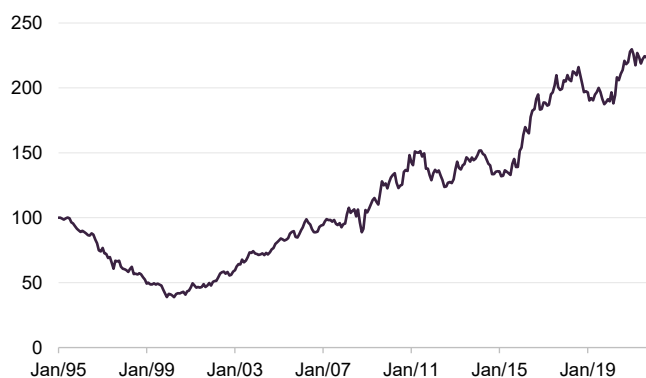
The outbreak of war in Ukraine has exacerbated shortages of some commodities and threatens to prolong the period of high inflation. However, fears are growing of a simultaneous recession – in other words stagflation. Smaller companies, which – as Figure 2 shows – have a good long-term track record of outperformance of large caps, and growth stocks appear to have been hit particularly badly.

Figure 1: Growth versus value



Source: Bloomberg, Marten & Co. MSCI Europe ex UK Small Cap Growth versus MSCI Europe ex UK Small Cap Value

Figure 2: Small cap versus large cap



Source: Bloomberg, Marten & Co. MSCI Europe ex UK Smaller Companies versus MSCI Europe ex UK

Turnover remains low

MTE's portfolio well-placed to cope with recession and inflation

Simple, niche, market leaders with high and sustainable returns, profitable and with good management

Part of MTE's investment approach, which we detail below, is to back companies for the long term, and avoid being distracted by gyrations in markets and economics, consequently turnover of stocks within the portfolio remains low. The easing of COVID restrictions is making an important difference in one respect, however; the team expects to do a lot more company visits now, as it has done historically.

George observes that MTE's high-quality portfolio is well-placed in the event of a slower economy. MTE does not own any loss-making companies, and 44% of portfolio companies have net cash on the balance sheet. The approach favours businesses operating in areas of structural growth, which should be less affected, and perhaps sometimes benefit from a recessionary environment.

The portfolio should also be resilient to the effects of inflation. A core indicator of the quality of a company is its ability to pass on price increases.

Investment approach and process

MAML avoids trying to time macroeconomic shifts, preferring to focus on the long term.

It wants to invest in:

- simple businesses that it can understand;
- niche businesses in growth markets (non-cyclical companies, growing organically rather than businesses that tend to focus on acquisitions);
- market leaders (strong, defensible market positions and pricing power);
- companies with high operating margins and high returns on capital (barriers to entry/a sustainable competitive advantage);

- profitable companies trading at sensible valuations; and
- good management that it trusts – aligned to shareholders and demonstrating sound environmental, social and governance (ESG) practices.

This could be summed up as investing in high-quality businesses at sensible prices. Furthermore, MAML believes it is important to:

- do the work yourself (rather than relying on brokers);
- be passionate; and
- learn from mistakes (humility goes a long way).

Easier to add value through stock selection for a small-cap portfolio

In addition, MAML believes that it is easier to add value through stock selection for a small-cap portfolio, especially given the relative paucity of research available on these companies. MAML observes that some large companies are covered by 50 or more brokers, while many European smaller companies have little or no coverage. Firm evidence for the success of this approach is provided in Figure 2.

Sifting through the universe

Deep pool of stocks to choose from

The constituents for MTE's portfolio are drawn from a universe of about 4,000 companies listed in Europe. The focus is on those with a market cap between €100m and €5bn (about 2,300) and, as described below, unprofitable companies are excluded which reduces the pool to about 1,700 stocks. The benchmark index currently includes stocks with market caps of up to about €7bn.

MAML has always generated its own investment ideas rather than relying on external analysts

MTE is a true stock-picking portfolio; index-weightings play no part in forming its portfolio construction. MAML has always generated its own investment ideas rather than relying on external analysts. There are many good reasons for this, but it is also fortunate as the availability and quality of external analysis – which MAML believes has been on a declining trend for some time – was exacerbated by the MiFID II regulations that prevent brokers from distributing their research for free. This gives MAML a competitive edge, which is sharpened by the strength and depth of its research team.

The depth and experience of MAML's team gives the firm a competitive edge

The size of the team allows for some theoretical research, and lateral creative thought is encouraged. MAML is an entrepreneurial boutique with a flat structure that allows for quick decision-making and avoids the politics that bog down more bureaucratic large asset managers. MAML does not encourage the development of 'star' fund managers, but is focused on staff retention, including the granting of staff options over MAML equity. MAML's 'back office' functions are carried out in-house rather than being outsourced (as they are in many smaller investment management boutiques).

Research responsibilities are distributed amongst the team on a sector, global basis. Emphasis is placed on being well-prepared for meetings, which is possible as the research team is well-resourced. MAML's analysts can then set the agenda, challenge management and get the information that they need. Site visits are encouraged (another perk of having a large team is that it is not desk-bound).

On average, each analyst will seek to identify 20 stocks within their sector coverage worthy of closer scrutiny. These will form the pool from which portfolio constituents

All stock ideas are reviewed and approved by an investment committee

Value is assessed on a range of measures but only after the quality evaluation is complete

Position sizes determined by strength of conviction

are drawn. The first part of the process is to eliminate poor-quality companies. These stocks are identified by applying a quantitative screen to the wider universe. Loss-making companies, those with poor cash flow and highly indebted businesses are rejected. Stocks that fit structural growth themes that the team has identified may be prioritised. Each company within the universe is assigned a quality rating.

The analysts then build a financial model and conduct a proprietary checklist for each stock. They also check whether a stock meets MAML's ESG criteria (see below). Then the idea is put before MAML's investment committee, who challenge assumptions and ask for more information if they feel this is warranted. Stocks that pass these quality thresholds may then go on to an approved list of approximately 270 companies. No fund manager can buy a company that is not on the approved list.

Various valuation tools are considered (primarily discounted cash flows) but include **price/earnings (P/E)**, free cash flow yield (a measure of financial solvency calculated by dividing the free cash flow per share by the market price per share), **dividend yield** and relative to peers and the team operates with a time horizon of five to 10 years. The ideal investment should provide a margin of safety in excess of 25% over its intrinsic value. Analysts will also look at risk factors. Analysts will then assign a recommendation to each stock. These will be presented to the whole team at weekly meetings and the fund managers will then decide which stocks make it into portfolios. Once a stock makes it into a portfolio, it will usually remain there for many years.

Portfolio construction

MTE's investment policy is more fully described in its annual report. It only invests in listed securities and MAML says that unquoted companies are not eligible for consideration.

Some other rules apply:

- MTE does not hedge its currency exposure;
- MAML will hold no more than 10% of the voting rights in any company (across all funds managed by MAML); and
- no more than 10%, in aggregate, of the value of its total assets at the time of investment will be invested in other investment trusts or investment companies admitted to the Official List of the UK Listing Authority. Currently, MTE has no holdings in other investment trusts, nor does it expect to ever do so.

Typically, the target weighting for a position will be between 1% and 3.5%, depending on both the strength of conviction that the manager has in the stock, and its liquidity. The total number of holdings is typically around 50. There is no obligation to sell a company if its market cap exceeds €5bn, but these will be gradually recycled into lower market cap companies. The manager will ensure that a single position does not exceed 7.5% of the portfolio.

ESG principles are at the heart of MAML's stock selection decisions

ESG analysis

MAML's focus on quality is supported by its commitment to ESG principles, which have been ingrained within its investment approach for many years. It believes that there is a clear correlation between how well a business fares on ESG grounds and the value it creates for its shareholders.

Christian Albuissou chairs an internal sustainability committee of seven, which meets quarterly and oversees MAML's efforts in this area. The team includes a dedicated ESG and impact specialist, Kate Hewitt. MAML also has its own handbook, policies and checklists. It votes the shares it controls, and it engages with companies. MAML expects the companies that it invests in to improve their ESG awareness and it monitors their progress.

Some sectors are excluded from portfolios on ESG or ethical grounds. MAML portfolios will not contain tobacco companies; companies manufacturing weapons, facilitating gambling or manufacturing alcohol; companies engaged in oil-, coal- and gas-related exploration & production; companies involved with pornography; companies making high interest-rate loans; or companies engaged in animal testing unless it is required by law. Corporate governance checks include an assessment of a company's remuneration policy.

MAML's attention to ESG issues extends to its own business. Following an extensive evaluation process, it was made a Certified B Corporation in June 2019 (more information is available at [bcorporation.net](https://www.bcorporation.net)). Early in 2021, MAML joined the Net zero asset managers initiative (more information at [netzeroassetmanagers.org](https://www.netzeroassetmanagers.org)), supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. MAML is a member of the GFANZ taskforce (see [gfanzero.com](https://www.gfanzero.com)) and sits on the real economy transition workstream group.

Sell discipline

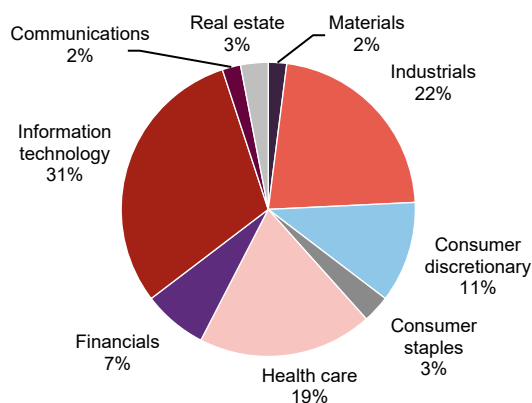
Stocks exit the portfolio for a variety of reasons – for example, when they become significantly overvalued, if they become too big, or due to takeovers.

Furthermore, stocks may leave the portfolio if the analysts identify unfavourable changes in the fundamentals of the business or an unfavourable management change.

Stocks will also be sold if they no longer pass MAML's quality threshold, or if a new opportunity comes along that offers better prospects.

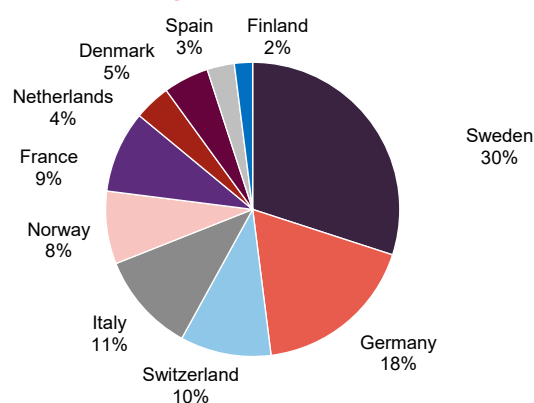
Asset allocation

Figure 3: Sector allocation



Source: MAML

Figure 4: Country allocation



Source: MAML

There were 58 holdings in the portfolio at the end of February 2022.

Net borrowing (gearing) is low – zero at the year-end (following the issue of some shares just ahead of the month-end), and just 2.9% at the end of February. This was a reflection of a lack of attractively priced investment opportunities rather than any call on the macroeconomic picture.

Geographic and sector allocations are determined by stock selection, but MTE has had a long-term overweight exposure to healthcare and technology companies relative to its benchmark.

Notably, MTE has negligible exposure to materials and energy – two sectors that have risen strongly since Russia invaded Ukraine – and to cyclical financials, which have been rising in anticipation of higher interest rates.

Figure 5: Portfolio characteristics as at 28 February 2022

Active share	92.4%
Price/earnings 2022 financial year (FY22)	29.2x
Earnings per share growth FY22	21.2%
Dividend yield FY22	1.5%
Dividend growth FY22	19.1%
Return on equity FY22	15.5%
EV/EBITDA FY22	23.7x
Earnings before interest and tax margin FY22	21.6%
Net debt/equity FY22	2.3%

Source: MAML

As Figure 5 shows, MTE's portfolio has a high **active share**, 92.4% at the end of February 2022. Portfolio companies tend to trade on higher valuation multiples but offer faster revenue, earnings and dividend growth than the average stock. MTE's portfolio companies also tend to have robust balance sheets, higher returns on equity (helped by the portfolio's bias away from highly capital-intensive businesses) and higher margins.

10-largest holdings

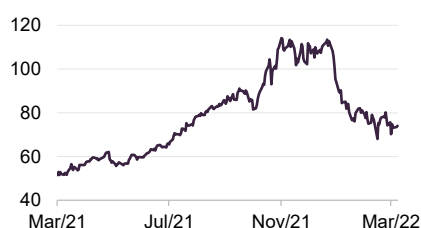
Evidence, if it were needed, of MAML's long-term approach to investment is that since we last published on MTE, using portfolio data as at 31 August 2020, just three stocks – Nemetschek, Tecan and Hypoport – have dropped out of the list of the 10-largest holdings to be replaced by MIPS, IMCD and MTU Aero Engines that are also longstanding positions in the trust. Many of these stocks were discussed in previous notes.

Figure 6: 10-largest holdings as at 28 February 2022

	Holding 28/02/22 (%)	Holding 31/08/20 (%)	Change (%)	Country	Sector
NCAB Group	5.5	2.8	2.7	Sweden	Printed circuit boards
MIPS	3.6	2.5	1.1	Sweden	Safety helmets
Sartorius Stedim Biotech	3.6	4.5	(0.9)	France	Services for biotech companies
MTU Aero Engines	3.2	2.1	1.1	Germany	Aero engine manufacture
Fortnox	3.2	4.4	(1.2)	Sweden	Accounting software
VZ Holding	3.1	3.2	(0.1)	Switzerland	Financial consultant and wealth manager
Esker	3.0	3.1	(0.1)	France	Invoicing software
Thule Group	2.8	3.0	(0.2)	Sweden	Roof racks, roof boxes, bike racks, luggage
ATOSS Software	2.7	2.8	(0.1)	Germany	Workforce management software
IMCD	2.6	2.0	0.6	Netherlands	Speciality chemicals and food ingredients
Total	33.3				

Source: MAML

Figure 7: Nemetschek (EUR)



Source: Bloomberg

Nemetschek

Nemetschek (nemetschek.com) is a stock that has been exited on valuation grounds. The manager also felt that the company's main competitor was beginning to open up a technological lead over the company. Nemetschek would need a lot of investment to catch up and combine its point solutions into a unified suite.

Hypoport

Hypoport (hypoport.com) is a technology company operating in the credit, insurance and real estate sectors. The position was trimmed in March 2022, as its relative valuation became less attractive, but the stock is still held within MTE's portfolio.

MIPS

MIPS (mipscorp.com) was discussed in our last note. The company makes inserts for helmets that help absorb some of the impact of accidents on the brain. The 2021 calendar year was a good one for the business, with organic sales growth of 72%, a near doubling of operating profit and earnings per share, and MIPS solutions implemented in 883 helmet models (up from 729 a year earlier). The company is building on a strong presence in sport and motorcycle helmets, with a push into safety helmets.

IMCD

Speciality chemicals and food ingredients business IMCD (imcdgroup.com) saw its share price rise by almost 90% over the course of 2021. The company delivered a 63% increase in earnings per share over the year, helped by a number of bolt-on acquisitions and a recovery in demand as customers benefited from the easing of COVID restrictions.

NCAB

NCAB (ncabgroup.com/en/investors) has become the largest holding within the portfolio on the back of strong share price performance. MAML first started building a position in the stock for MTE in March 2019. At the time, MAML envisaged that the share price would at least double. In April 2020 the company raised money via a placing of shares and MTE supported this.

NCAB's focus is on printed circuit boards (PCBs). MAML feels that the company has made some good acquisitions, cementing its market-leading position. There has been a significant rise in demand for PCBs, but supply has been constrained. Most PCBs are sourced from China. NCAB leverages its buying power by amalgamating orders on behalf of customers. It oversees everything from design, prototyping, and production to quality control. Clients value the product as it has a low error rate – helped by NCAB being close to its customers. George feels that the valuation is still not excessive.

NCAB generated 39% organic growth in revenue (in US dollar terms) for 2021 over the prior year, and, including the effect of acquisitions, a 93% increase in the size of its order book.

NCAB halted all deliveries of PCBs to Russia on 28 February 2022. The company suggests that this will take about 5% off its EBITDA (based on 2021 numbers).

Figure 8: NCAB (SKR)



Source: Bloomberg

Figure 9: Sartorius



Source: Bloomberg

Sartorius Stedim

Sartorius (sartorius.com/en) makes equipment needed to produce biologics and biosimilars, such as vaccines and monoclonal antibodies. The position was trimmed in July 2020 but has been maintained since then. The company was a beneficiary of COVID in that it supplied equipment and services to over 200 companies that were developing vaccines. Its sales and profits numbers for 2021 were very good, therefore, but the breakdown published by the company suggests that COVID was far from the only factor working in its favour. Sales growth for the year was 51% and pandemic-related effects were 18 percentage points of that. Similarly, the order intake grew by 54%, of which pandemic-related orders accounted for 13 percentage points.

Vitrolife

Vitrolife (vitrolife.com) is a stock that MTE has held for some time. It made a strong positive contribution to MTE's returns over 2021. It makes products and supplies services that support the IVF process. Demand for IVF is rising, and the success rate is increasing. Vitrolife's products are consumables and are only a small part of the overall cost, but quality of the product is paramount.

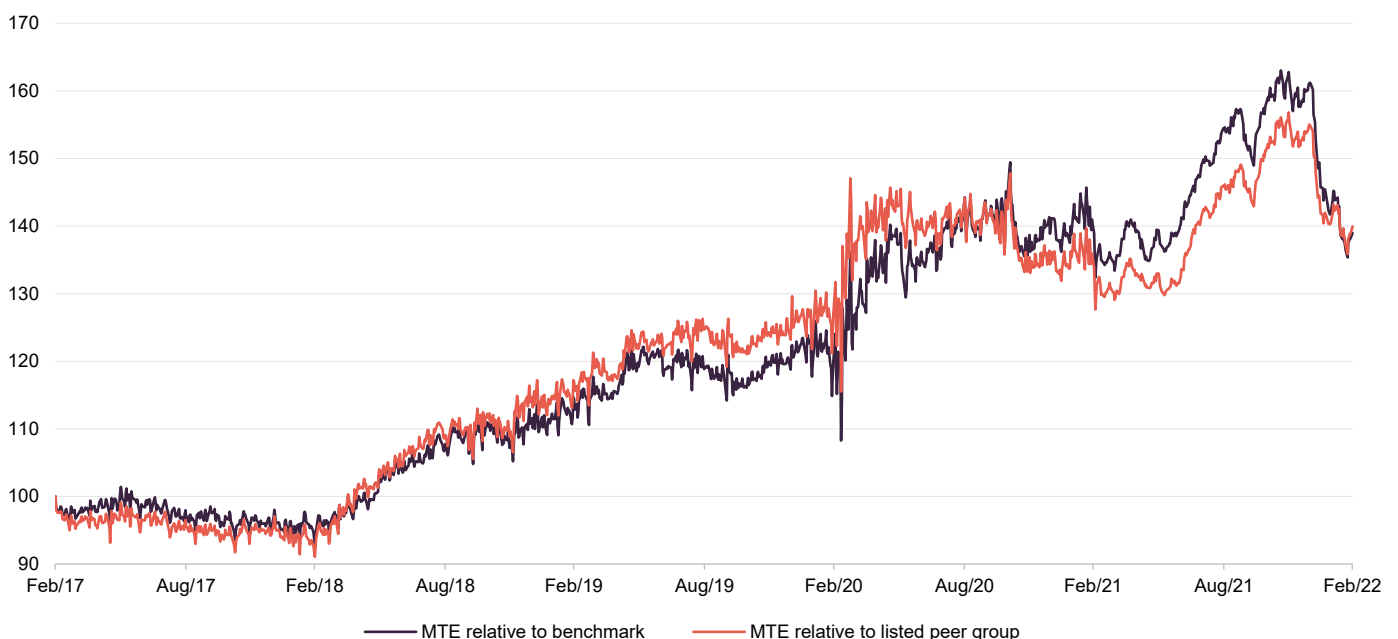
The company has augmented its product offering by addressing the need to check on the progress of fertilised eggs within incubators on a regular basis. Vitrolife can create a time-lapse film by positioning a camera over the incubator and taking pictures at regular intervals. This saves a great deal of time and is much more efficient.

Vitrolife delivered sales growth of 35% over 2021 (30% organic sales growth), as the IVF industry recovered from the effects of COVID.

Performance

Notwithstanding the recent pull-back in its NAV and share price, MTE has delivered strong absolute and relative performance over the past five years (and before that). The resilience of most portfolio companies in the face of COVID-related lockdowns and the associated acceleration of many structural growth trends to which the portfolio is exposed were drivers of outperformance. The economic recovery as the vaccines took effect provided some headwind from November 2020 – as economically-sensitive stocks bounced. However, on average the portfolio continued to generate good growth in revenue and profits.

Figure 10: MTE NAV total return performance relative to benchmark and listed peer group



Source: Morningstar, Marten & Co. Note: Listed peer group is defined on page 13.

The recent pull-back in valuations of growth companies comes as investors have become concerned with inflation and the prospect of higher interest rates. Russia's invasion of Ukraine has served to exacerbate and prolong the inflation problem, unnerve investors and raise the threat of stagflation. We would echo George's comments on page 5 – operationally, MTE's companies ought to hold up relatively well in these scenarios.

Figure 11: Cumulative total returns for periods ending 28 February 2022

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
NAV	(21.8)	(20.5)	2.6	71.7	112.4
Share price	(27.7)	(25.7)	(3.9)	82.5	150.1
Benchmark	(8.4)	(11.7)	4.1	41.3	52.9
Listed peer group NAV average	(12.4)	(17.1)	(0.3)	43.5	51.8
Listed peer group share price average	(8.9)	(16.1)	0.6	57.8	61.1
Open-ended peer group median	(12.1)	(16.0)	0.2	34.5	44.3

Source: Morningstar, Marten & Co. Note: Peer groups are defined below.

Peer groups

Up-to-date information on MTE and its listed peer group is available on the [QuotedData website](#)

For the purposes of this note, we have compared MTE with the other trusts in the AIC's European smaller companies sector. Although a respectable size, MTE is the smallest of these. It also has the lowest dividend yield, reflecting the focus on growth companies. MTE's **ongoing charges** ratio is in line with funds of an equivalent size. Even after the recent share price fall, MTE trades on the narrowest discount, which is most likely a reflection of its superior performance record.

Figure 12: Listed peer group comparison as at 22 March 2022

	Market Cap (£m)	Premium/ (discount) (%)	Yield (%)	Ongoing charges (%)
Montanaro European Smaller Companies	321	(0.3)	0.6	1.10
European Assets	415	(4.0)	7.6	0.95
JPMorgan European Discovery	701	(14.8)	1.5	0.91
The European Smaller Companies Trust	629	(15.1)	1.6	0.71

Source: Morningstar, Marten & Co

In Figure 13 below, we have also included data from MTE's open-ended peers – a group of 50 funds available for sale in the UK and European Union. MTE beats the peer group averages over longer-term time periods and, if we combine both peer groups, MTE is the best-performing fund over three and five years.

Figure 13: Cumulative NAV total returns for periods ending 28 February 2022

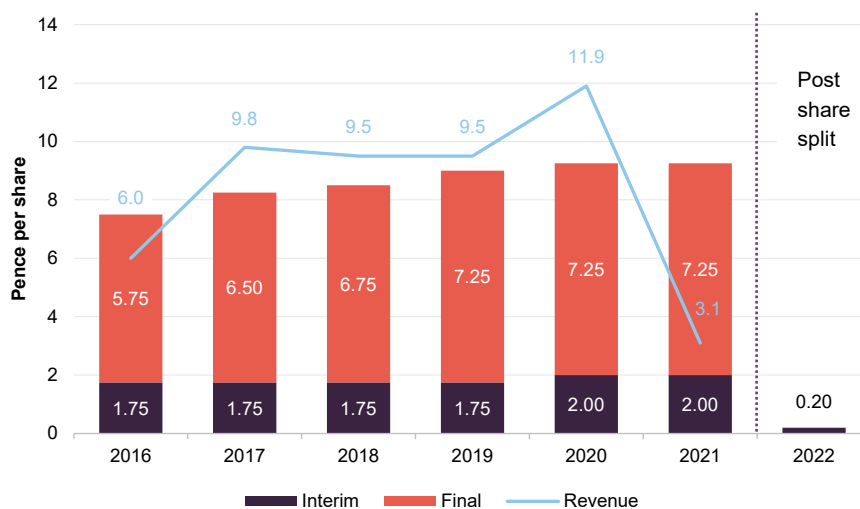
	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
Montanaro European Smaller Companies	(21.8)	(20.5)	2.6	71.7	112.4
European Assets	(16.3)	(20.6)	(3.9)	31.1	38.1
JPMorgan European Discovery	(14.5)	(17.3)	1.0	37.6	52.4
The European Smaller Companies Trust	(6.6)	(13.7)	1.7	62.9	64.8
Listed peer group average	(12.4)	(17.1)	(0.3)	43.5	51.8
Open-ended peer group median	(12.1)	(16.0)	0.2	34.5	44.3
MTE rank (combined group)	52/54	43/54	21/54	1/50	1/46

Source: Morningstar, Marten & Co

Dividend

MTE's primary aim is to deliver capital growth to its shareholders, and its dividend yield is modest, 0.6% as at 22 March 2022. However, over the long term, growth in dividends of the companies in which it invests has allowed MTE to grow its dividend while also building a substantial revenue reserve. In the face of a COVID-19 related reduction in revenue, the board opted to dip into that reserve in the accounting year ended 31 March 2021. The reserve stood at £3.2m at the end of March 2021 (March 2020 £4.3m), equivalent to 1.7p per share.

Figure 14: MTE dividend history, accounting years ended 31 March



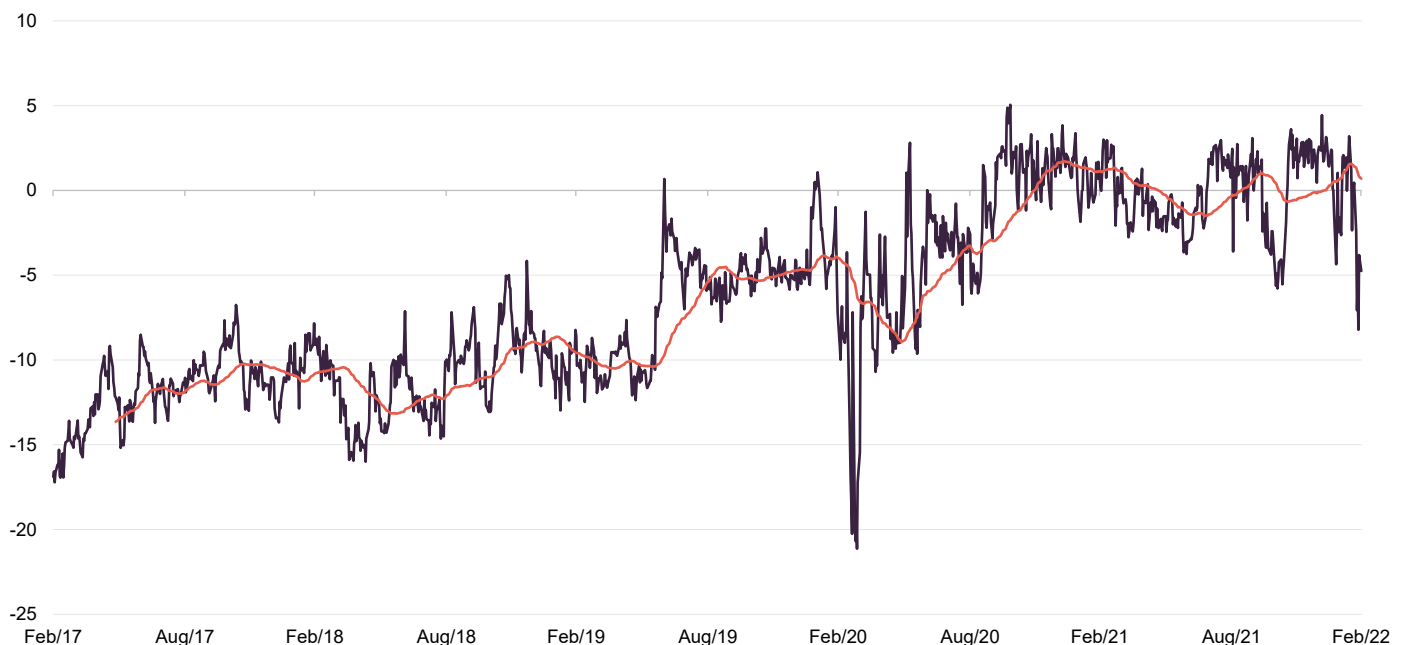
Source: MAML, Marten & Co. NB fall in dividend for FY22 reflects 10 for one subdivision of shares

Premium/(discount)

Over the 12 months to the end of February 2022, MTE's shares traded within a range of an 8.2% discount to NAV to a 4.4% premium and an average discount of 0.1%. At 22 March 2022, the shares were trading at a discount of 0.3%.

MTE's strong long-term performance helped drive down the discount and move the shares to trade on a premium to asset value. However, the sharp swing in sentiment against growth stocks and heightened uncertainty about the impact of the war in Ukraine have contributed to a widening of the discount in recent weeks.

Figure 15: MTE discount over five-years ending 28 February 2022



Source: Morningstar, Marten & Co

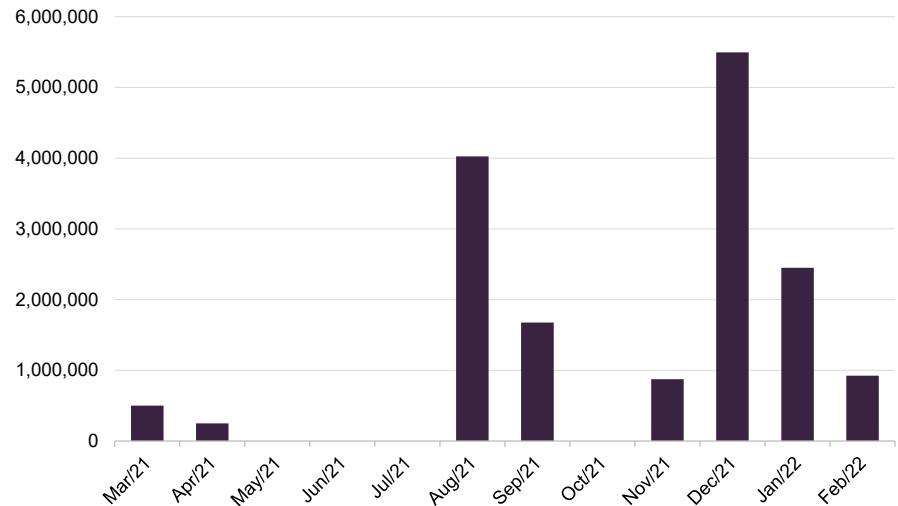
MTE has powers to issue and buyback shares, which it renews regularly at the Annual General Meeting (AGM). Shares repurchased can be held in treasury and may be reissued. The board has said that these would only be reissued at a higher absolute price than the weighted average purchase price of the shares in treasury, and at a premium to NAV at the time of reissue or at a discount, provided this discount was lower than the weighted average discount at the time the shares were repurchased.

The net effect of this should be that purchasing the shares and reissuing them again is profitable for ongoing shareholders.

The board has stated that it will consider a buyback of shares where the discount of the share price to the NAV per share is greater than 10% for a sustained period of time and is significantly wider than the average for similar trusts. The board will take into consideration the effect of the buyback on the liquidity of the company's shares.

In addition, the board encourages the manager to market the company to new investors.

Figure 16: Share issues and repurchases (figures pre September 2021 adjusted for the share split)



Source: MAML

Fees and costs

MAML is the company's investment manager and AIFM. It is entitled to receive a management fee of 0.9% of the first £500m of MTE's market capitalisation and 0.75% of the balance up to £750m and then 0.65% on any amount above £750m, payable monthly in arrears. Charging the fee on market capitalisation incentivises the manager to keep the company's discount narrow. The tiered structure of the fee (introduced with effect from 1 April 2021) will help to lower the trust's ongoing charges ratio, in time.

MAML is also entitled to a fee of £50,000 a year for acting as the AIFM. There is no performance fee. The management contract can be terminated by either side on six months' notice. MTE charges 35% of the management fee against revenue and the balance against capital. The same methodology is applied to the accounting treatment for interest on MTE's borrowings.

Link Company Matters Limited provides company secretarial services and Link Alternative Fund Administrators provides general administrative services. Equiniti Limited acts as Registrar and The Bank of New York Mellon (International) Limited as the company's Depositary and Custodian. The company's auditor is Ernst & Young.

The company's ongoing charges ratio for the year ended 31 March 2021 was 1.2%, unchanged from the previous year, but the estimate at the half-year mark was 1.1%, reflecting the growth of the trust.

Capital structure and life

MTE has 189,427,600 ordinary shares in issue and no other classes of share capital. No shares are held in treasury. The company has an unlimited life.

Following shareholder approval, MTE split its shares on 14 September 2021 such that shareholders received 10 new ordinary shares in exchange for each existing ordinary share that they held.

MTE's accounting year end is 31 March. Annual accounts are published around the end of June/beginning of July and the AGM is usually held in August or September.

Gearing

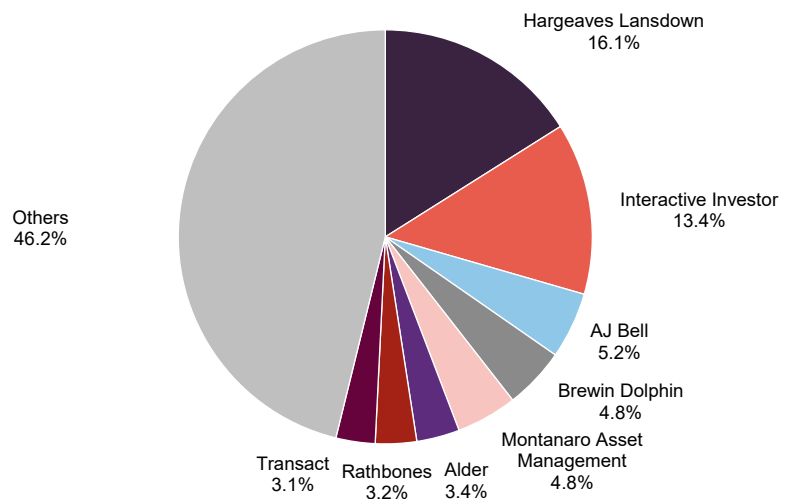
The board has set a maximum limit on borrowing, net of cash, of 30% of shareholders' funds at the time of borrowing. The board, in discussion with the manager, regularly reviews the company's gearing strategy and approves the arrangement of any gearing facility. The board believes that the ability to use gearing offers a strong competitive advantage over alternative open-ended investment funds. Therefore, it strongly encourages the active use of gearing by the manager.

MTE has a €10m secured loan maturing on 13 September 2023 that carries a fixed rate of interest of 1.33%, and a €15m revolving credit facility until 13 September 2023, both provided by ING Bank NV. Drawdowns from the revolving credit facility are charged at a margin over the relevant **EURIBOR** rate.

At the end of January 2022, MTE had net gearing of 2.4%.

Major shareholders

Figure 17: Major shareholders as at 28 February 2022



Source: Bloomberg

Management team

George Cooke

George joined MAML in July 2010. He graduated from the University of Nottingham in 2005 with an undergraduate degree in Management Studies. He spent a further year of study there, at the end of which he was awarded a Masters (with Distinction) in Corporate Strategy & Governance. Immediately following this, he joined the graduate scheme at Aon Benfield (formerly Aon Re). Having completed this scheme, George settled as an analyst within the ReSolutions department, where he specialised in assisting with the capital and runoff issues of insurance and reinsurance companies. During his time at the company, George received a Diploma in Insurance. He is also a CFA Charterholder.

Stefan Fischerfeier

Stefan joined MAML in 2007. He holds a B.A. in Business Administration from the University of Cooperative Education in Mannheim (1995) as well as a Diplom-Kaufmann (MBA equivalent) from the University of Mainz (1998). He graduated from the London Business School with an MSc in Finance (2006). After graduating from University of Mainz, Stefan spent more than six years at Accenture in Germany, Switzerland, France, and the UK as a management consultant for European banks and asset managers. He then worked as an analyst at Nordwind Capital, a Munich based private equity company, analysing the automotive industry, and as an investment consultant for a property fund in Romania assessing real estate investment opportunities in Eastern Europe.

Board

The board consists of three directors, all of whom are independent of the manager and who do not sit together on other boards. Each director offers himself or herself up for re-election at each AGM.

Figure 18: Board member – length of service and shareholdings

Director	Role	Appointed	Length of service (years)	Annual director's fee (GBP)	Shareholding (30/9)
Richard Curling	Chairman	2 November 2015	6.3	36,050	100,000
Gordon Neilly	Director	21 September 2020	1.5	25,750	61,450
Caroline Roxburgh	Senior independent director and chair of the audit committee	8 November 2017	4.3	30,900	57,485

Source: Marten & Co

Richard Curling

Richard was appointed to the board in 2015 and became chairman in 2018. He has over 30 years' experience as a fund manager and is currently an investment director

at Jupiter Fund Management Plc. He also has extensive experience of investment trusts. Richard is also chairman of the nominations committee.

Gordon Neilly

Gordon was, until the end of August 2020, chief of staff at Standard Life Aberdeen, prior to which he was global head of strategy at Aberdeen Standard Investments and was responsible for developing the group's strategy and overseeing its implementation as well as overseeing all corporate activity for the Group and its closed end fund business. He joined Aberdeen in 2016 from Cantor Fitzgerald, where he held the position of joint CEO. Gordon is currently a non-executive director of Personal Assets Trust Plc.

Caroline Roxburgh

Caroline is a Chartered Accountant with over 30 years' experience in finance and audit across a number of industries and sectors, and was formerly a partner at PricewaterhouseCoopers LLP until her retirement in 2016. She chairs the audit committee and is the senior independent director. Caroline also holds a number of other board positions, including a non-executive directorship of the Edinburgh Worldwide Investment Trust Plc.

Previous notes

Readers interested in further information about MTE may wish to read our other notes. Click the links in the table or visit the QuotedData website.

Figure 19: QuotedData's other notes on MTE

Note	Date published	Note type
Quality businesses at sensible prices	March 2019	Initiation
Focus on the small picture	September 2019	Update
Impressive returns in difficult market	October 2020	Annual overview

Source: Marten & Co



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**123a Kings Road, London SW3 4PL
0203 691 9430**

www.QuotedData.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House,
19 Heathmans Road, London SW6 4TJ

Edward Marten (em@martenandco.com)

David McFadyen (dm@martenandco.com)

Colin Edge (ce@martenandco.com)

Nick Potts (np@martenandco.com)

INVESTMENT COMPANY RESEARCH:

Matthew Read (mr@martenandco.com)

James Carthew (jc@martenandco.com)

Jayna Rana (jr@martenandco.com)

Richard Williams (rw@martenandco.com)