



Montanaro European Smaller Companies

Investment companies | Update | 05 June 2025

Turning tariffs into opportunity: MTE's edge

In an environment of heightened volatility triggered by Trump's tariff policies, European stocks have actually fared relatively well. Germany's plans to boost defence and infrastructure spending, coupled with falling **interest rates**, helped create more positive sentiment towards the region. Montanaro European Smaller Companies's (MTE's) high-conviction portfolio of good-quality growth stocks seems well placed to navigate this period of uncertainty. Low **valuations** relative to history enhance the upside potential.

MTE's board has taken steps to enhance shareholder value through regular 5% tender offers (offers to buy back a portion of shares at a fixed price that is usually close to NAV to reduce the discount and provide liquidity to shareholders that wish to exit), a single-digit **discount** policy, and lower **management fees**. Against a backdrop where European small cap equities remain significantly undervalued relative to large-cap equities – despite offering superior earnings growth – MTE looks well positioned.

It benefits from a stable management team, disciplined approach and a focused portfolio of high-quality businesses operating in niche areas with strong pricing power (the ability to raise prices without losing customers, often due to a unique product or service offering). The result has been impressive long-term performance, with shareholder returns more than tripling over the last 10 years.

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	167.5p
NAV	180.3p
Premium/(discount)	(7.1%)
Yield	0.7%



MTE's discount to NAV is the narrowest in its peer group



George's consistent approach to stock selection has historically added value for MTE shareholders



A deteriorating growth outlook may in fact be a supportive environment for quality growth stocks





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Domicile	Scotland
Inception date	4 September 2006
Manager	George Cooke
Market cap	276m
Shares outstanding (exc. treasury shares)	165m
Daily vol. (1-yr. avg.)	392,189 shares
Net gearing	3.0%

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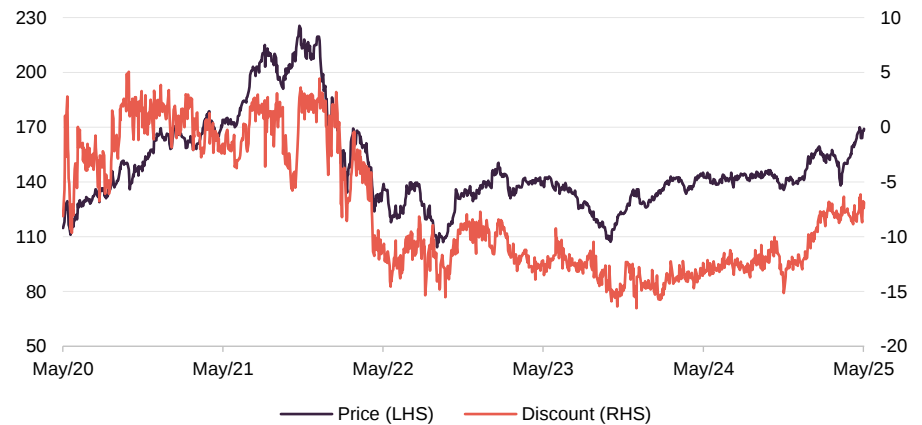
At a glance

Share price and discount

Over the 12 months to the end of May 2025, MTE's shares traded within a discount to net asset value (NAV) range of between 6.2% and 5.2%, with an average discount to NAV of 11.0%. At 31 May 2025, the shares were trading at a discount of 6.9%.

MTE's discount to NAV has narrowed since the end of November 2024. This partly reflects broader trends in renewed demand for European equities, as discussed on page 7, which has likely fed through into the demand for MTE's shares.

Time period 31 May 2020 to 31 May 2025

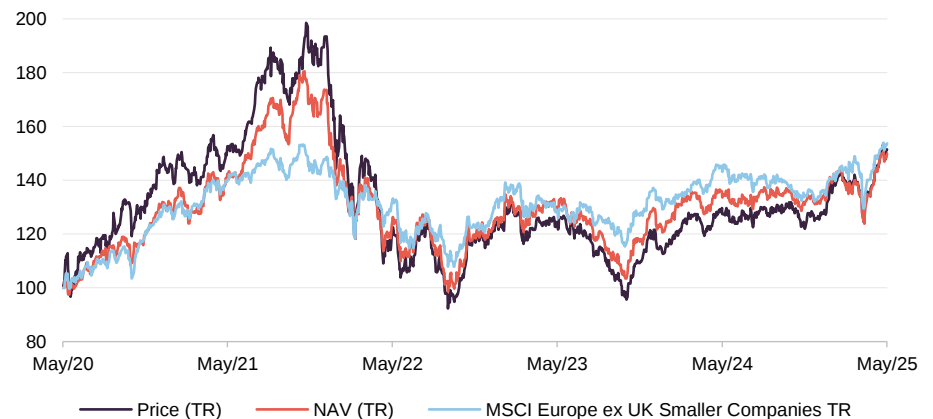


Source: Morningstar, Marten & Co

Performance over five years

Over the past five years, MTE has generated a NAV total return that has underperformed its benchmark, the MSCI Europe ex UK Small Cap Index, by 3.5%. However, as shown in Figure 16, MTE delivered significant outperformance during the COVID-19 period, peaking at the end of 2021 – a time when growth stocks globally were buoyed by low interest rates and the pandemic-driven acceleration of structural trends.

Time period 31 May 2020 to 31 May 2025



Source: Morningstar, Marten & Co

Year ended	Share price total return (%)	NAV total return (%)	MSCI Europe ex UK small cap total return (%)	MSCI Europe ex UK total return (%)
31/05/2021	52.6	42.4	40.2	25.5
31/05/2022	(20.4)	(12.3)	(5.8)	(2.1)
31/05/2023	0.2	3.5	(4.7)	8.1
31/05/2024	4.7	4.4	15.7	16.8
31/05/2025	19.6	11.2	5.5	6.3

Source: Morningstar, Marten & Co

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

Fund profile

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 has assets under management (AUM) of more than £3bn. Charles Montanaro and his family together own 60% of the business. Furthermore, the CEO, Cédric Durant des Aulnois, owns 5%, while the head of investments, Mark Rogers, also owns 5%, with the remaining 30% owned by Montanaro's staff through an employee benefit trust established in 2025.

The lead manager on MTE is George Cooke (who is also head of investments 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. MAML also owns 7.4% of the outstanding shares of MTE, having increased its holding in April 2025.

MAML believes that it has the largest and most experienced team in Europe

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 team is multi-lingual and multi-national. All but two of the fund managers also have research responsibilities.

Montanaro's managers believe that the company is best served by operating with a maximum of 40 staff members, as to preserve the advantages of a boutique outfit (a small, specialist financial firm). With 37 current staff members (16 of whom are investment professionals), Montanaro is now effectively maturing as a boutique and, as such, will continue to devote its resources towards its current strategies, as opposed to aggressively growing the company, for example.

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 global equity funds.

MTE's new value-enhancing initiatives

On 27 March 2025, MTE's board announced three important changes to the trust that are designed to strengthen MTE's investment proposition and deliver value for all its shareholders.

MTE's board have undertaken changes to improve shareholder value

1. The board will implement regular tender offers with the aim of improving MTE's **liquidity**. It intends to offer shareholders two opportunities a year, around the time of MTE's interim and annual results publications, to tender their shares at a 5% discount to **NAV** (reflecting what the board believes are the wider spreads amongst smaller companies and the cost associated with the exercise). Each tender will be limited to a maximum of 5% of MTE's share issuance. The first tender offer is expected to take place in Autumn 2025 following MTE's interim results.
2. Having conducted a review of all costs, the board now expects the **ongoing charges ratio** (a measure of the total costs associated with managing and operating an investment fund) to remain below 1% in the future. To that end, the board has negotiated a further reduction in Montanaro's management fee (the second in four years). The management will be reduced from 0.90% to 0.825% per annum of MTE's market capitalisation up to £500m; from 0.75% per annum to 0.70% per annum of MTE's market capitalisation between £500m–750m; and (unchanged) 0.65% per annum of any market capitalisation in excess of £750m. The new fee structure took effect from 1 April 2025. Based on MTE's current market capitalisation of £276m (the total market value of all outstanding shares), MTE's fees are charged at the first-tier rate of 0.825% per annum.
3. Having noted the "changing expectations amongst shareholders", MTE's board has elected to pursue a more active **share buyback** policy. Now, under normal market circumstances, MTE's board will target a single-digit discount to NAV. The board has noted that share repurchases at a discount are NAV accretive to remaining shareholders, and believes this policy will be of benefit to all shareholders. Its buyback policy will continue to remain subject to shareholder approval as necessary to continue the facility.

These policies have already had a notable impact on the demand for MTE's shares. As we show on page 20, MTE's discount to NAV has already narrowed to a single-digit level.

Market update

Although Europe began 2025 on relatively strong footing, having outpaced global equity markets over the first three months, Trump's tariff announcements on 2 April – dubbed "Liberation day" – have disrupted markets (tariffs are a tax or duty to be paid on a particular class of imports or exports). America now has its highest average tariff levels since 1940, with the EU facing a blanket 25% tariff across all of its constituents. However, just a few days later, on 9 April, Trump reversed course, offering a 90-day grace period (a temporary exemption allowing time for negotiations or adjustments before the new rules take effect) to countries that chose not to impose reciprocal tariffs before the new rates come into effect. And, more recently, he has signed new trade deals with the UK and China which have dialled back some of his previous tariffs.

Negotiations between the EU and US are progressing, though no formal agreement has been made. However, on 23 May, Trump threatened to put a 50% tariff on all European Union imports from 1 June, likely an attempt to force the EU to accelerate the negotiations and accept concessions so as to achieve a deal that is more

aligned with Trump's economic interests. There have been signs that the EU may concede more ground to the US than originally thought – the EU having expressed its desire for a “completely balanced outcome” from the trade negotiations – with several EU member states now signalling their desire for a quick deal with the US to avoid the 50% tariffs.

Whilst it is difficult to predict the final outcomes of the various tariff negotiations that are now underway, Trump's blanket tariff approach towards Europe has led to some unexpected consequences. In effect, certain countries are facing a lower tariff burden than Trump's policy would have suggested, particularly since his approach appears to link higher trade surpluses with higher tariff levels (when a country exports more to the US than it imports). Germany, Italy, and Ireland, for example, maintain significantly larger nominal trade surpluses with the US compared to other member states. Germany alone reports a US trade surplus of €85.8bn, far above the EU average of €5.5bn. This means that while some countries will be more heavily impacted due to their large export bases, had tariffs been imposed on a country-by-country basis, they might have faced even higher rates.

Germany

Germany has begun to loosen its strict 'debt break' – opening up the fiscal taps as a result

In a notable departure from its traditionally cautious stance on public spending, Germany – Europe's largest economy – is implementing a new fiscal stimulus regime (a government policy involving increased public spending or tax cuts to boost economic activity) aimed at revitalising its sluggish growth. The German government is relaxing its “debt brake” (a self-imposed fiscal rule that limits structural deficits to 0.35% of GDP, designed to maintain budget discipline) in select areas – a policy that limits annual structural deficits to 0.35% of GDP – in order to increase expenditure.

- German defence spending will increase from 2.1% to 3.0%, equivalent to a €40bn stimulus.
- €500bn in new infrastructure expenditure has also been announced, spread over the next 12 years.
- Federal states will receive a 0.35% of GDP exemption from the debt brake (effectively allowing for €15.4bn in new expenditure by regional government).
- The government will undertake a series of reforms to its debt-brake policy, to further encourage new investments.

Some market pundits believe that Germany's fiscal expansion will be sufficient to offset the impact of the trade war (in conjunction with other countries' stimulus and lower energy prices). However, “offsetting” in this context likely means that European growth will remain subdued throughout 2025, with the market projecting average GDP growth of 1% across Europe for the year. The composite PMI (Purchasing Managers' Index – is a survey-based indicator of business activity; readings above 50 indicate expansion, below 50 indicate contraction) for Europe was 50.2 in May, down marginally from April's 50.4 reading, but still pointing towards a mild expansion. May's figure was also the fifth consecutive above-50 reading. The consecutive positive figures are important as they suggest that, while Trump's tariffs have increased the risk of a recession, businesses still expect to see an expansion in economic activity rather than a contraction.

The EU's recently announced fiscal stimulus may be sufficient to offset the impact of Trump's tariffs

EU-wide action

The EU may not have to rely solely on Germany's measures to support growth, as it has also launched the "Competitiveness Compass" – an initiative aimed at guiding the European Commission's work. Its objective is to enhance European competitiveness through three main avenues: closing the innovation gap; creating a joint roadmap for decarbonisation and competitiveness; and reducing excessive dependencies while improving security.

In addition to these three pillars, the EU has introduced five complementary initiatives: simplifying and reducing regulatory and administrative burdens; lowering barriers within the single market; boosting financial competitiveness; promoting skills and quality jobs; and enhancing policy co-ordination at both EU and national levels. Whilst the announcement encompasses a broad set of objectives (and somewhat aspirational outcomes), it does indicate that the EU recognises the need to improve productivity – and that there is apparent political will to enact the necessary policy changes. Although these initiatives were only launched in January 2025, their timing is opportune, given that Trump's new tariff policy may force Europe to pursue alternative growth avenues if it can no longer rely on its largest export partner.

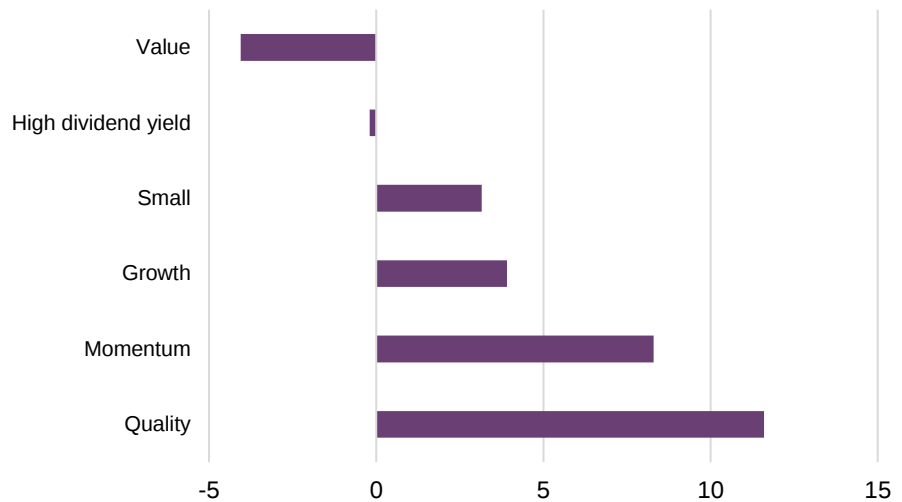
The European Central Bank (ECB) has already taken action to mitigate some of the potential economic fallout from Trump's tariffs, cutting interest rates by 0.25% in April, bringing the eurozone rate down to 2.25% – the seventh rate cut since June 2024. The ECB noted that "the outlook for growth has deteriorated owing to rising trade tensions" and that these tensions are likely to have a "tightening impact on financing conditions" for European consumers and businesses.

A quality growth environment?

Quality growth styles of investing – like MTE – have outperformed during downturns

A deteriorating growth outlook may in fact be a supportive environment for quality growth stocks (companies with strong balance sheets, reliable earnings, and the ability to grow revenues and profits steadily over time), and by extension MTE's portfolio, as shown in Figure 1. Economic slowdowns can lead to expectations of falling interest rates, and lower interest rates and **yields** tend to be supportive of growth stock valuations.

Figure 1: Performance of European style indices relative to the European market during recessions.



Source: Quoteddata, Morningstar.

Data covers Europe's eight recessionary periods since 1980, as defined by the OECD. All data is based on the respective MSCI Europe Index. All data in local currency terms except for the momentum index, which is in Euro. The MSCI Small Cap index only samples data from January 2000. The market index is the MSCI Europe Index.

Investors may also view “quality growth” companies as a safe haven during periods of economic downturn. This is not necessarily because their business models are inherently defensive – unlike certain traditionally lower-growth sectors such as regulated utilities (companies providing essential services like electricity or water, where pricing and operations are controlled by government regulation) – but rather because their strong growth potential may enable them to continue reporting revenue and profit increases even in uncertain economic conditions. This is particularly true for businesses supported by long-term structural trends such as digitisation or demographic shifts. Alternatively, it may be that their higher-quality business models allow them to navigate challenging markets more effectively than their peers, with investors perceiving their earnings as more dependable or their management teams as more capable.

A tangible valuation opportunity

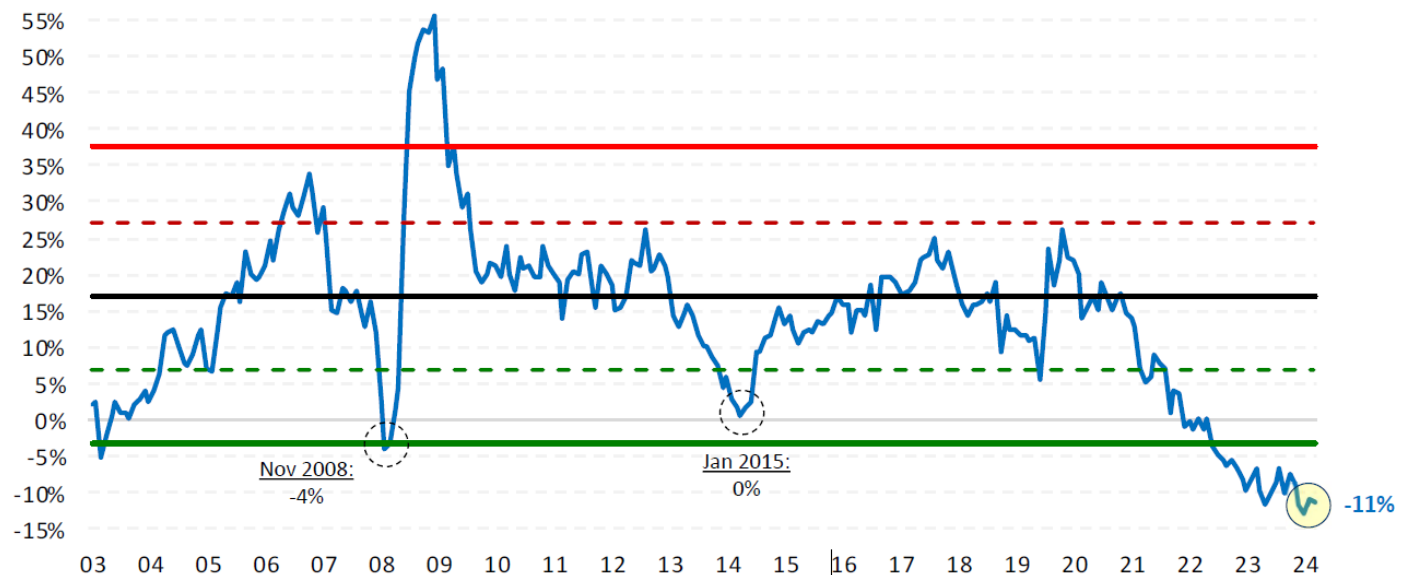
Current European valuations are presenting an attractive opportunity

European equities continue to trade at a notable discount to their global peers, with valuations for both large and small-cap companies looking undemanding by historical standards. Within this, European smaller companies offer particular appeal, combining low starting valuations with the potential for superior long-term earnings growth (a key driver of share price appreciation over time). It is an opportunity that investors have already begun to seize: the first week of March saw the largest inflow into European equities since February 2022, with \$4.1bn invested. Meanwhile, the four weeks leading up to 5 March 2025 recorded total inflows of \$12bn into European equities, the highest level since August 2015. This reflects not only the valuation opportunity presented by European equities but also the increased

risks presented by US assets, which enhances the relative attractiveness of European equities.

European small caps have reached a relative valuation discount (compared to their large-cap peers) not seen since the 2008 financial crisis, as shown in Figure 2. Not only is their current forward P/E (price-to-earnings ratio – is a valuation measure based on projected future earnings) more than two standard deviations below their 20-year average – which would be considered statistically anomalous – but the past two years mark the only sustained period (i.e. more than 12 months) in which European small caps have traded on a lower forward P/E than the broader European equity market.

Figure 2: Europe ex-UK Small vs market 12 month forward PE



Source: Montanaro. Indices used are MSCI Europe ex-UK Small and MSCI Europe ex UK

It could be argued that the fundamentals underpinning European small caps have not deteriorated to an extent that would justify the current valuation gap. Although they trade on a slightly higher P/E ratio, European small caps offer superior earnings per share and are expected to deliver higher earnings growth in 2025, as shown in Figure 3.

Figure 3: MSCI Europe ex UK small cap versus market fundamentals

	Price-earnings ratio (x)	Price-to-book ratio (x)	Dividend Yield (%)	Earnings per share	12m EPS growth est* (%)
MSCI Europe Ex UK Small cap	17.8	1.6	3.5	34.2	18.4
MSCI Europe ex UK	16.2	2.2	3.1	13.4	1.4

Source: Bloomberg, as of 31/05/2025. *Bloomberg estimates of EPS growth for FY 2025.

The performance of European small cap growth stocks has reached an unusually wide gap

European smaller companies with a growth bias may be offering an increasingly compelling entry point. As illustrated in Figure 4, the relative performance of growth versus value within this segment has reached an unusually wide gap. Over the past year, growth stocks have lagged their value counterparts by around 7% – a divergence that is roughly one deviation from the long-term average. Historically, such levels of underperformance have often preceded a period of mean reversion in favour of growth (the tendency for asset classes or strategies to revert to long-term averages over time). The main recent exception was in 2022, following the sharp rally in growth stocks during the post-COVID recovery.

Figure 4: Relative 12-month performance of MSCI Europe ex UK Small cap growth vs value



Source: Morningstar. Data as of 31 May 2025. All figures reflect 12 months of returns, sampled weekly.

How MTE finds its ideal company

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

George avoids trying to time macroeconomic shifts, preferring to focus on the long term. He wants to invest in:

- simple businesses that he 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 (stocks priced reasonably in relation to their earnings); and
- good management that he 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, George and the wider MAML team believe it is important to:

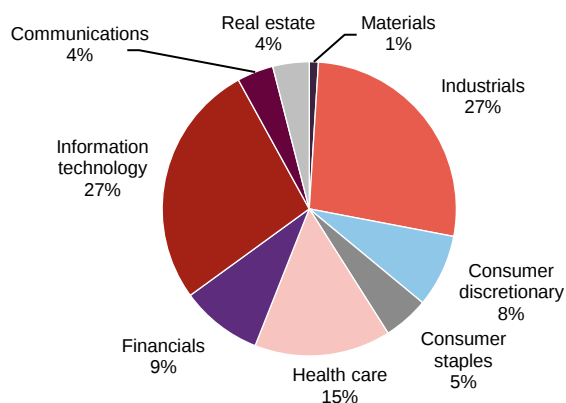
- do the work yourself (rather than relying on brokers);
- be passionate; and
- learn from mistakes (humility goes a long way).

MAML believes it is 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.

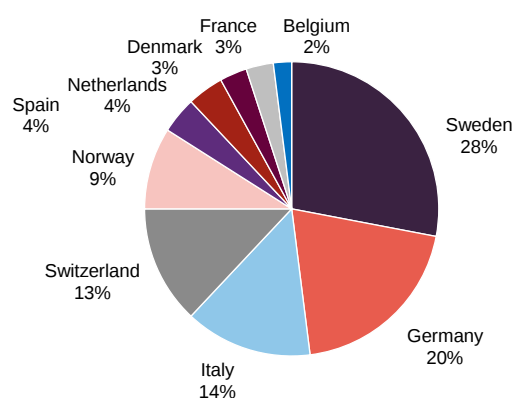
Asset allocation

Figure 5: Sector allocation as at 30 April 2025



Source: MAML

Figure 6: Country allocation as at 30 April 2025



Source: MAML

MTE's portfolio has seen little turnover over 2024

There were 48 holdings in the portfolio at the end of April 2025, a slight decrease from the 50 recorded in our previous note, which used data as of July 2024. **Gearing** (borrowing) has increased slightly, up to 2.7% of net assets from the 1.9% reported in our last publication. The current level of gearing reflects the stock-specific opportunities identified by the team, rather than any reaction to the broader macroeconomic environment.

Geographic and sector allocations continue to be driven by stock selection. MTE maintains its **overweight** positions in healthcare and technology relative to its benchmark, reflecting George's preference for "quality growth" companies – given their perceived resilience to economic cycles, higher growth potential, and stronger cash flow prospects (indicating better ability to reinvest, return capital to shareholders, or weather volatility). In contrast, MTE retains underweight positions in sectors less aligned with this investment style, such as energy, utilities, and financials – industries that tend to be more cyclical and offer fewer long-term structural growth drivers (secular trends such as ageing populations or digitalisation that support sustained revenue expansion).

The only notable portfolio change over the period has been a 6% reduction in technology exposure, likely the result of trading activity by George, with two software companies – Fortnox and Esker – being sold down (as discussed in more detail on page 17).

As a reminder, George typically holds companies through periods of market cyclicity or irrationality, opting to sell only when a company reaches his forecasted valuation or when a company-specific issue arises that could hinder its long-term return potential. He rarely exits positions due to macroeconomic shifts or changes in market sentiment. As such, we do not anticipate significant portfolio turnover (the degree to which holdings are bought and sold) or major changes to MTE's overall portfolio characteristics.

Portfolio characteristics

MTE continues to demonstrate the same high-quality, high-growth characteristics that it had in our prior note, as illustrated in Figure 7. The average balance sheet metrics are expected to improve over 2025 (except for its **return on equity**, which is expected to remain constant). Improvements are expected in both key "growth" metrics (as seen by the increase in revenue and earnings) and "quality" metrics (with higher margins and lower debt); although this is reflected in a higher P/E ratio.

Figure 7: Portfolio characteristics

Ratios	2025 (expected)	2024
Active share	92.3%	92.8%
Price/earnings	24.5x	22.5x
EPS growth	14.9%	12.6%
Revenue growth	10%	7%
EBIT Margin	22%	20%
Return on equity	21%	21%
Net Debt / EBITDA	(0.1)	0.2

Source: MAML, ratios for June 2023 are for FY24, and for June 2024 are for FY25

10 largest holdings

Three holdings have moved up into MTE's top 10 since our last note: Belimo, Brunello Cucinelli and Plejd. These are not new positions, however, as they have historically been amongst MTE's largest holdings. The three companies replaced are NCAB Group, Fortnox, and Esker. Fortnox and Esker were both sold during the period, with Esker exiting due to a takeover. We describe these companies, as well as a handful of noteworthy new positions, below. Note that Plejd's inclusion is a reflection of its strong performance, and that it is a significant contributor to MTE's recent returns, described in page 21. It is worth noting that 2024 saw the lowest portfolio turnover in the last nine years, at only 8%; well below the 17% average over the same period.

Figure 8: 10 largest holdings as at 30 April 2025

	Holding 30 April 2025 (%)	Holding 30 June 2024 (%)	Change (%)	Country	Sector
Kitron	4.9	3.0	1.9	Norway	Electronics manufacturing
VZ Holding	4.6	3.3	1.3	Switzerland	Financial consultant and wealth manager
ATOSS Software	4.5	3.7	0.8	Germany	Workforce management software
CTS Eventim	4.4	4.0	0.4	Germany	Ticketing and events
Plejd	4.0	1.6	2.4	Sweden	Smart lighting manufacturer
Belimo	3.9	2.4	1.5	Switzerland	ventilation and air conditioning
MTU Aero Engines	3.9	4.6	(0.7)	Germany	Aero engine manufacture
Reply	3.5	3.0	0.5	Italy	IT consulting, system integration, and digital services
Brunello Cucinelli	2.9	2.7	0.2	Italy	Luxury fashion brand
IMCD	2.8	3.0	(0.2)	Netherlands	Speciality chemicals and ingredients
Total	39.4	37.1	2.4		

Source: MAML

Figure 9: Brunello Cucinelli (EUR)



Source: Bloomberg

Brunello Cucinelli

Brunello Cucinelli (www.brunellocucinelli.com) is an Italian luxury fashion brand. Although it offers a range of clothing and accessories, it is best known for its luxury cashmere products. The company is also known for its ethical and sustainable business practices.

Brunello Cucinelli reported a strong 2024, with double-digit growth and a positive outlook for 2025. Revenues increased 12.2% over 2024 to €1.3bn, and net income up 19.5% also, at €129m. This growth was generated from a diverse set of regions, with the Americas reporting 18% sales growth and Asia 13%, with sales split evenly between its women's and men's clothing lines. Its management expects this growth to continue, forecasting around 10% revenue growth for both 2025 and 2026, while also retaining its current levels of profitability.

Brunello Cucinelli also made "significant investments" over the year, committing €110m to improving its brand, expanding its production capacity (which is based entirely in Italy), and increasing the number of retail stores. This includes a 10-year production expansion project (2024-2033), aimed at doubling the production of "highly artisanal and tailored products".

Figure 10: Belimo (CHF)



Source: Bloomberg

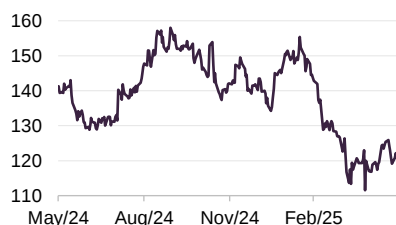
Belimo

Belimo (www.belimo.com) is a Swiss designer and manufacturer of heating, ventilation, and air conditioning systems with a focus on damper actuators, control valves, sensors and meters.

Belimo's inclusion in the top 10 is symptomatic of its share price growth over the past year, up around 44%. This was likely the consequence of its strong 2024, with the company reporting record results. Belimo reported record sales of 944m CHF, up 13.1% over its 2024 financial year. Belimo's management contribute this growth to higher sales volumes, a strong suite of products, and pricing strategies that have offset detrimental foreign exchange movements. Outside of sales, Belimo has been able to increase its EBIT margin from 17.8% to 19.2% (earnings before interest and taxes – a measure of operating profitability; margin improvement suggests better efficiency or pricing), and increase its free cash flow by 20%, to 133m CHF (cash flow generated after capital expenditures, often used to fund dividends, buybacks, or reinvestment).

An example of the international reach of European small caps, Belimo's largest market has now become the Americas, after a 20% growth in demand. Its management highlight that a key driver behind its growth in America, and their global market, has been increasing servicing of data centres (mission-critical facilities that require advanced HVAC solutions for temperature control, given the heat generated by servers), with these facilities requiring significant air regulation. Belimo's management believe that the data centre market will show the strongest growth across all regions in coming years, especially in the Asia-Pacific region. As a result, they expect that their sales growth in 2025 will be slightly above its five-year average of 9.8%, while still retaining an 18-20% margin.

Figure 11: IMCD (EUR)



Source: Bloomberg

IMCD

IMCD (www.imcdgroup.com) is a Netherlands headquartered chemicals and ingredients distributor. It operates through eight business groups, ranging from industrial solutions and construction materials to beauty and nutritional products.

IMCD faced a tougher operating environment in 2024. While revenues rose 6% year-over-year (YoY) to €4.7bn, **organic** earnings declined 3% and net income dropped 5% to €278m. The primary drag on income was the increase in interest expense the company incurred to complete the 12 acquisitions it made during the period (at a cost of €300m), which was exacerbated by higher interest rates.

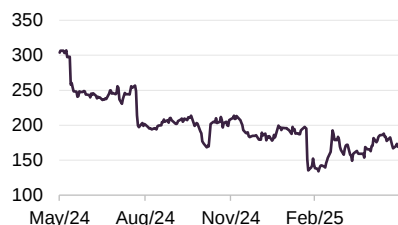
While IMCD's management acknowledges the "challenging geopolitical and macroeconomic conditions, including increased volatility in customer demand", it was positive on IMCD's "solid results and healthy cash flow", with cash earnings remaining largely flat over the period. Untimely IMCD's challenges were primarily felt over the first quarter of 2024, as it reported constant earnings growth in the subsequent three quarters – with the Asia Pacific region and its life sciences division being noteworthy contributors to earnings growth.

However, on a more positive note, IMCD has continued its growth into 2025, reporting 9% revenue growth and 14% net income growth YoY, with the majority of this growth being organic, despite IMCD's significant acquisitions. The company has also listed the Netherlands' main market and appointed a new CEO (the company veteran Marcus Jordan). Nonetheless, Trump's Tariffs have weighed on IMCD's share price, which have fallen 18% year to date (YTD) against a backdrop of improving fundamentals (underlying financial health and operational performance of the company).

Other purchases

The two noteworthy purchases made since our last publication are cBrain, a Danish software engineering firm focused on providing digitisation solutions for governments, and Swedencare, which makes pet healthcare supplements.

Figure 12: cBrain (DKK)



Source: Bloomberg

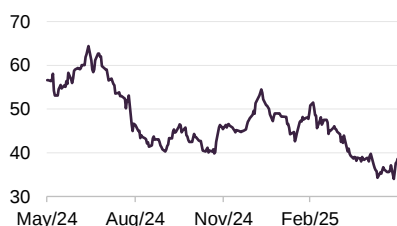
cBrain

cBrain (www.cbrain.com) aims to facilitate the digitisation of a range of government and educational agencies and universities, covering over 100 organisations across the world. Examples of its services include document management, auditing, and subsidy management (systems for tracking and administering public funds or grants). The majority of its revenues are derived from long-term contracts with Danish government customers. Whilst cBrain is a new holding for MTE, it has been on George's buy list for the last eight years, and it was only with a previous market selloff (a broad decline in share prices, often presenting buying opportunities as valuations fall) that its valuation was sufficiently attractive for him to initiate a position.

cBrain has been able to achieve double-digit growth over 2024, reporting revenue growth of 12%, in line with its management's expectations for the year. Similarly, its EBIT margin came in at 32%, at the high end of the 30-32% range predicted by the company's management. cBrain's management noted that the shift towards off-the-shelf solutions by government agencies was a tailwind for the company over the year, with cBrain completing the delivery of digital platforms for three new Danish ministries in just three weeks. Management highlights this as an example of the efficiency of the company's products, as the installation of traditional IT solutions takes years.

Looking forward, cBrain's management forecast lower growth of 10-15% and margins of 18-23% over 2025, but it attributes this to planned investments to improve cBrain's international expansion, a strategic priority for the company. cBrain's management is still positive for the firm's outlook, highlighting the combination of increased shifts to off-the-shelf solutions, and the shortage of skilled IT employees improving demand for its services.

Figure 13: Swedencare (SEK)



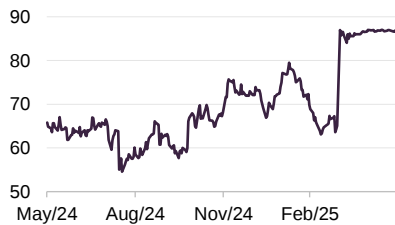
Source: Bloomberg

Swedencare

Swedencare (www.swedencare.com) is a Swedish pet healthcare company, primarily known for its range of pet health supplements. Whilst it produces a range of products, it is well known for its range of animal dental hygiene solutions under the PlaqueOff brand (a line of oral care products aimed at reducing plaque and tartar buildup in pets, contributing to overall pet health). George topped up his position in Swedencare, which has been a small holding for MTE previously.

2024 was a bumper year for Swedencare, during which it reported its highest-ever sales, up 9% to 2.5bn SEK. Its profits also increased, with EBIT increasing 15% to SEK 476m (equal to a 19% margin). Swedencare's reported earnings per share also saw a notable increase, up 68% to 0.62 SEK per share. The company's growth was driven by strong demand for its dental products, with sales up 43% over the year, and management highlighting that ProDen PlaqueOff was one of the fastest-growing brands globally, with its revenues increasing 676% over 2024.

Figure 14: Fortnox (SEK)



Source: Bloomberg

Fortnox

Fortnox (www.fortnox.se) is a Swedish cloud-based software company that provides financial and administrative solutions tailored for SMEs (small and medium-sized enterprises). The company has seen significant share price growth over the past 12 months – up 33% – with Geroge having trimmed part of his position on the basis of good portfolio management and valuation discipline.

Fortnox's initial share price gains reflected the company's continued growth, with it achieving several key milestones during 2024. This included surpassing SEK 2bn in net sales – an increase of 25% year-on-year. The company also completed a restructuring, shifting its focus from six business areas to two (business platforms and financial services), with the aim of improving efficiency and maximising its growth potential.

However, on 31 March 2025, First Kraft (Fortnox's largest shareholder) and the private equity group EQT announced they were making a cash offer of SEK 90 per Fortnox share, a 38% premium to its undisturbed price of SEK 65.1 per share on 28 March. The offer values Fortnox at SEK 55bn and Fortnox's board is recommending it to shareholders.

Disposals

Figure 15: Esker (EUR)



Source: Bloomberg

Esker

Esker (www.esker.com) is a French software developer of products designed to optimise ordering, payments, invoicing, and cash flows. In August 2024, a consortium made up of Bridgepoint (a British private equity firm), General Atlantic (a US private equity firm), and Esker's management made a takeover offer for the company at €262 per share, a 30% premium to the undisturbed price (the price before any public knowledge of the deal, used as a baseline to measure the offer's attractiveness) of SEK 201.4 per share, valuing the business at €1.6bn.

When launching the offer, Bridgepoint highlighted Esker's market leadership, cutting-edge products, and ability to thrive in a competitive environment as key attractions. General Atlantic also noted that Esker's *"mission-critical software enables its enterprise clients to streamline and automate corporate finance processes, delivering meaningful efficiency gains and cost savings"*, adding that Esker is poised for further growth thanks to structural tailwinds (long-term supportive trends such as digitalisation and the shift to automation in finance) and a growing end market.

Performance

Over the past five years, MTE has generated a NAV total return that has underperformed its benchmark, the MSCI Europe ex UK Small Cap Index, by 3.5%. However, as shown in Figure 16, MTE delivered significant outperformance during the COVID-19 period, peaking at the end of 2021 – a time when growth stocks globally were buoyed by low interest rates and the pandemic-driven acceleration of structural trends. MTE then surrendered much of this performance in the first half of 2022, as rising inflation and interest rate expectations triggered a sell-off in growth

George has added value as an active investment manager

stocks (growth stocks are more sensitive to interest rates due to their reliance on future cash flows), alongside a comparative rally in value-style investing.

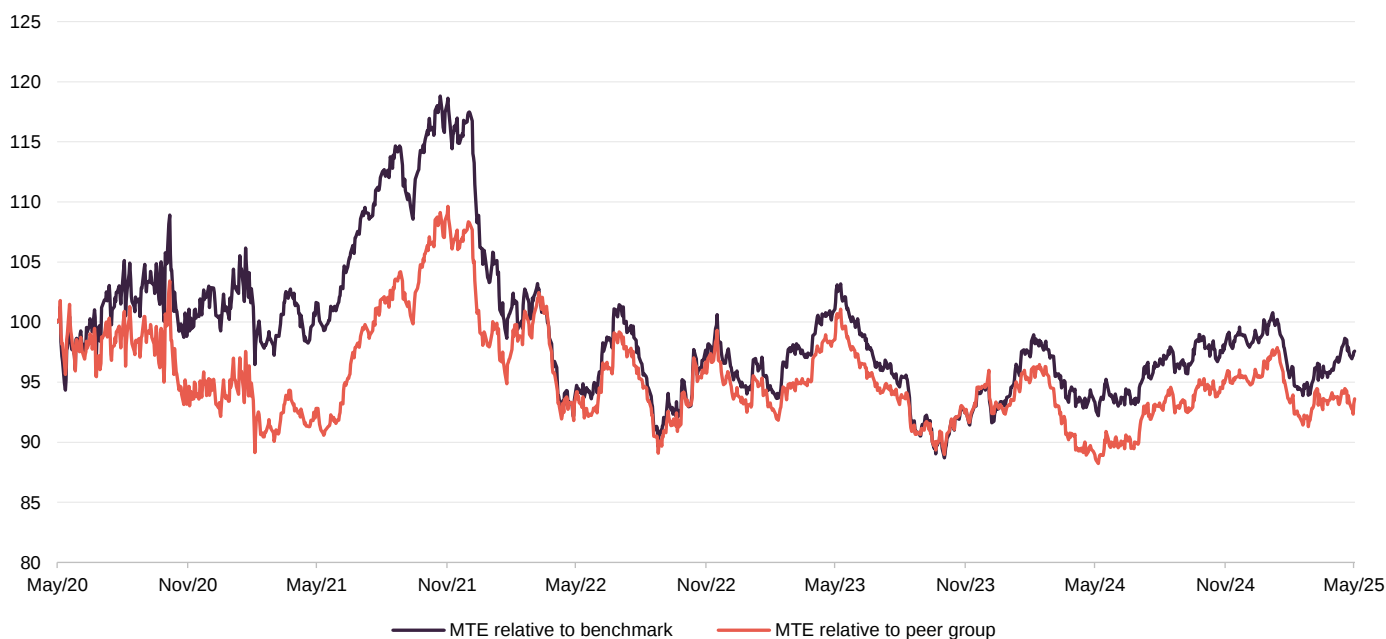
Ultimately, George's investment process remains heavily focused on **bottom-up stock selection** (selecting individual companies based on their individual merits rather than due to macroeconomic or sector-level factors), and this is reflected in the attribution of MTE's five-year returns – although style factors (i.e. MTE's exposure to growth stocks) were the largest detractor, these were offset by George's positive stock selection.

George's consistent approach to stock selection has historically added value for shareholders in MTE. Over the past five years, the trust has delivered an average 12-month **alpha** and **information ratio** of 0.1 (measures risk-adjusted performance by comparing alpha to the tracking error), relative to its benchmark, based on weekly data, with positive alpha and information ratio observed in 59% and 58% of the 262 rolling periods (overlapping 12-month periods calculated on a weekly basis), respectively.

When compared to the MSCI Europe ex UK Small Cap Growth Index, the average alpha and information ratio both remain at 0.1, but with less volatility in the numbers. In this comparison, MTE produced positive alpha and information ratio in 77% and 73% of the sampled periods, respectively.

MTE's 10-year performance remains far ahead of its peers and benchmark

Figure 16: MTE NAV total return performance relative to benchmark and listed peer group



Source: Morningstar, Marten & Co. Note: MTE's benchmark is the MSCI European Smaller Companies Index ex-UK. Listed peer group is European Assets, JPMorgan European Discovery, and The European Smaller Companies Trust.

As is illustrated in both Figures 16 and 17, MTE has underperformed its peers over the last five years, which is likely a reflection of its strong biases to both quality and growth. MTE has both the highest bias towards growth in its closed-end peer group and the strongest score for financial health (a proxy for quality – as it combines scores for return on invested capital, cash flow etc), according to Morningstar.

However, MTE has outperformed the average of its **open-ended** peers over five years, and provided a return that is more than double that of the open-ended **peer group** average over 10 years.

Figure 17: Cumulative total returns for periods ending 31 May 2025

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	10 years (%)
NAV	10.0	13.5	11.2	20.1	49.9	230.9
Share price	11.6	24.1	19.6	25.5	52.4	248.4
Benchmark ¹	7.6	14.3	5.5	16.4	53.6	136.1
Listed peer group NAV average ²	9.6	15.4	5.1	20.8	60.1	159.6
Open-ended peer group average ³	6.8	12.0	5.9	14.5	43.7	102.9

Source: Morningstar, Marten & Co. Note: 1) MTE's benchmark is MSCI European Smaller Companies Index ex-UK. 2) Listed peer group is European Assets, JPMorgan European Discovery, and The European Smaller Companies Trust. 3) Open-ended peer group is based on the IA European Smaller Companies average.

Whilst the last five years have been a challenging period for investors (COVID-19, the outbreak of war in Ukraine, rising inflation – particularly for energy costs and certain commodities, rising interest rates in response, and now Trump's tariffs), MTE's longer 10-year track records of outperformance against its benchmark, closed-ended peer group and open-ended peer group remain intact. Over the last decade, MTE has more than tripled the value of its NAV and share price in total return terms.

Top contributors and detractors

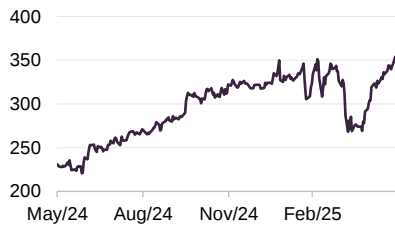
Figure 18 shows the top contributors and detractors to MTE's 2024 returns. We cover the top three of each group below. Note that Esker has been covered already on page 17.

Figure 18: MTE top contributors and detractors for 2024

Top contributors	returns over period %	% contribution	Top detractors	returns over period %	% contribution
MTU Aero Engines	39.6	2.4	Melexis	(36.9)	(1.2)
Esker	56.2	1.6	Amadeus Fire	(36.7)	(1.0)
Plejd	105.2	1.3	Tecan	(43.5)	(0.9)
VZ Holding	41.2	1.3	NCAB	(17.0)	(0.6)
CTS Eventim	26.9	0.8	Technoprobe	(36.5)	(0.6)

Source: Bloomberg, Montanaro

Figure 19: MTU Aero Engines (EUR)



Source: Bloomberg

MTU Aero Engines

MTU Aero Engines (www.mtu.de) is a German aircraft engine manufacturer. MTU's share price gains have been a reflection of the strong results achieved by the company over 2024.

In its most recent results, for its 2024 financial year (ending 31 December 2024) MTU reported earnings that exceeded its management's expectations, reporting revenues of €7.4bn, a 38.2% YoY increase. Profitability also improved, with MTU reporting an EBIT of €1.1bn, up 28.4% YoY and 5% ahead of its management expectations.

MTU reported growth in both its commercial and military engine arms and its commercial maintenance arm. Its engine arm saw a significant 96.4% increase in revenue over the year, partially reflected the lower levels of revenues of the prior year (which were impaired by abnormal charge booked in 2023), though its maintenance arm remains the bulk source of its revenues, generating €5.1bn in sales over 2024 and up 19.9% YoY (aircraft maintenance is a recurring, high-margin business driven by flight cycles and fleet size).

MTU's management believes that it can continue its momentum into 2025, forecasting revenues between €8.7bn and €8.9bn, around 19% YoY growth, and around 15% EBIT growth, although it expects profit margins to be slightly below its 2024 level. MTU's management cites the investments made over 2024, with noteworthy mentions being a new production facility for disks in Munich, a new data centre, and a new development centre; as well as the structural drivers supporting air traffic growth, including an upward trend in passenger and cargo traffic, and supply chain issues requiring older aircraft to operate for longer (leading to higher maintenance demand).

Plejd

Figure 20: Plejd (SEK)



Source: Bloomberg

Plejd (www.plejd.com) is a Nordic smart product manufacturer, making products such as smart lighting and smart heating systems (technology-integrated home products that allow for automated or remote control, improving energy efficiency and user convenience), which make it easier for residential homes to control indoor furnishings and utilities. Plejd's share price more than doubled over 2024. This was the result of its strong quarterly results and also coming a low share price at the end of 2023. We note that Plejd shares have seen continued growth over 2025 and now trade at all-time highs (at time of writing), rallying on the back of the release of its 2024 full-year results.

Over 2024, Plejd reported a 29% increase in revenues YoY, with 662.3m SEK in sales. However, the more impressive figure was the significant increase in profitability, with its EBIT reaching 134.5m SEK, up 126% YoY, with Plejd reporting an operating profit margin of 20.3%. Plejd's management attributes its growth to several factors: significant organic growth in installation volumes, with installations up 36% in the fourth quarter of 2024 alone; successful international expansions, with management highlighting Plejd's growth in the Netherlands – up 89% in the fourth quarter of 2024; successful new product launches over 2024; and improved operation efficiency, with the cost base remaining largely flat relative to Plejd's growing revenues.

Plejd's management expects continued growth into 2025, noting that it again expects revenues to grow while its cost base remains stable, believing that the aforementioned trends of organic growth, international expansion, and demand for new products will once again drive growth in 2025. Plejd has also set aside additional capital for new investments in 2025.

Detractors

Figure 21: Melexis (EUR)



Source: Bloomberg

Melexis (www.melexis.com) is a Belgium-headquartered supplier of micro-electronic semiconductor solutions, with examples of its products including pressure sensors and fan and pump drivers (components essential to precise motion and fluid control, commonly used in automotive systems). Melexis shares fell over 2024 as a result of weakening demand in its end markets, especially the automobile sector, with the market pricing in falling revenues for the company. These concerns were realised when Melexis's management forecasted that fourth quarter sales would come in below expectations, with earnings impacted both by lower industrial demand but also the impact of high inventory levels.

Figure 22: Amadeus Fire (EUR)



Source: Bloomberg

Amadeus Fire (www.group.amadeus-fire.de) is a German specialist personal services firm for the commercial and IT sectors, composed of four different companies, its services range from staff training to specialist recruitment. Amadeus Fire's share price has been on a largely consistent downward trend over 2024, and stagnant over 2025. This de-rating reflects the difficulties facing the German staffing sector, with demand for employee solutions falling in the face of increased near-term economic uncertainty. These issues forced Amadeus Fire's management to cut its full-year forecasts in October 2024, with EBITA expected to be around 15% lower than initially expected.

Figure 23: Tecan (CHF)



Source: Bloomberg

Tecan (www.tecan.com) is a Swiss firm which provides laboratory instruments and solutions for a range of needs, servicing end markets such as forensics and pharmaceutical research. Tecan's share price began a largely constant decline from the second quarter of 2024, reflecting increased pressure on its earnings. Tecan lowered its 2024 guidance after reporting a slower recovery from its life sciences business than expected – with the level of the cut being more than was expected by the market. Having initially expected low-single-digit sales growth, in August 2024 its management changed its projections to a flat or mid-single-digit fall in sales. Having announced its full-year results in March 2025, its revenues came in line with analyst estimates; however, its earnings per share missed analyst estimates by 12%.

Peer group

MTE is a member of the AIC's European Smaller Companies sector, which includes three other trusts: European Assets Trust, JPMorgan European Discovery Trust, and The European Smaller Companies Trust.

MTE has underperformed the peer group median over the last five years, although – as we discussed on page 17 – this can be explained by its strong bias to growth stocks (the highest in the peer group, according to Morningstar data), which has weighed on MTE's performance against a backdrop of higher inflation and interest rates.

Figure 24: Listed European smaller companies peer group NAV total return performance over periods ending 30 April 2025

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
MTE	10.0	13.5	11.2	20.1	49.9
European Assets Trust	5.9	8.8	1.1	11.5	27.3
JPMorgan European Discovery Trust	13.3	20.4	13.4	24.8	60.5
The European Smaller Companies Trust	9.1	16.1	1.6	24.3	92.5
Peer group median	9.5	14.8	6.4	22.2	55.2
MTE rank	2/4	3/4	2/4	3/4	3/4

Source: Morningstar, Marten & Co

As shown in Figure 25, MTE has the smallest market cap of its peers, though its assets are of a sufficient size that this should not be a significant impediment to demand for its shares. MTE also has the lowest yield of its peers, a consequence of its greater exposure to high-growth companies, which typically pay lower dividends.

MTE's discount to NAV is the narrowest in its peer group, though it also sits close to the peer group average as the range of discounts within the peer is narrow. MTE's ongoing charges ratio also sits close to the peer group median, despite its smaller-than-average size, though this figure does not reflect the forthcoming reduction in its management fee (of 0.075%), which will bring its ongoing charges ratio closer to the median.

Figure 25: Listed UK smaller companies funds, comparison as at 03 June 2025

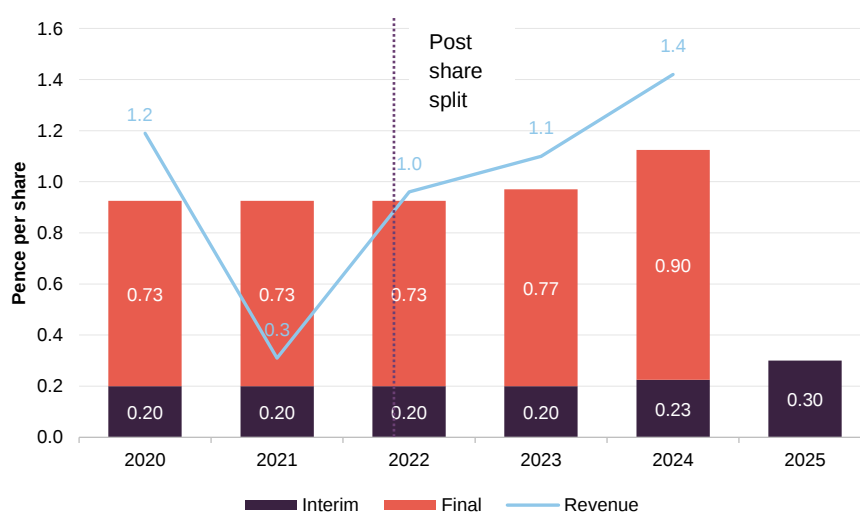
	Market cap (£m)	Discount (%)	Dividend yield (%)	Ongoing charge (%)
MTE	276	(7.1)	0.7	1.00
European Assets Trust	312	(11.7)	6.4	1.01
JPMorgan European Discovery Trust	532	(7.2)	1.9	0.92
The European Smaller Companies Trust	544	(6.9)	2.5	0.67
Peer group median	422	(7.2)	2.2	0.96
MTE rank	4/4	1/4	4/4	3/4

Source: Morningstar, Marten & Co

Dividend

MTE's primary aim is to deliver capital growth to its shareholders, and the level of revenue income received is a byproduct of the manager's stock selection decisions, rather than a target, and so can vary significantly over time. Nonetheless, reflecting its preference for quality companies that will tend to be cash generative and pay dividends, MTE is able to offer a modest dividend yield of 0.7% as of 31 May 2024.

Figure 26: MTE dividend history, accounting years ended 31 March



Source: MAML, Marten & Co. NB Figures prior to 2022 have been adjusted to reflect a 10x1 subdivision of MTE's shares

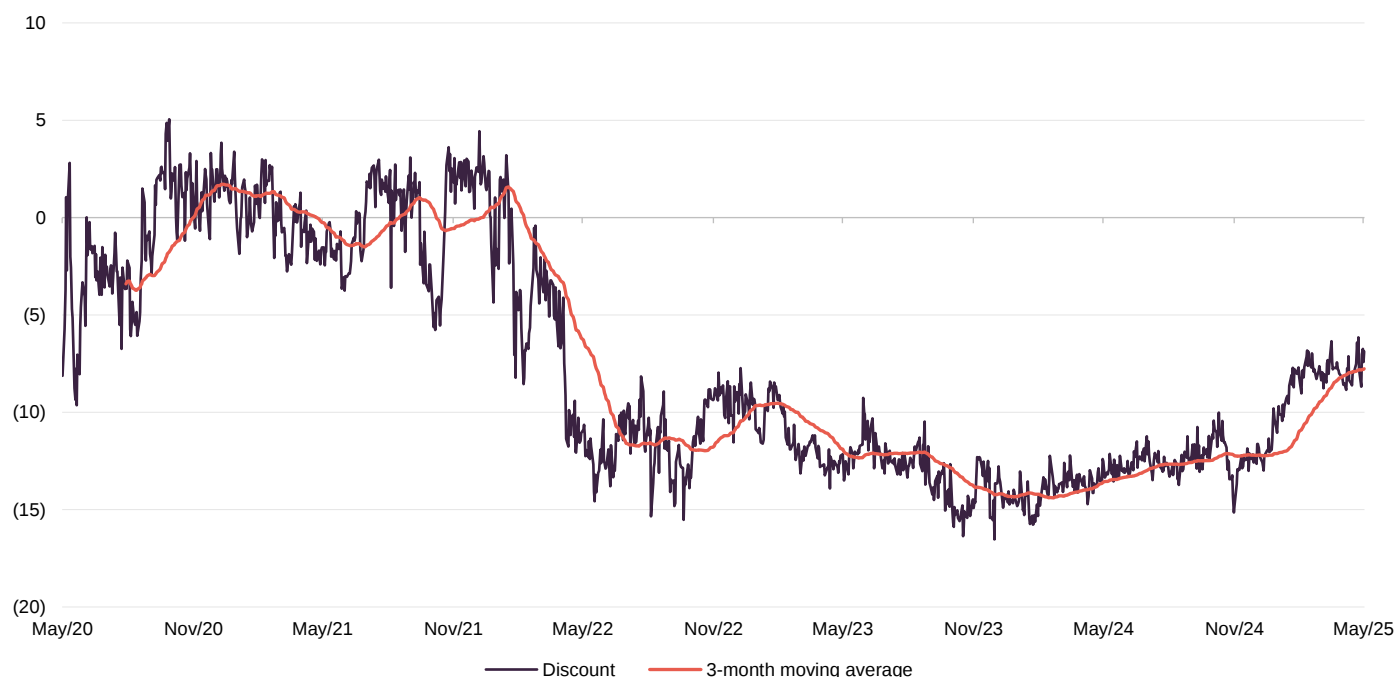
MTE has a substantial revenue reserve (undistributed profits retained by the trust from previous years, which can be used to support dividends during lower-income periods) and was able to cover its 2024 dividend 2.1 times, based on its year-end data, thanks to the growth in dividends paid by its portfolio companies.

As per its half-year report (ending 30 September 2024), MTE's board paid an interim dividend of 0.3p per share for the first half of its 2025 financial year – a 30% increase YoY. MTE also reported an increase in revenues received over the six-month period (up 13% to 1.56p per share). The increased interim dividend partly reflects the timing of when revenues were received, but is also a deliberate attempt to provide a better balance between the interim and final dividends.

Premium/(discount)

Over the 12 months to the end of May 2025, MTE's shares traded within a range of a 15.2% discount to NAV and a 6.2% discount, with an average discount of 11.0%. At 31 May 2025, the shares were trading at a discount of 6.9%.

Figure 27: MTE discount over five years ending 31 May 2025



Source: Morningstar, Marten & Co

MTE's discount to NAV has narrowed since the end of November 2024. This partly reflects broader trends in renewed demand for European equities, as discussed on page 7, which has likely fed through into the demand for MTE's shares. The board has also been active in buying back MTE's shares, having repurchased 17.1m shares (equivalent to 10% of the current circulation) since the beginning of 2025. Another factor has been purchases by Saba Capital (Saba is an activist investor known for acquiring stakes in investment trusts trading at a discount), which acquired approximately 13% of MTE's shares during the latter part of 2024 and early 2025. However, Saba has since begun to reduce its holding and now owns approximately 9% of the trust (at the time of writing).

MTE's discount has narrowed over 2025, now trading on a single digit discount

However, whilst it is early days, we think the value-enhancing initiatives announced by the board on 27 March 2025 (six-monthly tender offers of up to 5% of NAV at a 5% discount to NAV, a reduction in the management fee and the decision to defend a single digit discount – all outlined on page 5), have led to a step change in MTE's discounts and should give investors confidence that they should be able to enter and exit MTE at discounts around this level.

MTE has powers to issue and buyback shares, which it renews regularly at the 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. In addition, the board encourages the manager to market the company to new investors.

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 28: 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
Unfazed by market turmoil	March 2022	Annual overview
No Continental drift	August 2023	Annual overview
Primed for ignition	August 2024	Annual overview

Source: Marten & Co



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