



Montanaro European Income (Offshore) and (Onshore)

Europe ex UK

Introduction

Onshore and Offshore (Dublin based) options of the strategy available

This is a 50-stock portfolio focused on investing in 'quality growth' companies at a reasonable price for the long term. The strategy launched in March 2012 but was repositioned with an income bias in November 2015. The income objective is above the MSCI Europe ex-UK Small Cap yield over three years with 5% growth in distributions per annum. It is an unconstrained fund whereby positioning tends to be one third mid-caps (over EUR5bn market cap) and two thirds small caps (under EUR5bn market cap).



[Click here to read the Montanaro approach to ESG investing.](#)

Why RSMR Rate this Fund

- Dedicated investment team (among the largest in the market) focused on small and mid-cap European companies
- Differentiated underlying exposure through seeking income in the small and mid-cap space
- Strong risk adjusted performance with the benefit of an attractive dividend yield

Fund Process

The investment process begins by filtering down the investment universe of approximately 6,000 UK and European companies from the highest quality (AAA) to the lowest quality (D) with a total of six categories (AAA, AA, A, B, C, D). The team are interested in the first three ratings which represent the top 40% of the universe. This universe is further narrowed to approximately 1,000 mid and small cap companies and approximately 700 European income companies. They use a proprietary screen to monitor criteria covering profitability, growth, leverage, cash and volatility. The screen also provides information about stock liquidity, valuation, momentum, and allows search by sector, region, country, company size, and company description. Meeting company management and regular sites visits form a crucial part of the decision-making process. As part of company due diligence, analysts take references from industry contacts, suppliers and customers. Having identified an interesting company, the analyst then completes a qualitative checklist. The analyst scores a company based on a wide range of criteria. An aggregate score is produced (out of 100; 55 is the pass mark) which reflects the quality of the business and its management.

If the company passes this stage, the analyst will complete a corporate governance checklist and an environmental & social checklist as well. Once an investment idea reaches this stage, the analyst must present his / her conclusions to the Investment Committee who challenges the assumptions. They have weekly meetings to supplement the formal quarterly meetings where they review and agree on the portfolios across all the firm's strategies. If the new idea passes this process, it will be added to the 'Approved List' and is then eligible for portfolios. The approved listing contains c200 companies (UK and Europe). Once a stock has been approved, the analyst builds a discounted cash flow model for the company providing economic and financial understanding of the business. The primary focus is the cash flow return on operating assets for the quality assessment. Companies are also assessed for dividend safety and the potential for sustainable dividend growth. Once this is completed, the analyst will produce a target price for the share of equity. Alongside this, a recommendation is placed on the stock, reflecting the analyst conviction. This is either a strong buy, buy or hold. In terms of portfolio construction, target weightings vary from 1% to 3.5% and the manager will top slice at 5%. While there are no benchmark limits, the manager will not hold more than 10% in any sub-sector. The sell discipline is triggered where an analyst price target is met, top slicing, takeovers, or where the dividend yield drops below 1.5%. As an independent quoted small companies specialist, the team complete their own internal research and do not rely on sell side research.

Evaluation

The underlying exposure is vastly different from a large cap income fund which can be more focused towards banks, utilities and telecoms. There is a broader diversification across the sectors with industrials, non-bank financials and consumer names featuring prominently. The manager holds a mix of lower income/higher dividend growth and higher income/lower dividend growth names.

Application

This fund offers investors an income stream with the prospect of strong capital growth from investing in faster growing companies than the traditional large cap dividend stalwarts. It may be used as a satellite option in an income focused equity portfolio.



Important Notice

This factsheet is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced direct from fund managers and from a number of websites. This information is therefore as current as is available at the time of production.



Our Opinion

Montanaro is an independent boutique focused on small and mid-cap investing and is among the largest independent teams dedicated to European smaller companies in the market, meaning they are well placed to add value in an under-researched area of the market where sell-side research is becoming less important following the introduction of MiFID II.

RSMR

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