

# Montanaro European Smaller Companies Trust

Equity Small Cap Europe

## Introduction

The trust seeks capital growth from investments in smaller companies within continental Europe. Operating in a pool of companies with a market cap of less than €5 billion, the team seek out sustainable growth companies in structurally positive end markets.



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

## Manager - George Cooke

George joined Montanaro in July 2010. He is manager of the Montanaro European Income Fund, European Smaller Companies Fund and the European Smaller Companies Investment Trust and also has analyst responsibilities.

After leaving university George 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.

George completed a BA (Hons) in Management Studies at University of Nottingham before moving on to complete a MA (with Distinction) in Corporate Strategy & Governance also at University of Nottingham. George has a Diploma in Insurance from his time at Aon Benfield and is a Chartered Financial Analyst (CFA).

## Trust Objective

The investment objective is to achieve capital growth by investing principally in Continental European quoted smaller companies.

## Investment Process

The universe consists of around 6,000 European companies of which 2,300 have a market cap of between €100m and €5bn. Of these, those that are loss making are removed and this leaves c1,700 companies. The team utilise a 14 criteria screen to rate the remaining companies on a scale of AAA to D, with the possible constituents being around 950 companies that rate AAA, AA, A based on the quantitative screen. These are then subject to fundamental screening by the analyst team. The analyst will seek to understand whether a company is a good business, a key tenet to Montanaro's strategy, looking at growth themes, a SWOT analysis and at proprietary screens. This leads to a presentation to the investment committee – all analysts and PMs must undertake this process. The investment committee will question the analyst and debate the investment idea. If the company fails the investment committee, no further work is undertaken. The ideas that pass make it to the approved list, comprising around 200 names. This triggers further in-depth valuation work on the company which results in the analyst rating the stock a strong buy, buy or hold. Once a company is rated, it does not automatically enter the portfolio, the manager will look at the valuation of the investment as to when it will enter the portfolio.

The analytical work seeks to understand the expenditure the companies make to invest in their future. The preference is for companies who can self-sustain growth through investment and end market growth. Key to this is having a sustainable, and preferably growing, margin. Part of the proprietary analysis is to reorganise the balance sheet into operating and non-operating assets to create a Return on Adjusted Capital Employed (ROACE). This assists in identifying those assets that are driving returns for a business.

## Gearing

The trust can have borrowings of 30% net of cash. There are borrowings totalling €25 million in place.

## Performance Fees

There is no performance fee.

## Discount Mechanism

The trust's board will seek to buy shares in the market should the trust trade at a 10% discount for a sustained period of time and if the discount is significantly wider than average for similar trusts.

## Our View

The intensity and rigour of the evaluation process in firstly screening investment ideas, and then the investment committee approving the idea, is considerable. This is reflective of the resource that the trust has to support it. The managers are seeking sustainable growth from companies, based on the belief that consistent earnings growth powers valuation changes, and also seeking stocks in structural growth areas. These compounders of growth

are more prevalent in the smaller companies space but being able to identify a company with strong management and a clear growth trajectory is key. The team have shown themselves adept at sourcing these ideas and letting their winners run. The trust’s board allows the managers to evolve the process where winners are held for longer periods than in the past.

The fund benefits from a strong process and a team of analysts who execute this process. The specialism in small and mid-cap investing requires a level of diligence greater than in larger cap vehicles and we believe the team executes this well. The trust offers a differentiated view on Europe and is expected to perform well in periods of positive sentiment for European markets. The team’s rigour, and ability to accurately forecast future growth for companies is the key driver in the analysis, and by identifying the key operating assets and their variables the team can home in on where the economic value add is coming from in a business. Information is shared on a cross sector basis to identify companies which may have the characteristics of successful investments, creating a positive feedback loop for managers. The trust will lag when markets are driven by low quality businesses, the team aim to have a blend of quality and growth to mitigate times when the market prefers lowly rated companies.

**How to Use This Trust:** This trust can used as a satellite holding within a blended approach to a European weighting, or as an option for higher risk /volatility portfolios. The trust should benefit from periods of positive sentiment in Europe.

Key Strengths

Business

Montanaro are known for their specialism in smaller company investing. The founder is very much part of the day to day investment decision making.

Team

The trust is run by one of the largest analyst teams in the European small cap space who are sector specialists in their respective categories. They operate a team based approach using a blend of intensive fundamental work and proprietary quantitative screens.

Process

Rigorous, repeatable process which has been in place over three decades. There is a high bar for investments to make the trust and committee scrutiny to ensure ideas are best in class.

Product

The trust offers investors high growth, quality names within the European Small Cap space.



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