

Montanaro UK Income

UK All Companies

Introduction

(Offshore)

The fund invests in quality growth stocks of small and mid-cap companies but does not invest in AIM, micro-cap, and unquoted stocks. The fund has a focus on profitable companies paying sustainable and growing dividends whilst ensuring an attractive level of total returns are achieved over the long-term.

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



Why RSMR Rate this Fund

- Montanaro has the largest and one of the most stable small-cap teams in the UK, although it is not well recognised in the retail market
- The exclusion of AIM, micro-cap and unquoted stocks differentiates the fund from its closest peers
- The fund has substantially outperformed its benchmark since launch

Fund Process

The process begins with the investment universe of around 6,000 stocks being filtered down to around 300 companies that are suitable for a UK income fund. Montanaro use a proprietary screen which looks at profitability, growth, leverage, cash and volatility. The screen provides information about stock liquidity, valuation and momentum.

Meeting company management and regular site visits form a crucial part of the decision-making process, and as part of the due diligence, analysts take references from industry contacts, suppliers, and customers. Having identified a potential investment, the analyst then completes a quantitative checklist and scores the company on a wide range of qualitative criteria and the aggregate score is designed to reflect the quality of the business and its management. Analysts also have to complete a corporate governance checklist and an environmental and social checklist. Discounted cash flow models are produced and the sustainability of dividends is assessed, as is the potential for dividend growth. Target prices are set, and the analyst then presents their findings to the Montanaro investment committee who challenge any recommendations. All research is carried out in-house and this expertise is a key strength of the fund.

In terms of portfolio construction, target weightings vary from 1% to 3.5% and the manager will top-slice at 5%. The sell discipline is triggered when a price target is met, when the holding goes over 5%, in the event of a takeover, or where the dividend yield falls below 1.5%. Around half the portfolio is invested in small-cap companies, those with a market capitalisation of between £100m and £1.5 billion, and half is invested in mid-cap companies, those with a market capitalisation of £1.5 - £10 billion.

Evaluation

This fund is a differentiated offering, drawing on the expertise of the largest smaller companies team in the UK. It is a conservatively managed UK income fund which in the longer term should provide investors with attractive returns.

Application

This fund can be used to diversify any UK equity income portfolio or to provide a more defensive exposure to UK smaller companies.

Our Opinion

Established in 1991, Montanaro have a strong long term track record investing in smaller companies and have built up a substantial team of analysts to carry out proprietary research into stocks which receive less coverage than their larger peers. The fund is well diversified from a sector level and in terms of the underlying stream of dividends and is not overly reliant on conventional income sectors such as resources or banks. We believe that this is an extremely attractive offering for investors seeking a healthy and sustainable level of equity income and/or exposure to smaller companies.

Important Notice

This document 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 directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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