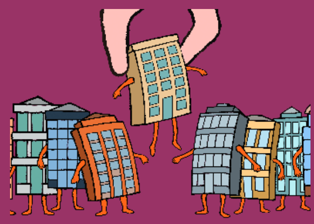
European Smaller Companies Fund

Quarterly review – Q3 2025



Risk-on quarter – almost everything went up:

- Equities rallied (MSCI World +9.3%), Bitcoin reached new all-time highs
- Gold posted a standout quarter (+19.3%) and US Treasuries modestly positive
- SmallCaps underperformed LargeCaps by 2% in Europe ex-UK and by 5% in the UK *

Quality has continued to underperform everywhere:

- Quality has lagged by 7% over 12m in the US, by 11% in the UK and by more than 12% in Europe

US investors are hooked to Growth, European investors prefer Value:

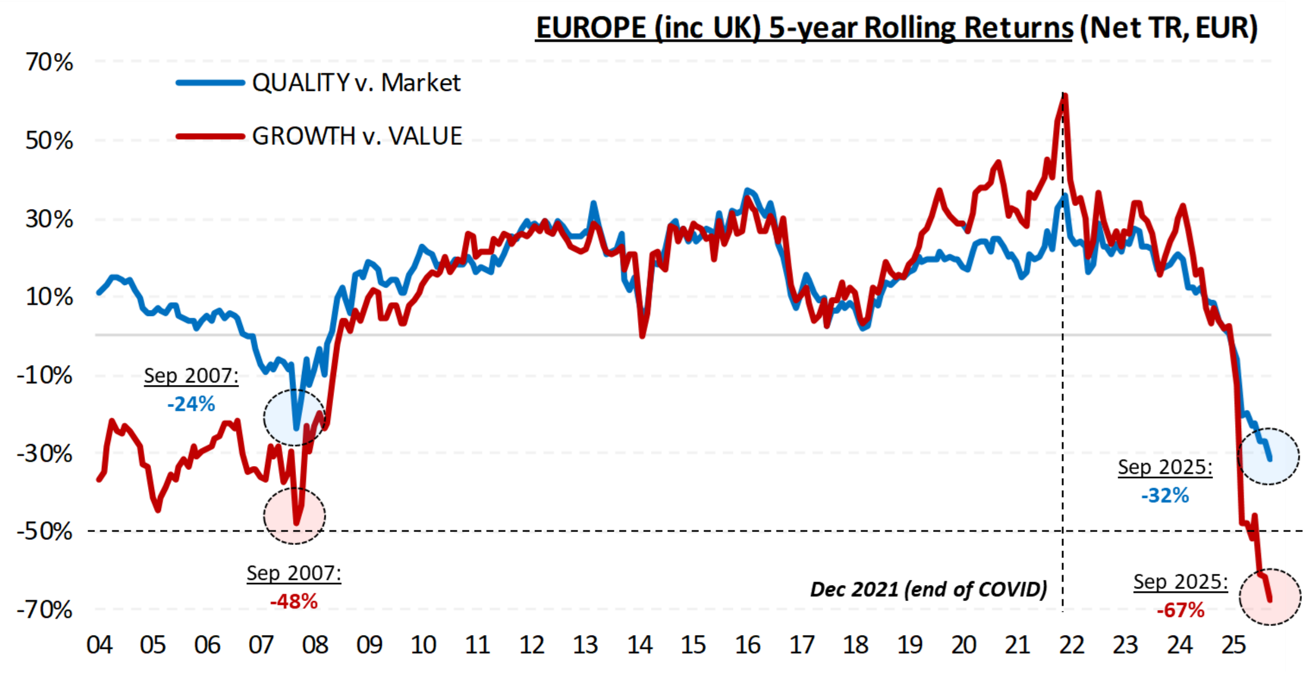
- 10% outperformance by Growth in the US over 12 months
- 9% underperformance in Europe ex-UK

Note: All returns are Total Returns in GBP.
**Based on the MSCI Europe ex-UK SmallCap v. LargeCap indices, and the Numis Smaller Companies (ex-IC) vs LargeCap Indices.*

The third quarter of 2025 remained a challenging environment for our "Quality Growth" style of investing. Global equities continued to advance, led once again by speculative areas of US technology – quantum computing, bitcoin-linked equities and unprofitable growth names all delivered outsized gains.

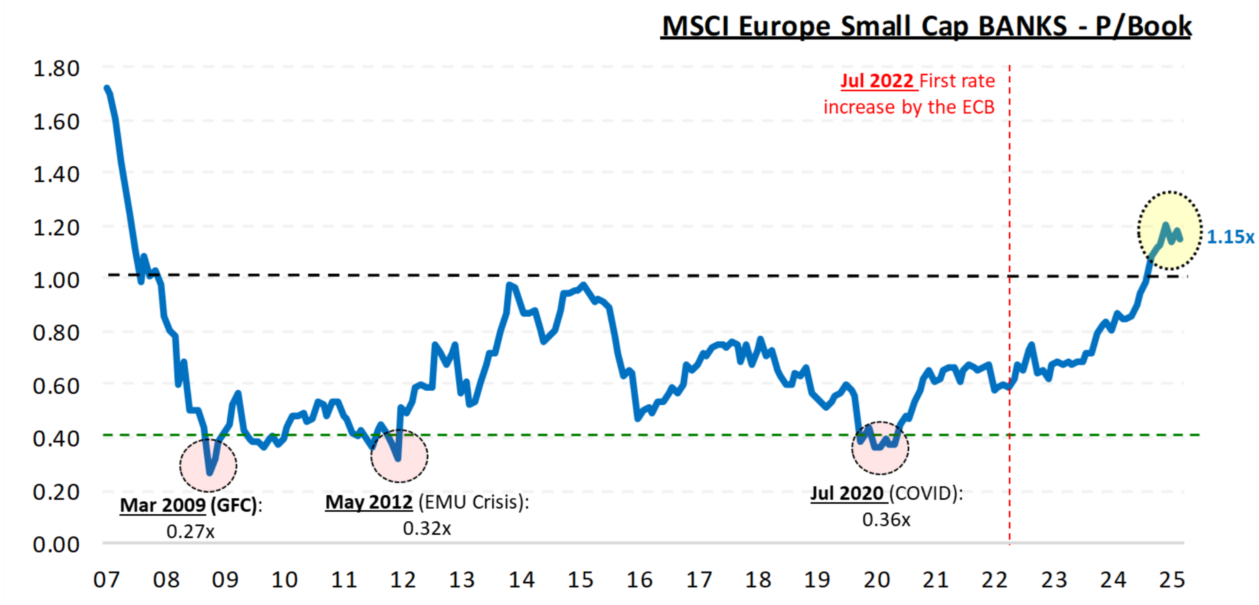
Gold had another stellar quarter, the reasons explained by several factors: 1) hedging versus a declining US dollar; 2) ongoing inflationary and macroeconomic concerns; 3) a "fear-of-missing-out", perhaps best expressed by a statement from the Chief Strategist of a major bank: *"gold has* *become so big…that you cannot ignore it. There becomes a level when it becomes impossible not to own."* A rally built on fundamentals it was not.

Across Europe, defensive and higher-quality businesses lagged as Value areas of the market rallied. As shown below, Europe's Quality style has endured an unprecedented period of underperformance. On a five-year rolling basis, Quality has now lagged the market by over 30% — the weakest relative performance in more than two decades. Growth, meanwhile, has fared little better, underperforming Value by almost 70% over the same horizon. This divergence reflects the deep market preference for cyclicality and short-term earnings leverage rather than for companies with resilient profitability and balance sheets.



Source: Montanaro Asset Management, MSCI, Factset.
Indices used are: MSCI Europe Quality Index, MSCI Europe Index, MSCI Growth Index, MSCI Value Index (all in EUR).

Banks, in particular, continued to benefit from higher-for-longer interest rates, with European SmallCap banks now trading at over 1.1x book value — their highest level since before the Global Financial Crisis. The Fund's structural underweight to this area proved a headwind.



Source: Montanaro Asset Management, MSCI, Factset.

In short, this was a quarter that rewarded cyclical risk-taking over steady profitability. However, periods of extreme dispersion such as this have historically preceded strong recoveries in Quality investing. Already we are seeing signs of a different, more favourable, market environment in October. We remain confident that the fundamentals of our holdings — high returns on capital, robust balance sheets and strong structural growth potential — will ultimately be rewarded as market leadership normalises.

Performance & Portfolio

During the quarter, the NAV of the Euro distribution share class declined by 3.9%, an underperformance of 4.7% versus the MSCI Europe Small Cap benchmark index (in total return terms).

The **strongest contributors** during the quarter were:

- **Technoprobe** – the Italian developer of semiconductor testing equipment rose on signs of a cyclical recovery in its core end market.
- **Technogym** – the Italian producer of fitness equipment and digital wellness solutions advanced after reporting solid first-half results supported by new product launches across existing lines and the Reformer (pilates machines).
- **Plejd** – the Swedish developer of smart lighting and home automation solutions gained

as it continued to deliver impressive organic growth, supported by new product launches and international expansion.

The **weakest contributors** during the quarter were:

- **CTS Eventim** – the leading ticketing provider in Europe drifted after Q2 results were impacted by M&A integration costs, with management reiterating guidance at the lower end of the full-year range.

- **ATOSS Software** – the German provider of workforce management software fell on soft order intake at its half-year results and was caught up in the global SaaS sell-off during the quarter. Encouragingly, the Founder and CEO purchased €6m of stock towards the end of the period.

- **IMCD** – the global distributor of specialty chemicals declined after reporting disappointing Q2 results that reflected weak chemicals consumption worldwide.

Engagement / ESG

MTU Aero Engines: following a Wall Street Journal article on toxic "fume events" in Airbus A320 cabins, we engaged MTU to determine whether its engine components were implicated. The company clarified that the issue is structural to Airbus aircraft and relates to the bleed air system, not to MTU's supplied parts. Airbus has already introduced technical fixes in newer models. With this assurance, we closed the engagement but will continue to monitor industry developments on cabin air quality.

Games Workshop: ahead of the AGM, we engaged with the company on board composition and diversity. Games Workshop explained that recent board expansion had temporarily diluted female representation, though ethnic diversity had improved. Following constructive discussions with Chairman Mark Lam, we supported his re-election.

Cranswick: following further animal welfare allegations at Somerby Top Farm, linked to earlier footage from North Moor, we engaged with the company. Cranswick confirmed the incidents were historic and that new management teams had been installed at both farms since May 2025, alongside corrective measures. An independent review into animal welfare practices is underway, with findings expected in November 2025. We have downgraded Cranswick's ESG score to reflect the heightened controversy risk and will revisit once the review's results are available.

Outlook

Markets today are being driven less by fundamentals and more by momentum, hype and fear of missing out. Investor psychology has tilted towards chasing what has worked, regardless of valuation. The rally in AI-related equities is a case in point: capital continues to flow into a narrow group of MegaCap names, while the broader market has struggled.

We have seen this before. Periods when a handful of themes or sectors dominate market performance tend to coincide with the later stages of a cycle. Value shares – typically more economically sensitive – often outperform when economic data strengthens or when inflation expectations rise, while Quality businesses can lag temporarily. This is a normal part of the investment cycle.

History suggests that such phases do not last indefinitely. When enthusiasm fades and markets begin to refocus on earnings, cash generation and balance sheet strength, companies with durable business models and pricing power tend to reassert their leadership.

As we wrote recently in our blog on passive dominance, the rise of passive vehicles has only amplified these cyclical extremes. Inelastic market behaviour means flows now dictate price levels more than fundamentals. Yet when momentum unwinds, fundamentals reassert themselves – and active, bottom-up stock picking returns to the fore.

Against this backdrop, we remain focused on our areas of expertise. We have strengthened our process in recent years, tightening risk management and refining portfolio construction, while ensuring that our team is well resourced and spending as much time as possible speaking to management teams.

We continue to believe that investing in Quality, growing businesses with strong balance sheets and sustainable competitive advantages is the best way to compound capital over time. Markets do not stay the same forever; they change when investors least expect it. When this happens, our disciplined and patient approach should be well placed to benefit.

Alex Magni

Stefan Fisherfeier

October 2025

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Montanaro Asset Management Ltd | 53 Threadneedle Street | London EC2R 8AR

T: +44 20 7448 8600 www.montanaro.co.uk