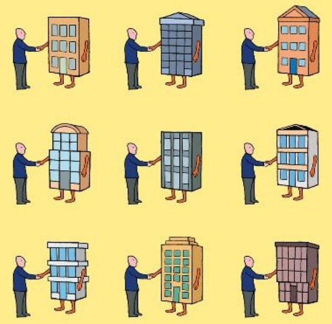
The UK Income Strategy

- Montanaro UK Income Fund (Dublin)
- WS Montanaro UK Income Fund (UK)

Quarterly review – Q3 2025



A tough quarter for UK Small & MidCap:

- UK SmallCap trailed LargeCap by ~7% amid rising gilt yields and continued outflows from the asset class *

Quality out of favour:

- Heading towards an "annus horribilis" for Quality, as the factor underperformed the overall UK market by c. 5% in Q3 and 9% YTD**

Takeovers continue apace:

- Heightened takeover activity and elevated bid premia underline the valuation opportunity in UK Small & MidCaps

Note: All returns are Total Returns in GBP.
**Based on the MSCI UK SmallCap vs LargeCap indices; ** based on MSCI UK Quality vs MSCI UK indies*

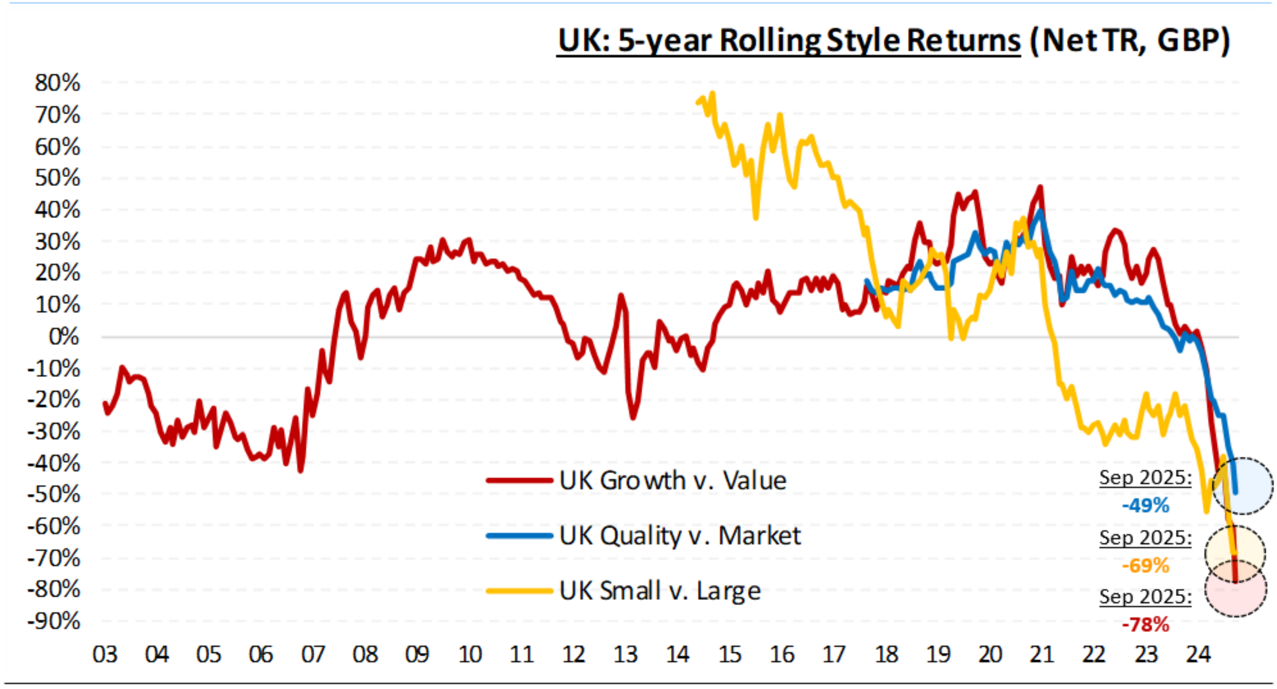
The third quarter of 2025 remained a challenging environment for our "Quality Growth" style of investing. Global equities continued to advance, led once again by speculative areas of US technology – quantum computing, bitcoin-linked equities and unprofitable growth names all delivered outsized gains.

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.

In the UK, Small and MidCap companies lagged their LargeCap peers by 7% in the quarter, while defensive and higher-quality businesses also lagged as Value areas of the market rallied. Quality underperformed the UK market by 5% in Q3. These trends are a continuation of the environment seen in the UK over the last five years, namely that SmallCap, Quality and Growth have all been out of favour. Indeed, these factors – to which the Fund is exposed – have underperformed by 69%, 49% and 78% respectively over the last 5 years. These movements (shown in the chart below) reflect the current deep market preference for cyclicality and short-term earnings leverage rather than for companies with resilient profitability and balance sheets.

Low-margin service companies, defence, banks and gambling companies have all performed strongly this year – areas to which the Fund has no exposure. Nevertheless, 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 long-term market leadership normalises.

UK Quality, Growth and SmallCap all under immense pressure



Source: Internal, Factset, MSCI.
Indices used: MSCI UK Growth, MSCI UK Value, MSCI UK Quality, MSCI UK, MSCI UK Small Cap, MSCI UK Large Cap.

Performance & Portfolio

During the quarter, the NAV of the Sterling seed share class of the **Dublin domiciled Fund** declined by 3.3%, compared to a benchmark return (IA All Companies Sector) of 3.1%.

The NAV of the sterling income share class of the **UK domiciled Fund** declined by 4.3%.

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

- **JTC** – the provider of fund, corporate and private client services rose after confirming it was in discussions with two private equity firms regarding a possible offer for the company.

- **Jupiter Fund Management** – the investment management company advanced as investors gained confidence in its improving flow outlook and ongoing cost-saving initiatives.

- **Diploma** – the distributor of specialised industrial products gained after reporting robust performance, supported by aerospace supply chain shortages and strong demand for wiring systems in the US.

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

- **Hilton Food** – the supplier of packaged and processed meats fell after UK seafood volumes were impacted by high white fish prices and capital expenditure increased at its Walmart Canada facility.

- **Games Workshop** – the creator of tabletop miniature games and fantasy products drifted despite in-line trading updates.

- **SThree** – the specialist STEM recruiter declined after reducing expectations amid weak demand for technical skills and the worst staffing downturn since 2000.

During the quarter, we initiated a position in **Renishaw**, a global leader in industrial metrology and position measurement tools, which is benefitting from the structural growth in precision manufacturing and industrial automation.

We believe the business is at an inflection point, driven by more focused capital allocation and an improving growth outlook, which should drive margin expansion.

We also initiated a position in **Volution**, the leading provider of energy-efficient ventilation solutions that improve indoor air quality and comfort. Benefiting from regulatory drivers, it has an impressive track record of organic & acquired growth, which has diversified the business through international expansion and which we believe will continue in the years ahead.

AG Barr, the beverage brand company best known for Irn-Bru, Rubicon juices, Funkin' cocktails and Boost energy drinks, was also added to the portfolio in the quarter. With strong brands, product innovation and a well-invested manufacturing base, we believe they are well set to continue their impressive 20-yr track record of 7% PBT CAGR. With a net cash balance sheet and progressive dividend policy, the company provides a good combination of growth and yield.

Finally, we added **MONY Group**, a leading price comparison website in the UK. We believe that their investment in a loyalty programme can drive lower customer acquisition costs, higher margins and further growth in the years ahead, while the return of the energy switching market will also support growth. This is a highly cash generative business currently offering a 7% yield, with the opportunity for share buybacks to drive additional returns on top.

During the quarter, the Fund exited the following names. **RS Group**, an electronics distributor, was sold as ongoing research led us to lose conviction in their competitive positioning, and because we saw a superior risk-reward balance in other industrial names. **FDM**, the provider of junior IT resource primarily into banks and government entities, was sold on fears of structural headwinds from AI. **Greggs**, the UK bakery chain, was also sold as we believe their competitive positioning has become weaker in the context of a challenging UK consumer backdrop. Finally, **Admiral** exited the Portfolio after excellent performance had driven its market cap to >£10bn; our intention is always to recycle money from strong performers that reach the top end of our market cap range into smaller companies which we perceive to be undervalued.

Engagement & ESG

Cranswick: we engaged following new animal welfare allegations at Somerby Top Farm. The company confirmed the issues were historic, with new management in place since May 2025 and corrective measures implemented. An independent review is underway, due November 2025, and we have downgraded Cranswick's ESG score pending its findings.

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.

Outlook

While the near-term environment remains difficult for Quality Growth investors, we take confidence from the underlying strength of our portfolio companies. Balance sheets are robust, dividend cover remains healthy and operational performance in general continues to meet or exceed expectations. Where valuations have de-rated, this has created further opportunities: many of our holdings now trade on historically depressed multiples despite consistently delivering earnings growth and cash flow. Encouragingly, several of our more recent additions to the Portfolio have made a positive start, underlining that opportunities exist to buy high-quality businesses at attractive valuations.

The UK equity market as a whole faces headwinds. Higher gilt yields and fiscal uncertainty are keeping pressure on valuations, and investors remain preoccupied with short-term themes and momentum trades. Yet extremes in style performance rarely persist. The prolonged dominance of Value and the indiscriminate rally in unprofitable businesses suggest that we are closer to the end of this cycle than the beginning.

Importantly, the signs of corporate activity we are seeing – whether in the form of takeover bids or buyback programmes – reinforce our conviction that UK equities are undervalued. The extreme bid premia that are being offered (as much as 100% in some cases) highlight that acquirers recognise the significant disconnect between current market prices and intrinsic value.

We therefore remain patient and disciplined. Our process is unchanged: we continue to focus on high-quality, growing businesses with sustainable returns and the ability to compound capital over time. Markets will eventually refocus on fundamentals and when they do, we believe the Fund will be well positioned to benefit.

Guido Dacie-Lombardo
October 2025

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