MONTANARO
ASSET MANAGEMENT

MESCT

Montanaro European Smaller Companies Trust

Quarterly review – Q4 2025

2025 highlights:

Europe back in the lead:

- European equities were among the strongest global performers in 2025, with MSCI Europe ex-UK rising 26.2% (GBP), **as leadership shifted decisively away from the US**
- Gains were broad-based and cyclical in nature, led by Financials, Industrials and other sectors benefiting from higher-for-longer interest rates

An extreme Growth–Value reversal:

- Growth underperformed Value by 24.6% in Europe ex-UK — **the largest gap since records began in 2001 and materially worse than during the 2022 rate shock**

Quality heavily de-rated:

- Quality underperformed the broader European market by 10.8%, **the worst relative outcome since at least 1999**
- Investors favoured operating leverage, valuation catch-up and macro sensitivity over balance-sheet strength and earnings stability

**Based on the MSCI Europe ex-UK SmallCap v. LargeCap indices, and the Numis Smaller Companies (ex-IC) vs LargeCap Indices.*

European equity markets delivered strong headline returns in 2025, but the environment proved challenging for portfolios focused on Quality and sustainability of cash flows. Market leadership was dominated by a powerful rotation towards Value, cyclicality and balance-sheet leverage, with banks, energy, materials and defence-related stocks accounting for a disproportionate share of returns. While these dynamics supported index-level performance, they created a difficult backdrop for strategies emphasising durable earnings, balance-sheet strength and long-term compounding.

Against this backdrop, the Trust delivered a good year in absolute terms, with NAV rising by approximately 15% and the share price advancing by nearly 20%, aided by active discount management. However, returns lagged the benchmark, reflecting pronounced style headwinds reminiscent of 2022. Quality and Growth both recorded record underperformance versus the market, while European SmallCap returns were driven by a narrow group of cyclical sectors where the portfolio has limited exposure by design. As a result, performance was shaped less by company fundamentals and more by extreme factor and sector effects.

Performance & Portfolio

During the quarter, the NAV total return of MESCT was -1.0% in GBP, an underperformance of 4.7% relative to the MSCI Europe SmallCap (ex UK) Index.

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

- **Kitron** – the Norwegian electronics manufacturing services provider continued to beat estimates and secured several sizeable new contract wins, primarily in European defence.
- **Technoprobe** – the Italian developer of semiconductor testing equipment rose after securing qualification with a customer for high-bandwidth memory testing, which could open up a larger potential addressable market.
- **Sartorius Stedim Biotech** – the provider of equipment and consumables used in the production of biologic drugs continued to deliver strong growth.

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

- **Plejd** – the Swedish developer of smart lighting and home automation solutions lagged as the shares de-rated despite solid underlying performance, following strong share price gains earlier in the year.
- **cBrain** – the Danish provider of digital government and workflow management software underperformed as progress in expanding internationally proved slower than expected,

prompting a reassessment of its go-to-market strategy.

- **Schott Pharma** – the German pharmaceutical packaging provider weakened after lowering its mid-term targets following reduced demand forecasts from a customer.

Engagement & ESG

Brembo – Italian manufacturer of braking systems for automotive applications

We engaged with Brembo on progress against its decarbonisation strategy and Net Zero ambition. The company has set a Net Zero target aligned with SBTi standards and is awaiting updated guidance prior to formal submission. Scope 1 and 2 performance remains on track, while Scope 3 emissions continue to present challenges. We will monitor emissions trends and target validation.

Sartorius Stedim Biotech – global supplier to the biopharmaceutical industry

We engaged with Sartorius to understand trends in carbon intensity and progress on its climate strategy. While absolute Scope 1 and 2 emissions declined modestly, intensity increased due to lower revenues and expanded emissions coverage. The company is refining climate targets, working towards SBTi validation and strengthening supplier engagement on Scope 3. We will continue to monitor progress.

Viscofan – Spanish manufacturer of food casings

We engaged with Viscofan following media allegations relating to environmental management, worker safety and labour relations at a US facility. The company stated that it complies with regulatory requirements and is reviewing the claims with legal advisers, but was unable to address certain allegations in detail at the time of engagement. Following this assessment, we exited our position in the company.

Outlook

Looking ahead, we believe the outlook for European Smaller Companies is improving. After several years of narrow leadership, 2025 marked the first year of SmallCap outperformance versus LargeCaps since 2020, and valuation support is compelling, with SmallCaps trading at a near all-time low P/E discount to the broader market. History suggests that periods of such pronounced style divergence are often followed by a more balanced environment, in which fundamentals and stock selection play a greater role in driving returns.

The Trust is well positioned for such a shift. Portfolio activity in the fourth quarter was deliberately disciplined, with no new investments initiated and two holdings — Surgical Science and Viscofan — sold in full on stock-specific grounds. Alongside this, the Board continued to manage the Trust's discount actively, undertaking share buybacks and completing its first successful six-monthly tender offer in November 2025. With a portfolio of high-quality smaller companies, improved valuation support and an increasingly favourable backdrop for the asset class, we believe the Trust is well placed to benefit from any revival in SmallCap leadership in 2026 and beyond.

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