

SHINING A LIGHT ON THE..... Montanaro UK Income Fund

AT A GLANCE

| Investment Objective | |
|--|--|
| The Fund looks to deliver capital growth and income. | |

| | |
|----------------------------|---|
| Inception Date | 27 th April 2007 |
| Fund Factsheet Link | http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F000003TOS |

| Management | |
|---------------------|--------------------------------|
| Manager Name | Start Date |
| Charles Montanaro | 18 th December 2012 |

| Investment Style Details | |
|------------------------------|--------------------|
| Equity Style | |
| Market Capitalisation | % of Equity |
| Giant | 0.00% |
| Large | 0.91% |
| Medium | 23.39% |
| Small | 63.98% |
| Micro | 11.72% |

| Top 10 Holdings | | |
|----------------------------------|--------------------|--------------------|
| Total number of holdings | 50 | |
| Assets in Top 10 Holdings | 29.31% | |
| Name | Sector | % of Assets |
| Big Yellow Group PLC | Real Estate | 3.52% |
| Victrex PLC | Basic Materials | 3.41% |
| Marshalls PLC | Basic Materials | 3.16% |
| Hilton Food Group PLC | Consumer Defensive | 3.08% |
| Brewin Dolphin Holdings PLC | Financial Services | 2.82% |
| Bovis Homes Group PLC | Consumer Cyclical | 2.79% |
| Cineworld Group PLC | Consumer Cyclical | 2.71% |
| Polypipe Group PLC | Basic Materials | 2.66% |
| Diploma PLC | Industrials | 2.62% |
| Clipper Logistics PLC | Industrials | 2.54% |

| Volatility Measurements | |
|-----------------------------------|--------|
| 3-Yr Std Dev (volatility) | 11.66% |
| 3-Yr Mean Return (average) | 11.76% |

FUND PERFORMANCE

Performance from 1st January 2013 to 30th April 2018:

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------|--------|-------|--------|--------|--------|--------|
| Montanaro UK Income Fund | 33.20% | 2.82% | 20.07% | 0.97% | 24.60% | -1.04% |
| iShares UK Dividend | 24.15% | 6.54% | 0.95% | 7.89% | 6.96% | 0.09% |
| Lyxor FTSE All Share | 20.16% | 0.93% | 1.08% | 15.44% | 11.64% | 0.30% |

Performance over 12 months, 3 years, 5 years and since launch:

| | 1 year | 3 years | 5 years | Since launch |
|---------------------------------|--------|---------|---------|--------------|
| Montanaro UK Income Fund | 9.17% | 36.93% | 79.50% | 154.86% |
| iShares UK Dividend | 1.63% | 5.88% | 38.01% | 16.59% |
| Lyxor FTSE All Share | 7.66% | 21.31% | 43.25% | 71.33% |

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE....

In a crowded market the team from Montanaro have been investing money since 1991. The company, and this fund, is run by Charles Montanaro. The company have 30 employees and the team approach is where Charles believes the business has the edge. 50% of the company is owned by the employees and the rest by Charles which will be passed down to his family.

The biggest risk to this business is Charles but he argues that he has no plans to retire, and decisions are made alongside a 6-member investment committee who could easily pick up the reigns of the business and management. There are also 11 analysts who cover a broad range of sector which feeds into the process. Bonuses are based on a three-year period, so their focus is long term rather than short term which is often the case in the city.

All of Charles' money is invested in the funds the company manages, so his interests are aligned with the client's interests. The company is a small and mid-cap specialist but doesn't invest in AIM companies. Charles explained that these companies tend to grow faster and have better dividend growth compared to large cap companies. Since 1955 dividends from small cap have grown by 8% p.a. vs 6.4% on the FTSE 100.

The large cap universe tends to focus on around 27 companies, whereas they have a universe of 268 companies. They feel that the companies they are looking at are either under-researched or less researched which gives them a lot of advantages over the competition. They don't invest in AIM as they believe there is too great a risk. In 2008 AIM dropped 62% and it is simply because it is an illiquid market.

What they do like is simple businesses which they understand, niche businesses in growth markets, market leaders, companies with high operating margins, profitable companies at sensible valuations and good management which they can trust.

They don't buy in external research, as he added they want to make their own mistakes! There are plenty of good companies to select from and the investment committee help to agree an approved list of 200 companies and then Charles selects 50 from this. The aim is always to have 50 stocks so if one goes another must replace it.

The types of companies he likes are those which they can hold for the long term. Dignity is a funeral business they have held since 2006. It has pre-paid funeral plans and doesn't have any bad debts. Another company they have held for a long period is Ashstead which is now being sold as it has moved into the large cap space otherwise they would continue to hold. RPS they have held for several years and James Fisher and Sons over 10 years. Other companies they like, and hold, include Big Yellow, Victrex and Marshalls.

They like to meet management as that gives them a real insight to the companies but investing with people they like can sometimes mean they are let down by them. DTZ is an example of this. They trusted the management too much and didn't appreciate the balance sheet risk.

In summary, this is an income fund with a difference and it has delivered on its stated aims. It will be different to many of the funds in the market place and although there is perceived greater risk with small cap, Charles would argue that the types of companies they invest in lessens that risk. The main concern we would have is that this is run by Charles and it is his company. If anything happened, then we are not sure what would happen with the fund and that is something for investors to consider.

The source of information in this note has been provided by Montanaro and is correct as at April 2018. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.