



European Smaller Companies (ESCT)



An enhanced dividend backed by a strong track record in European Smaller Companies.

Update

15 May 2026

Overview

European Smaller Companies (ESCT) has an impressive short- and long-term track record of capital growth from a diversified **Portfolio** of European smaller companies. With 100-120 holdings, ESCT limits single-stock risk, and manager Ollie Beckett and his team find opportunities across the business cycle from early-stage growth to mature compounders and turnaround situations. The breadth of stocks in Europe means that, even where thematic trends play a role, the individual companies behind it are often idiosyncratic or niche. Thus, ESCT is a great source of diversified returns and has built a strong long-term **Performance** track record, with an annualised NAV total return of 10.5% over the last ten years, compared to 9.7% for the benchmark index.

ESCT pays an enhanced **Dividend**, using a combination of revenue and capital. Set each year at 5% of NAV and paid quarterly, it leaves the managers free to focus on generating capital growth. ESCT has implemented a range of measures to protect against a persistent wide discount, including a three-yearly continuation vote, a performance-related tender offer every three years, and a buyback that targets a single-digit discount in normal market conditions. Smaller companies can be, of course, a volatile asset class from time to time, but these measures should help mitigate some of the extra volatility that can come from discounts, and the yield should make ESCT an option for income investors looking to diversify compared to more traditional equity income sources. ESCT's current 10% **Discount**, in what are more challenging market conditions, may therefore represent an opportunity.

In 2025, ESCT undertook a large tender and a merger, and gearing fell while these transactions were in progress. Recently gearing has risen back to a more representative 13%, reflecting the management team's view that the small-cap opportunity is attractive right now, with reasonable valuations and earnings growth picking up.

Analyst's View

In the **Portfolio** section, we run a simple analysis highlighting that Europe's smaller companies, and ESCT specifically, provide a very different set of sector exposures to UK smaller companies. The UK is a great hunting ground for small caps, helped by its open culture of M&A, but its financials and retailer-heavy small-cap universe contrasts with Europe's bias to technology, healthcare, and industrials. ESCT leans into this bias and is a great way to inject diversification into any portfolio, and as we see in the **Performance** section, it has the all-important performance record to back things up.

ESCT's adoption of an enhanced dividend policy, using a mixture of revenue and capital to pay 5% of NAV each year, opens up ESCT, with its focus on capital growth, to investors who want or need income. The investment trust structure is endlessly adaptable, and this increasingly common style of dividend means no change to the managers' strategy.

At the time of writing, markets face macro uncertainty against the backdrop of an uneasy ceasefire in the Persian Gulf. But some fundamentals for European small caps remain: valuations are attractive, spending on infrastructure and defence is increasing, and ESCT offers idiosyncratic return opportunities from companies in a wide variety of niches, from the safe transport of LNG to sports supplements, outdoor advertising to collectable toys for young children, and valves and pumps for nuclear power stations, to name just a few.

Analysts:

Alan Ray

alan@keplerpartners.com



Kepler Partners is not authorised to make recommendations to Retail Clients. This report is based on factual information only.

The material contained on this site is factual and provided for general informational purposes only. It is not an invitation or inducement to buy, sell or subscribe to any product described, nor is it a statement as to the suitability or otherwise of any investments for any person. The material on this site does not constitute a financial promotion within the meaning of the FCA rules or the financial promotions order. Persons wishing to invest in any of the securities discussed in the website should take their own independent advice with regard to the suitability of such investments and the tax consequences of such investment.

BULL

Strong track record of capital growth through different market conditions

An enhanced dividend of 5% of NAV each year

A comprehensive suite of discount controls appropriately structured for a small-cap portfolio

BEAR

Smaller companies do not generally perform well in risk-off, or inflationary, environments

Some European economies are vulnerable if recent energy price rises persist

ESCT's gearing can amplify losses as well as gains



Portfolio

European Smaller Companies (ESCT) targets long-term capital growth from a diversified portfolio of European smaller companies. Lead manager Ollie Beckett and his team find opportunities across the business cycle from early-stage growth to mature compounders and turnaround situations. The breadth of small-cap stocks in Europe means that, even where thematic trends play a role, the individual companies behind it are often idiosyncratic or niche. Thus, ESCT can be considered a broad-based, pragmatic investment trust, with a portfolio of over 100 stocks that cover many different themes. So while, yes, the smaller companies asset class has its risks, ESCT's approach helps to mitigate single stock, style, or thematic risks. This has translated into a strong short- and long-term **Performance** track record, with an annualised NAV total return (TR) of 12.4% over the last ten years, compared to 9.4% for the benchmark index.

Starting by zooming out slightly, the chart below helps to illustrate how ESCT, and European smaller companies more generally, differ from the UK. Even though the UK's reputation as a leading stock market has waned in recent years, it remains a leading venue and has a great history of smaller companies, which many readers will be familiar with. But the rest of Europe has a great deal to offer investors. The chart takes the sector weights for ESCT and its benchmark and plots them as over- or under-weights against the sectors of the UK smaller companies universe. The best way to treat this is as a broad analysis, and not to focus on the detailed numbers. From this, we can say that European smaller companies generally feature more technology and healthcare and less financials and consumer discretionary than the UK. We can also say that ESCT usually leans into these biases. Of course, active UK smaller companies fund managers may well also lean into the same biases. But as a starting point, we can see that Europe's smaller companies universe is, in sector terms, somewhat different to the UK. This is a great starting point to understand how ESCT can be a great diversifier compared to the UK home market.

Ollie also makes the point that the UK is a very open market, with quite low friction for M&A. In contrast, Europe

has a greater tradition of family ownership, and this can slow down M&A. Neither is 'right', but this may be one reason why the sectors are different, as technology and healthcare are often areas of focus for M&A in the UK.

The next table shows the largest holdings, and we look at several examples of individual holdings both in and below the largest holdings. One point to take away from this is that position sizes are relatively small, but the portfolio is highly active, so the list below is not especially close to the index, with GTT at number seven in the list below, the only stock that is also in the largest stocks in the index. Earlier-stage companies, with potentially higher growth, are usually sized at 50 basis points or less, a reflection of their higher risk.

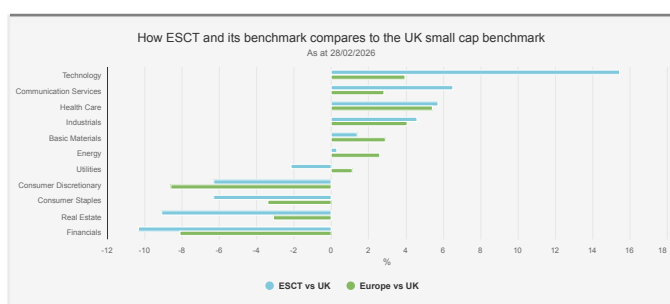
Largest Holdings

Holding	Percentage (%)	Country	Sector
Elmos Semiconductor	2.1	Germany	Technology
TKH Group	2	Netherlands	Industrials
IG Group	1.9	United Kingdom	Financials
Van Lanschot Kempen	1.8	Netherlands	Financials
SUSS MicroTec	1.7	Germany	Technology
Ströer	1.7	Germany	Media
Gaztransport & Technigaz	1.6	France	Energy
Indra Sistemas	1.6	Spain	Technology
KSB	1.5	Germany	Industrials
flatexDEGIRO	1.4	Germany	Financials

Source: Janus Henderson, as of 28/02/2026

ESCT is not a 'thematic first' portfolio, but themes do emerge overall. Clearly topical, the current energy crisis has different characteristics from the last one in 2022, but there are some implications for Europe. Ollie notes that Spain, with its well-developed solar industry, and France, with plentiful nuclear power, have electricity prices that are not particularly sensitive to gas prices, for example. But there are companies in the portfolio that see their business models further strengthened by Europe's need to diversify its energy policy. Germany's KSB makes pumps and valves, including specialised ones for the nuclear power industry. France's GTT designs the containment systems used in tankers that transport liquified natural gas. Europe has not entirely weaned itself off Russian gas, but since 2022, the US has grown as the single largest supplier of LNG to Europe, and so a greater proportion now comes via ship. So, while neither of these examples is an immediate beneficiary of higher oil and gas prices, they both form

Fig.1: How Different Is Esct To The UK?



Source: Janus Henderson



part of a chain that benefits as power generation continues to shift away from the heavier fossil fuels, with gas acting as a ‘transition’ fuel.

Not in the top ten above, but a great example of how smaller companies can provide ‘idiosyncratic’ returns is German business Tonies, which makes ‘screen-free’ toys for children, integrating an audiobook device with various collectable figurines that unlock stories from the audiobook. The company has caught a wave, with parents seeking out toys that reduce their young children’s screentime, and because there are hundreds of different figurines, the company usually sees repeat sales.

Ollie cites the example of outdoor advertising as a sector that has had its share of difficulties. But leading player JCDecaux is a good example of a company in turnaround. The sector has seen some weaker rivals failing, and the business has rid itself of some unprofitable contracts to focus on its core business, which remains profitable. The stock has been in the portfolio for a while now, and the market is beginning to recognise its recovery, with the share price up over 20% since the start of 2025, following a difficult period.

As noted above, one of the sectors that ESCT leans into is healthcare. XVIVO Perfusion AB is a Swedish medtech company that develops technology to increase the viability and life outside the body of organs for transplant. Swiss company Kuros Bioscience makes a synthetic product that can accelerate healing in bones, used for example in spinal surgery. So although smaller companies, these are not pre-profitable biotechnology companies, but profitable businesses with a global market.

While country exposure is more of an output from stock picking, Sweden currently represents the largest overweight. Consolidation of Sweden’s various pension funds has led to a technical sell-off of some domestic equities, notably smaller companies, and Ollie and the team are finding very attractive valuations. At the same

time, Sweden is another European economy less exposed to oil and gas prices, with almost all electricity generated by nuclear and renewables and consumer confidence in the country is holding up well. Given the infrastructure and defence spending plans for Germany, the team is also continuing to find opportunities here in the industrial and engineering sectors, which helps explain its large weighting in the portfolio.

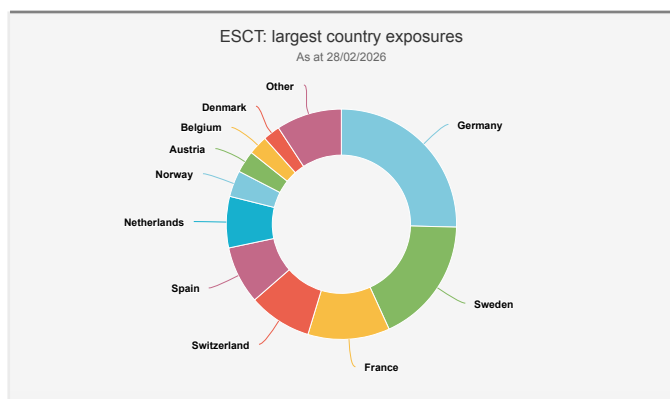
Overall, the ESCT portfolio offers a distinctive collection of European smaller companies that cover a lot of ground in terms of the various niches they fit into. ESCT is not a thematic fund, but its sector exposure does ‘lean into’ the inherent structure of European small caps, with significant exposure to technology and industrial companies. But as some of the specific examples above show, once one looks underneath the sector label, the individual companies operate in some surprisingly distinctive niches.

Gearing

ESCT is currently geared 13%. The team don’t try to time markets but adjust gearing, taking into account signals such as attractive valuations. During 2025, ESCT undertook a substantial tender offer and merged with its competitor European Assets Trust (EAT), and as part of managing those transactions, gearing was lower for parts of 2025. But the current gearing is more representative of where gearing has been over the last few years. Further back, the trust’s gearing has been closer to 10%, but with Ollie and the team continuing to believe there is an attractive valuation gap between small and large caps, gearing is closer to mid-teens. The formal gearing policy is limited to no higher than 30% at the time of investment. In practice, the current gearing is more representative of where gearing will be when the team are finding good opportunities, and more informally, 15% is as high as investors should expect to see gearing go in normal circumstances.

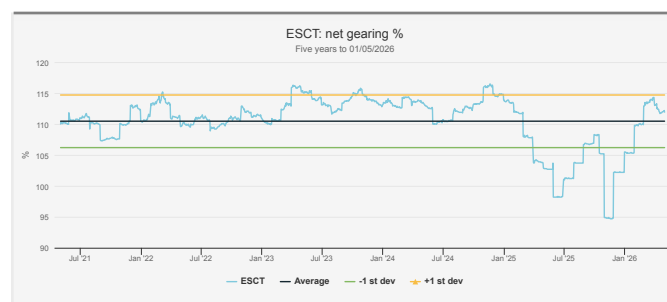
ESCT uses flexible borrowings rather than structural long-term debt, which gives more scope to adjust as conditions change.

Fig.2: Geographical Exposure



Source: Janus Henderson

Fig.2: Net Gearing



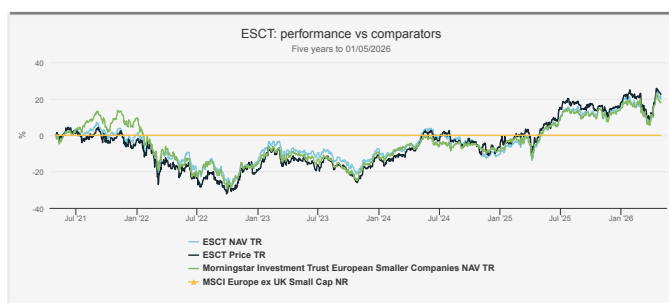
Source: Morningstar



Performance

Over the last five years, ESCT's NAV and share price TR of 21% and 24% are ahead of the Morningstar European Companies peer group equivalent figures of 19% and 21% (figures to 01/05/2026). The benchmark MSCI Europe ex UK Small Cap index's TR is 27% over the same period. Shorter term, over a year, ESCT's NAV and share price TR are 21% and 20%, ahead of the benchmark's 18%. In the **Portfolio section**, we see how ESCT leans into certain sectors, such as technology, industrials, and healthcare, and currently has a big position in Sweden and is overweight Germany. But all of these are really outputs of stock picking, and so ultimately ESCT's performance derives from that. As we look at in the **Gearing section**, ESCT has tended towards gearing in the mid-teens, which will also influence performance, with a notable period in 2025 when gearing was taken off during the period ESCT held a tender offer and then merged with another trust.

Fig.3: Five-Year Performance

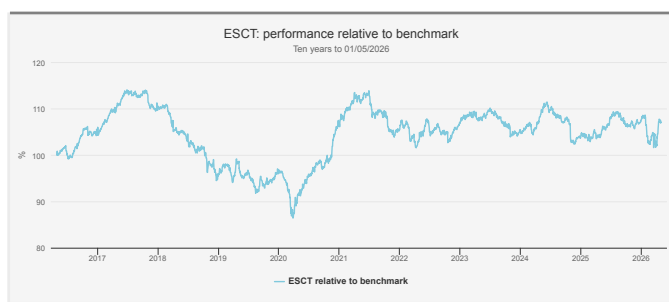


Source: Morningstar

Past performance is not a reliable indicator of future results.

The next chart shows ESCT's performance relative to the benchmark, i.e. one divided by the other, then rebased to 100. We can see from this that the slight underperformance recorded over five years marks a period where ESCT has traded approximately in line with the index, albeit with variations over shorter periods, which are to be expected given the active nature of the portfolio. The annualised returns over this ten-year period are 10.5% and 11.1% in,

Fig.4: Ten-Year Relative Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

respectively, NAV and share price TR terms, ahead of both the small-cap benchmark's 9.7%, but also just ahead of the equivalent large-cap index's 10.0%. The chart highlights that, for long periods, ESCT can perform very differently from the index, with the first six years of the chart seeing some significant divergence both positively and negatively.

Dividend

In 2025, ESCT adopted a new dividend policy, paying four quarterly dividends amounting in aggregate to at least 5% of ESCT's NAV at the close of the preceding financial year. This will be subject to the availability of distributable reserves.

The policy was adopted in November 2025, which is partway through ESCT's financial year, and so for the financial year ending 30/06/2026, there are three quarterly dividends under the new policy paid in February, May, and August 2026.

In the first instance, the intention is for ESCT to use a mixture of current year and revenue reserves to meet the cost of dividends. The policy doesn't specifically state this and only refers to distributable reserves, so it is reasonable to assume that if revenue reserves are eventually exhausted, distributable capital reserves will be used.

Management

Ollie Beckett is ESCT's lead fund manager. He joined Janus Henderson in 1998 and was appointed lead fund manager of ESCT in 2011. He also manages the Janus Henderson Horizon Pan European Smaller Companies Fund, the Janus Henderson Pan European Small and Mid-Cap Fund, and the Janus Henderson European Smaller Companies Fund. Ollie first joined Henderson as an assistant portfolio manager for European equities in 1998 and was named fund manager in 1999. He moved to the Global Technology Team in 2000. He left Henderson in 2003 to pursue other interests before returning to his current role with the firm in 2005.

On ESCT, he is supported by Rory Stokes and Julia Scheufler. Between the three, they don't divide the portfolio up by sectors, instead aiming to support and challenge each other in decision-making. Ollie also notes that he places a lot of value on his informal network of other fund managers in the equities team, and he takes an active interest in what other teams in the UK and Europe are investing in.

Rory joined Henderson in 2013 as a European equity analyst. Prior to that, he worked on the sell-side in small-



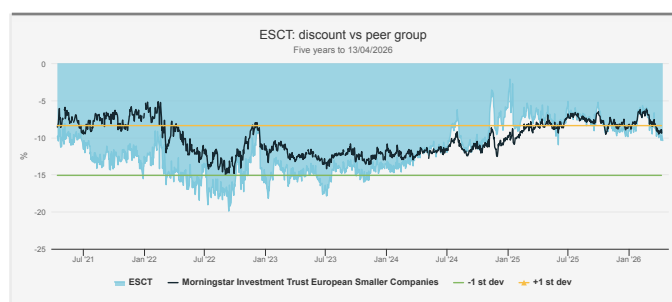
and mid-cap sales. He began his career at HOLT Value Associates in 2001 as a research analyst, and this is one of the screening tools that the team use as part of their initial process of identifying opportunities.

Julia Scheufler is an associate portfolio manager on the European Equities Team at Janus Henderson Investors, a position she has held since 2022. Prior to this, she was a research analyst with the team from 2018. She was previously a sell-side analyst and also worked in a multi-asset fund management team.

Discount

ESCT currently trades on a 10% discount compared to its five-year average of 9%. As the chart below shows, ESCT's discount was on a gradually narrowing trend over the last 18 months or so, and the discount has widened out very recently as markets responded to the US-Israel-Iran war. Leaving aside this, hopefully, short-term external event, ESCT's narrowing discount is, in our view, likely a function of first, its good performance, and second, its recent adoption of an enhanced dividend, which we detail in the [Dividend section](#).

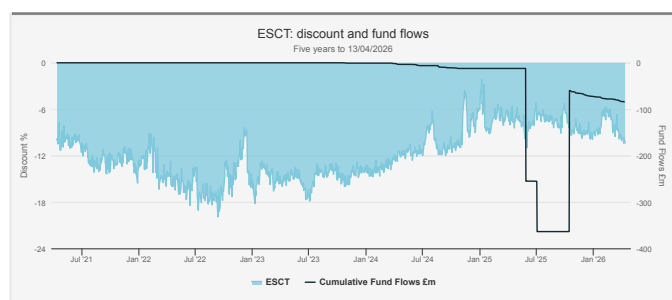
Fig.5: Discount



Source: Morningstar

The next chart is our standard 'fund flows' chart, which plots the discount against buybacks, share issuance, and other transactions. In ESCT's case, it's a simple way to document the scale of two large transactions in 2025. First, ESCT returned 42.5% of shares via a tender offer, as part

Fig.6: Discount And Fund Flows



Source: Morningstar

of a strategy to remove activist shareholder Saba from the share register. The chart shows this as two steps down on the black line due to timing differences in the two different exit options shareholders were given. Second, ESCT combined with its peer EAT, which approximately returned total assets to where they began before the tender offer. The descending line in 2026 shows that ESCT has been steadily buying shares back under its policy to target a mid-single-digit discount during normal market conditions.

ESCT invests in smaller companies, and although 2025 was a good illustration that the portfolio is somewhat liquid, there may be periods when portfolio liquidity may not be an ideal match to a daily share buyback. ESCT has two further shareholder protections, which could be seen as backstops. First, a three-yearly tender offer, with the last vote passed at the AGM in November 2025. Second, a performance conditional tender offer. Should ESCT underperform its benchmark in the three years to 30/06/2029, and each subsequent three-year period, a 15% tender offer will be made to shareholders at a price equivalent to NAV less two percent plus costs.

Charges

ESCT's ongoing charges figure (OCF) is 0.68% (excluding its performance fee, see below) compared to an average of 0.81% for the AIC European Smaller Companies peer group. ESCT's management fee is tiered, with a charge of 0.50% on the first £800m of net assets, and 0.45% above £800m. ESCT's net assets at the time of writing are about £830m, so any further growth will be at the lower fee rate.

ESCT also has a performance-related fee, which is detailed below. For the year ending 30/06/2025, the OCF, including the performance fee, was 0.93% (2024: 0.75%).

The performance fee is 15% of the positive difference between the average annual NAV TR and the average annual TR of the benchmark, measured on a rolling three-year basis.

- Total fees in any year are capped at 2.0% of NAV;
- A performance hurdle over the benchmark of 1.0% must be reached before any performance fee can be earned, and is excluded from the performance fee itself should one be payable;

Performance is measured solely on the basis of NAV TR relative to the TR of the benchmark index.

ESG

ESCT is assigned an overall 'Average' ESG score by Morningstar, which compares it to all similar funds, both



investment trusts and open-ended funds. ESCT is also assigned Morningstar's low carbon score.

The team take an integrated approach to ESG and believes that key ESG objectives, notably energy transition, are long-term investment opportunities, and ESCT is exposed to a number of companies operating in different areas of the energy transition. This helps to explain ESCT's low carbon rating, although the European smaller companies universe has a fairly low weight in carbon-intensive energy companies. Conversely, ESCT has been active in the defence sector, and this may not suit investors with specific ESG objectives.



Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.

