Disclosure - Non-Independent Marketing Communication This is a non-independent marketing communication commissioned by European Smaller Companies (ESCT) . The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.

European Smaller Companies (ESCT)

ESCT continues to deliver strong performance and a high yield.

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Overview

Investment objective

To deliver a long-term sustainable return to shareholders from investing in smaller- and medium-sized European companies.

Source: Morningstar

As at: 29/10/2026	Latest Market Capitalisation 750,151,364
Trust Name The European Smaller Companies Trust	Latest Net Gearing (Cum Fair) 13%
Ticker ESCT	Latest Ongoing Charge Ex Perf Fee 0.66%
Management Company Janus Henderson Investors Ltd	Shares Outstanding 336,390,746
Manager Name Ollie Beckett; Rory Stokes; Julia Scheufler	(Discount)/ Premium (Cum Fair) -9.4%
Association of Investment Companies (AIC) Sector European Smaller Companies	Daily Closing Price 223.00
Dividend Yield 5.7%	
Dividend Distribution Frequency Quarterly	

European Smaller Companies (ESCT) has an impressive short and long-term track record of capital growth from a diversified **Portfolio** of European smaller companies. Over a decade where European large caps have outperformed small caps at an index level, ESCT has outperformed both, with an 11% annualised NAV total return compared to just under 9% for large and 8% for small caps.

In 2025, ESCT adopted an enhanced **Dividend** policy, using a combination of revenue and capital to pay 5% of NAV each year, leaving the management team free to focus on capital growth. It has taken a year for the full impact of ESCT's higher yield to be reflected in industry data, and at the time of writing, ESCT's 9% **Discount** and 5.7% dividend yield suggest that not all investors have woken up to the higher yield.

Although in the **Portfolio section** we discuss how manager Ollie Beckett and his colleagues have positioned the trust to be overweight in, for example, Sweden and Germany, to lean into the rich opportunity set of Europe's industrial companies, and to lighten up on financials, ESCT can really be thought of as a portfolio of 100 or more companies operating in such a wide variety of niches that it's not always possible to say performance comes from one or more macro trends. It's true that many portfolio companies do benefit from those, but ESCT also takes positions in recovery stories and in companies operating in unexpected niches where success may be unrelated to, or even in spite of, a macro trend.

Analyst's View

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It's sometimes easy to forget that while, yes, small caps are a diversification tool, one of the fundamental reasons to own them is their higher growth potential, which should eventually compensate investors for the extra risk of owning them. Over the last decade, ESCT has delivered on this, but what's just as interesting to us is that, at an index level, the reverse is true, with large caps generating higher returns. As ESCT manager Ollie Beckett notes, all of the positive fund flows into European equities in the last two years have been directed to large caps, with small caps seeing very little new money. One of the great worries of the day is all about too much capital chasing certain types of companies and, in our view, anyone worried by that should be taking an interest in an asset class where the reverse is true.

Maybe, though, ESCT performs better against a headwind than with a tailwind? Looking at relative **Performance**, that does not seem to be the case, with notably strong outperformance in the last big upswing for small caps in 2020/21. This squares with the ESCT team's approach of not sticking to a single style: companies at an early stage, those with a recovery story, undervalued businesses or those with steady growth are all part of the mix. It remains the case, then, that ESCT has generated very strong returns without any tailwinds from capital flows. Imagine what could happen if capital did finally start to flow.

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 often don't perform well in risk-off, or inflationary, environments
- European government bond yields are rising, energy prices are high and inflation persists
- ESCT's gearing can amplify losses as well as gains

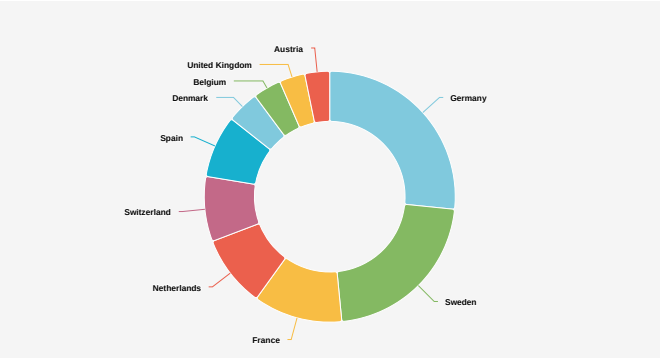
Portfolio

The European Smaller Companies Trust (ESCT) owns a diversified portfolio of 100 to 120 European small-cap companies, typically with a market cap of €1bn or less. This less well-researched segment of the market is where manager Ollie Beckett and his colleagues feel they can add the most value, conducting their own primary research and exploiting market inefficiencies. As Ollie notes, many small-cap funds in his universe of open- and closed-end competitors are, in reality, mid- and small-cap funds and even a cursory glance at ESCT's factsheet reveals a very different list of companies to the competition.

Ollie and the team take a broad investment approach, seeking returns from companies at various stages of their lifecycle. Companies at an early stage of their growth, quality growth businesses, turnaround or recovery situations and mature or undervalued businesses all form part of the picture. To limit stock-specific risk, holdings are generally limited to 2%, or for less mature companies, 0.5%. But as we will see, the team can and does lean into different sectors and countries when the right stock-picking opportunities arise, so an investor can expect these to diverge from the index at times. It's true that countries and themes play a role in investment decisions, but ultimately ESCT is a portfolio of companies operating in a wide variety of niches that are picked on their own merits. To name just a few, the current portfolio contains businesses that make cables for offshore renewable energy, creatine food supplements, software for event organisers, sensors for the auto industry, laboratory automation for the healthcare industry, telescopic masts for submarines, transmissions and gearboxes for armoured vehicles, all the way to glass manufacturers. As we see in the **Performance section**, this has been a successful strategy, with ESCT's performance over the last ten years well ahead of the small-cap index and, notably, ahead of the equivalent large-cap index, which, in a decade where large caps have dominated stock market performance, is a significant achievement. Thus, while ESCT's strategy provides investors with what are referred to as 'idiosyncratic returns', and can be viewed as a diversification tool, it's also capable of delivering what investors really want from small caps: better-than-market performance.

As we note above, countries can play a role in investment decisions and if we start by looking at the geographical split below, we can see that Sweden is one of the largest in the portfolio. Sweden is, in fact, a rich source of smaller companies and the largest country in the small-cap benchmark which is, we think, under-appreciated by investors. What has attracted Ollie to Sweden though is that first, yes, it is home to many great businesses and yes, Sweden is one of Europe's more dynamic economies, but for reasons that will sound familiar to UK investors, the market has been held back by technical factors. The one that has attracted Ollie's attention is that Sweden's well-established pension funds are globalising their portfolios, reducing domestic exposure. The exit of capital from the domestic market has had a particular impact on the valuations of small caps and thus created a great source of opportunity. Some sectors in Sweden, such as real estate, are also known to be more leveraged than in other European countries, and this has played a role too, so the increase in exposure to Sweden is still very much stock-specific, taking care not to get caught up in too much leverage. One Swedish business that has been in the portfolio for a while is medtech company XVIVO Perfusion AB that has developed technology to increase the viability and life outside the body of organs for transplant. As we will see further on, healthcare and medtech are areas that the team have been increasing exposure to recently.

GEOGRAPHICAL EXPOSURE



Source: Janus Henderson
Past performance is not a reliable indicator of future results.

As the chart above shows, Germany is also a key country for ESCT and whereas the German government is in a politically weak position, there is much broader support for long-term spending on defence and infrastructure, with wide acceptance that Germany's infrastructure requires repair and upgrading.

Ollie notes that although ESCT has owned some defence names for a while, he and the team have taken a cautious approach because although they can see earnings growth, until recently valuations seemed excessive. Share prices of many defence stocks have retraced in 2026 and ESCT has begun to lean into the sector again. A great example of the idiosyncratic nature of many smaller companies is Gabler Group, a small German company with an established position in the niche of mast systems with maritime applications, with equipment supplied to many navies. One area of potential is to apply Gabler's expertise to a modern battlefield, where data plays an integral role and rapidly deployable telescopic masts could be used to provide temporary data connections. Recent events in Ukraine, with restrictions on the use of Starlink and Starshield data, highlight how important data is on modern battlefields.

Ollie also notes that even as a lot of focus has been on drone technology, he expects more traditional military vehicles to adapt and become more resilient to drones. This is not, then, the end for more traditional armoured vehicles and, for example, ESCT has a holding in the German engine transmission manufacturer Renk, which has a strong defence customer base in both land applications such as tanks and armoured vehicles and maritime applications. About three quarters of Renk's revenues come from defence.

This year has also been characterised by high volatility in semiconductor stocks. One that has got caught up in this is ESCT's holding in Elmos Semiconductor. However, Elmos does not supply AI-related semiconductors, and is a specialist in sensors for the automotive industry, with a global customer base not just limited to European auto manufacturers. Ollie and the team believe that recent share price weakness is unjustified and is just a short-term consequence of Elmos being a semiconductor stock.

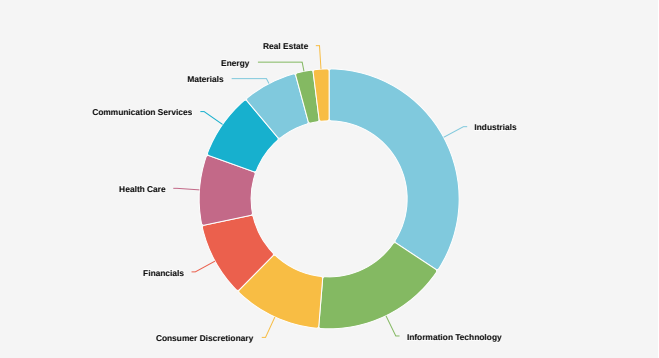
Jumping from that to French glassmaking company Verallia is a good illustration of the breadth of the portfolio. This is a recent addition to the portfolio. This is an energy-intensive industry and one where the economics strongly favour local manufacturing due to the high costs of transporting glass. Verallia therefore operates against competition with similarly high energy costs but has invested heavily in energy efficiency. For example, it operates one of the first 100% electrical glass

furnaces for food-grade glass, and also has a programme for using recycled glass, which requires less energy than making glass from raw materials. A period of share price weakness has reflected a relatively muted consumer but with a lower valuation and signs of a more confident consumer, the team see value in the shares.

Verallia is a good example of a recovery stock, and Carl Zeiss Meditec provides another. The business went through a period of growth, notably in China, for its corrective eye surgery technology, but more recently has seen pressure from local competition in China, even as the overall market slowed down. Some changes in the management team, and a commitment from parent company Carl Zeiss AG to increase its shareholding by up to €200m, give the team confidence that the business can recover following a period of weak share price performance.

In our last note on ESCT we looked at how the composition of the European smaller companies universe differs from that of the UK. Broadly speaking the UK's smaller companies index is more weighted to financials and consumer discretionary, whereas Europe ex UK is much more weighted to industrials, technology and healthcare. We think that the two are therefore complementary asset classes. Indeed, ESCT generally 'leans in' to the main sectors in Europe and the chart below illustrates this, showing how important the industrial and technology sectors in particular are. Ollie and the team have recently been increasing exposure to the healthcare sector, for example taking a position in the Swiss medtech company Tecan, which specialises in laboratory automation systems, with demand increasing as AI-assisted research requires more and more automation to make the vast volumes of work created by this type of research more practical.

SECTOR EXPOSURE



Source: Janus Henderson

Past performance is not a reliable indicator of future results.

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 leans 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

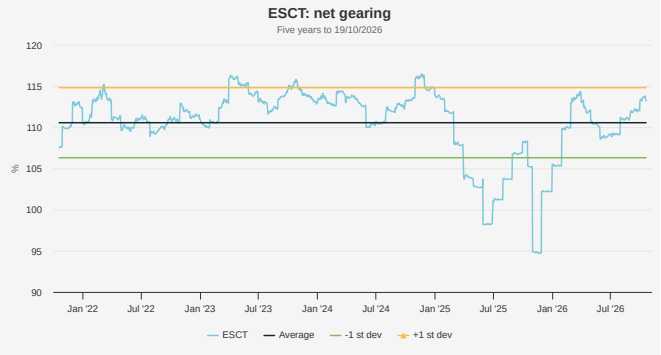
ESCT is currently geared 13%. The team don't try to time markets but adjust gearing, taking into account signals such as attractive valuations. During 2025, ESCT undertook a substantial tender offer and merged with its competitor European Assets Trust (EAT), and as part of managing those transactions, 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.

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NET GEARING



Source: Morningstar

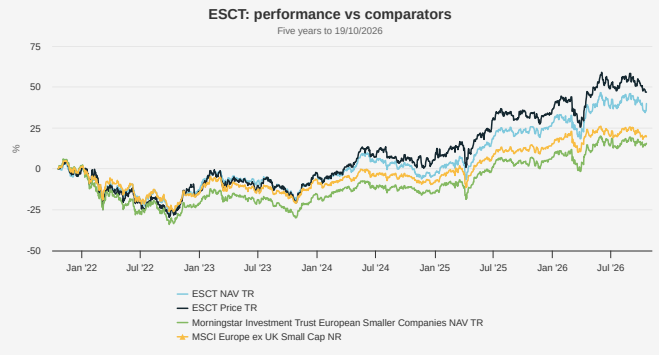
Past performance is not a reliable indicator of future results.

Performance

Over the last five years, ESCT's NAV and share price TR of 35% and 47% are ahead of the Morningstar European Companies peer group equivalent figures of approximately 15% for both (figures to 19/10/2026). The benchmark MSCI Europe ex UK Small Cap index's TR is 20% over the same period.

Shorter term, over a year, ESCT's NAV and share price TR are 11% and 12%, ahead of the benchmark's 9%. Over the last year ESCT's NAV TR has slightly outpaced the equivalent large-cap index, the MSCI Europe ex UK, which has a TR of just under 11%. In terms of contributors to performance, in keeping with ESCT's very diversified approach, outperformance was driven by a wide variety of stocks, with one of the larger holdings SUSS MicroTec being the single largest contributor in the first nine months of 2026. Similarly, there were no single large detractors, with none of the largest ten detractors losing more than 60bp of NAV.

FIVE-YEAR PERFORMANCE

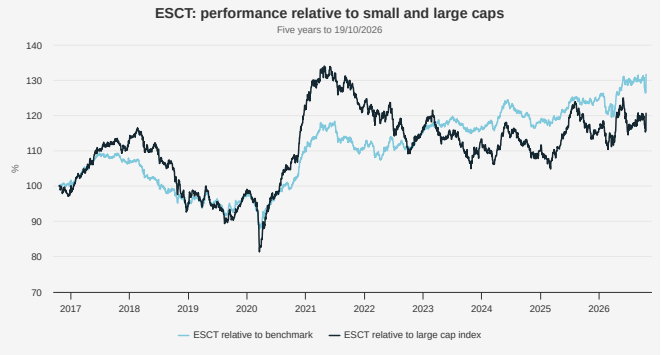


Source: Morningstar

Past performance is not a reliable indicator of future results

The next chart shows ESCT's performance over the last ten years relative to the benchmark, i.e. one divided by the other, then rebased to 100. The chart also shows ESCT's performance relative to the large-cap index. One of the fundamental reasons to invest in small caps is for the long-term potential to outperform large caps, and as the chart shows, ESCT has delivered on that potential. Over that ten-year period ESCT's NAV and share price total returns are, annualised, 10.6% and 11.5%, with the large- and small-cap indices returning 8.6% and 7.5%. Thus, ESCT has outperformed large caps even though the small-cap asset class as a whole has not.

TEN-YEAR RELATIVE PERFORMANCE



Source: Morningstar

Past performance is not a reliable indicator of future results

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 were 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 revenue 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

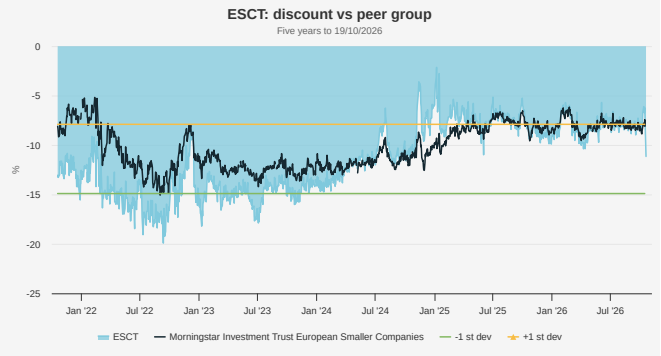
research analyst with the team from 2018. She was previously a sell-side analyst and also worked in a multi-asset fund management team.

Discount

ESCT currently trades on a 9% discount, slightly narrower than the five-year average. After a period in 2022 and 2023 where the discount touched mid-teens, a steady pattern of discount narrowing established itself up to the early part of 2026. Since then, markets have been pushed and pulled by various factors, from conflict in the Persian Gulf and accompanying energy price rises, to almost simultaneous optimism and pessimism about AI investments, all the way to rising government bond yields. Against that backdrop we think ESCT's discount can fairly be described as 'stable'.

ESCT adopted an enhanced dividend policy in November 2025, covered in the **Dividend section**, but because data providers show dividend yield using rolling 12-month dividend payouts, the full effect of this policy is only now starting to show up in the yields published by, for example, Morningstar. A wider appreciation of the dividend policy will, in our view, be a positive factor in managing the discount.

DISCOUNT

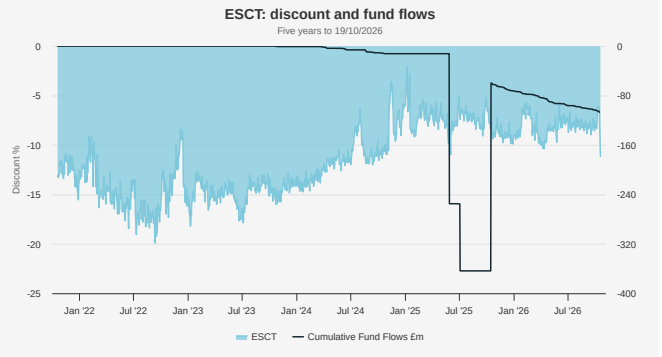


Source: Morningstar

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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 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.

DISCOUNT AND FUND FLOWS



Source: Morningstar

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ESCT has two further shareholder protections, which could be seen as backstops. First, a three-yearly continuation vote, 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 0.66% for the FY ending 30/06/2026 (2025: 0.68%), the lowest in its AIC European Smaller Companies peer group, which averages 0.80%. This figure excludes ESCT's performance fee, which is detailed below. Including this, the OCF was 0.76% (2025: 0.93%).

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 £850m, and the blended fee at this level is 0.50%, although this will rise and fall inversely to ESCT's net assets.

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 believe 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.

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