FundWatch

Chartered Financial Planners

Recommended Fund and Asset Association Review August 2026

Looking for Income in Unlikely Places

There is a common misconception in markets that you should select larger, more mature businesses for dividends and income ~ and smaller businesses for growth in share price.

The argument follows the narrative that mature businesses are generating more free cashflow so have capital to pay dividends, whereas smaller companies are reinvesting their revenue to drive further growth within the business and as such will not pay an income.

This is simply not the case around the world, although in this article our focus is on Europe specifically. Today in Europe the number of large companies yielding more than 3% is 100. 3% is considered by many to be a sustainable and acceptable income level for a business, not stressing their balance sheet so they can grow both the company and the dividend over time. The number of small and medium sized businesses in Europe yielding over this acceptable 3% is 689.

With the myth around *'smaller companies for income'* busted and the opportunity set so large, in this addition of Fund Watch we focus on one of our strategies in Europe looking to take advantage, **Montanaro European Income**.

Founded by ***Charles Montanaro*** who is still the chairman of the business today. Montanaro was founded in August 1991, specifically to focus on investing in European smaller companies on behalf of leading institutional clients. In 2015 they brought that capability to the retail market when this fund was launched.

There is no getting away from the fact that despite a strong long term track record, in the post COVID world, smaller companies have struggled against larger companies in Europe *(see figure 1)*. Recently, for example, as discussed in **MarketWatch**, it has been the big banks driving performance. The second quarter of 2026 saw the scale of smaller companies' underperformance stretched to the highest level for 5 years.

As we are seeing in the US at the moment, smaller companies do not lag the market forever and these periods of weakness can be a very attractive medium term entry point.

Against this smaller companies' relative performance headwind, the Montanaro team have also had additional pressure. They focus on quality and growth businesses, this means businesses with strong balance sheets, strong revenues and good returns on capital deployed. Within the smaller companies' universe these businesses have also struggled.

The market has wanted more value focused names. That is businesses of a cyclical nature, often with weaker financial credentials. This is common in a market where momentum is strong and cyclical industries are performing well. Quality stocks have underperformed value stocks by 40% recently.

However, in the face of these headwinds the team have positioned the fund on an interesting and compelling footing for the future.

Their process takes the previously mentioned universe and distils it down to a short list of 250 quality businesses. Once they have decided which are the good businesses they then move on to analyse is it a good investment, it is important not to overpay for a share. This gives them a portfolio of 45 names, focused on quality, growth and income.

At the time of writing, the yield of the fund is near the highest it has been since its inception in 2015 and at a significant premium to the market. Forecast dividends for next year are also attractive at around 4%.

At the same time, aggregate consensus sales growth of the portfolio is 12.2%, earnings per share growth is forecast to be over 20% for the year and 11.2% for 2027. It is not common to receive a dividend yield of that level for a set of stocks with this growth profile. It often only happens when the area of the market is so out of favour as it is today. Obviously, these numbers are not guaranteed and subject to change, but it is a strong starting point.

Growth metrics like this are what have led the team to be able to deliver income growth to investors above the rate of the larger companies in Europe *(see figure 2)*. The team have grown income on average, 7.3% per annum since 2016.

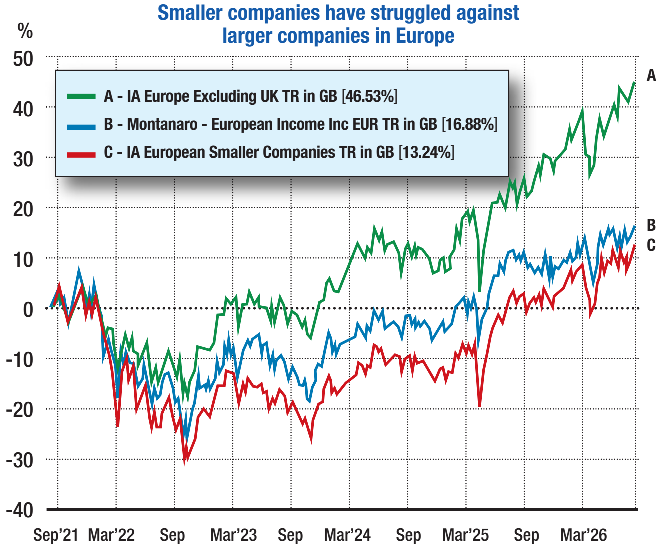
So, whilst recent total return performance has been frustrating when compared to larger stocks in Europe, the entry point is attractive.

Investors are being offered compelling future growth forecasts, all the while being paid an attractive level of income. This income, which has consistently grown over time is adequate compensation to be *'paid to wait'* for the stock price to follow the positive credentials of the companies. In the short term sentiment and market narrative drive prices, in the long term earnings per share will be recognised.

Given the founder of the business still owns it, Montanaro are a good partner to navigate these periods of being out of favour. Large institutions can often put pressure on their management teams to chase performance and alter from their process. ***That is not the case with Montanaro, you know what you are buying.***

Figure one

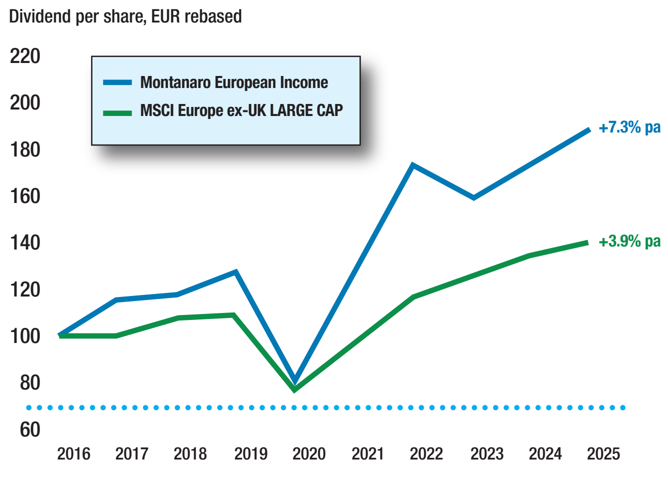
Smaller companies have struggled against larger companies in Europe



Data from FEfundinfo 2026.

Figure two

Delivering income growth to investors above the rate of larger companies in Europe



Source: Internal, Factset. Data is to 31 December 2025.

Churchill's Recommended List performance

Source: FE 31/07/2026
Note: Figures rounded to nearest number.

Ranking	One Year Number	One Year % of funds	Three Years Number	Three Years % of funds	Five Years Number	Five Years % of funds
Top Quartile	21	49	18	43	19	46
Second Quartile	11	26	11	26	8	20
Third Quartile	5	11	7	17	8	20
Fourth Quartile	6	14	6	14	6	15
Total Funds	*43*	*100*	*42*	*100*	*41*	*100*

Recent performance of funds on our Recommended List

- Over **one year** to the end of July 2026, 75% of our funds have above average performance.
- Over a **3 year period**, 69% of our funds showed above average performance.
- Over a **5 year period**, 66% of our funds showed above average performance.
- The analysis excludes lower volatility / target volatility funds, specialist funds and property funds for which we feel there are no comparative benchmarks.

CURRENT FUNDS ~ AUGUST 2026

All the funds listed are UK-authorised Unit Trusts or Open Ended Investment Companies

UK GROWTH
- Slater Growth
- Man Undervalued Assets
- Liontrust UK Opportunities
- Artemis UK Select
- Jupiter UK Dynamic

UK EQUITY INCOME
- Royal London UK Equity Income
- Schroder Income
- Man Income

FIXED INTEREST
- Jupiter Strategic Bond
- JP Morgan Global Bond Opportunities
- Premier Miton Strategic Monthly Income
- PIMCO GIS Income
- Schroder Strategic Bond

ENERGY / NATURAL RESOURCES
- Schroder Global Alternative Energy
- Regnan Sustainable Water and Waste
- Blackrock GF World Mining
- Jupiter Gold and Silver

INFRASTRUCTURE / PROPERTY
- M&G Global Listed Infrastructure
- Schroder Global Cities Real Estate
- L&G UK Property

MULTI-ASSET INCOME
- Waverton Multi Asset Income
- Premier Miton Cautious Monthly Income
- BNY Mellon Multi Asset Income
- CG Aegon Diversified Monthly Income
- Trinity Bridge Diversified Income

NORTH AMERICA
- Baillie Gifford American
- Artemis US Select
- T Rowe Price US Smaller Companies
- Barrow Hanley US Mid Cap Value

JAPAN
- M&G Japan
- Jupiter Japan Income

EUROPE
- Jupiter European
- Lightman European
- Montanaro European Income Fund

FAR EAST
- Baillie Gifford Pacific
- Schroder Asian Income
- M&G Asia

EMERGING MARKETS
- JP Morgan Emerging Markets
- Baillie Gifford Emerging Markets Growth
- Artemis SmartGARP Global Emerging Markets

GLOBAL EQUITY GROWTH
- Rathbone Global Opportunities
- CT Global Focus
- Abrdn Standard Global Smaller Companies
- Artemis SmartGARP Global Equity

GLOBAL EQUITY INCOME
- Schroder Global Equity Income
- Guinness Global Equity Income
- BNY Global Income
- Artemis Global Income
- Fidelity Global Dividend
- JP Morgan Global Equity Income

LOWER VOLATILITY/TARGET VOLATILITY
- Rathbone Total Return Portfolio
- SVS RM Defensive Capital
- Jupiter Merian Global Equity Absolute Return
- Church House Tenax Multi Asset Strategy
- BNY Mellon Global Dynamic Bond
- BM SVS Cornelian Defensive Managed

Churchill Investments plc
CHARTERED FINANCIAL PLANNERS

Contact details

Churchill Investments plc
9 Woodborough Road Winscombe
North Somerset BS25 1AB

To arrange an appointment, or for advice, please contact us on

01934 844444

or Email:

info@churchillinvestments.co.uk

IMPORTANT NOTICE