

European Smaller Companies Fund (€)



★★★★ – Morningstar Rating™
(as at 31/12/11)

MONTANARO

Monthly Fact Sheet: December 2011

Montanaro, an independent specialist fund manager, was established in 1991 to research and invest in European, including UK quoted SmallCap companies. Funds under management are currently €1.3 billion. The European Smaller Companies Fund invests principally in quoted European (including UK) companies below €3 billion in size with a focus on companies below €1 billion. It is authorised for distribution and regulated in Ireland, the UK, the Netherlands, France, Finland, Sweden, Switzerland and Norway; German Tax Reporting available. A Euro Accumulation share class was launched in 2009.

Monthly Review

In a difficult market environment marked by events that will make their way into our history books – the Arab Spring, Japan's deadly tsunami, two European bailouts, the loss by the US of its perennial AAA rating - we are pleased to report that the Fund ended the year 6% ahead of its benchmark.

The strongest contributor in December was **NCC**, the UK's leading provider of escrow and assurance testing solutions, which rose 26% as the company continued to benefit from good demand for its anti-hacking and website testing business. **Belimo**, a Swiss manufacturer of actuators, bounced back from its November lows as concerns over a sharp slowdown in global growth faded. **Kapsch TrafficCom**, the Austrian road toll provider, rose after it secured a major order win in Russia.

On the downside, **Vacon**, a Finnish supplier of variable speed drives, reduced its full-year guidance owing to problems securing a receivable and continued slowdown in its end market. UK-listed **Domino's Pizza** declined on tough like-for-like comparables in Q4, coupled with decreasing consumer confidence and an unusually warm winter. Management subsequently confirmed that full year profits would meet consensus. **GFK**, the German market research company, continued to trade down following a mixed Q3 report in November. It has since stabilised.

In December, we visited **Wincor Nixdorf** at their headquarters in Paderborn, Germany. Wincor specialises in hardware, software and services for ATMs and automatic check-out systems for retailers. Wincor is the second largest player in the world in both ATMs and retail solutions. Montanaro have been investors in Wincor for years but the company is not one of our top holdings.

A key component of Wincor's growth strategy is its ability to supply products that are optimised, from a cost point of view, for the various markets, which is crucial to maintaining its margins. Our German factory tour confirmed that Wincor has an attractive product architecture - based

on modules - which makes it possible for the company to produce its products in any of its factories. With transportation costs potentially high relative to total product cost, this flexibility is essential. We also understand that there is still potential to take out costs in both production and sourcing, which should allow Wincor to preserve margins in the face of maturing markets.

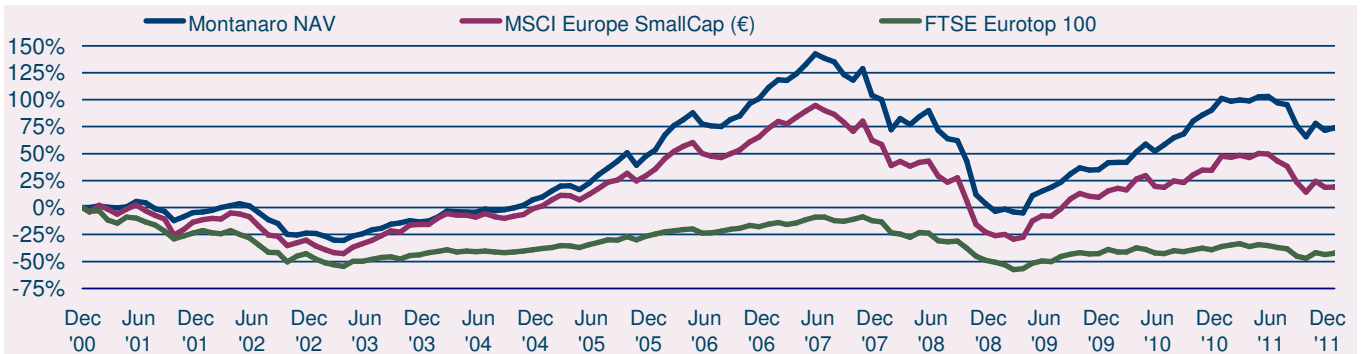
As we enter 2012, two of last year's themes will inevitably continue to dominate market sentiment: the EMU's transition from a currency to a fiscal union; and the tug-of-war between monetary reflation and fiscal consolidation. Elections in the US, China and France will also be important milestones. German-led austerity may well tip Europe's economy into a mild recession. Politicians everywhere are in the driving seat and as investors we are at their mercy perhaps to a greater degree than ever before. 2012 will be a volatile year.

However, companies are sitting on large cash piles which will need to find a home. We see room for M&A activity to gain steam as large firms start looking at external growth to offset slowing earnings growth.

In stark contrast to last year, investor portfolios are positioned defensively with larger cash allocations, a reflection of the prevailing gloom in Europe. We estimate that the market is already pricing in a 13% decline in European SmallCap earnings in spite of the benign global growth environment. Our interpretation is that current valuations limit the downside risk. Under-owned and under-loved, European SmallCap could surprise on the upside this year.

The context of high uncertainty should translate into further outperformance of the "quality growth" theme - companies offering secure earnings growth and good visibility. Balance sheet strength is also crucial at a time when bank lending may be restricted. Montanaro are well positioned to take advantage of a scramble for the highest quality "blue-chip" small companies. We wish all our investors a Happy New Year!

Fund Performance in Euros



Relative Performance in Euros



Fund Performance in Euros

Y/E: December	YTD	1 month	3 month	6 month	1 year	3 year	5 year	Launch
Montanaro NAV	-13.5%	1.4%	5.1%	-11.8%	-13.5%	80.4%	-17.7%	73.9%
MSCI Europe SmallCap (€)	-19.5%	0.2%	3.9%	-16.9%	-19.5%	60.8%	-31.6%	18.9%

Source: Montanaro, Bloomberg. NAV to NAV, unrounded. NAV prior to class launch 30/11/06 based on GBP NAV. NAVs prior to 24/09/07 priced at close of business; between 24/09/07 and 01/10/09 priced at midday; since 2/10/09 priced at 4pm.

Fund Analysis

	Fund	Index
Latest NAV (Price)	€2.85	155.6
Alpha (annual) *	8.1%	na
Beta *	0.72	1.00
Standard Deviation *	15.9%	20.8%
Sharpe Ratio *	1.31	0.78
Tracking error *	7.8%	na
P/E 12F _†	13.3	10.3
EPS Growth 12F _†	10.2%	10.9%
Dividend Yield 12F _†	3.2%	3.7%

* risk statistics over three years † Source: Factset consensus estimates

Fund Details

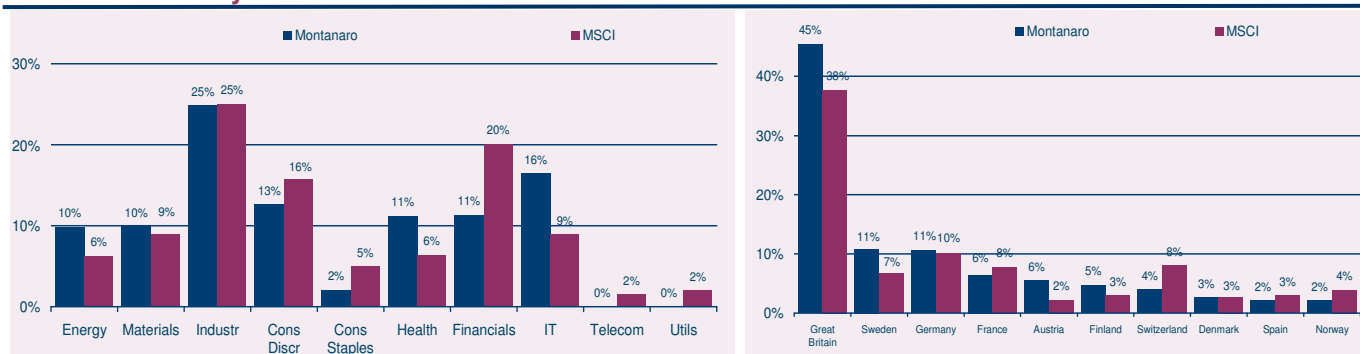
Launch Date	December 2000
Fund Size	€614 million
No. of holdings	61
Median Mkt Cap	€1033 million
Mgmt Fee	Annual 1.5%
Perf Fee	See below*
Legal Status	Irish OEIC
Listing	Irish Stock Exchange
Valuation	Daily
Dividends †	Expected Q1

† distributor status approved

Top Ten Holdings

Name	Country	Sector	%
1 Elekta	Sweden	Health Care Equipment & Supplies	3.0%
2 Domino Printing Sciences	Great Britain	Electronic Equipment, Instruments & Components	3.0%
3 Victrex	Great Britain	Chemicals	2.9%
4 NCC Group	Great Britain	IT Services	2.8%
5 Rational	Germany	Machinery	2.7%
6 Virbac	France	Pharmaceuticals	2.7%
7 Christian Hansen Holding	Denmark	Chemicals	2.6%
8 GFK	Germany	Media	2.4%
9 Domino's Pizza	Great Britain	Hotels, Restaurants & Leisure	2.4%
10 Croda International	Great Britain	Chemicals	2.3%
CASH	1.7%	TOTAL	26.8%

Sector & Country Distribution



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Ticker: MONESCE ID Equity – Euros
 MONESEA ID Equity – Euros (Accumulation)
 MONESCF ID Equity – Sterling
 MONESCU ID Equity – US Dollar

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* Performance fee is calculated at 20% outperformance of MSCI European SmallCap Index (€) plus 3%, with a hurdle of €3.29.

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