

European Smaller Companies Fund (€)



★★★★ – Morningstar Rating™
(as at 31/10/11)

MONTANARO

Monthly Fact Sheet: October 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 €1.4 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

October saw the largest relief rally for some time as European leaders sought a solution to the sovereign debt issues. The portfolio rose by nearly 8% over the month. Due to a bank holiday in Ireland, the monthly figures are at 28 October 2011.

JM Group, the Swedish house builder, performed well after announcing a strong set of Q3 results with no indications of any material decline likely in Q4. **Outotec**, the leading Finnish designer of mining machinery, also rose by more than 20% in sympathy with their underlying customers. Q3 results impressed with the company having a very strong order book. **Domino Printing Sciences**, (UK) one of the world's largest manufacturers of printers for industry, recovered as the sales outlook for September looked much improved on that seen in July and August.

On the downside **Diasorin**, the Italian seller of diagnostic testing kits (particularly strong in Vitamin D), suffered as competitors launched new products and sales in the US came under some pressure. The company has subsequently been buying stock back and these lower prices. **Rational**, the German manufacturer of commercial kitchen ovens, has seen it shares perform well this year and some investors took the opportunity to switch into lower quality cyclical investments during October. **Dignity**, (UK Funeral services provider) is a classic defensive stock and also suffered as investors chased high beta stocks.

We recently had a meeting with **Schoeller Bleckman** (SBO) one of our top holdings in the oil services sector. SBO manufactures non-magnetic drill string components for directional drilling so that oil companies can drill horizontally as well as vertically. We had previously visited the company's manufacturing facilities in Austria and been impressed by the quality of the facilities. As oil becomes ever scarcer, the technology required to

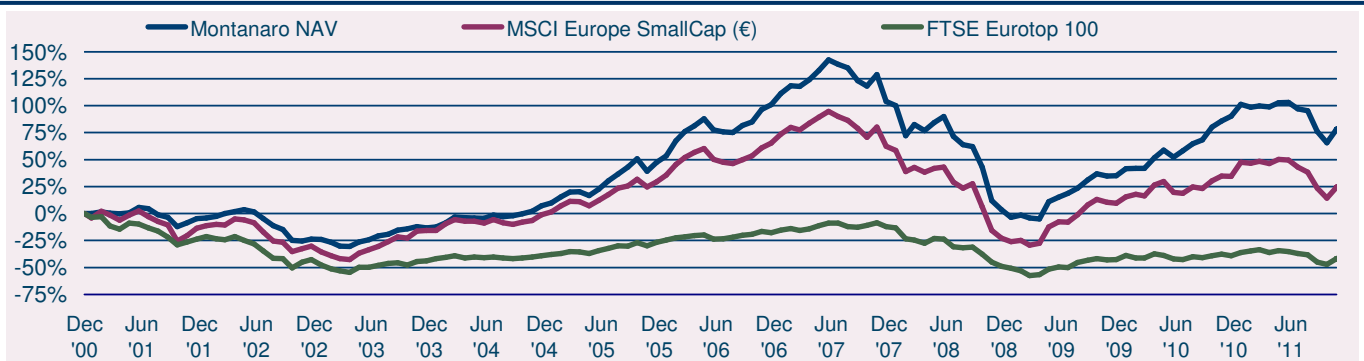
maximise oilfield production will increase, and benefit companies such as **SBO**.

After considerable destocking in 2008/9, we have been tracking the rig count data closely. Currently the outlook is positive - the horizontal rig count is 75% higher than its previous peak and 200% above the trough seen in 2009. Management confirmed that the recent expansion into countries such as Brazil and Singapore has gone well, helping the group to raise operating margins above 20% at the interim stage. Strong order intake and a rise in the order backlog suggest that trading in the second half of the year should remain robust. Additional growth will be seen from the recently acquired Drilling Systems International, which is based in Dubai and further broadens the product offering.

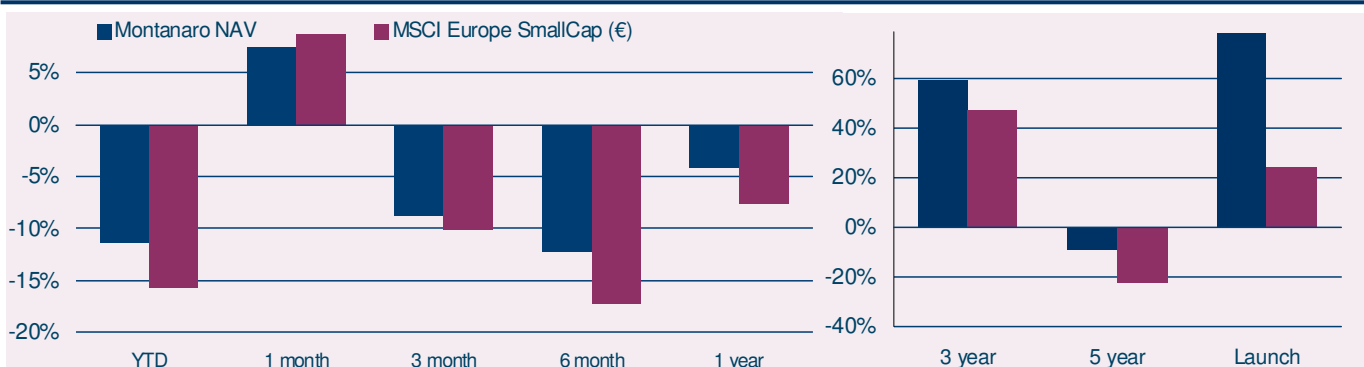
After all meetings, our analysts take a closer look at our internal models particularly with reference to consensus numbers. We have concluded that there is room for some modest upside in consensus forecasts much as we would expect from such a well-managed, high quality business. We believe margins could return to or exceed their previous peak of 24%. **SBO** remains a core holding.

If the October rally has taught us anything, it is that there is a lot of cash sitting on the sidelines waiting to be invested. Investor confidence is low and volatility high, normally good ingredients for investing. Our internal market timing model gave a strong Buy signal in September and remains positive. European SmallCap is under-owned and unloved. A resolution of the Euro "crisis" could see a return to the asset class and a change in sentiment which can be very fickle. In summary Q4 still looks set to finish the year on a positive note even if the ride is not as smooth as the politicians would like.

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	-11.5%	7.6%	-8.8%	-12.3%	-4.2%	59.3%	-9.3%	78.1%
MSCI Europe SmallCap (€)	-15.7%	8.7%	-10.0%	-17.2%	-7.6%	47.3%	-22.6%	24.4%

Source: Montanaro, Bloomberg. NAV to NAV, unrounded. NAV prior to class launch 30/11/06 based on sterling denomination. 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. October '11 NAV and Index as at 28/10/11, due to Irish Bank Holiday on 31/10/11 (no NAV produced).

Fund Analysis

	Fund	Index
Latest NAV (Price)	€2.91	162.9
Alpha (annual) *	5.7%	na
Beta *	0.75	1.00
Standard Deviation *	17.2%	21.6%
Sharpe Ratio *	0.92	0.59
Tracking error *	7.9%	na
P/E 12F _†	13.0	10.5
EPS Growth 12F _†	11.5%	12.8%
Dividend Yield 12F _†	3.2%	3.6%

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

Fund Details

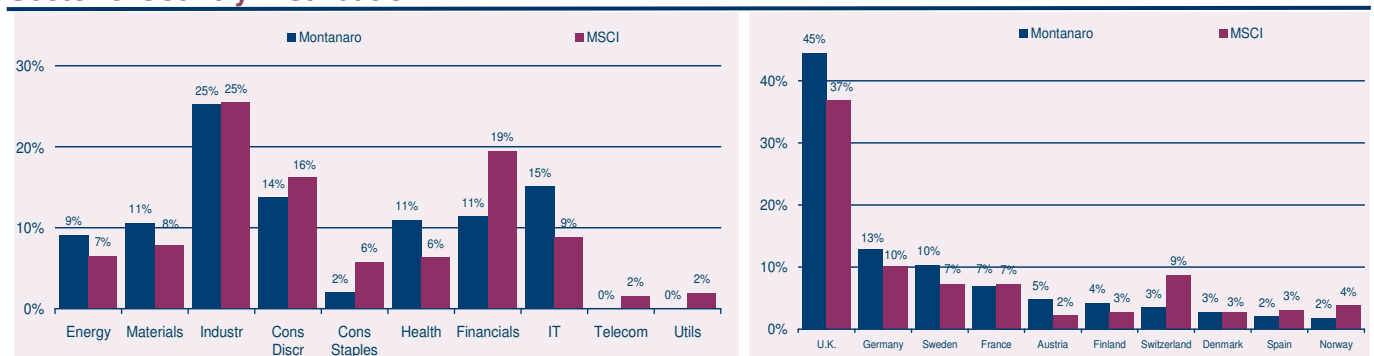
Launch Date	December 2000
Fund Size	€687 million
No. of holdings	67
Median Mkt Cap	€1105 million
Mgmt Fee	Annual 1.5%
Perf Fee	See below*
Legal Status	Irish OEIC
Listing	Irish Stock Exchange
Valuation	Daily
Dividends †	Expected Q1

† distributor status approved

Top Ten Holdings

Name	Country	Sector	% of portfolio
1 Victrex	UK	Chemicals	3.0%
2 Domino Printing	UK	Electronic Equipment & Instruments	2.9%
3 Christian Hansen	Denmark	Chemicals	2.8%
4 Virbac	France	Pharmaceuticals	2.7%
5 Rational	Germany	Machinery	2.6%
6 Elektro	Sweden	Health Care Equipment & Supplies	2.5%
7 Domino's Pizza	UK	Hotels, Restaurants & Leisure	2.5%
8 GfK AG	Germany	Media	2.4%
9 NCC Group	UK	IT Services	2.1%
10 Croda	UK	Chemicals	2.1%
CASH	1.9%	TOTAL	25.6%

Sector & Country Distribution



Manager: Charles Montanaro
 Montanaro Asset Management
 53 Threadneedle Street
 London EC2R 8AR

Tel: 020 7448 8600
Fax: 020 7448 8601
Website: www.montanaro.co.uk
E-mail: cmontanaro@montanaro.co.uk

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

Custodian, Fund Administrator and Subscriptions – Contact State Street:

Tel: +353 1 242 5407 **Fax:** +353 1 523 3791 **E-mail:** MontanaroTA@statestreet.com

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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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