

Montanaro, an independent specialist fund manager, was established in 1991 to research and invest in UK and Continental European quoted SmallCap companies. Funds under management are currently c. £1.1 billion. The Focus Fund mainly invests in UK quoted small companies below £1 billion in size. A limited number of collective investments may also be held. The objective is long-term capital appreciation of at least 10% p.a.

Monthly Review

November was another volatile month. Greece and Italy have new Prime Ministers whilst the Greeks almost derailed the bailout process by considering (and then rejecting) a referendum. The end of the month saw a sharp recovery in stock markets as Central Banks around the world took concerted action and China cut interest rates. The portfolio outperformed its benchmark by over 1% during the month.

In a difficult month there were still some positive trading statements. **Oxford Instruments**, the advanced instrumentation company, announced better than expected interim results and rose by more than 25% over the month. Similarly **Fenner**, a global manufacturer of advanced conveyor belts to the mining industry, announced strong full year results leading to upgrades for 2012 as margins surprised on the upside. Finally **Hamworthy** the manufacturer of advanced marine fluid handling systems, received a bid from Wartsila lifting its shares by over 40%.

On the downside **Immunodiagnosics**, the Vitamin D testing business, fell as it announced poor results and gave a weak outlook statement. The market has seen increased competition from major manufacturers such as Siemens. **Brooks Macdonald** the financial services business, continues to trade well but investors sought to take profits in a thin market causing the share price to weaken. Finally **Domino Printing**, a world leading manufacturer of ink jet printers, drifted back on profit taking after a strong performance in October.

We have followed **Rotork** for over 25 years and recently attended its Capital Markets Day in London. Rotork is the global market leader in valve automation and flow control selling to the oil and gas, power and water & waste treatment markets. The company is largely driven by the continuous expansion of the global oil and gas installed capacity, but also

increasingly by tightening emission control standards for power producers and miners as well as by the scarcity of water. Due to its well balanced product portfolio from electrically-operated valve actuators and fluid-controlled automated valve systems to manual and motorised gearboxes and mounting kits, the company has constantly increased market share.

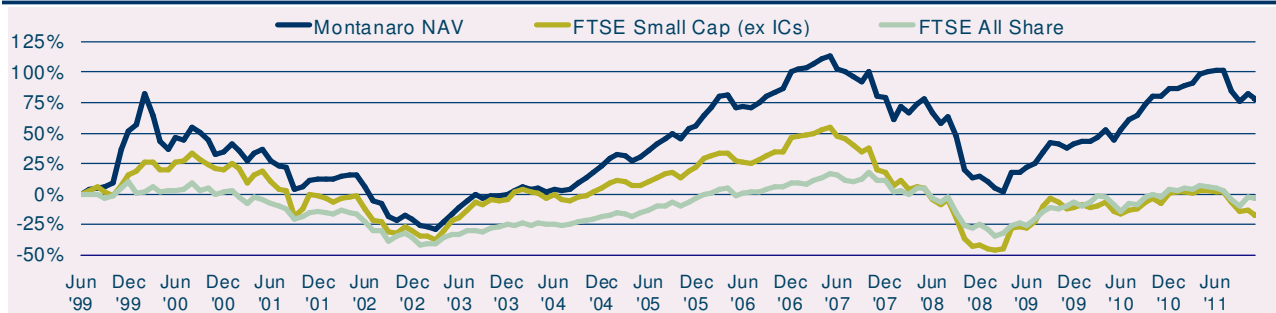
Rotork emphasized its product portfolio and the potential overlap with new adjacent product markets such as pressure control & measurement and temperature control & measurement. Just a few days after the meeting, it announced the acquisition of Fairchild Industrial Products, a manufacturer of devices involved in the precision control of pneumatic devices and motion control equipment. Fairchild will form the basis of a new division and increases the exposure to other industries such as pharmaceutical and biomedical equipment, tyre manufacturing machinery, robotics, food processing and chemical manufacturing.

In summary the presentations confirmed that Rotork has a strong product portfolio in markets offering long term growth potential. With exceptional margins and strong cash flow, Rotork is one of the highest quality companies in our portfolios and one which regularly pays special dividends.

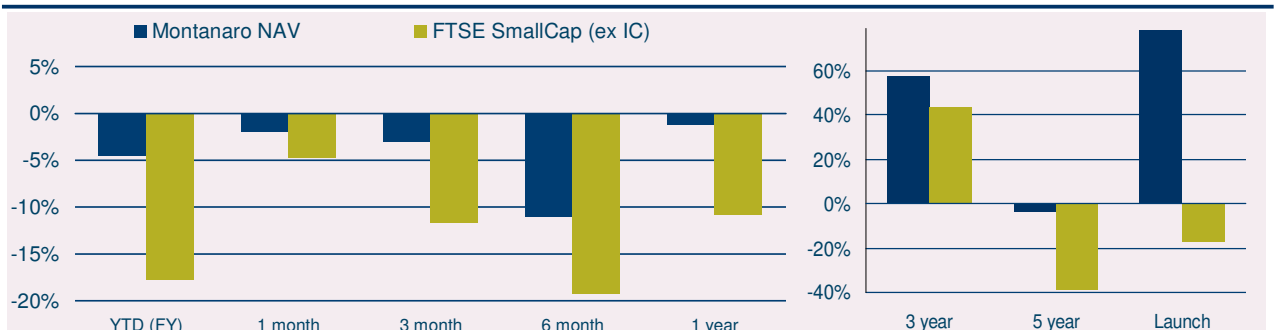
Current market valuations of European SmallCap suggest that the Stock Market is assuming a decline in earnings of 15% - 25% in 2012. Although a recession is possible – indeed we may already be in one – we do not expect a major economic downturn provided that the Euro survives. With important developing economies such as China once again promoting pro-growth policies and the risk of inflation falling, we expect economic expectations to become more positive as next year progresses.

We would like to thank you for your support and to wish you a merry Christmas and a healthy, happy and prosperous New Year.

Fund Performance



Relative Performance



Fund Performance

Y/E: December	YTD (FY)	1 month	3 month	6 month	1 year	3 year	5 year	Launch
Montanaro NAV	-4.6%	-2.0%	-3.1%	-11.0%	-1.2%	57.7%	-4.3%	78.4%
FTSE SmallCap (ex IC)	-17.7%	-4.8%	-11.6%	-19.3%	-10.8%	43.7%	-38.9%	-17.4%

Source: Montanaro, Bloomberg. NAV to NAV

Fund Analysis

	Fund	Index
Latest Price / NAV	1543.9	2164.8
Alpha (annual) *	8.6%	na
Beta *	0.52	1.00
Standard Deviation *	15.1%	24.8%
Sharpe Ratio *	1.03	0.49
Tracking error *	14.3%	na
P/E 12F _†	13.4	7.4
EPS Growth 12F _†	13.4%	7.1%
Dividend Yield 12F _†	2.5%	3.9%

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

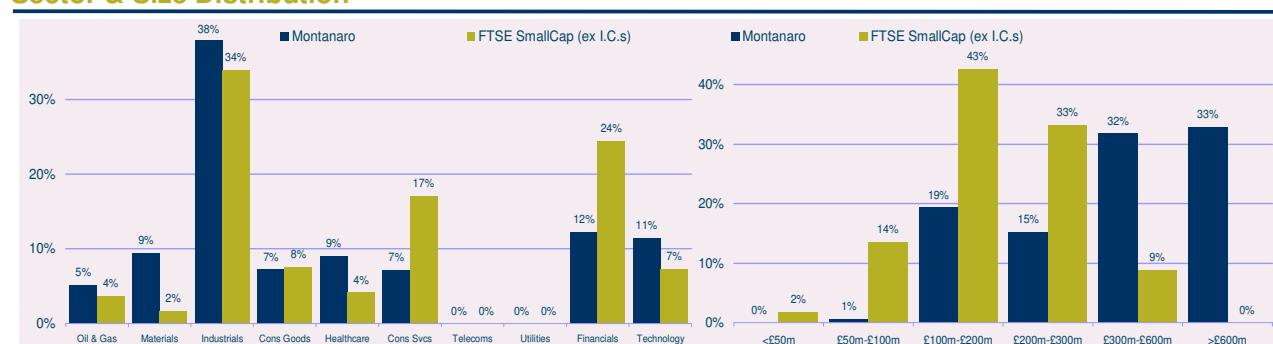
Fund Details

Launch Date	June 1999
Fund Size	£23m
No. of holdings	42
Mgmt Fee	Annual 1.5%
Perf Fee	See below*
Legal Status	Offshore (Cayman) Unit Trust
Valuation	Each Friday
Offering memo	March 1997

Top Ten Holdings

Name	Sector	% of portfolio
1 NCC Group	Software & Computer Services	4.0%
2 Dignity	General Retailers	3.7%
3 Oxford Instruments	Electronic & Electrical Equipment	3.7%
4 Victrex	Chemicals	3.3%
5 Dialight	Electronic & Electrical Equipment	3.2%
6 Croda	Chemicals	3.2%
7 Devro	Food Producers	3.1%
8 Genus	Pharmaceuticals & Biotechnology	3.0%
9 Domino's Pizza	Travel & Leisure	2.9%
10 Shaftesbury	Real Estate Investment Trusts	2.8%
TOTAL		32.9%

Sector & Size Distribution



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* Performance fee is calculated at 20% of the returns over a hurdle rate of 10%