Focus Fund

MONTANARO

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

Monthly Fact Sheet: October 2011

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. £1.2 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

October saw the largest relief rally for some time as European leaders sought a solution to the sovereign debt issues.

Amongst those companies which saw significant share price recovery was **Domino Printing Sciences**, one of the world's largest manufacturers of printers for industry. The sales outlook for September looked much improved on that seen in July and August which came as a relief to investors in this well managed business. Elsewhere **Victrex**, the world leading manufacturer of PEEKTM, recovered strongly in line with many stocks which were perceived to be cyclical. Renewed hopes for economic recovery led to a stronger oil price, leading to strength in **Enquest** the North Sea oil production company.

On the downside **Immunodiagnostic Systems**, the seller of diagnostic testing kits (particularly strong in Vitamin D), suffered as competitors launched new products and its major European competitor put out a cautious trading statement. **Oxford Instruments**, (manufacturer of advanced instrumentation equipment) suffered as many of its peers in the semi-conductor and LED markets announced weak trading statements. Finally **Dignity**, (UK Funeral services provider) is a classic defensive stock which fell as investors chased high beta stocks.

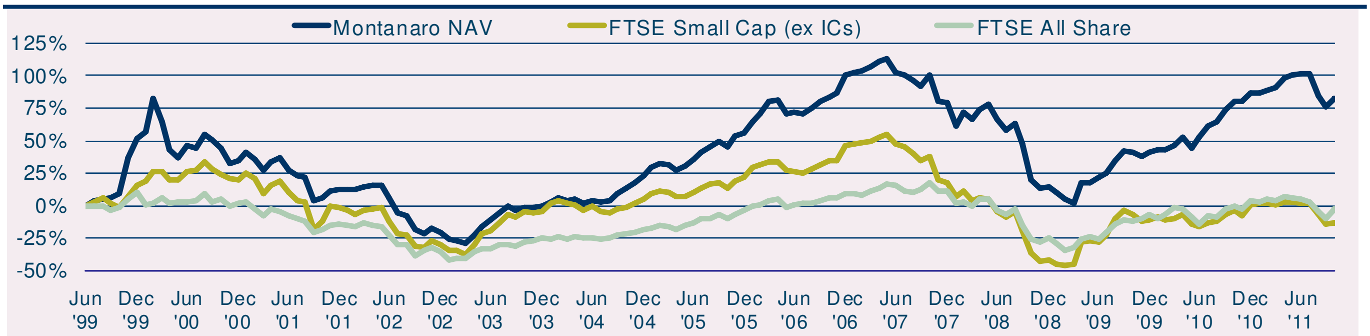
We recently visited **Ricardo**, the UK's leading engineering consultancy business focused on the automotive industry, in Leamington Spa. The Midlands Technology Centre has run a number of important major projects over the years such as the design of the new Mini for BMW and the Joint Venture with SAIC (the Chinese company which bought the remnants of Rover). Current projects include significant contracts with Jaguar Land Rover, the initial production of the MOD's Ocelot vehicle and transmission systems for the Bugatti Veyron. Our analyst has known the company for 25 years which can make it difficult to answer one of our favourite questions: "what did we learn?"

Ricardo has always been involved in producing prototypes but over the years has extended this to include short run components, engines, transmission systems and gear boxes principally for the Motor Sport industry such as the Formula 1 teams. This service has been expanded and is now being run as a specialist machine shop able to use very high technology materials which often need hours of machining. The Managing Director of the business has been with the company for 28 years and has helped turn it into a business making a useful contribution to profits rather than a loss leader to develop technology. The success of this business gives us confidence that **Ricardo** will be able to handle the McLaren MP4-12C GT3 race car and the Ocelot orders.

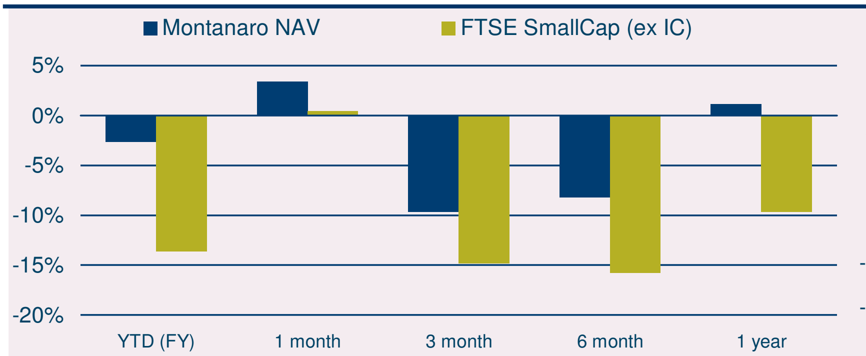
Unusually for a meeting of this nature, none of the Executive Directors were present, which gave us a useful insight into the quality of subsidiary management. It also enabled us to focus on the plant and facilities rather than concentrating on recent historical financial performance. It was clear that **Ricardo** remains at the forefront of technology in their chosen fields and has an order pipeline of which many would be envious.

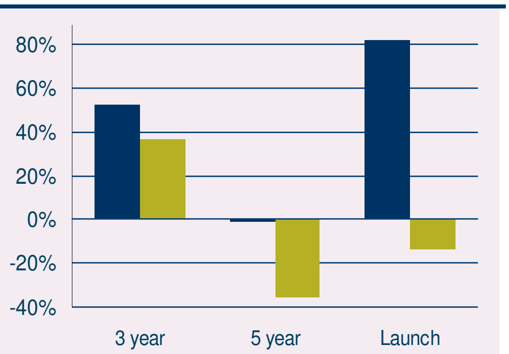
If the October rally has taught us anything, it is that there is a lot of cash sitting on the sidelines waiting to be invested. Investor confidence is low and volatility high, normally good ingredients for investing. Our internal market timing model gave a strong Buy signal in September and remains positive. UK 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 investors would like.

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	-2.6%	3.4%	-9.7%	-8.2%	1.2%	52.5%	-0.7%	82.0%
FTSE SmallCap (ex IC)	-13.6%	0.5%	-14.8%	-15.8%	-9.6%	36.7%	-35.7%	-13.3%

Source: Montanaro, Bloomberg. NAV to NAV

Fund Analysis

	Fund	Index
Latest Price / NAV	1575.1	2273.3
Alpha (annual) *	8.3%	na
Beta *	0.53	1.00
Standard Deviation *	15.5%	25.3%
Sharpe Ratio *	0.92	0.40
Tracking error *	14.4%	na
P/E 12F†	13.8	7.7
EPS Growth 12F†	14.1%	8.2%
Dividend Yield 12F†	2.5%	3.8%

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

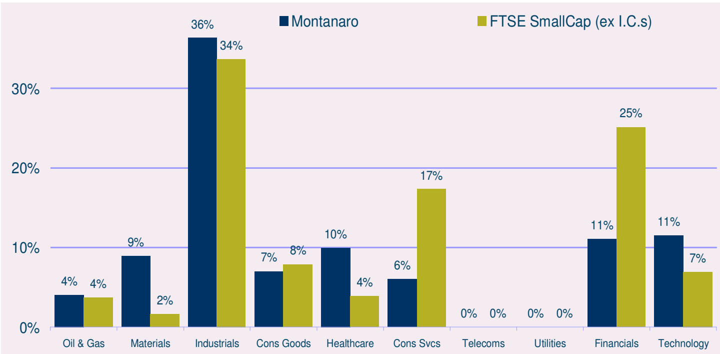
Fund Details

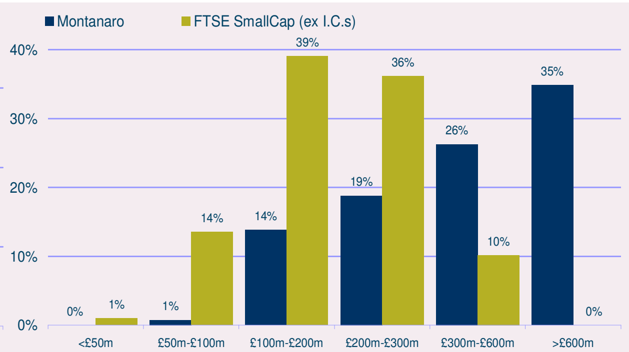
Launch Date	June 1999
Fund Size	£23m
No. of holdings	43
Mgmnt Fee	Annual 1.5%
Perf Fee	See below*
Legal Status	Offshore (Cayman) Unit Trust
Valuation	Each Friday
Offering memo	March 1997

Top Ten Holdings

	Name	Sector	% of portfolio
1	NCC Group	Software & Computer Services	3.8%
2	Dignity	General Retailers	3.5%
3	Brooks Macdonald	Financial Services	3.4%
4	Dialight	Electronic & Electrical Equipment	3.2%
5	Domino Printing	Electronic & Electrical Equipment	3.1%
6	Oxford Instruments	Electronic & Electrical Equipment	3.1%
7	Croda	Chemicals	3.0%
8	Victrex	Chemicals	3.0%
9	James Fisher	Industrial Transportation	2.9%
10	Genus	Pharmaceuticals & Biotechnology	2.9%
		TOTAL	31.7%

Sector & Size Distribution





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Ticker: MONTFOF KY Equity

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