

# Star Manager

## Exploring the small cap jungle

*A cross between Indiana Jones and Warren Buffett, Charles Montanaro, who runs the Montanaro European Smaller Companies fund, is not a stereotypical fund manager. He talks to Philip Haddon about his high hopes for European small caps.*

To escape the stress of their job, some fund managers like to spend a week reading detective novels on a Spanish beach or go for walks in the countryside with their family. Not Citywire AAA-rated Charles Montanaro, however.

Having studied anthropology before embarking on his finance career, Montanaro has had a lifelong fascination with people from remote parts of the world. In stark contrast to his day-to-day work, he visits extreme locations, exploring jungles and meeting tribespeople. Unsurprisingly, he has some tales to tell.

Two years ago he took a break from managing his Montanaro European Smaller Companies fund to visit Papua in Indonesia. Accompanied by guides, Montanaro encountered the Korowai tribe deep in the island's dense jungle.

The Korowai are rumoured to have practised cannibalism until as recently as the nineties and have had limited exposure to westerners. Upon encountering the silver haired Londoner, one member of the tribe thought he was a ghost. With a bow and arrow pointed in his direction, the London-based equity manager was forced to strip naked to prove he was a mortal human being.

A year before this experience, Montanaro visited Mamberambo, another part of the island of Papua. On this occasion he was briefly held hostage by a tribe.

'They kidnapped me for a few hours and wanted all my clothes and machete, but they got bored and let me go,' Montanaro says.

Listening to stories of exotic spider bites and ill-fated piranha fishing expeditions, it is easy to forget that Montanaro is a highly successful fund manager who has gained a large number of fans among some of Europe's top investors.

Montanaro says he brings the Warren Buffett approach to European small cap investing.

'Buffett speaks a lot of sense. Investing should be common sense,' he says.

After spending time as an institutional stockbroker, he joined MMG Patricof as an investment banking director, focusing on UK smaller companies. In 1991 he set up Montanaro Investment Managers.

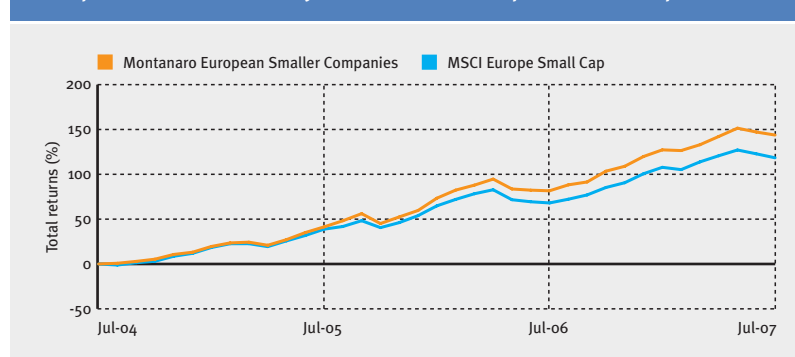
Montanaro soon realised that the inefficiencies being exploited by investors in the UK were amplified in Europe, causing him to focus on Europe and launch his European Smaller Companies fund in 2000.

'My background was in the UK small cap market, which I could see was inefficient. In theory, the European small cap market should be even more inefficient due to additional cultural, language and geographical barriers.

'The European market is also much larger with a choice of over 5,000 companies that are less well-researched, so it should be easier for a good stockpicker to add even more value and achieve higher returns for investors. This has been our experience,' Montanaro says.

Montanaro's process relies on a multi-national team at his new London offices, which comprises seven different nationalities. He thinks

The explorer: Montanaro's three-year record with his European Smaller Companies fund





their local contacts, language skills and knowledge help to give his research an edge. Montanaro and his team are on the lookout for profitable, high quality companies operating in growth areas, with market caps of under €500 million. He does not believe in looking only for cheap companies.

'The danger with investing in companies simply because they are cheap is that they may be 'value dogs' – low priced companies in boring sectors that are going nowhere.

'I believe that you get what you pay for in life. You're better off paying a little more for a better company,' he says.

Montanaro and his team try to steer clear of brokers as much as possible and his analysts are incentivised by receiving bonuses linked to the success of their recommendations.

Montanaro takes a long-term approach and many of the stocks in his UK investment trust portfolio have sat there for 10 years.

'We look at a minimum holding of 3 to 5 years. It is crazy to only look at monthly or weekly performance,' he says.

He is critical of some of the fund managers in

London who boast about how many companies they see in a week, as he believes the rushed nature of such meetings is counter-productive.

'I don't believe in the 'headless chicken' approach of some managers seeing four companies a day – just to make themselves feel important. You cannot get the most out of

meetings when it is like that,' Montanaro says.

It is the quality and not the quantity of company meetings that matters to Montanaro.

'We prefer to have just one or two com-

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pany meetings a week, so you can properly research and prepare for the meeting and then think about what you have learned afterwards.

'Some companies tell us the fund managers they visit are so busy they have had no time to prepare and ask them very few questions, if any at all, so they do not get much out of the meeting,' he says.

He has great confidence in his ability to run money, and fittingly has most of his own money invested in his own funds. 'If a fund manager is not willing to invest in his own funds, why should anyone else?' he asks.

Montanaro does not invest his money in

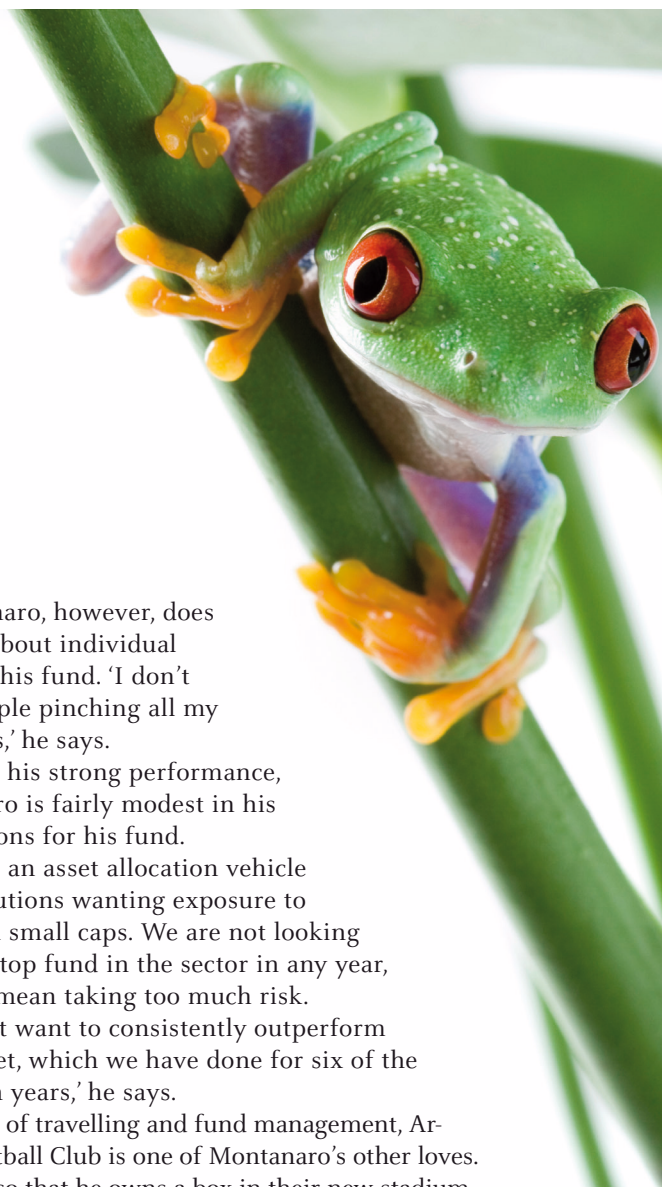
## **'I think European small caps ought to be recognised as an individual asset class in their own right, and I think in time they will be, but it may take a decade or so'**

companies he does not understand, which means he stays away from technology and biotech stocks.

'We are looking for firms in special niches, ones that are too small for the big boys to care about.

'There is no point buying a good company if absolutely no-one else knows about it. You need a catalyst, so we are looking for companies with a good newsflow,' he says.

There is also a thematic side to Montanaro's stock selection. Infrastructure, demographics and outsourcing are all current themes reflected in his portfolio, as well as a number of companies with exposure to the growth stories of eastern Europe, China and India.



Montanaro, however, does not talk about individual stocks in his fund. 'I don't want people pinching all my best ideas,' he says.

Despite his strong performance, Montanaro is fairly modest in his expectations for his fund.

'We are an asset allocation vehicle for institutions wanting exposure to European small caps. We are not looking to be the top fund in the sector in any year, it would mean taking too much risk.

'We just want to consistently outperform the market, which we have done for six of the last seven years,' he says.

Outside of travelling and fund management, Arsenal Football Club is one of Montanaro's other loves. So much so that he owns a box in their new stadium and has even bought shares in the club for his children. But he is also passionate about European small caps and thinks that in the future everyone will take them as seriously as he does.

'European small caps have performed even better than private equity over the past five years. I think European small caps ought to be recognised as an individual asset class in their own right, and I think in time they will be, but it may take a decade or so,' he says.

In the meantime, Montanaro has been planning his next adventure. His wanderlust will take him next to Venezuela in November, where he will visit the Amazonian Yanomami people. Not being someone who takes such an undertaking lightly, he recently completed the Caledonia Challenge, an 86 kilometre walk in Scotland, in just one day. Let's hope his guides keep him safe in Venezuela. ■

