

# European Equity Income Fund (£)

**MONTANARO**



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

Monthly Fact Sheet: December 2011

Montanaro, an independent specialist fund manager, was established in 1991 to invest in Pan-European quoted SmallCap companies. Funds under management currently total €1.3 billion. The objective of the European Equity Income Fund is to provide investors with higher than market average dividend income by investing principally in quoted European (including UK) companies below €3 billion in size. Dividends are payable or may be re-invested quarterly. The European Equity Income Fund is a UCITS III fund which is authorised for distribution and regulated in Ireland, the UK, the Netherlands, Finland, France, Sweden, Switzerland and Norway.

## 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 5% ahead of its benchmark. The Fund outperformed by 1.2% in December.

The strongest contributor in December was **Consort Medical**, which rose 8% after interim results lead to broker upgrades of c.5%, encouraging shareholders to re-evaluate growth prospects. **Renishaw**, a UK based producer of high specification sensors used in precision engineering applications, saw investors return following a less strong November. **Boskalis**, the Dutch-based global dredging operator, performed well following a good set of Q3 results that showed an encouraging development of the order book.

On the downside, **James Halstead**, the UK vinyl flooring manufacturer, suffered from profit taking following a tender offer in November above the prevailing market price. **LEM**, the Swiss manufacturer of electrical transducers, declined by c.7% after the shares had a good run in November. **Latchways**, a UK based market leader in the provision of fall safety equipment to construction, oil service and energy markets, experienced some profit-taking following a good set of interim results.

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 understood 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.

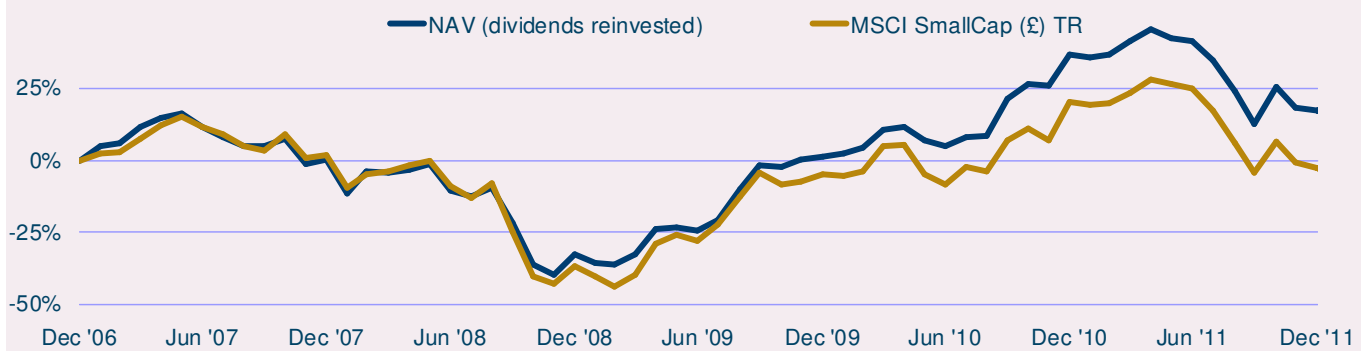
As we enter 2012, two of last year's themes will inevitably continue to dominate market sentiment: the EMU's transition from a currency to a fiscal union; and the tug-of-war between monetary deflation and fiscal consolidation. Elections in the US, China and France will also be important milestones. German-led 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.

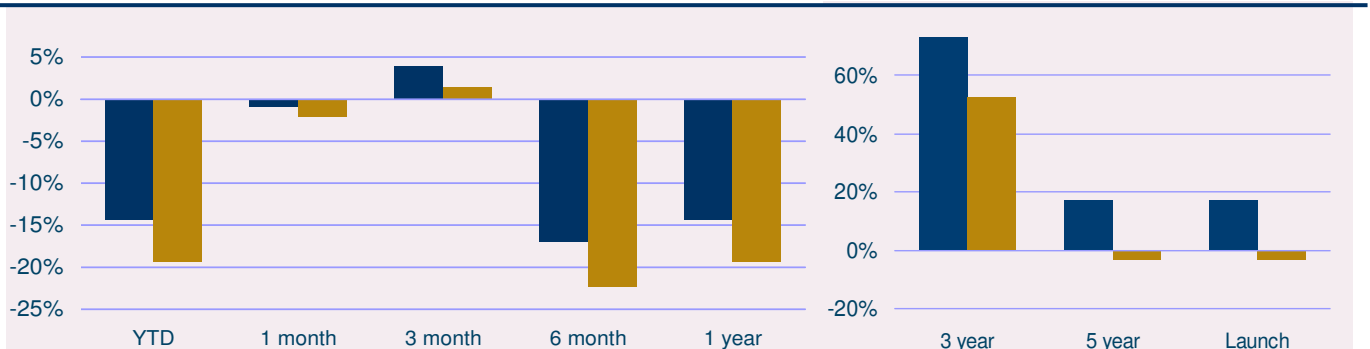
In stark contrast to last year, investor portfolios are positioned defensively with larger cash allocations, a reflection of the prevailing gloom in Europe. We estimate that the market is already pricing in a 13% decline in European SmallCap earnings in spite of the benign global growth environment. 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



## Relative Performance



## Fund Performance

Y/E: December	YTD	1 month	3 month	6 month	1 year	3 year	5 year	Launch
Montanaro NAV (£) TR	-14.3%	-0.9%	3.9%	-16.9%	-14.3%	73.2%	17.1%	17.1%
MSCI SmallCap Europe (£) TR	-19.3%	-2.1%	1.4%	-22.3%	-19.3%	52.3%	-3.0%	-3.0%

Source: Montanaro, Bloomberg. NAV to NAV, unrounded, dividends reinvested at ex date. 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
Month End NAV	£1.00	na
Beta*	0.76	1.00
P/E 12F <sub>†</sub>	11.6	10.3
EPS Growth 12F <sub>†</sub>	5.7%	10.9%
ROE 12F <sub>†</sub>	17.6%	10.7%
Dividend Yield 11F <sub>†</sub>	4.7%	3.4%

\* risk statistics over three years

† Source: FactSet consensus estimates

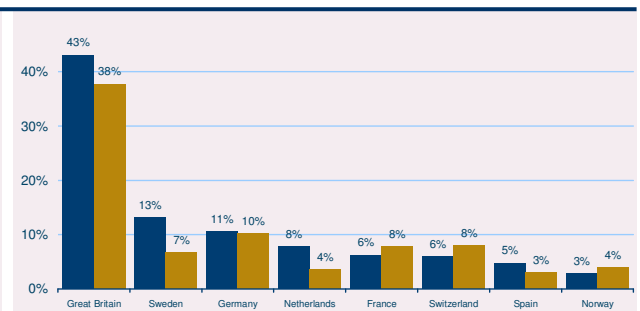
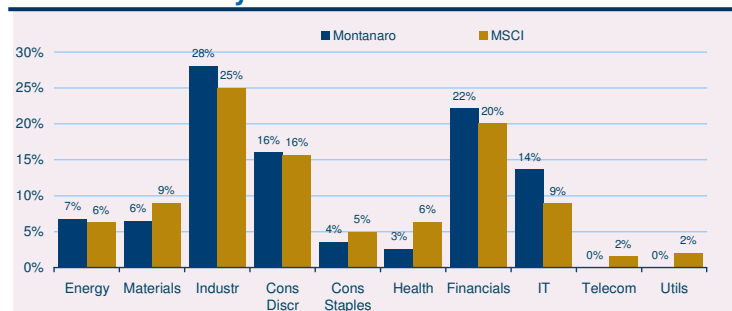
## Fund Details

Launch Date	January 2007
Fund Size	€10 million
No. of holdings	48
Mgmt Fee	nil
Perf Fee	nil
Legal Status	OEIC
Listing	Irish Stock Exchange
Valuation	Daily
Dividends	Quarterly

## Top Ten Holdings

Name	Country	Sector	%
1 Lem Holding	Switzerland	Electronic Equipment, Instruments & Components	3.2%
2 Aberdeen Asset Mgmt	Great Britain	Capital Markets	3.1%
3 AF Group	Sweden	Professional Services	2.9%
4 Domino Printing Sciences	Great Britain	Electronic Equipment, Instruments & Components	2.9%
5 TGS Nopec	Norway	Energy Equipment & Services	2.8%
6 Banque Cantonale Vaudois	Switzerland	Commercial Banks	2.7%
7 Cineworld Group	Great Britain	Media	2.7%
8 Croda International	Great Britain	Chemicals	2.7%
9 James Halstead	Great Britain	Building Products	2.7%
10 Silic	France	Real Estate Investment Trusts (REITs)	2.6%
<b>TOTAL</b>			<b>28.4%</b>
<b>CASH</b>			<b>0.6%</b>

## Sector & Country Distribution



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