

European Equity Income 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 invest in Pan-European quoted SmallCap companies. Funds under management currently total €1.4 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

October saw the largest relief rally for some time as European leaders sought a solution to the sovereign debt issues. The Fund rose by over 11% over the month.

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. **Euler Hermes**, the leading French credit insurance business, rebounded on hopes that an economic crisis had been averted. **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 **Banque Cantonale Vaudoise**, the Swiss regional bank fell in line with most of the banking sector as concerns grew about the write-downs required on Greek debt. **Rational**, the German manufacturer of commercial kitchen ovens, has seen its shares perform well this year and some investors took the opportunity to switch into lower quality cyclical investments during October. **Consort Medical**, (UK pharmaceutical equipment manufacturer) drifted lower with many healthcare stocks as investors chased high beta stocks.

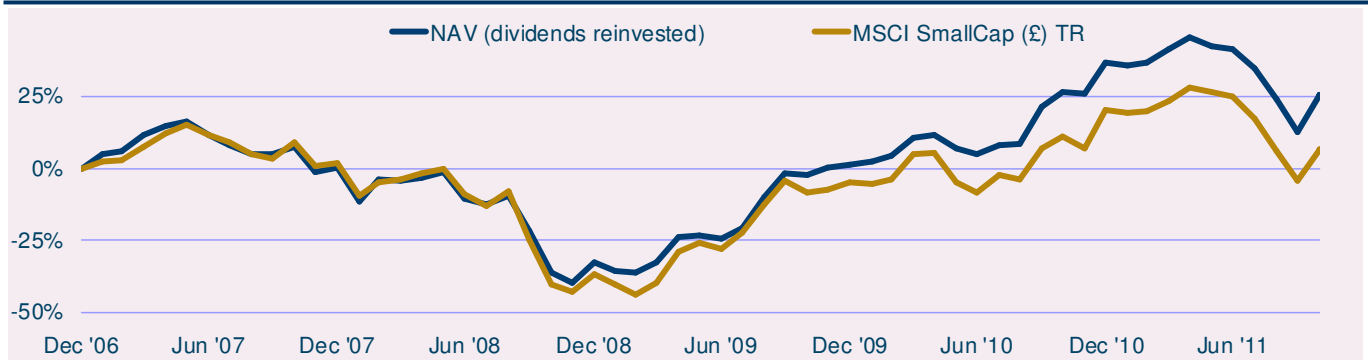
We recently had a meeting with **Schoeller Bleckman (SBO)** one of our top holdings in the oil services sector. **SBO** manufactures non-magnetic drill string components for directional drilling so that oil companies can drill horizontally as well as vertically. We had previously visited the company's 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 counties 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.

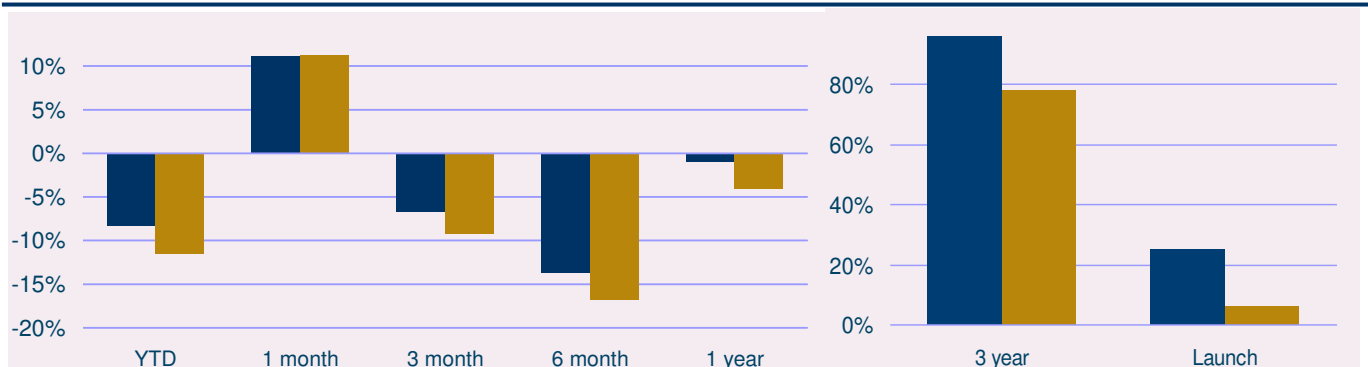
After all meetings, our analysts take a closer look at our internal models particularly with reference to consensus numbers. We have concluded that there is room for some modest upside in consensus forecasts much as we would expect from such a well-managed, high quality business. We believe margins could 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



Relative Performance



Fund Performance

Y/E: December	YTD	1 month	3 month	6 month	1 year	3 year	Launch
Montanaro NAV (£) TR	-8.3%	11.2%	-6.7%	-13.6%	-1.0%	96.1%	25.3%
MSCI SmallCap Europe (£) TR	-11.6%	11.2%	-9.2%	-16.8%	-4.1%	78.1%	6.4%

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. 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
Month End NAV	£1.08	na
Beta*	0.78	1.00
P/E 12F _†	11.6	10.5
EPS Growth 12F _†	6.8%	12.8%
ROE 12F _†	18.0%	1.6%
Dividend Yield 11F _†	4.7%	3.3%

* risk statistics over three years

† Source: FactSet consensus estimates

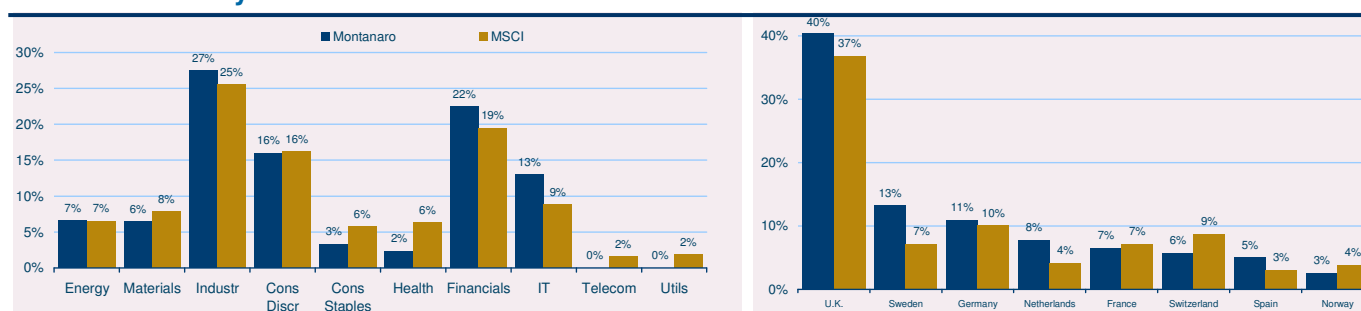
Fund Details

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	% of portfolio
1	Domino Printing	UK	Electronic Equipment & Instruments	3.1%
2	LEM Holding	Switzerland	Electronic Equipment & Instruments	3.1%
3	Euler Hermes	France	Insurance	2.8%
4	AF Group	Sweden	Professional Supplies	2.8%
5	James Halstead	UK	Building Products	2.7%
6	Banque Cantonale	Switzerland	Commercial Banks	2.7%
7	S.I.L.I.C.	France	Real Estate Investment Trusts	2.6%
8	Aberdeen Asset Management	UK	Capital Markets	2.6%
9	TGS Nopec	Norway	Oil & Gas Producers	2.6%
10	Avanza	Sweden	Capital Markets	2.6%
	TOTAL			27.7%
	CASH			2.5%

Sector & Country Distribution



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