

# European Smaller Companies Trust

**MONTANARO**

★★★★– Morningstar Rating™  
(as at 30/11/11)

Monthly Fact Sheet: November 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 €1.3 billion. The European Smaller Companies Trust invests in quoted European (excluding UK) companies with a focus on companies below €1 billion in size. It is listed on the London Stock Exchange.

## 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 a further 1% during the month.

In a difficult month there were still some positive trading statements. **Schoeller Bleckmann**, the Austrian oil services business, announced a strong set of Q3 results with a particularly strong order intake. All the lead indicators for this business remain positive. **Elekta**, a leading Swedish manufacturer of equipment for treating cancer and brain disorders, also rose strongly. Finally **LEM**, the Swiss manufacturer of electrical transducers, rose on hopes that earlier destocking may be coming to an end.

On the downside **Frigoglass**, the Greek manufacture of Ice Cool Merchandisers, fell in sympathy with the Greek stock market despite trading well. **Euler Hermes**, the French credit insurance company, remains one of the more cyclical holdings in the portfolio. With some increased concerns over lower economic growth for 2012, the shares drifted back. Finally **Stallergenes**, the French pharmaceutical company providing products for hay fever, weakened following slightly disappointing sales numbers.

Montanaro have been an investor in **Nokian Tyres** for many years and recently met its CEO Kim Gran after the company's third quarter results. Nokian specialises in winter tyres and dominates the Scandinavian and Russian markets. Growth has been strong since 2005 when the company

expanded with the opening of a second factory in Russia. This year, operating margins are set to exceed 25% due to its low cost plant, superior brand, focus on studded winter tyres, and lucrative niches such as tyres for SUVs.

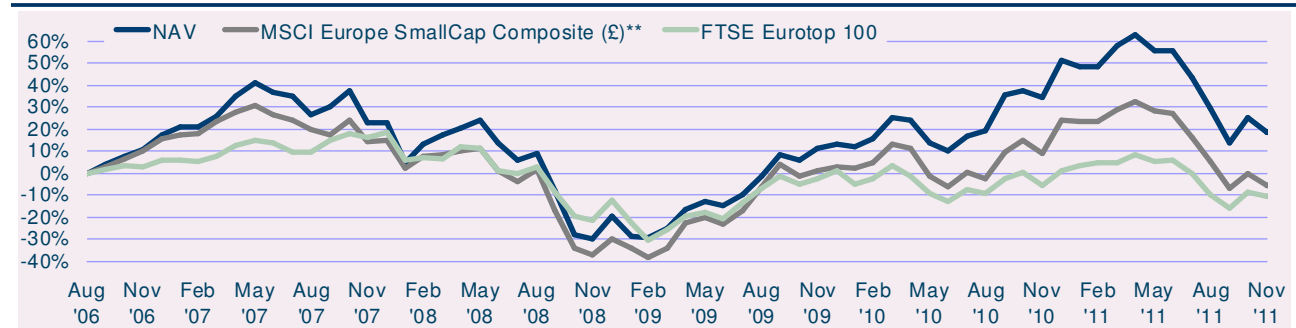
Under Kim Gran over the past ten years, sales have tripled and operating profit increased six-fold. The first nine months of 2011 saw production up 51%, prices and mix improved and the company won additional market share in Russia (sales up 95% in 2011) and the Nordics. The company is installing its 11th and 12th production lines in Russia and we expect the company to eventually expand further with a third plant in Central Europe.

Growth is not without some risk as we expect margins to gradually fall as the company captures more of the Russian and Central European markets by manufacturing cheaper tyres. Russia's WTO ascension could impact margins if competitors lower their Russian prices to Nordic levels. However, we expect import duties that protect Nokian in Russia will only be reduced gradually. Moreover, its efficient manufacturing facilities should enable it to weather these headwinds.

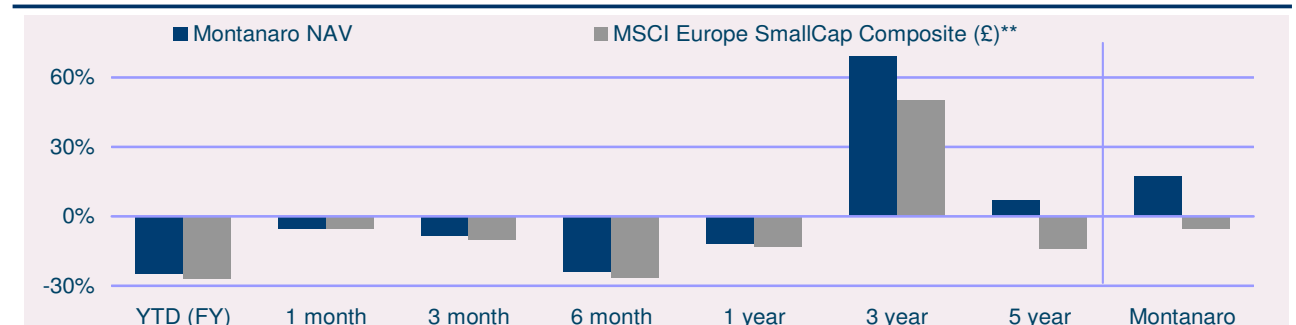
Current market valuations of European SmallCap suggest that the Stock Market is assuming a decline in earnings of 15% - 25% in 2012. Although a recession is possible – indeed we may already be in one – we do not expect a major economic downturn provided that the Euro survives. With important developing 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.

## Performance



## Relative Performance



\*\*Effective June 1st 2009 the index used in this factsheet for comparison purposes is the MSCI European Smaller Companies Index ex-UK. The performance history prior to June 1st 2009 remains the MSCI European Smaller Companies Index.

## Performance

Y/E: March	YTD (FY)	1 month	3 month	6 month	1 year	3 year	5 year	Montanaro
Montanaro NAV	-25.0%	-5.2%	-8.4%	-23.9%	-12.0%	69.0%	6.9%	17.6%
MSCI Europe SmallCap Composite (£)**	-26.8%	-5.5%	-10.1%	-26.5%	-13.2%	50.1%	-14.1%	-5.6%

Source: Montanaro, Bloomberg. NAV to NAV, fully diluted \*\*see footnote on previous page

## Analysis

	Fund	Index
NAV	401.9	138.5
Share Price	338.5	na
Discount	-15.8%	na
Alpha (annual) *	5.5%	na
Beta *	0.89	1.00
Standard Deviation *	24.5%	26.0%
Sharpe Ratio *	0.75	0.52
Tracking error *	8.5%	na
P/E 12F <sub>†</sub>	12.8	10.6
EPS Growth 12F <sub>†</sub>	10.7%	10.9%
Dividend Yield 12F <sub>†</sub>	3.6%	3.8%

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

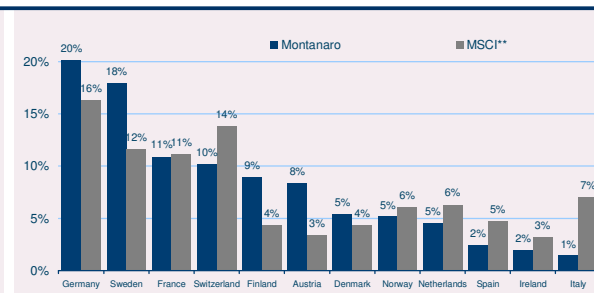
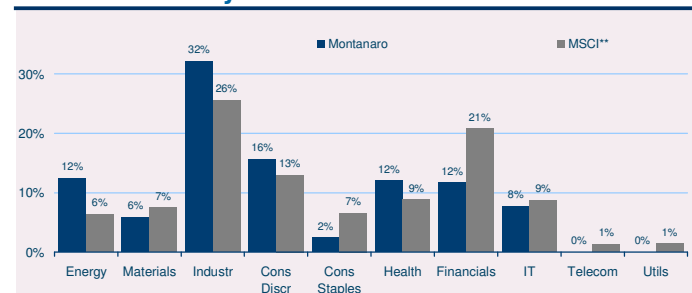
## Details

Managed Since	September 2006
Gross Assets	€90 million
Net Assets	€82 million
Net Gearing	9.7%
No. of holdings	46
Median Mkt Cap	€1067 million
Mgmt Fee	Annual 1%
Perf Fee	See below*
Legal Status	UK closed-end Investment Trust
Listing	London Stock Exchange
Valuation	Daily
Dividends	January and July

## Top Ten Holdings

Name	Country	Sector	% of portfolio
1 Rational	Germany	Machinery	3.6%
2 GfK AG	Germany	Media	3.3%
3 Virbac	France	Pharmaceuticals	3.3%
4 Kapsch TrafficCom	Austria	Electronic Equipment & Instruments	3.3%
5 Fuchs Petrolub	Germany	Chemicals	3.0%
6 Elekta	Sweden	Health Care Equipment & Supplies	3.0%
7 Christian Hansen	Denmark	Chemicals	2.9%
8 Nokian Tyres	Finland	Auto Components	2.8%
9 LEM Holding	Switzerland	Electronic Equipment & Instruments	2.8%
10 Belimo	Switzerland	Building Products	2.8%
<b>TOTAL</b>			<b>30.8%</b>

## Sector & Country Distribution



\*\*see footnote on previous page

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**Ticker:** MTE LN Equity

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It is the responsibility of all users of this information to be informed and observe all applicable laws and regulations of any relevant jurisdictions where they reside.

\*Performance fee is calculated at 15% outperformance of MSCI European SmallCap Index Excluding UK (£) plus 2%, capped at 2%, with a hurdle of 536.02p