# UK Smaller Companies Investment Trust
## (Capital Returns)

MONTANARO

**Monthly Fact Sheet:** June 2010

Montanaro, an independent specialist fund manager, was established in 1991 to research and invest in UK and Continental European quoted Small/MidCap companies with particular expertise in "smaller" companies. Funds under management are c.£850 million. The UK Investment Trust invests in quoted UK companies with a market capitalisation lower than the largest constitutent of the Hoare Govett Smaller Companies Index (the smallest 10% of the UK stock market) focused on "smaller" companies.

## Monthly Review

UK equity markets fell last month and have now fallen over the quarter and the calendar year with the FTSE SmallCap (ex ICs) down by 6% in 2010. It is therefore remarkable that the Fund's NAV per share actually increased in these three periods by 5%, 3% and 8% respectively. In June, MUSCIT was amongst the top 3 best performing Investment Trusts in the UK across all asset classes outperforming its benchmark by a remarkable 7% over the month. Such times do not happen often!

Fiscal austerity has become the name of the game. The Baltic countries, Ireland and Greece started the ball rolling, then Portugal, Spain, France, the UK and even Germany have all joined in. Markets have remained unsettled since late April, unsure as to who will come out on top from the tug-of-war between growth and austerity. From being concerned about hyperinflation, investor sentiment has swung to fears of imminent deflation.

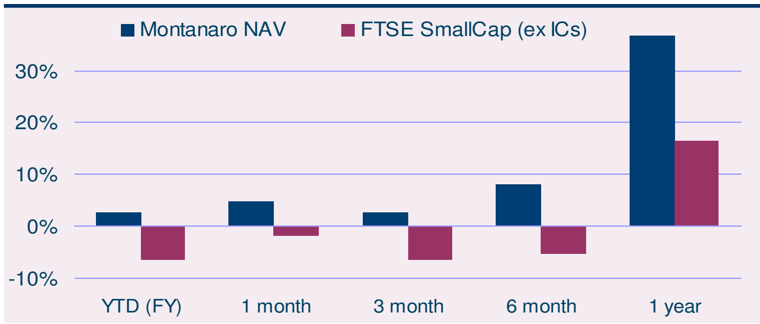
It is worth pointing out, however, that the scary headline figures of budget cuts announced by governments are largely aimed at protecting their credit ratings and will be implemented over several years. We continue to believe that central banks will keep liquidity taps open for longer than expected as an offset to fiscal consolidation and in an attempt to maintain investors' appetite for risk assets, including equities. Since the start of the year, bond yields have fallen by 81bp, 90bp and 66bp in Germany, the US and the UK respectively, providing some breathing space to the private and public sectors alike.

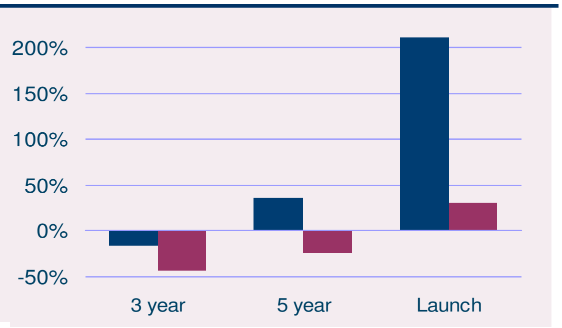
Performance this month has been dominated by corporate activity. **Scott Wilson**, the UK based consulting engineer, received two bids and saw its price rise by over 200%. ABB and Emerson fought the battle over **Chloride** leaving its shares up a further 38% after the rise in May following the initial expression of interest by Emerson. **Domino Printing Sciences**, manufacturer of printers and consumables for retail and industrial customers, was strong again following good results. **Immunodiagnostic Systems** finally got FDA approval for their ISYS machine in the US which again was well received by the market. On the downside, **Mears**, which provides building & maintenance services and domiciliary care to local authorities, saw its shares fall following a major profit warning from rival Connaught. **Hargreaves Services** and **Zytronic** were both weak following dull trading updates.

The global recovery appears to be slowing somewhat but a global economic recovery remains underway. We do not anticipate a double-dip recession. In the short term the budget was well received by the bond markets with 10 year Gilt yields falling to 3.4% and Sterling strengthening against the Euro and Dollar. The current volatility and uncertainty about the strength of the recovery will require Analysts and Fund Managers to increasingly focus on companies' earnings power and balance sheets. The revival of M&A bodes well for quality companies and will emphasize the benefits of active stock-picking which is one of Montanaro's strengths.

## Fund Performance


## Relative Performance



| Y/E: March | YTD (FY) | 1 month | 3 month | 6 month | 1 year | 3 year | 5 year | Launch |
|---|---|---|---|---|---|---|---|---|
| Montanaro NAV | 2.8% | 4.8% | 2.8% | 8.2% | 36.9% | -15.9% | 36.4% | 211.4% |
| FTSE SmallCap (ex ICs) | -6.3% | -1.9% | -6.3% | -5.3% | 16.6% | -43.0% | -23.4% | 30.1% |

*Source: Montanaro, Bloomberg. NAV to NAV*

## Fund Analysis

| | Fund | Index |
|---|---|---|
| **NAV** | 307.0 | 2205.4 |
| **Share Price** | 238.8 | na |
| **Discount** | -22.2% | na |
| **Alpha (annual) *** | 6.9% | na |
| **Beta *** | 0.70 | 1.00 |
| **Standard Deviation *** | 23.3% | 30.8% |
| **Sharpe Ratio *** | -0.43 | -0.74 |
| **P/E 11F†** | 11.6 | 8.4 |
| **EPS Growth 11F†** | 12.8% | 12.0% |
| **Dividend Yield 10F†** | 2.8% | 3.6% |

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

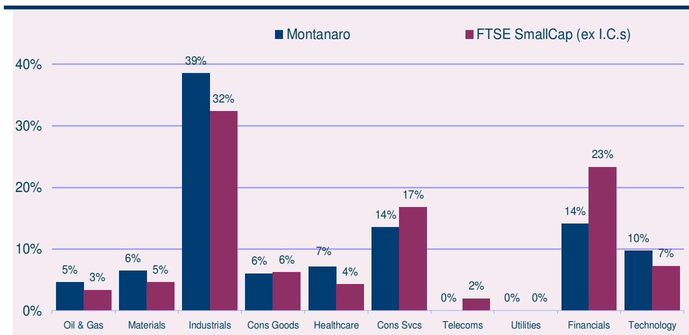
## Fund Details

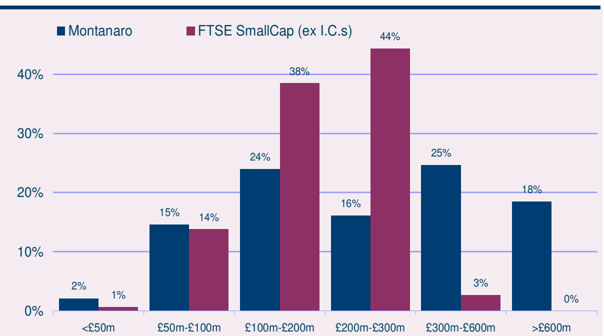
| | |
|---|---|
| **Launch Date** | March 1995 |
| **Gross Assets** | £119 million |
| **Net Assets** | £104 million |
| **Net Gearing** | 7.0% |
| **No. of holdings** | 59 |
| **Mgmnt Fee** | 1% p.a. |
| **Perf Fee** | See below* |
| **Legal Status** | UK closed-end Investment Trust |
| **Listing** | London Stock Exchange |
| **Valuation** | Daily |
| **Annual dividend** | June |

## Top Ten Holdings

| | Name | Sector | % of net portfolio |
|---|---|---|---|
| 1 | **Domino Printing** | Electronic & Electricals | 3.1% |
| 2 | **Victrex** | Chemicals | 3.0% |
| 3 | **Domino's Pizza** | Travel & Leisure | 2.9% |
| 4 | **Dignity** | General Retailers | 2.7% |
| 5 | **Devro** | Food Producers | 2.6% |
| 6 | **Dialight** | Electronic & Electricals | 2.5% |
| 7 | **Dana Petroleum** | Oil & Gas Producers | 2.4% |
| 8 | **Premier Oil** | Oil & Gas Producers | 2.2% |
| 9 | **James Fisher** | Industrial Transportation | 2.2% |
| 10 | **Ricardo** | Support Services | 2.1% |
| | | **TOTAL** | **25.8%** |

## Sector & Size Distribution





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*Performance Fee is calculated at 0.1% of each 1%, or part thereof, outperformance of FTSE SmallCap Index plus 2%, capped at 0.5%, high on high