

UK Smaller Companies Investment Trust (Capital Returns)

MONTANARO

★★★★ – Morningstar Rating™
(as at 31/10/11)

Monthly Fact Sheet: October 2011

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.£1.2 billion. The UK Investment Trust invests in quoted UK companies with a market capitalisation lower than the largest constituent of the Hoare Govett Smaller Companies Index (the smallest 10% of the UK stock market) focused on “smaller” companies.

Monthly Review

October saw the largest relief rally for some time as European leaders sought a solution to the sovereign debt issues. The NAV outperformed its benchmark by over 2%.

Amongst those companies which saw significant share price recovery was **Domino Printing Sciences**, one of the world's largest manufacturers of printers for industry. The sales outlook for September looked much improved on that seen in July and August which came as a relief to investors in this well managed business. Elsewhere **Victrex**, the world leading manufacturer of PEEKTM, recovered strongly in line with many stocks which were perceived to be cyclical. Renewed hopes for economic recovery led to a stronger oil price, leading to strength in **Enquest** the North Sea oil production company.

On the downside **Immunodiagnostic Systems**, the seller of diagnostic testing kits (particularly strong in Vitamin D), suffered as competitors launched new products and its major European competitor put out a cautious trading statement. **Kewill**, the specialist provider of software for the Import / Export market, announced a dull trading statement suggesting that growth is looking more difficult to achieve. Finally **Albermarle & Bond** drifted lower as the gold price came under pressure and investors chased higher beta stocks.

We recently visited **Ricardo**, the UK's leading engineering consultancy business focused on the automotive industry, in Leamington Spa. The Midlands Technology Centre has run a number of important major projects over the years such as the design of the new Mini for BMW and the Joint Venture with SAIC (the Chinese company which bought the remnants of Rover). Current projects include significant contracts with Jaguar Land Rover, the initial production of the MOD's Ocelot vehicle and transmission systems for the Bugatti Veyron. Our analyst has known the company for

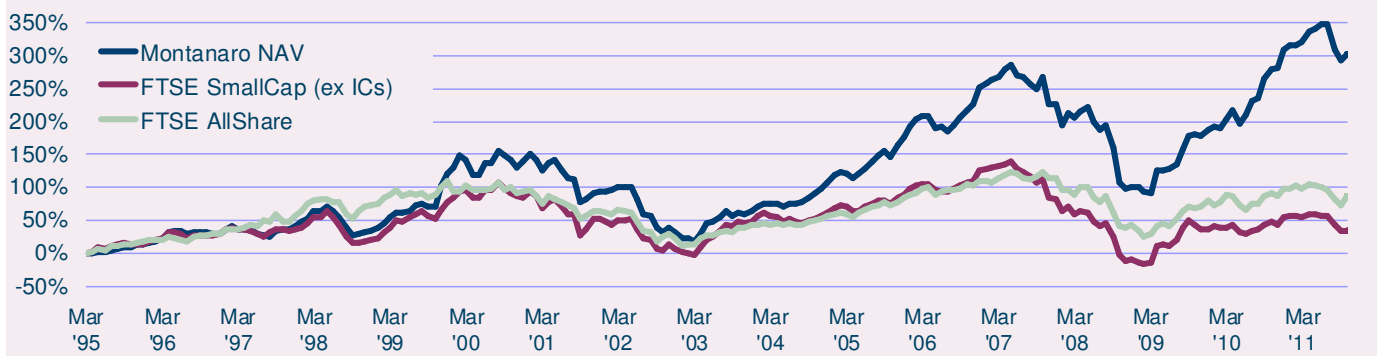
25 years which can make it difficult to answer one of our favourite questions: “what did we learn?”.

Ricardo has always been involved in producing prototypes but over the years has extended this to include short run components, engines, transmission systems and gear boxes principally for the Motor Sport industry such as the Formula 1 teams. This service has been expanded and is now being run as a specialist machine shop able to use very high technology materials which often need hours of machining. The Managing Director of the business has been with company for 28 years and has helped turn it into a business making a useful contribution to profits rather than a loss leader to develop technology. The success of this business gives us confidence that **Ricardo** will be able to handle the McLaren MP4-12C GT3 race car and the Ocelot orders.

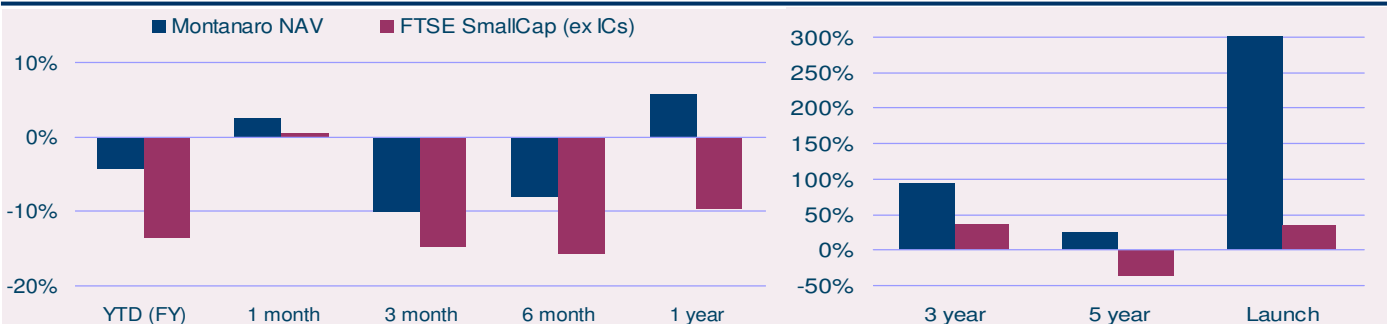
Unusually for a meeting of this nature, none of the Executive Directors were present, which gave us a useful insight into the quality of subsidiary management. It also enabled us to focus on the plant and facilities rather than concentrating on recent historical financial performance. It was clear that **Ricardo** remains at the forefront of technology in their chosen fields and has an order pipeline of which many would be envious.

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. UK 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 investors would like.

Performance



Relative Performance



Y/E: March	YTD (FY)	1 month	3 month	6 month	1 year	3 year	5 year	Launch
Montanaro NAV	-4.4%	2.5%	-10.2%	-8.0%	5.7%	93.8%	26.3%	301.8%
FTSE SmallCap (ex ICs)	-13.5%	0.5%	-14.8%	-15.8%	-9.6%	36.7%	-35.7%	34.1%

Source: Montanaro, Bloomberg. NAV to NAV

Analysis

	Fund	Index
NAV	396.1	2273.3
Share Price	324.5	na
Discount	-18.1%	na
Alpha (annual) *	15.6%	na
Beta *	0.60	1.00
Standard Deviation *	16.7%	25.3%
Sharpe Ratio *	1.43	0.40
P/E 12F _†	13.3	7.7
EPS Growth 12F _†	13.3%	8.2%
Dividend Yield 12F _†	2.6%	3.8%

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

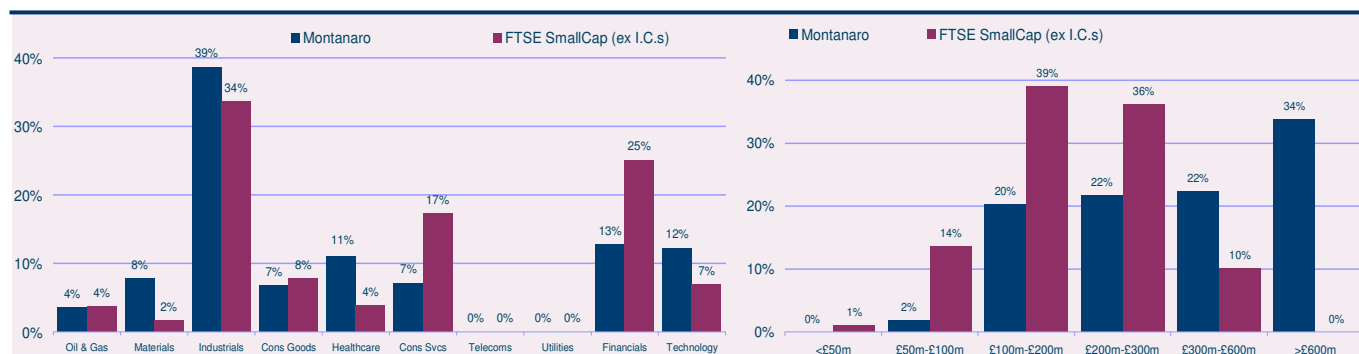
Details

Launch Date	March 1995
Gross Assets	£149 million
Net Assets	£134 million
Net Gearing	10.6%
No. of holdings	50
Mgmt 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 Brooks Macdonald	General Financial	3.3%
2 Victrex	Chemicals	3.2%
3 Domino Printing	Electronic & Electricals	3.1%
4 Dialight	Electronic & Electricals	3.0%
5 Fenner	Industrial Engineering	3.0%
6 NCC Group	Software & Computer Services	2.9%
7 James Fisher	Industrial Transportation	2.9%
8 Devro	Food Producers	2.9%
9 Oxford Instruments	Electronic & Electricals	2.9%
10 Latchways	Support Services	2.8%
TOTAL		29.9%

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%, with a hurdle of 421.65p

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