

**Peer Group:**

European Smaller Companies incl UK Equities

**Fund Manager/Adviser:**

Charles Montanaro (since launch)

**Location:**

London

**Launch Date:** December 2000

**Fund Size (February 2008):**

€461m

**Group Contact No:**

+353 1542 2469

**Website:**

WWW.montanaro.co.uk

**S&P ID Number:** OS353701

**Share class screened:**

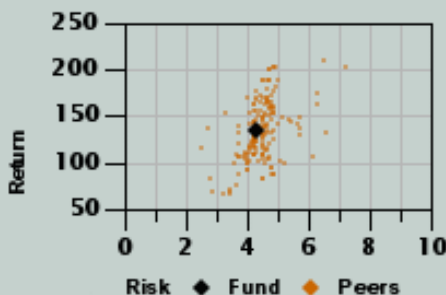
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**INVESTMENT STYLE**

	Value	Blend	Growth
Large-Cap			
Mid-Cap			
Small-Cap			

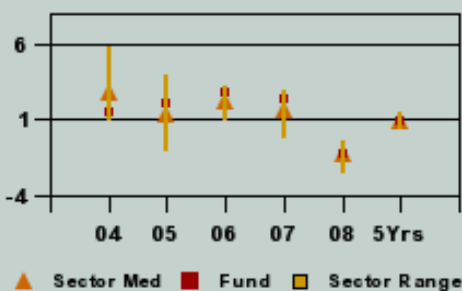
**RISK RETURN (STD DEVIATION) OVER 5 YEARS**



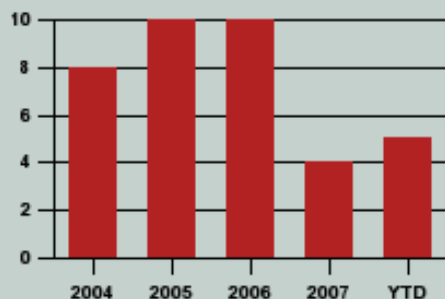
**3 YEAR RISK CHARACTERISTICS**

Maximum Drawdown (%)	Medium	-28.6
Volatility	Medium	16.8
Correlation	High	1.0
Beta	High	1.2

**SHARPE RATIO VS PEER GROUP**



**CALENDAR YEAR DECILE RANKS**



Decile ranking in discrete annual periods. 1st decile shown as rank 10, 2nd decile as rank 9, etc. to 10th decile as Rank 1.

Further information on S&P's fund coverage can be found at [www.funds.standardandpoors.com](http://www.funds.standardandpoors.com)  
Performance Data Source - © 2007 Morningstar, Inc. All Rights Reserved. All statistical data on this report has been run to 31/01/2008 on NAV to NAV basis, with gross income reinvested, in euro.

**STANDARD & POOR'S OPINION (MARCH 2008)**

This pan-European small-cap fund is managed by Charles Montanaro, CEO and CIO of the group. Montanaro has specialised in small-cap fund management for more than 15 years and has over 25 years' investment experience. He is supported by an investment team that now consists of three further managers and six analysts, all of whom focus on small and mid-cap stocks.

Over recent years there has been a move towards a more team-oriented approach as the business has grown and we continue to see moves in this direction, easing Montanaro's workload. The team itself has been less stable than we would have liked, but we take comfort from the fact that Montanaro remains central to the investment process and the decision-making with respect to this fund.

The approach is clearly focused on the longer term, investing in quality growth stocks, with clear strategies, trading at reasonable valuations. A strong belief in management is key with the companies themselves often being leaders in their niche markets. Stock analysis is detailed and follows a clear process developed over time by Montanaro, and while the fund is not constrained by benchmark indices the manager is very aware of the positioning of the portfolio and the cumulative risks being taken.

The fund is purposely biased towards smaller-cap stocks where potential returns are greater and the market less efficient. This has an effect on relative performance. However, stockpicking has been strong in a variety of market conditions.

Overall, the team's experience and clarity of approach lead to retention of the S&P AA rating.

**FACT FILE**

**Group:** Montanaro Fund Managers Limited is an investment boutique, established in 1996. It is 100% owned by its founder, Charles Montanaro, although there are plans to devolve equity to the staff in the near future. It specialises in small- and micro-cap investment in UK and European equities.

**Team:** The team now totals 10, with four managers and six analysts, headed by Charles Montanaro. They are all focused on UK and European mid and small-caps and manage around €900m.

**Fund Manager:** Charles Montanaro has specialised in small-caps since 1991, running two

UK mandates and before adding the European product. He is also responsible for an absolute return and an income mandate.

**Style:** The fund focuses on companies below €500m where Montanaro understands the business and believes it has the potential of sustained growth in the long term.

**Performance:** Over the five years to 31/01/2008, the fund has returned 134.2%, compared with 131.5% for the sector median and 140.4% for the index, ranking 83/179.

**FUND MANAGER & TEAM**

The team of 10 is headed by Montanaro and includes six analysts and four managers. Between them they manage €900m in a range of products, but all focusing on pan-European companies capitalised below €500m.

Charles Montanaro - anthropology (Durham University) worked as a stockbroker between 1980 and 1990 at Merrill Lynch, Dean Witter and Drexel Burnham. He switched briefly to private equity (Apax Partners), before setting up his own company to advise institutions in 1991. Since 1994 he has launched a range of small-cap funds investing in UK and Europe.

## PORTFOLIO CHARACTERISTICS

No. of holdings	81
Turnover ratio (%)	42
% in top 10	21

## TOP 10 HOLDINGS (01/02/08)

	%
Frigoglass	2.4
Prosegur	2.3
Chemring	2.2
Nokian Tyres	2.2
SMIT International	2.2
SBO	2.1
GFK	2.0
Dignity	1.9
Poyry	1.9
Victrex *	1.9

\* In top 10 holdings a year ago

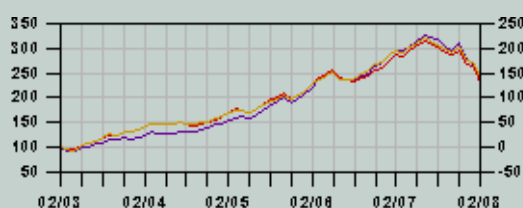
## ALLOCATION BREAKDOWN (01/02/08)

	Fund %
Financials	9
Industrials	48
Utilities	-
Basics	7
Cons Gd	4
Health	7
Oil	5
Services	7
Tech	6
Telecoms	-
Other	-
Cash	7

## PERFORMANCE STATISTICS

	3 Years	5 Years
Fund	49.5%	134.2%
Standard & Poor's Peer Median	35.8%	131.5%
Index**	41.0%	140.4%
Fund Rank	43/209	83/179
Standard Deviation	16.8	-
Relative Standard Deviation	1.0	-
Volatility Adjusted Ranking	41/209	-

## CUMULATIVE PERFORMANCE



— S&P/Citi EMI Europe I — Fund — Smaller Companies inc UK

Units III permits net fund exposure to be less or greater than 100%.

# MTANARO EUROPEAN SMALLER COMPANIES FUND

Peer Group: European Smaller Companies incl UK Equities



## MANAGEMENT STYLE

- The fund invests for the long term in profitable smaller businesses. The approach assesses themes, but the portfolio is built bottom-up and understanding each individual business is key.
- The process continues to be formalised because of the larger team, but Montanaro remains in control.
- Initial screens identify stocks that are cash-generative and show favourable quality and growth/value characteristics, while identified themes may also direct stock work. Analysts conduct an initial appraisal of each stock based on features Montanaro has identified over his years in the business.

Following challenge by Montanaro and Ralph Singleton, attractive companies are subject to DCF analysis and peer group ratio comparisons within 500 sub-sectors. Company visits are essential and local language skill considered key.

- A portfolio of 75-80 stocks is targeted, with stocks topped and tailed relative to targets' prices. No holding will exceed 5% (top-sliced at 3%). Variance from the benchmark is high, but beta is typically low. The manager is, however, risk-aware and will look to neutralise sector positions if he perceives a performance risk. The fund is usually fully invested.

## PORTFOLIO REVIEW

At review the portfolio was invested in 81 holdings, which reflects the increased target for the fund of 75-80 names.

At the country level, bottom-up stock selection has resulted in a number of country biases, with the largest active positions being +8% to Finland and -7% to Switzerland relative to the MSCI European Smaller Companies Index. The UK was the other major overweight, with Germany and France underweight.

increased significantly over the past year. The largest underweight was financials at -12.5%. Property remains underweight however this is a position that the manager may look to neutralise in the near future on relative performance risk grounds. Over the year oil & gas has been reduced from an overweight to an underweight position, with the sales including Tullow Oil, which moved into the FTSE 100.

Sector exposure remains biased towards industrials (+17%), a position that has

The portfolio maintains its smaller-cap bias with 37% in sub-€500m companies.

## PERFORMANCE ANALYSIS (FEBRUARY 2008)

Over three years, the fund is top quartile in the pan-European peer group. In general, micro-cap exposure has benefited the fund's relative performance, except in 2007 and in 2003 when the lower beta/quality aspect was also negative. The approach tends to expose the portfolio to takeover activity: for example in 2005 the fund held 10 takeover candidates.

quick to recover. The returns of the fund were also helped by having a beta below one during this period of market volatility.

Strong returns in 2006 were due to the high quality of the companies held, which, while they still suffered in the May sell-off, were very

2007 performance was above benchmark but below the sector median. The smaller-cap focus of the fund was a negative over the period, but the lack of financials and a number of stockpicks such as Tullow Oil, Schoeller Bleckmann and Frigoglass, were positive. Severfield Rowan and DTZ Holdings were the main detractors.

## DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004		2005		2006		2007		YTD 31/01/2008	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	24.2	40/200	41.4	20/211	37.9	18/220	-5.3	145/223	-13.8	128/224
Index**	20.8		32.7		32.9		-5.2		-11.4	
Median	19.8		32.2		28.9		-2.5		-13.7	

\*\* S&P/Citi EMI Europe!

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