

European Smaller Companies Fund (€)

MONTANARO

AA - Standard & Poor's
4 Star / Superior - Morningstar
AA - OBSR

Monthly Fact Sheet: July 2010

Montanaro, an independent specialist fund manager, was established in 1991 to research and invest in European, including UK quoted SmallCap companies. Funds under management are currently €1.1 billion. The European Smaller Companies Fund invests in principally in quoted European (including UK) companies below €3 billion in size with a focus on companies below €1 billion. It is authorised for distribution and regulated in Ireland, the UK, the Netherlands, France, Finland, Sweden, Switzerland and Norway; German Tax Reporting available. A Euro Accumulation share class was launched in 2009.

Monthly Review

The NAV rose last month by 6% in Sterling terms and by 4% in Euros (broadly in line with benchmark). After the strong recent outperformance, this is pleasing. In 2010 the NAV has risen by 17% in Euros in marked contrast with LargeCap which has fallen by -2%.

After a weak May and June it was gratifying to see European equity markets regain some lost ground. This was driven by a recovery in the Financials sector in anticipation of the announcement of the stress tests for the European Banks which only seven banks failed. The delayed introduction of Basel 3 does, however, mean that banks remain susceptible to further shocks or crises. Corporate activity remains high with further bids being seen, particularly in the UK.

GDP growth is expected this year in all European countries except Spain, Ireland and Greece and fears of a double dip recession are receding. However, the austerity measures put in place will affect some sectors - it looks increasingly likely that the Building and Construction sectors may suffer further reductions in order intake. This, and the lack of job creation among many SMEs, may mean that the recovery remains relatively subdued. China continues to manage its growth for the longer term which will benefit those companies with exposure to the Far East.

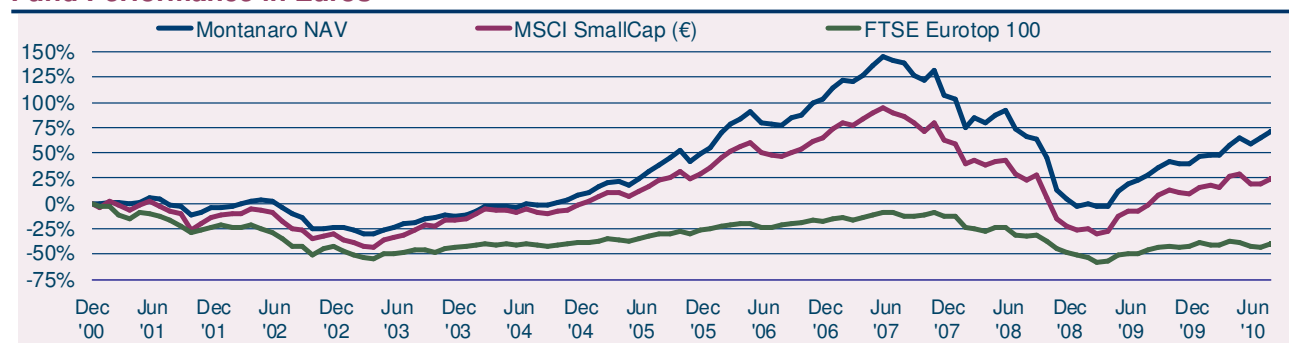
With a high level of corporate activity it was not too surprising that the best performer this month was **Dana Petroleum**, the UK

based Oil E&P company, which received a bid from the Korean National Oil Corporation lifting the shares by 48% over the month. This approach also helped the performance of **Premier Oil** which rose in sympathy. **Ashmore** rose with the Financials sector but also announced a very strong IMS with rising funds under management and increased performance fees. Increased interest in emerging markets was also a contributory factor behind its rise. **Euler Hermes**, the French Credit Insurance company, also announced a strong set of interim results. Improving world economies have enabled the group to increase its risk acceptance further driving future profit growth and encouraging analysts to raise forecasts leading to a near 20% rise over the month.

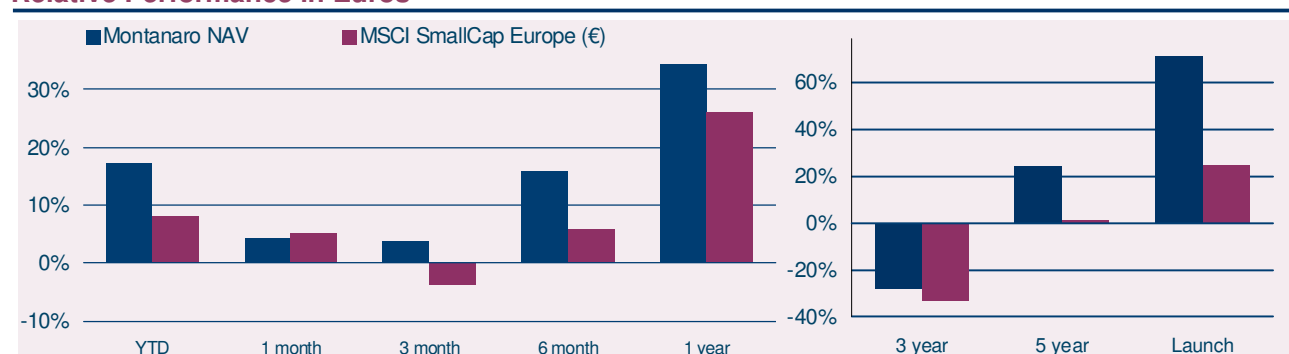
On the downside, **Diasorin**, which is based in Italy and involved in diagnostic testing, experienced short term profit taking after good results the previous month. Elsewhere, **Aquarius Platinum** fell back following problems at its Blue Ridge mine whilst **Ricardo** was also weak after a broker downgrade. This was followed by a more positive update just after the month end.

Companies are building up cash resources which should lead to a recovery in Capex spending and M&A. This will benefit the Industrials sector in particular but also the IT sector. With European equity valuations remaining around 10% below historic averages and earnings growth still robust the outlook for the remainder of 2010 is still positive.

Fund Performance in Euros



Relative Performance in Euros



Fund Performance in Euros

Y/E: December	YTD	1 month	3 month	6 month	1 year	3 year	5 year	Launch
Montanaro NAV	17.4%	4.2%	3.8%	16.0%	34.3%	-28.0%	24.0%	71.5%
MSCI SmallCap Europe (€)	8.0%	5.1%	-3.7%	5.8%	26.2%	-33.0%	1.0%	24.8%

Source: Montanaro, Bbomberg. NAV to NAV, unrounded, dividends reinvested at ex date. NAV prior to 30/11/06 based on sterling denomination. 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

Fund Analysis

	Fund	Index
Latest NAV (Price)	€2.70	163.4
Alpha (annual) *	0.6%	na
Beta *	0.87	1.00
Standard Deviation *	24.9%	27.2%
Sharpe Ratio *	-0.57	-0.61
Tracking error *	8.3%	na
P/E 11F _†	13.3	10.8
EPS Growth 11F _†	16.6%	19.9%
Dividend Yield 10F _†	2.7%	2.7%

* risk statistics over three years † Source: Factsset consensus estimates

Fund Details

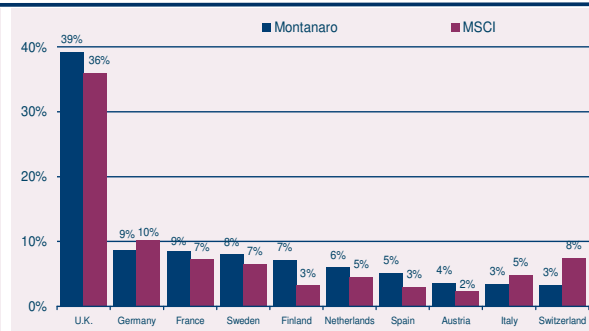
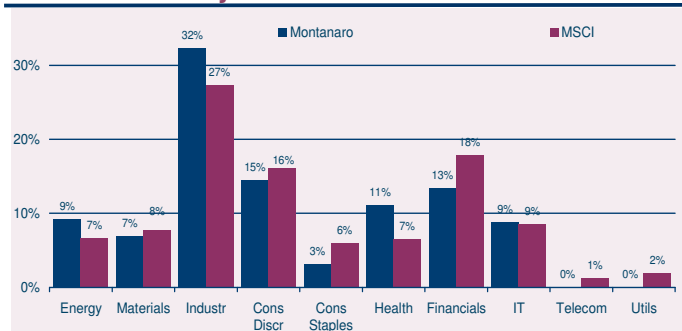
Launch Date	December 2000
Fund Size	€559 million
No. of holdings	75
Median Mkt Cap	€1043 million
Mgmt Fee	Annual 1.5%
Perf Fee	See below*
Legal Status	Irish OEIC
Listing	Irish Stock Exchange
Valuation	Daily
Dividends †	Expected Q1

† distributor status approved

Top Ten Holdings

Name	Country	Sector	% of portfolio
1 Victrex	UK	Chemicals	3.0%
2 Virbac	France	Pharmaceuticals	2.8%
3 Dignity	UK	Diversified Consumer Services	2.5%
4 Domino's Pizza	UK	Hotels, Restaurants & Leisure	2.4%
5 Viscofan	Spain	Food Producers	2.1%
6 Ashmore	UK	Capital Markets	2.1%
7 Ultra Electronics	UK	Aerospace & Defense	2.1%
8 Nokian Tyres	Finland	Auto Components	2.1%
9 Prosegur	Spain	Commercial Services & Supplies	2.1%
10 Frigoglass	Greece	Machinery	2.0%
CASH	0.5%	TOTAL	23.3%

Sector & Country Distribution



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Ticker: MONESCE ID Equity – Euros
MONESEA ID Equity – Euros (Accumulation)
MONESCF ID Equity – Sterling
MONESCU ID Equity – US Dollar

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* Performance fee is calculated at 20% outperformance of MSCI European SmallCap Index (€) plus 3%, high on high

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