European Smaller Companies Fund ($)

MONTANARO

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

Monthly Fact Sheet: June 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 billion. The European Smaller Companies Fund invests 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. A Euro Accumulation share class was launched in 2009.

Monthly Review

European equity markets ended both the month and the quarter lower, with the MSCI Europe SmallCap Index falling by 1% in June and by 6% over Q2, outperforming LargeCap over both periods. The Fund, however, has enjoyed significant outperformance this year beating its benchmark by 9% in the first six months. This was driven in part by increased M&A activity, particularly in the UK. In June, the Fund NAV per share rose by 3%.

Fiscal austerity has become the name of the game. The Baltic countries, Ireland and Greece had 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.

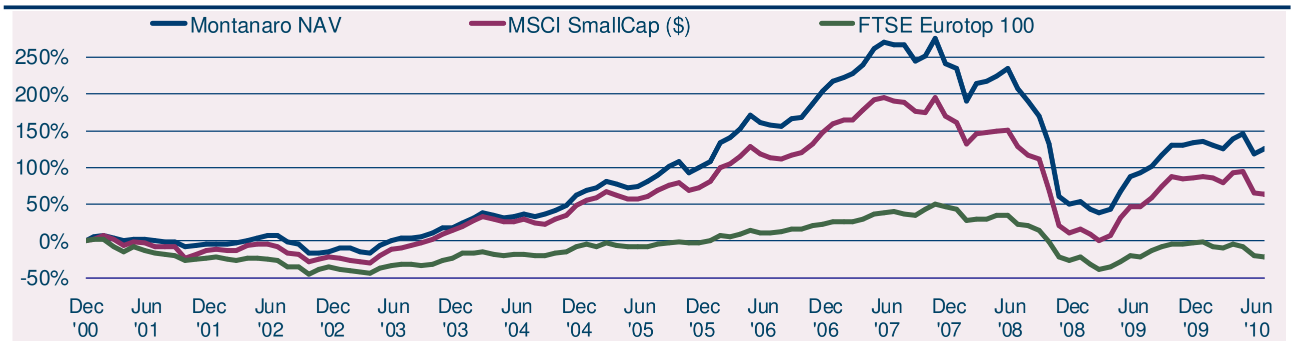
In recent months, Germany has emerged as the uncontested economic powerhouse of Europe. Ultimately, Angela Merkel's reluctant decision to participate in the set-up of the European financial safety net for Southern Europe paid off in the form of an organized devaluation of the Euro, something the dogmatic ECB had been unwilling to do. The Euro has depreciated by 13% against the Dollar during the first six months of 2010. Germany, which alone accounts for 27% of Euro Area GDP, therefore matters much more to the Continent's future than the so-called PIGS (20% for Portugal, Greece, Ireland and Spain combined). Similarly, the weaker currency is benefiting other export economies such as Finland and the Netherlands.

Performance this month has been dominated by corporate activity. **Scott Wilson**, the UK based consulting engineer, received no less than two different 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. **Virbac**, the French based provider of veterinary products to companion and food producing animals, produced better than expected Q1 results and continued the strong performance seen over the last 12 months.

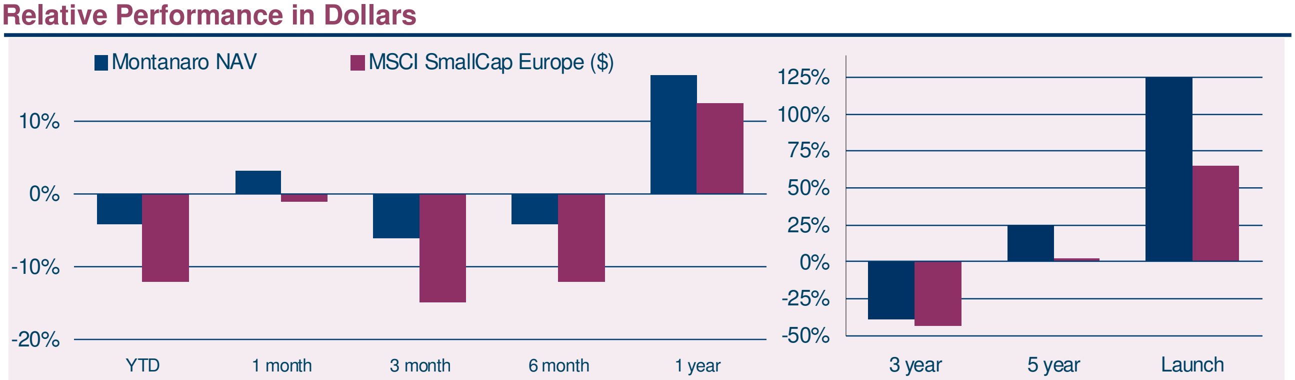
On the downside, the Fund's exposure to the oil services sector and the seismic market in particular has hurt performance. This was largely reflected in the underperformance at **TGS Nopec** and **Fugro** which were impacted by the BP disaster in the Gulf of Mexico which has in the short term delayed a number of seismic surveys. **Frigoglass**, the Greek manufacturer of Ice Cold Merchandisers, saw some profit taking after a strong Q1 and as investors became increasingly concerned by the Greek economy. Finally, **AF Group** succumbed to some profit taking after recent strength on the back the buoyant Swedish economy.

The global recovery appears to be slowing somewhat but a global economic recovery remains underway. We do not anticipate a double-dip recession. In Europe, the strength of the German economy, the likely persistence of volatility and the divergence of economic risk between the North and South will require analysts and Fund Managers to increasingly focus on companies' earnings power and balance sheets. This, together with 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 in Dollars



Relative Performance in Dollars



Fund Performance in Dollars

Y/E: December	YTD	1 month	3 month	6 month	1 year	3 year	5 year	Launch
Montanaro NAV	-4.3%	3.2%	-6.2%	-4.3%	16.2%	-38.7%	24.4%	124.8%
MSCI SmallCap Europe ($)	-12.2%	-1.0%	-14.9%	-12.2%	12.5%	-43.4%	2.5%	64.5%

Source: Montanaro, Bloomberg. 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)	$1.79	190.6
Alpha (annual) *	0.7%	na
Beta *	0.90	1.00
Standard Deviation *	29.5%	31.7%
Sharpe Ratio *	-0.66	-0.69
Tracking error *	8.6%	na
P/E 11F†	12.8	10.1
EPS Growth 11F†	17.2%	20.3%
Dividend Yield 10F†	2.8%	2.9%

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

Fund Details

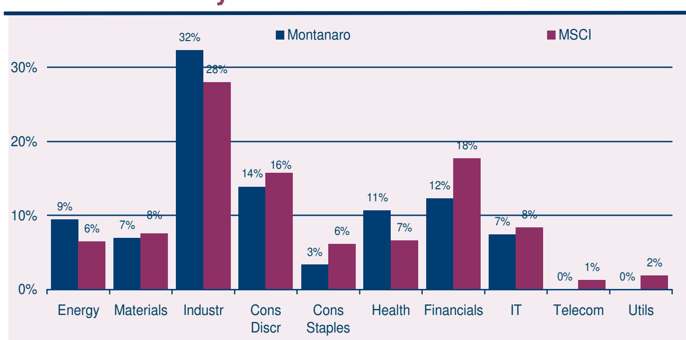
Launch Date	December 2000
Fund Size	$646 million
No. of holdings	71
Median Mkt Cap	$1219 million
Mgmnt Fee	Annual 1.5%
Perf Fee	See below*
Legal Status	Irish OEIC
Listing	Irish Stock Exchange
Valuation	Daily
Dividends †	Expected Q1

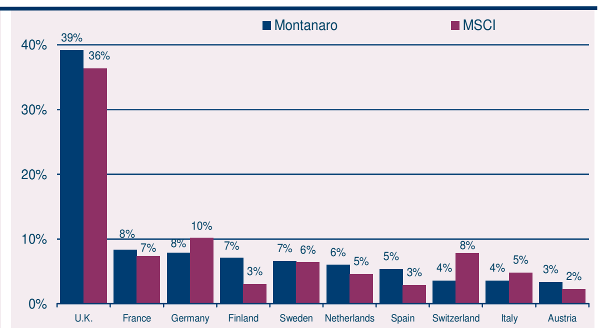
† distributor status approved

Top Ten Holdings

	Name	Country	Sector	% of portfolio
1	Victrex	UK	Chemicals	2.9%
2	Virbac	France	Pharmaceuticals	2.7%
3	Dignity	UK	Diversified Consumer Services	2.5%
4	Domino's Pizza	UK	Hotels, Restaurants & Leisure	2.4%
5	Viscofan	Spain	Food Producers	2.3%
6	Ultra Electronics	UK	Aerospace & Defense	2.2%
7	Frigoglass	Greece	Machinery	2.2%
8	Diasorin	Italy	Health Care Equipment & Supplies	2.1%
9	Nokian Tyres	Finland	Auto Components	2.1%
10	Prosegur	Spain	Commercial Services & Supplies	2.1%
	CASH	**3.6%**	**TOTAL**	**23.5%**

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