

European Smaller Companies Fund (€)

MONTANARO

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

Monthly Fact Sheet: May 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 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

In May the Fund NAV per share fell by 6% in Sterling terms and by 4% in Euros outperforming the benchmark by 4%. In 2010 the NAV has risen by 9% whereas LargeCap has fallen by -6%.

"Sell in May and go away until St Ledger Day" (September) is the old adage that has proved very accurate this year. After the strong recovery seen by Smallcap indices in previous months, investor appetite for risk changed suddenly as seen by the compression of bond yields in the major European economies (down 11% or 30+bps) and Gold moving above \$1200. The Euro fell by around 7% against the Dollar in the month. In Europe the MSCI SmallCap index (EUR) saw a 16% retrenchment from its recent highs and only late in the month did it recover somewhat. Increasing concern that we may experience a double dip recession combined with the anticipated downgrading of Spain by Fitch (confirmed late in the month) were the principal reasons for the weakness. On a more positive note this is starting to give European companies a real advantage in international markets whilst the positive translation of overseas earnings was also a key feature of a number of strong Q1 trading statements.

The European Commission's economic sentiment indicator declined to 98.4 last month from 100.6 in April, leading to concerns that the rate of recovery may be more subdued. Manufacturing in the Eurozone picked up again last month but at a far slower rate than in April. Finally, the unemployment rate now exceeds 10%, the highest since the euro came into being in 1999, with some 16 million people now out of work in the Eurozone area.

This was a month when investing in quality companies was rewarded in terms of relative performance. Amongst the best performers once again was **Victrex** as the market upgraded forecasts following very strong

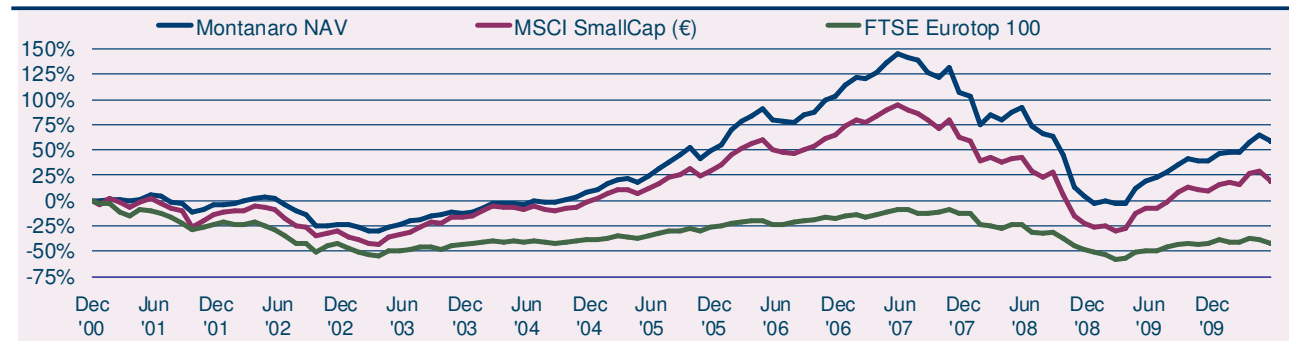
results. The weakness of Sterling has also been an important factor behind the concerted recovery that the company has experienced. One of our more recent purchases, **Diasorin** (based in Italy, diagnostic testing in the healthcare sector) also performed well, again benefiting from better than forecast Q1 performance. Other strong performers include **Nokian Renkaat** which bounced back after falling in April, **Viscofan** (artificial cases for the meat industry) and **Severfield Rowen** (structural steel).

On the downside, Norwegian based **TGS Nopec** suffered as a result of the BP disaster in the Gulf of Mexico. Clearly this will have some short term impact on the requirement for seismic surveys but, in the longer term, the need for better information and continued demand for Oil will benefit the company. **Fugro** fell for similar reasons whilst **Arcadis** Q1 results disappointed the market following weaker than expected recovery in the US.

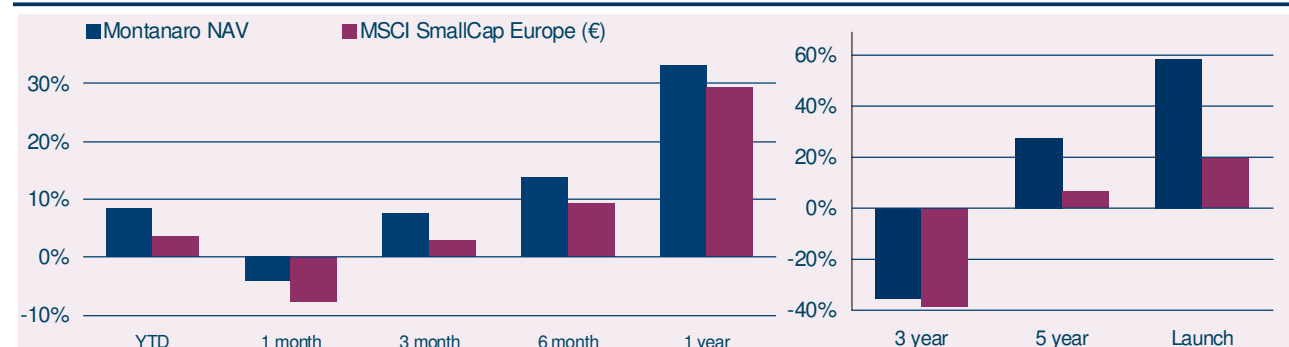
So will investors have to wait until St Ledger day? Valuations would appear to be discounting a downturn at a time when analysts are still upgrading forecasts after Q1 results. The weakness of European currencies is starting to benefit exporters and this is now encapsulated in forward valuation multiples which are standing at a 15% discount to their long term average. We expect volatility to remain high as we progress through the quieter summer period at a time when governments look to reduce spending. The continued positive nature of most Q1 trading statements reinforces our optimistic view on the European SmallCap market.

It remains noteworthy that European SmallCap continues to outperform LargeCap by a wide margin. This should come as no surprise since it is entirely consistent with history.

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	8.5%	-4.0%	7.5%	13.8%	33.2%	-35.4%	27.4%	58.6%
MSCI SmallCap Europe (€)	3.5%	-7.8%	2.8%	9.2%	29.5%	-38.5%	6.5%	19.6%

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)	€2.49	156.6
Alpha (annual) *	-0.5%	na
Beta *	0.87	1.00
Standard Deviation *	24.6%	27.0%
Sharpe Ratio *	-0.73	-0.72
Tracking error *	7.8%	na
P/E 11F _†	12.8	10.4
EPS Growth 11F _†	16.5%	20.4%
Dividend Yield 10F _†	2.8%	2.9%

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

Fund Details

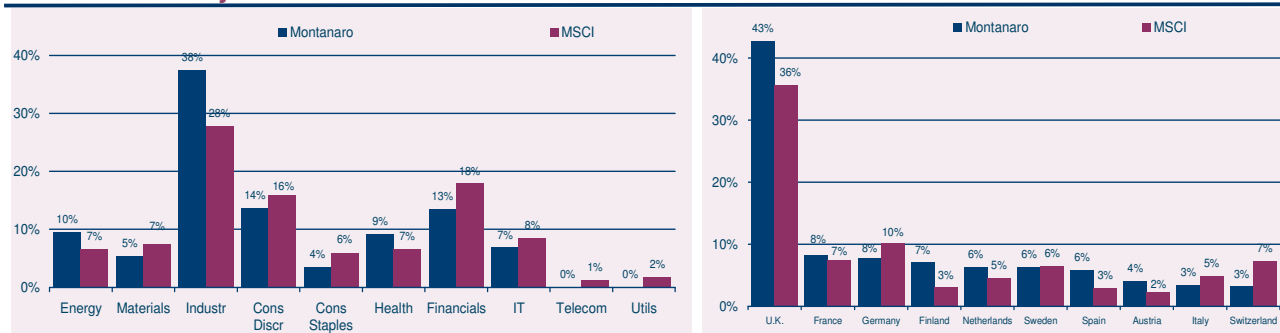
Launch Date	December 2000
Fund Size	€507 million
No. of holdings	71
Median Mkt Cap	€969 million
Mgmt Fee	Annual 1.5%
Perf Fee	See below*
Legal Status	Irish OEIC
Listing	Irish Stock Exchange
Valuation	Daily
Dividends †	Expected Q1

† distributor status approved

Top Ten Holdings

Name	Country	Sector	% of portfolio
1 Chloride	UK	Electrical Equipment	3.3%
2 Victrex	UK	Chemicals	2.8%
3 Virbac	France	Pharmaceuticals	2.6%
4 Viscofan	Spain	Food Producers	2.6%
5 Frigoglass	Greece	Machinery	2.5%
6 Dignity	UK	Diversified Consumer Services	2.5%
7 Ultra Electronics	UK	Aerospace & Defense	2.3%
8 Domino's Pizza	UK	Hotels, Restaurants & Leisure	2.3%
9 Andritz	Austria	Machinery	2.3%
10 Ashmore	UK	Capital Markets	2.3%
CASH	0.6%	TOTAL	25.5%

Sector & Country Distribution



Manager: Charles Montanaro
 Montanaro Asset Management
 53 Threadneedle Street
 London EC2R 8AR

Tel: 020 7448 8600
Fax: 020 7448 8601
Website: www.montanaro.co.uk
E-mail: cmontanaro@montanaro.co.uk

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

Custodian, Fund Administrator and Subscriptions – Contact State Street:

Tel: +353 1 242 5407 **Fax:** +353 1 523 3791 **E-mail:** MontanaroTA@statestreet.com

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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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