

MONTANARO

Monthly Fact Sheet: July 2010

Montanaro, an independent specialist fund manager, was established in 1991 to research and invest in UK and Continental European quoted SmallCap companies. Funds under management are currently c. £900 million. The Focus Fund mainly invests in UK quoted small companies below £1 billion in size. A limited number of collective investments may also be held. The objective is long-term capital appreciation of at least 10% p.a.

Monthly Review

The NAV rose last month by 6% outperforming the FTSE SmallCap Index (Ex ICs) by a further 3%. After the strong recent outperformance, this is pleasing. In 2010 the NAV has risen by 15% in marked contrast to the 2% fall in the SmallCap market.

After a weak May and June it was gratifying to see 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 Banks where only seven banks failed across the European market. 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.

GDP growth is expected 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. Some evidence of changing spending patterns here has already been seen by companies such as Connaught whose shares have fallen 97% in the last 2 months. Avoiding the disasters is sometimes as important as backing the winners. The lack of job creation among many SMEs and the reduction in public spending may mean that the recovery remains relatively subdued. China continues to manage its growth for the

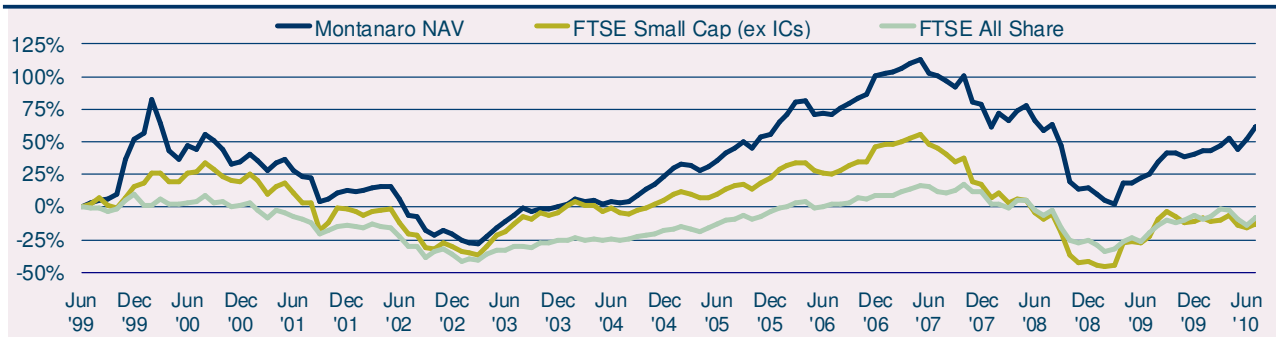
longer term which will benefit those companies with exposure to the Far East.

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 50% over the month. This approach also helped the performance of **Premier Oil** which rose in sympathy. Double digit rises were also seen by companies such as **Croda** (specialty chemicals), **Dialight** (LED lighting), **Victrex** (specialty chemical) and **Renishaw** (measuring equipment).

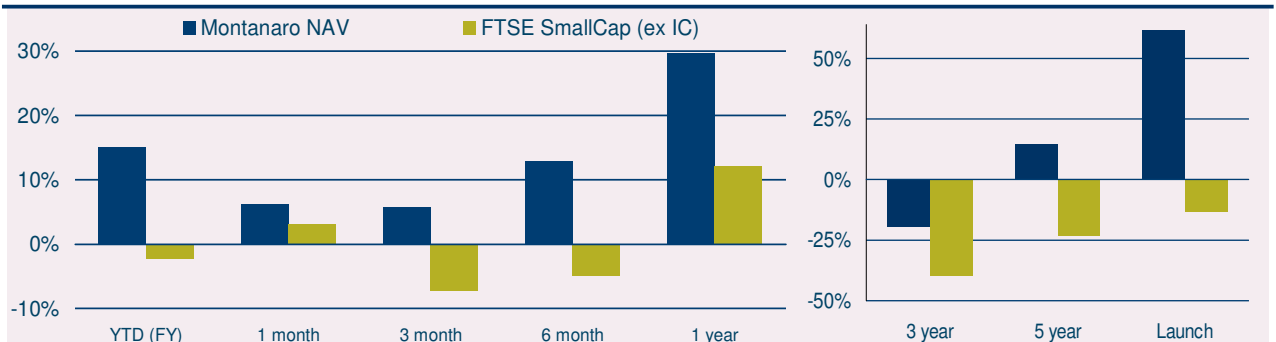
On the downside, **Ricardo** was weak after a broker downgrade. This was followed by a more positive update just after the month end as the company announced a significant increase in its order book. After a strong run in June, **Immunodiagnostic Systems** (medical diagnostic testing) succumbed to some mild profit taking. Finally **Goals Soccer Centers**, which has been a poor performer this year and saw no real tangible benefit from the world cup, continued to drift lower.

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 equity valuations remaining below historic averages and earnings growth still robust (plenty of upgrades still being announced), the outlook for the remainder of 2010 is still positive.

Fund Performance



Relative Performance



Fund Performance

Y/E: December	YTD (FY)	1 month	3 month	6 month	1 year	3 year	5 year	Launch
Montanaro NAV	15.0%	6.2%	5.8%	12.9%	29.7%	-19.3%	14.8%	61.6%
FTSE SmallCap (ex IC)	-2.3%	3.1%	-7.2%	-5.0%	12.1%	-40.2%	-23.5%	-13.3%

Source: Montanaro, Bloomberg. NAV to NAV

Fund Analysis

	Fund	Index
Latest Price / NAV	1398.3	2273.7
Alpha (annual) *	3.3%	na
Beta *	0.64	1.00
Standard Deviation *	21.9%	30.9%
Sharpe Ratio *	-0.51	-0.68
Tracking error *	14.5%	na
P/E 11F _†	12.4	8.8
EPS Growth 11F _†	13.4%	12.8%
Dividend Yield 10F _†	2.8%	3.5%

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

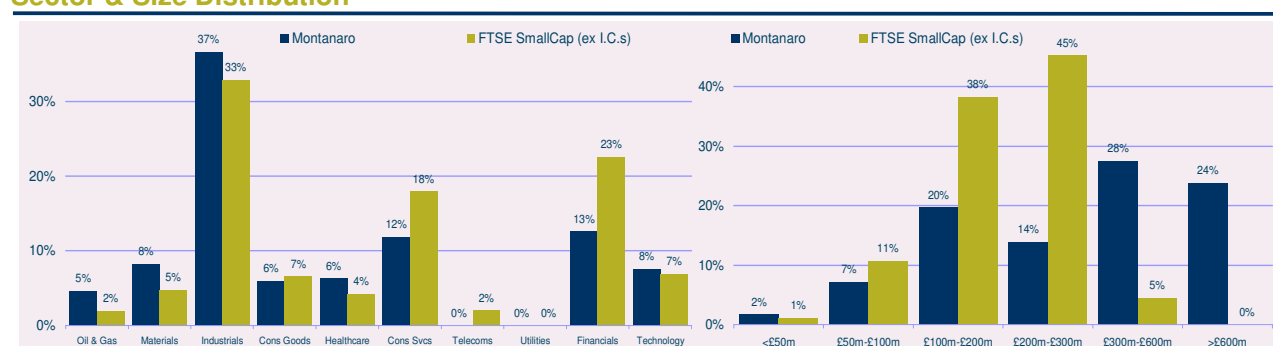
Fund Details

Launch Date	June 1999
Fund Size	£11m
No. of holdings	48
Mgmt Fee	Annual 1.5%
Perf Fee	See below*
Legal Status	Offshore (Cayman) Unit Trust
Valuation	Each Friday
Offering memo	March 1997

Top Ten Holdings

Name	Sector	% of portfolio
1 Victrex	Chemicals	3.1%
2 Premier Oil	Oil & Gas Producers	3.1%
3 Croda	Chemicals	3.0%
4 Domino's Pizza	Travel & Leisure	2.8%
5 Domino Printing	Electronic & Electrical Equipment	2.8%
6 Dignity	General Retailers	2.8%
7 A.G. Barr	Beverages	2.8%
8 Sdl	Software & Computer Services	2.7%
9 Shaftesbury	Real Estate Investment Trusts	2.6%
10 Ncc	Software & Computer Services	2.6%
TOTAL		28.3%

Sector & Size Distribution



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* Performance fee is calculated at 20% of the returns over a hurdle rate of 10%