

MONTANARO

Monthly Fact Sheet: June 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. £850 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

UK equity markets fell last month and have now fallen over the quarter and the calendar year with the FTSE SmallCap (ex ICs) down by 6% in 2010. It is therefore remarkable that the Fund's NAV per share actually increased in these three periods by 6%, 4% and 8% respectively. In June, the NAV outperformed its benchmark by a remarkable 8%. Such times do not happen often!

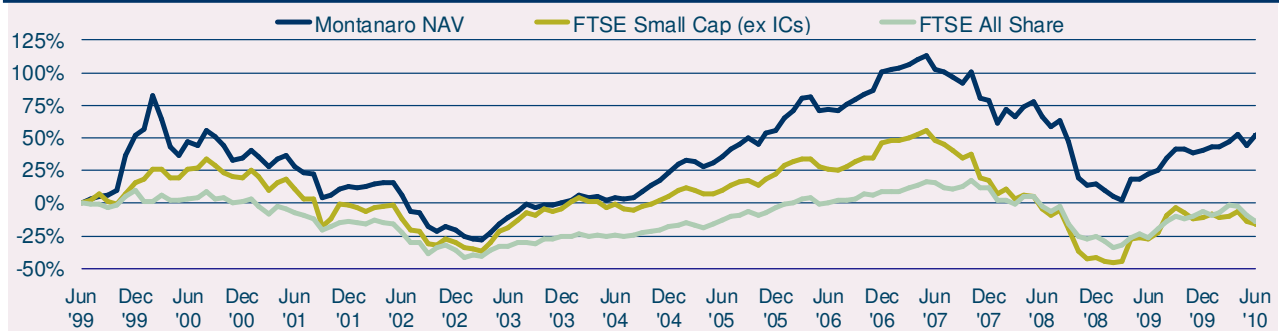
Fiscal austerity has become the name of the game. The Baltic countries, Ireland and Greece started the ball rolling, then Portugal, Spain, France, the UK and even Germany have all joined in. Markets have remained unsettled since late April, unsure as to who will come out on top from the tug-of-war between 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.

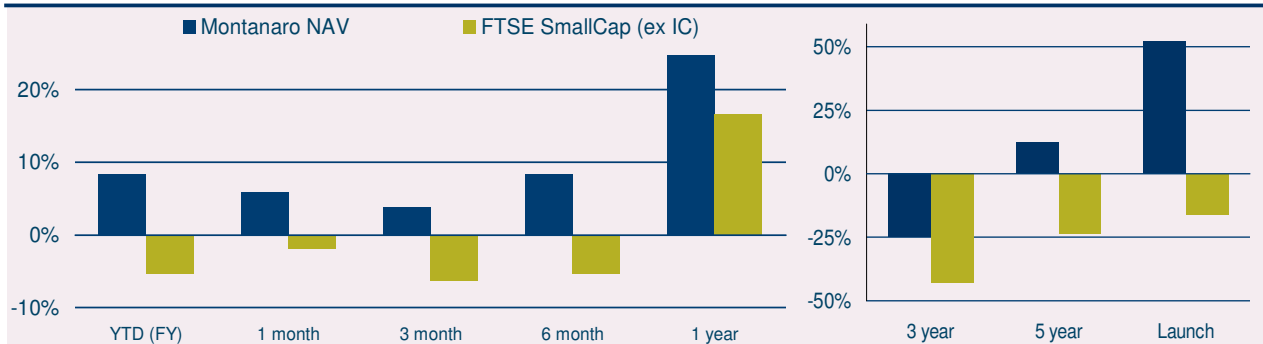
Performance this month has been dominated by corporate activity. **Scott Wilson**, the UK based consulting engineer, received two bids and saw its price rise by over 200%. ABB and Emerson fought the battle over **Chloride** leaving its shares up a further 38% after the rise in May following the initial expression of interest by Emerson. **Domino Printing Sciences**, manufacturer of printers and consumables for retail and industrial customers, was strong again following good results. **Immunodiagnostic Systems** finally got FDA approval for their ISYS machine in the US which again was well received by the market. On the downside, **Keller** announced weak trading which led to a number significant downgrades. This surprised most investors who would have considered the company to be leader in its field. **Hargreaves Services** and **Zytronic** were both weak following dull trading updates.

The global recovery appears to be slowing somewhat but a global economic recovery remains underway. We do not anticipate a double-dip recession. In the short term the budget was well received by the bond markets with 10 year Gilt yields falling to 3.4% and Sterling strengthening against the Euro and Dollar. The current volatility and uncertainty about the strength of the recovery will require Analysts and Fund Managers to increasingly focus on companies' earnings power and balance sheets. 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



Relative Performance



Fund Performance

Y/E: December	YTD (FY)	1 month	3 month	6 month	1 year	3 year	5 year	Launch
Montanaro NAV	8.3%	5.9%	3.8%	8.3%	24.7%	-24.9%	12.0%	52.2%
FTSE SmallCap (ex IC)	-5.3%	-1.9%	-6.3%	-5.3%	16.6%	-43.0%	-23.4%	-15.9%

Source: Montanaro, Bloomberg. NAV to NAV

Fund Analysis

	Fund	Index
Latest Price / NAV	1316.8	2205.4
Alpha (annual) *	1.8%	na
Beta *	0.64	1.00
Standard Deviation *	21.5%	30.8%
Sharpe Ratio *	-0.64	-0.74
Tracking error *	14.4%	na
P/E 11F _†	11.9	8.4
EPS Growth 11F _†	14.9%	12.0%
Dividend Yield 10F _†	2.8%	3.6%

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

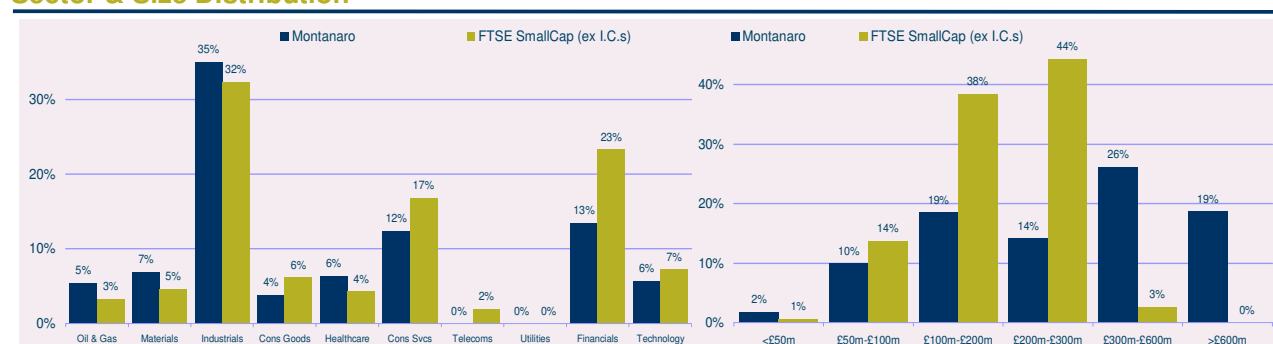
Fund Details

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 Domino Printing	Electronic & Electrical Equipment	2.8%
2 Dana Petroleum	Oil & Gas Producers	2.8%
3 Premier Oil	Oil & Gas Producers	2.7%
4 Domino's Pizza	Travel & Leisure	2.5%
5 Dignity	General Retailers	2.5%
6 Ncc	Software & Computer Services	2.4%
7 Shaftesbury	Real Estate Investment Trusts	2.4%
8 James Halstead	Construction & Materials	2.4%
9 Croda	Chemicals	2.4%
10 James Fisher	Industrial Transportation	2.4%
TOTAL		25.4%

Sector & Size Distribution



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Ticker: MONTFOF KY Equity

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