

# European Equity Income Fund (£)

**MONTANARO**

4 Star - Morningstar

Monthly Fact Sheet: July 2010

Montanaro, an independent specialist fund manager, was established in 1991 to invest in Pan-European quoted SmallCap companies. Funds under management currently total €1.1 billion. The objective of the European Income Fund is to provide investors with higher than market average dividend income by investing principally in quoted European (including UK) companies below €3 billion in size. Dividends are payable or may be re-invested quarterly. The European Equity Income Fund is a UCITS III fund which is authorised for distribution and regulated in Ireland, the UK, the Netherlands, Finland, France, Sweden, Switzerland and Norway.

## Monthly Review

The NAV rose last month by 2.5%. In 2010 the NAV has risen by 7% which, when combined with the current yield of nearly 5%, is an attractive total return over the period.

After a weak May and June it was pleasing 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 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.

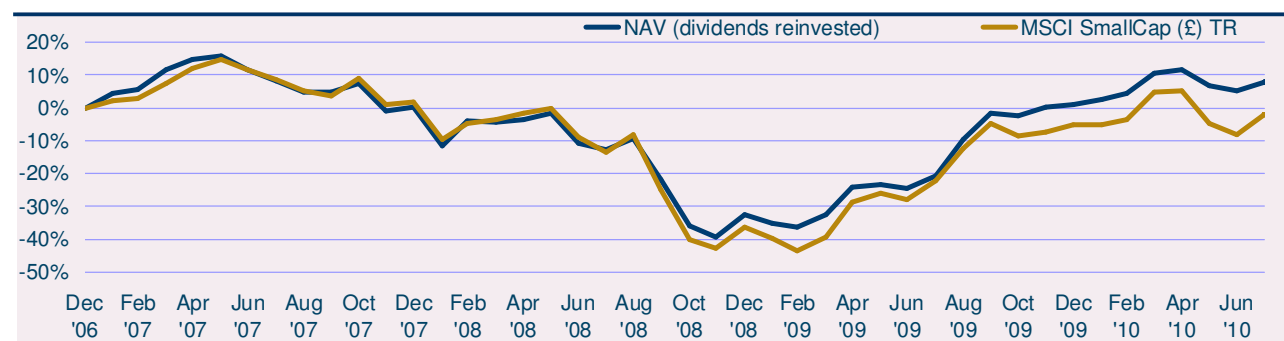
**Konecranes**, the Finnish manufacturer of specialist lifting equipment recovered sharply as interim results revealed a substantial improvement in its orderbook leading to a rise approaching 20%.

Elsewhere, **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. Finally **Corio**, the Dutch based property company, continued its recent strength ahead of a successful €250m 10 year bond issue announced just after the month end.

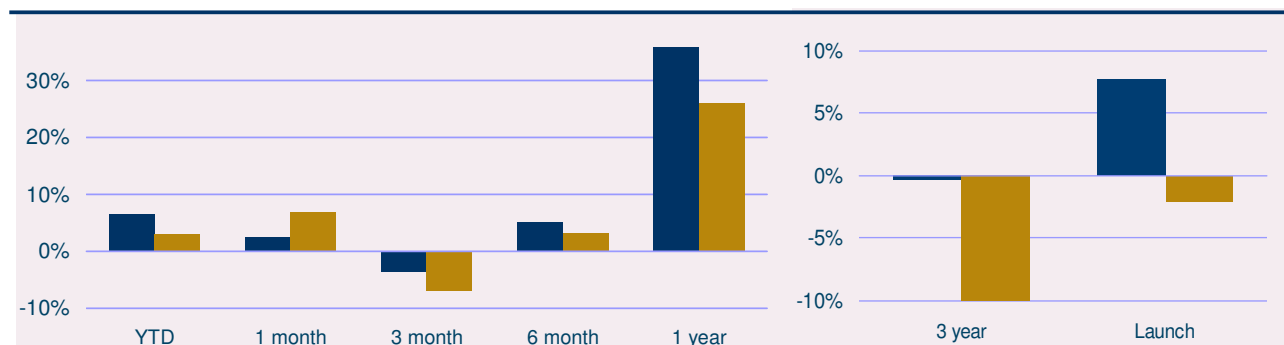
On the downside, **VP**, the UK based plant hire business, remained weak following the UK budget and the likely impact of further slowdown in the UK construction industry. German based **Wincor Nixdorf**, a leader in the ATM market, continued to be out of favour as investors worried about the investment potential of its banking customers. Finally, Dutch based software company **Exact** recorded its sixth quarterly decline in license revenue but has at last seen some early signs of recovery

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. This will also help many of the Fund's investments sustain their more aggressive dividend policy at a time when income is most important to investors. 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



## Relative Performance



## Fund Performance

Y/E: December	YTD	1 month	3 month	6 month	1 year	3 year	Launch
Montanaro NAV (£) TR	6.6%	2.5%	-3.6%	5.2%	35.8%	-0.4%	7.7%
MSCI SmallCap Europe (£) TR	3.0%	6.8%	-7.0%	3.2%	26.0%	-10.0%	-2.1%

Source: Montanaro, Bloomberg. NAV to NAV, unrounded, dividends reinvested at ex date. 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
Month End NAV	£0.95	na
Beta*	0.82	1.00
P/E 11F <sub>†</sub>	12.2	10.8
EPS Growth 11F <sub>†</sub>	12.2%	19.9%
ROE 11F <sub>†</sub>	17.9%	12.4%
Dividend Yield 10F <sub>†</sub>	4.5%	2.7%

\* risk statistics over three years

† Source: FactSet consensus estimates

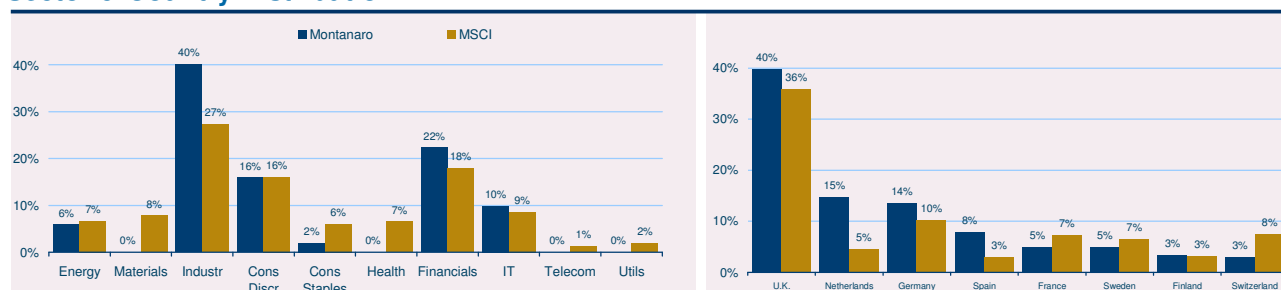
## Fund Details

Launch Date	January 2007
Fund Size	€6 million
No. of holdings	40
Mgmt Fee	nil
Perf Fee	nil
Legal Status	OEIC
Listing	Irish Stock Exchange
Valuation	Daily
Dividends	Quarterly

## Top Ten Holdings

Name	Country	Sector	% of portfolio
1 Ashmore	UK	Capital Markets	3.8%
2 Pfeiffer Vacuum Tech	Germany	Machinery	3.6%
3 James Halstead	UK	Building Products	3.4%
4 Kci Konecranes	Finland	Machinery	3.4%
5 Wsp	UK	Professional Supplies	3.3%
6 Wilmington	UK	Media	3.0%
7 Banque Cantonal	Switzerland	Commercial Banks	3.0%
8 Boskalis	Netherlands	Construction & Engineering	3.0%
9 Tecnicas Reunidas	Spain	Oil & Gas Producers	3.0%
10 Fugro	Netherlands	Oil & Gas Producers	2.9%
<b>TOTAL</b>			<b>32.4%</b>
<b>CASH</b>			<b>4.0%</b>

## Sector & Country Distribution



**Montanaro Asset Management**  
53 Threadneedle Street  
London EC2R 8AR

**Tel:** 020 7448 8600  
**Fax:** 020 7448 8601  
**Website:** [www.montanaro.co.uk](http://www.montanaro.co.uk)

**Manager:** Adam Rackley  
**E-mail:** [arackley@montanaro.co.uk](mailto:arackley@montanaro.co.uk)  
**Ticker:** MONEUIG ID Equity

### Custodian, Fund Administrator and Subscriptions – Contact State Street:

**Tel:** +353 1 242 5407 **Fax:** +353 1 523 3791 **E-mail:** [MontanaroTA@statestreet.com](mailto:MontanaroTA@statestreet.com)

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