

European Equity Income Fund (£)

MONTANARO

4 Star - Morningstar

Monthly Fact Sheet: June 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 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

Markets remained unsettled during the month, as more specific details of austerity measures were released, including the new UK coalition Government's emergency budget. The upgrade cycle also slowed in June as brokers caught up with the significant recovery in company earnings that we have seen over the last five quarters. The month ended with the European Smaller Companies Total Return Index down 3.6% and the Fund outperforming its benchmark by 2.0%. Over the last 12 months the Fund has outperformed its benchmark by 12.2%.

Outperformance during the month was driven by UK holdings, such as the printing solutions provider, **Domino Printing** (+16.0%), which had an extremely strong 1H update and announced a 20% increase in the interim dividend. Another strong performer was **Mothercare** (+8.5%). Although the outlook for the UK consumer is poor, domestic margins have been supported by prudent lease negotiations, which are yielding 40% rent reductions on the high street and 12 month rent free periods and free fit-out in the retail parks. Mothercare also enjoys a structural growth opportunity through its international franchise business, which continues to expand in Emerging Markets.

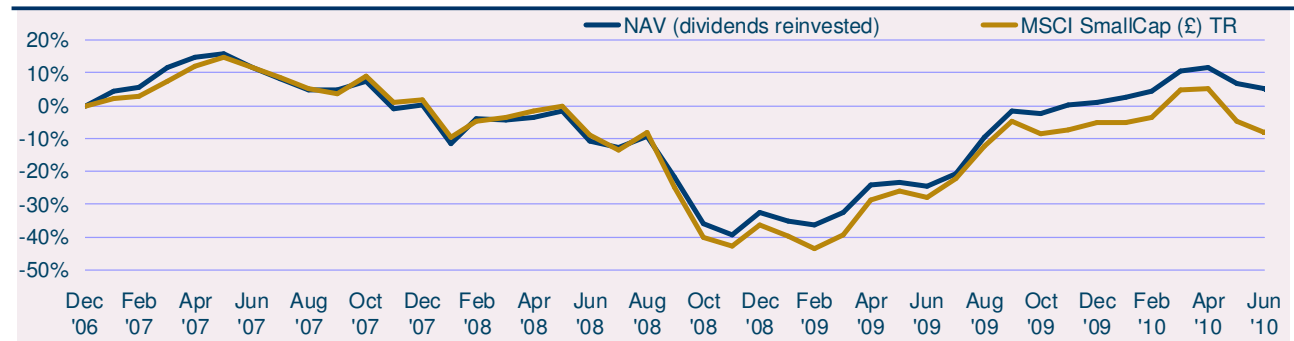
For the second month in a row the weak performers in the portfolio were those with direct exposure to the oil industry. These

are **Technicas Reunidas** (-7.9%) and **Fugro** (-11.7%). Whilst events in the Gulf of Mexico have affected investor sentiment, our reasons for investing in these companies is unchanged.

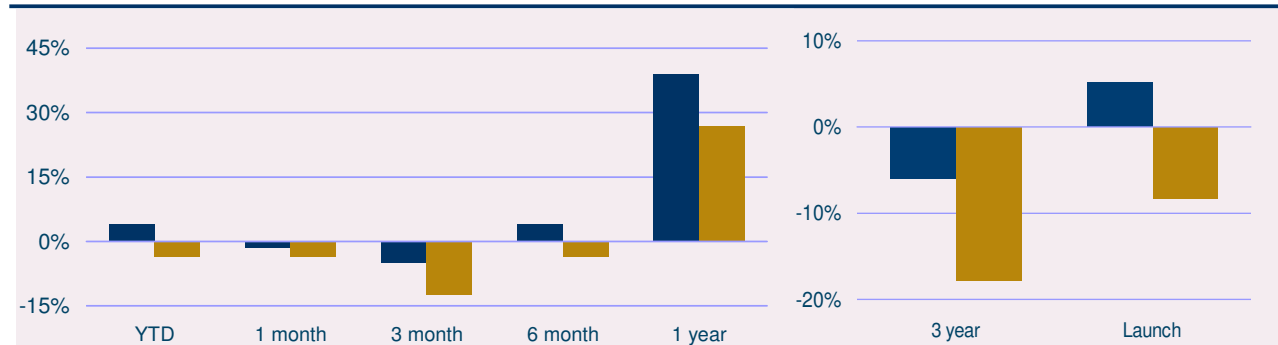
The announcement during the month that BP will not pay a dividend for three quarters has created a headache for many income investors. These investors faced a similar problem two years ago when the banks, which had contributed over 25% of FTSE 100 dividend income in 2007, discontinued or cut their distributions. Our detailed fundamental research and the time we have spent getting to know the management of the companies in which we invest gives us confidence that there will be no dividend cuts in any of the holdings in the Income Fund over the next 12 months.

We believe that loose monetary policy will continue to help offset the pressures of tightening fiscal policy. We do not anticipate a double-dip recession and we remain excited about opportunities for exporters in this weak Euro environment, particularly those with Emerging Market exposure. Equity valuations remain reasonable and with corporate and investor cash balances funding a growing appetite for M&A from trade and private equity buyers, we feel the recent pull-back presents an opportunity in a bull market that will continue to run for several years.

Fund Performance



Relative Performance



Fund Performance

Y/E: December	YTD	1 month	3 month	6 month	1 year	3 year	Launch
Montanaro NAV (£) TR	4.0%	-1.6%	-5.0%	4.0%	39.1%	-6.0%	5.1%
MSCI SmallCap Europe (£) TR	-3.6%	-3.6%	-12.5%	-3.6%	26.9%	-17.8%	-8.3%

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	£0.94	na
Beta*	0.83	1.00
P/E 11F _†	11.7	10.1
EPS Growth 11F _†	11.3%	20.3%
ROE 11F _†	16.4%	12.4%
Dividend Yield 10F _†	4.8%	2.9%

* risk statistics over three years

† Source: FactSet consensus estimates

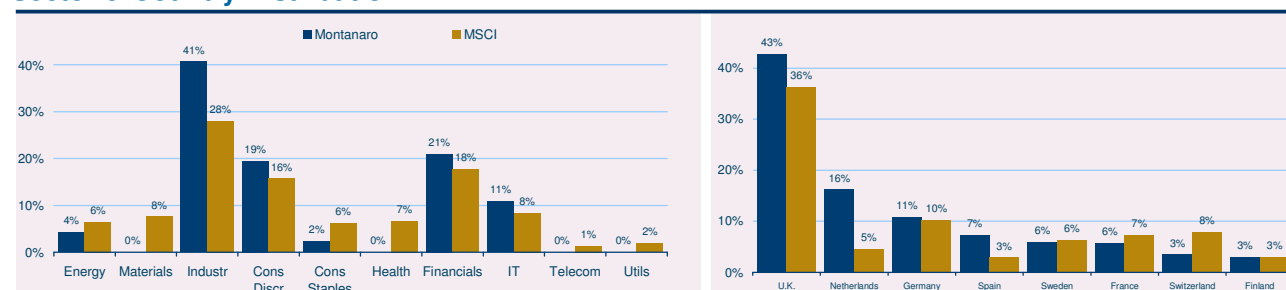
Fund Details

Launch Date	January 2007
Fund Size	€5 million
No. of holdings	41
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	Pfeiffer Vacuum Tech	Germany	Machinery	4.3%
2	James Halstead	UK	Building Products	4.1%
3	Wsp	UK	Professional Supplies	3.9%
4	Boskalis	Netherlands	Construction & Engineering	3.6%
5	Wilmington	UK	Media	3.5%
6	Banque Cantonale	Switzerland	Commercial Banks	3.5%
7	Vp Group	UK	Trading Companies & Distributors	3.4%
8	Exact Holding	Netherlands	Software	3.4%
9	Mucklow	UK	Real Estate Investment Trusts	3.4%
10	Hansard	UK	Insurance	3.3%
	TOTAL			36.2%
	CASH			1.4%

Sector & Country Distribution



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