

European Equity Income Fund (£)

MONTANARO

Monthly Fact Sheet: May 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

The European Sovereign debt crisis continued to grab headlines during the month, with Fitch and S&P downgrading Spain's credit rating and yields on Greek 2-year government bonds briefly pushing through 18%. The announcement of a €750bn bailout package calmed the markets but left a trail of public discontent, not least in Germany, which footed the lion's share of the bill and Greece, where the promised austerity measures are likely to lengthen and deepen the country's economic recession.

Austerity measures were announced not only in Greece, but across Europe and in the UK a new coalition government was voted in with a mandate to cut the budget deficit. The prospect of fiscal tightening has revived concerns of a double dip recession and driven investors away from equities and towards gilts and gold. During the month the MSCI European Smaller Companies Total Return Index fell by 9.7% and the Fund outperformed by 5.3%.

The Euro fell by 7.4% against the US Dollar during the month and is down 11.7% since the start of the year. This is great news for European exporters such as **Pfeiffer Vacuum** (+0.8%) and **Rational** (+1.6%) which dominate the global markets for vacuum turbo pumps and commercial kitchens respectively. Our focus on investing in global leaders in niche

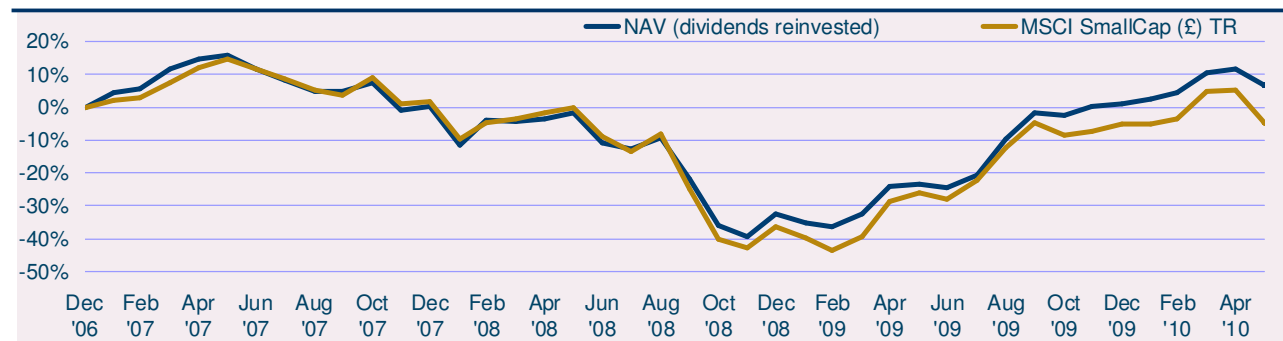
markets means that many of the companies in the portfolio are unaffected by concerns at home. The Spanish company, **Viscofan** (+2.7%) is a good example of this. The world's biggest manufacturer of sausage casings outperformed the IBEX by 13.5%.

The worst performers during the month were **Tecnicas Reunidas** (-16.2%) and **Fugro** (-17.2%) who serve oil and gas companies in the downstream and upstream sectors respectively. The share price of these stocks were affected by the shadow that the Deepwater Horizon disaster in the Gulf of Mexico is casting over the industry.

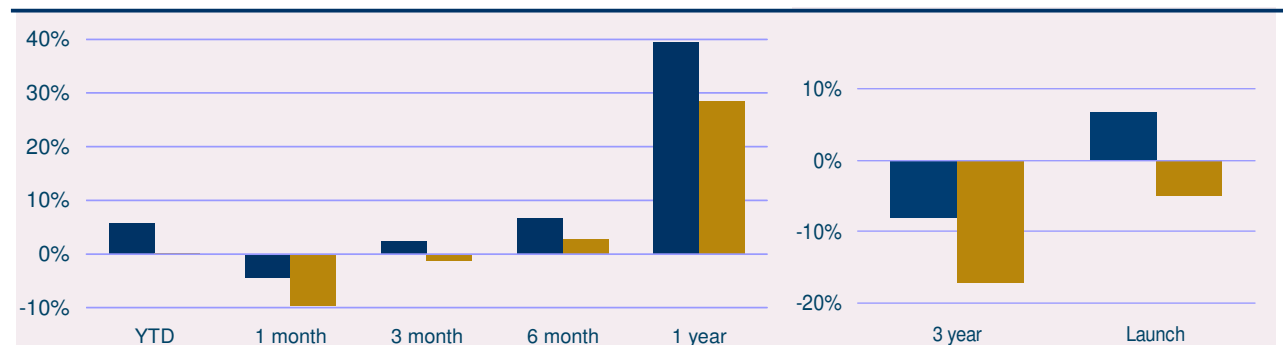
In this gloomy macro environment we continue to hear good news from the companies that we speak to and even as the like-for-likes get tougher, we continue to see upgrade momentum.

As the US Senate calls for BP to cut its dividend, it is worth noting that the oil giant accounts for £1 out of every £7 paid in dividends in the FTSE 100, making it the biggest holding in many UK income funds. One of the benefits of SmallCap income investing is that this concentration of dividend income by company and industry does not exist. The portfolio currently yields 5% versus the Index at 3%.

Fund Performance



Relative Performance



Fund Performance

Y/E: December	YTD	1 month	3 month	6 month	1 year	3 year	Launch
Montanaro NAV (£) TR	5.7%	-4.4%	2.4%	6.6%	39.5%	-7.9%	6.8%
MSCI SmallCap Europe (£) TR	0.0%	-9.7%	-1.3%	2.8%	28.5%	-17.2%	-4.9%

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	£0.96	na
Beta*	0.84	1.00
P/E 11F _†	11.8	10.4
EPS Growth 11F _†	10.5%	20.4%
ROE 11F _†	16.1%	12.4%
Dividend Yield 10F _†	4.8%	2.9%

* risk statistics over three years

† Source: FactSet consensus estimates

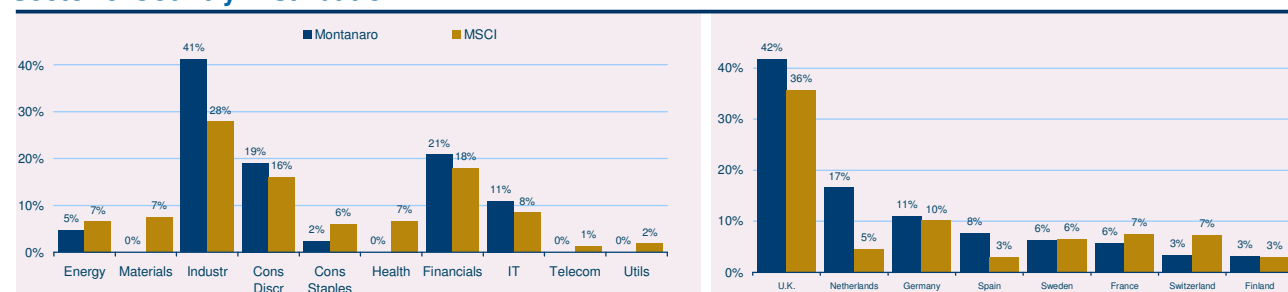
Fund Details

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	4.2%
2	Wsp	UK	Professional Supplies	3.9%
3	James Halstead	UK	Building Products	3.8%
4	Af Group	Sweden	Professional Supplies	3.6%
5	Boskalis	Netherlands	Construction & Engineering	3.5%
6	Wilmington	UK	Media	3.5%
7	Mucklow	UK	Real Estate Investment Trusts	3.5%
8	Vp Group	UK	Trading Companies & Distributors	3.4%
9	Exact Holding	Netherlands	Software	3.3%
10	Banque Cantonale	Switzerland	Commercial Banks	3.3%
	TOTAL			36.0%
	CASH			1.0%

Sector & Country Distribution



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