

# European Smaller Companies Trust

## 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 €1.1 billion. The European Smaller Companies Trust invests in quoted European (excluding UK) companies with a focus on companies below €1 billion in size. It is listed on the London Stock Exchange.

### Monthly Review

The NAV rose last month by 6% in broadly in line with its benchmark. After the strong recent outperformance, this is pleasing. Over the last 12 months the NAV has risen by 30% in marked contrast with LargeCap which has only risen by 7%.

After a weak May and June it was gratifying 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.

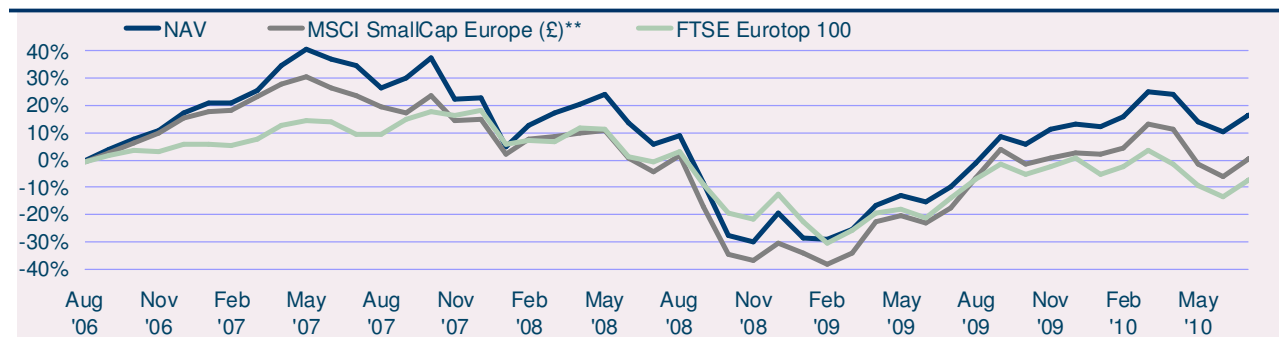
With corporate activity in the sector in the form of a bid for **Dana Petroleum** from the Korean National Oil Corporation it was not too surprising that the best performer this month was Irish based **Tullow**

**Oil** which was up more than 20% and has an enviable exploration record. With BP finally capping its well in the Gulf of Mexico other oil related stocks also started to show signs of recovery. **Euler Hermes**, the French Credit Insurance company, announced a strong set of interim results. Improving world economies have enabled the group to increase its risk acceptance further driving future profit growth and encouraging analysts to raise forecasts leading to a near 20% rise over the month. Following the financials theme, **Azimut** the Italian asset manager, recovered strongly after its recent underperformance related to the PIGS crisis.

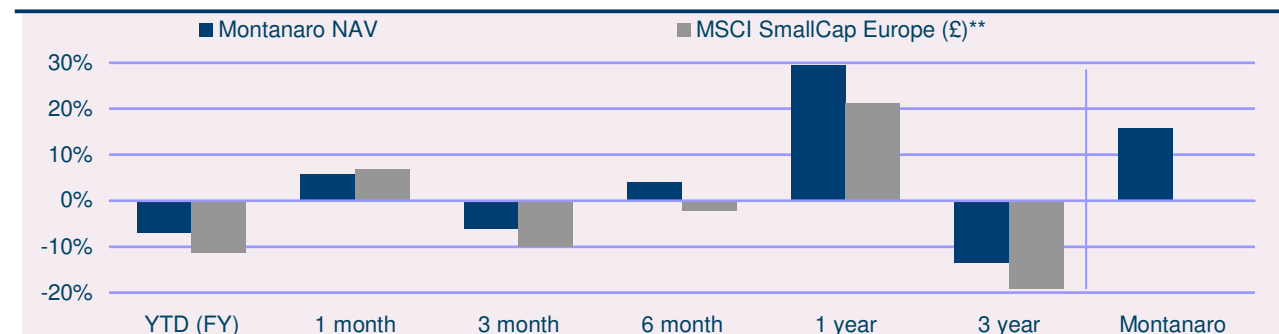
On the downside, **Diasorin**, which is also based in Italy and involved in diagnostic testing, experienced short term profit taking after good results the previous month. Elsewhere, **Christian Hansen**, the recent Danish IPO which is involved in the production of food ingredients for the dairy sector, suffered some mild profit taking. 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.

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 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



\*\*Effective June 1<sup>st</sup> 2009 the index used in this factsheet for comparison purposes is the MSCI European Smaller Companies Index ex-UK. The performance history prior to June 1<sup>st</sup> 2009 remains the MSCI European Smaller Companies Index.

## Fund Performance

Y/E: March	YTD (FY)	1 month	3 month	6 month	1 year	3 year	5 year	Montanaro
Montanaro NAV	-6.9%	5.8%	-6.2%	4.1%	29.5%	-13.4%		15.7%
MSCI SmallCap Europe (£)**	-11.4%	6.7%	-10.0%	-2.1%	21.1%	-19.1%		0.1%

Source: Montanaro, Bloomberg, NAV to NAV, fully diluted \*\*see footnote on previous page

## Fund Analysis

	Fund	Index
NAV	395.5	146.8
Share Price	353.5	na
Discount	-10.6%	na
Alpha (annual) *	1.9%	na
Beta *	0.93	1.00
Standard Deviation *	28.3%	28.7%
Sharpe Ratio *	-0.28	-0.36
Tracking error *	9.3%	na
P/E 11F <sub>†</sub>	13.5	11.2
EPS Growth 11F <sub>†</sub>	19.3%	22.6%
Dividend Yield 10F <sub>†</sub>	2.7%	2.7%

\* risk statistics over three years † Source: Factsset consensus estimates

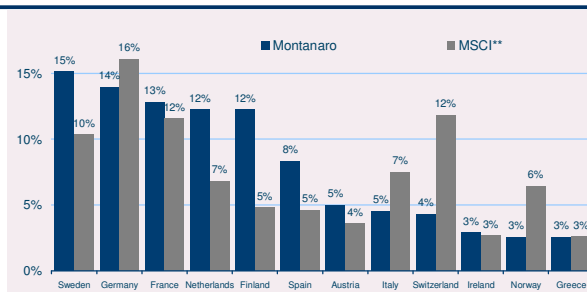
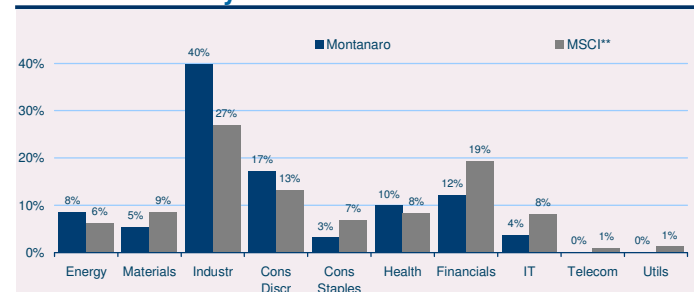
## Fund Details

Managed Since	September 2006
Gross Assets	€88 million
Net Assets	€79 million
Net Gearing	11.0%
No. of holdings	51
Median Mkt Cap	€1430 million
Mgmt Fee	Annual 1%
Perf Fee	See below*
Legal Status	UK closed-end Investment Trust
Listing	London Stock Exchange
Valuation	Daily
Dividends	January and July

## Top Ten Holdings

Name	Country	Sector	% of portfolio
1 Prosegur	Spain	Commercial Services & Supplies	3.4%
2 Virbac	France	Pharmaceuticals	3.4%
3 Andritz	Austria	Machinery	3.3%
4 Viscofan	Spain	Food & Staples Retailing	3.2%
5 Fuchs Petrolub	Germany	Chemicals	3.1%
6 Gfk Ag	Germany	Media	3.0%
7 Arcadis	Netherlands	Construction & Engineering	2.9%
8 Vopak	Netherlands	Transportation Infrastructure	2.8%
9 Af Group	Sweden	Professional Supplies	2.8%
10 Vacon	Finland	Electrical Equipment	2.7%
<b>TOTAL</b>			<b>30.6%</b>

## Sector & Country Distribution



\*\*see footnote on previous page

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**Ticker:** MTE LN Equity

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\*Performance fee is calculated at 15% outperformance of MSCI European SmallCap Index Excluding UK (£) plus 2%, capped at 2%, high on high