

European Smaller Companies Trust

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 €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

European equity markets ended both the month and the quarter lower, with the MSCI Europe SmallCap Index (ex-UK) falling by 17% over the second quarter of 2010. The Fund, however, has enjoyed significant outperformance this year beating its benchmark by over 6% in the first six months and by 1% last month.

Fiscal austerity has become the name of the game. After the Baltic countries, Ireland and Greece had started the ball rolling, then Portugal, Spain, France, the UK and even Germany 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 only 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.

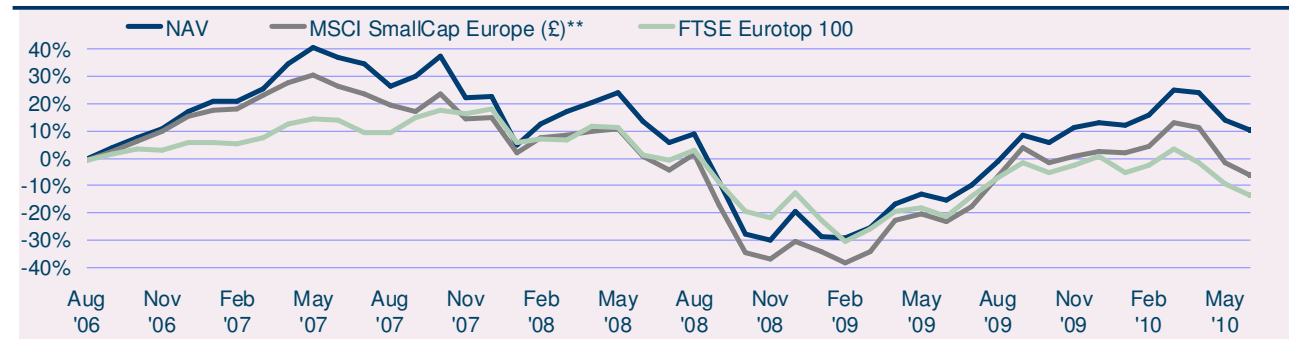
In recent months, Germany has emerged as the uncontested economic powerhouse of Europe. Ultimately, Angela Merkel's reluctant decision to participate in the set-up of the European financial safety net for Southern Europe paid off in the form of an organized devaluation of the Euro, something the dogmatic ECB had been unwilling to do. The Euro has depreciated by 13% against the Dollar during the first six months of 2010. Germany, which alone accounts for 27% of Euro Area GDP, therefore matters much more to the Continent's future than the so-called PIGS (20% for Portugal, Greece, Ireland and Spain combined). Similarly, the weaker currency is benefiting other export economies such as Finland and the Netherlands.

Most of the investments in the Fund traded in a relatively narrow range. Amongst the best performers was **Virbac**, the French based provider of veterinary products to companion and food producing animals, which produced better than expected Q1 results and continued the strong performance seen over the last 12 months. **Vacon**, the Finnish manufacturer of AC Drives, was also strong as management reported on an improved outlook and gave some details about growth in the renewable market. Finally, we saw good performance from the recent purchase of **Christian Hansen**, a Danish IPO which is involved in the production of food ingredients principally for the dairy sector.

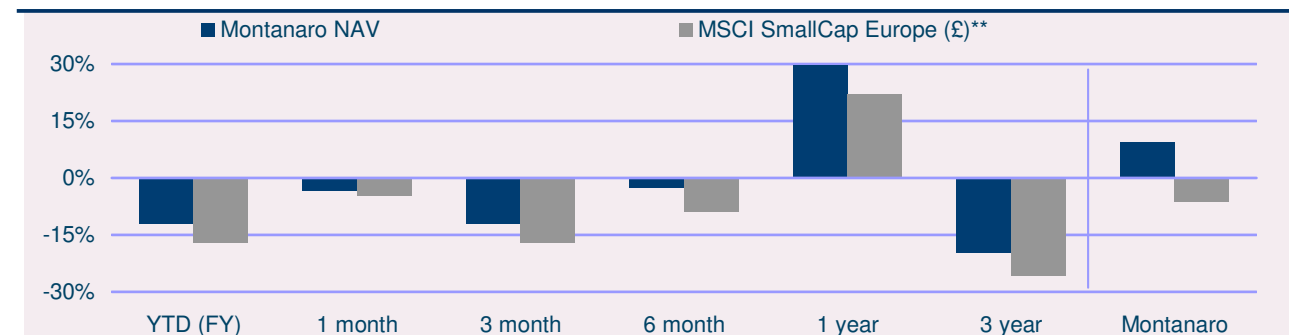
On the downside, the Fund's exposure to the oil services sector and the seismic market in particular has hurt performance. This was largely reflected in the underperformance at **TGS Nopec** and **Fugro** which were impacted by the BP disaster in the Gulf of Mexico which has in the short term delayed a number of seismic surveys. **Frigoglass**, the Greek manufacturer of Ice Cold Merchandisers, saw some profit taking after a strong Q1 and as investors became increasingly concerned by the Greek economy. Finally, **AF Group** succumbed to some profit taking after recent strength on the back of the buoyant Swedish economy.

The global recovery appears to be slowing somewhat but a global economic recovery remains underway. We do not anticipate a double-dip recession. In Europe, the strength of the German economy, the likely persistence of volatility and the divergence of economic risk between the North and South will require analysts and Fund Managers to increasingly focus on companies' earnings power and balance sheets. This together with 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



**Effective June 1st 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 1st 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	-12.0%	-3.3%	-12.0%	-2.5%	29.8%	-19.5%		9.4%
MSCI SmallCap Europe (£)**	-16.9%	-4.6%	-16.9%	-8.7%	21.9%	-25.8%		-6.2%

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

Fund Analysis

	Fund	Index
NAV	373.8	137.6
Share Price	351.5	na
Discount	-6.0%	na
Alpha (annual) *	2.2%	na
Beta *	0.93	1.00
Standard Deviation *	28.1%	28.5%
Sharpe Ratio *	-0.38	-0.47
Tracking error *	9.3%	na
P/E 11F _†	13.1	10.6
EPS Growth 11F _†	20.1%	23.3%
Dividend Yield 10F _†	2.8%	2.8%

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

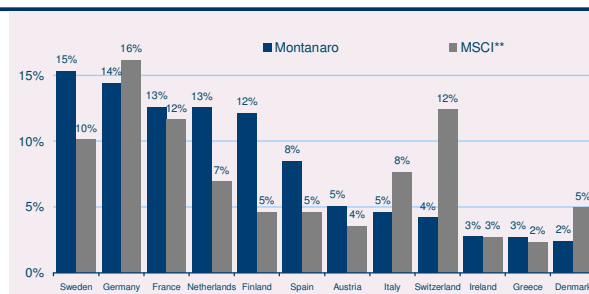
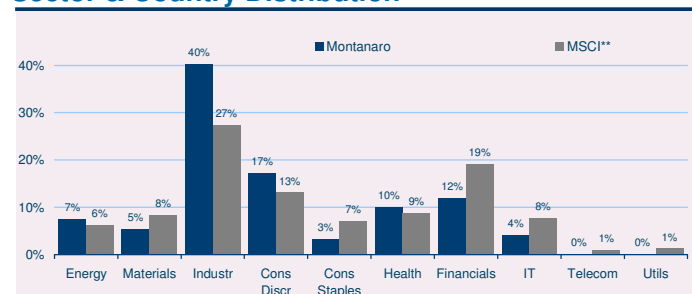
Fund Details

Managed Since	September 2006
Gross Assets	€84 million
Net Assets	€76 million
Net Gearing	11.4%
No. of holdings	49
Median Mkt Cap	€1332 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 Virbac	France	Pharmaceuticals	3.3%
2 Viscofan	Spain	Food & Staples Retailing	3.3%
3 Prosegur	Spain	Commercial Services & Supplies	3.3%
4 Andritz	Austria	Machinery	3.3%
5 Af Group	Sweden	Professional Supplies	3.1%
6 Fuchs Petrolub	Germany	Chemicals	3.0%
7 Gfk Ag	Germany	Professional Supplies	3.0%
8 Arcadis	Netherlands	Construction & Engineering	3.0%
9 Vopak	Netherlands	Transportation Infrastructure	2.9%
10 Vacon	Finland	Electrical Equipment	2.8%
TOTAL			31.0%

Sector & Country Distribution



**see footnote on previous page

Montanaro Asset Management
53 Threadneedle Street
London EC2R 8AR

Tel: 020 7448 8600
Fax: 020 7448 8601
Website: www.montanaro.co.uk

Manager: Charles Montanaro
E-mail: cmontanaro@montanaro.co.uk
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