

Montanaro European Smaller Companies Trust plc

Interim Management Statement

For the Three Month Period From 1 October 2008 to 31 December 2008

Investment Objective

Montanaro European Smaller Companies Trust plc aims to achieve capital growth by investing principally in European quoted smaller companies.

Performance Summary

Capital Return	As at 31 December 2008	As at 30 September 2008	Movement
Net asset value (000's)	£46,122	£53,309	-13.5%
Net asset value per share	275.71p	316.97p	-13.0%
MSCI Europe Small Cap Index	92.6	109.8	-15.7%
Share price	248.75p	282.50p	-11.9%
Discount	-9.8%	-10.9%	
Net cash	0.5%	3.1%	

Review for the Period

The Company's net asset value per share fell by 13.0% during the three month period ended 31 December 2008, outperforming the benchmark index which fell by 15.7%.

Economic conditions deteriorated sharply over the quarter, as it became clear that Europe was entering a period of recession. Stock markets across Europe continued to be affected by a steady stream of bad economic data amid concerns over the banking sector. Decisive action by the financial authorities around the world was necessary to shore up bank balance sheets, as well as the announcement of significant fiscal stimuli and interest rate cuts. In the UK, interest rates were cut to 2% and then again to 1.5% in January, their lowest level since the foundation of the Bank of England in 1694. This monetary relaxation meant that Sterling fell by more than 17% against the Euro over the quarter, taking it to an all time low.

Before rising in December, the benchmark index had fallen by more than 60% since its peak in June 2007. The likely reason for this slight year end rally was that the VIX index peaked and credit spreads finally began to contract. However, for smaller companies, new capital remains scarce and expensive in real terms. Equity valuations reached historically attractive levels during the quarter and appeared to be discounting a severe recession just as credit spreads discounted unprecedented levels of default. The continued lack of conviction about any eventual economic stabilisation and thus the outlook for 2009 profits and absence of positive news flow meant that investor sentiment remained poor.

The Company's performance benefited from the portfolio remaining underweight in financials, real estate and auto-related companies while being overweight in commercial services companies (within the industrials sector). The weakest individual stock contributors were DTZ (real estate weakness), Frigoglass (concerns over emerging market slow-down and order slow-down from key Coca Cola bottling client), and Studsvik (concerns over the outlook for new nuclear power plants). On the positive side, the main contributors were GFK (which walked away from a takeover bid for TNS), Virbac (resilience in the animal health market) and Prosegur Seguridad (good demand for security services in Spain).

Commentators have been reaching for the history books and long term charts to compare the current situation with 1929-34 and 1972-75 as well as Japan in the 1990's. These can only serve as a rough guide. It is clear that the full scale of bad debts will only fully emerge over time and that a prolonged period of austerity, slow growth and higher consumer saving will be necessary to re-capitalise the nations' balance sheets. Inflation would help this process in the short term but there is no sign of this on the horizon. Meanwhile the Manager will continue to focus on quality companies with strong balance sheets and niche businesses where margins might be better preserved and declines in top line revenues relatively less pronounced.

The Company is currently ungeared, as was the case for much of 2008, reflecting a cautious stance. The current profound pessimism leads the Manager to believe that the bottom for equity markets could well be seen during 2009. Therefore it is possible that modest gearing may be in place during the course of this year.

Share Buybacks

During the period the Company purchased 90,000 of its own ordinary shares, to be held in treasury.

Top Ten Holdings as at 31 December 2008

Company	Country	Percentage of total assets
GFK	Germany	4.3
Prosegur Seguridad	Spain	3.3
Andritz	Austria	3.0
Arcadis	Netherlands	2.9
Virbac	France	2.8
Fuchs Pertolub	Germany	2.8
Neopost	France	2.7
Vacon	Finland	2.6
AF	Sweden	2.6
Fugro	Netherlands	2.6
Total		<hr/> 29.6 <hr/>

Geographical Analysis as at 31 December 2008

Country	Percentage of total assets
UK	14.2
Finland	11.4
France	11.0
Sweden	10.5
Netherlands	10.2
Germany	9.3
Austria	6.8
Switzerland	4.9
Spain	3.5
Belgium	2.5
Italy	2.4
Greece	1.8
Ireland	1.5
Malta	1.5
Norway	1.3
Liquidity	7.2
Total	<hr/> <hr/> 100.0

Sector Distribution as at 31 December 2008

Sector	Percentage of total assets
Industrials	45.6
Healthcare	8.7
Consumer Services	8.6
Oil & Gas	8.6
Financials	6.8
Consumer Goods	6.4
Basic Materials	4.1
Technology	4.0
Liquidity	7.2
Total	<hr/> <hr/> 100.0

The Board is not aware of any significant events or transactions which have occurred since 31 December 2008 and the date of publication of this statement which would have a material impact on the financial position of the Company.

Daily and Key Information

Further information regarding the Company, including monthly factsheets, can be found at the Manager's website: www.montanaro.co.uk

For further information please contact:

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