

MONTANARO

European Smaller Companies Trust plc

Annual Report and Accounts 2019



The investment objective of **Montanaro European Smaller Companies Trust plc** (the ‘Company’) is to achieve capital growth by investing principally in Continental European quoted smaller companies.

The Company’s benchmark index is the MSCI Europe SmallCap (ex UK) Index (in sterling terms).

The Company was launched in May 1981. Its current objective and investment policy were adopted in September 2006. Its Ordinary Shares are listed on the Main Market of the London Stock Exchange.

The Company conducts its affairs so that its Ordinary Shares can be recommended by IFAs to ordinary retail investors in accordance with the FCA’s rules relating to non-mainstream investment products and intends to continue to do so.

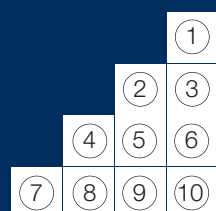
Highlights	1
Strategic Report	
Chairman’s Statement	2
Manager’s Report	4
Twenty Largest Holdings	8
Analysis of Investment Portfolio by Sector	10
Business Model and Strategy	11
Governance Report	
Advisers	18
Board of Directors	19
Report of the Directors	20
Corporate Governance Statement	25
Report of the Audit Committee	28
Directors’ Remuneration Report	31
Management Report and Directors’ Responsibilities Statement	34

Financial Report	
Independent Auditor’s Report	35
Statement of Comprehensive Income	41
Balance Sheet	42
Statement of Changes in Equity	43
Cash Flow Statement	44
Notes to the Accounts	45
AIFM Disclosures	59
Shareholder Information	60
Alternative Performance Measures	62
Glossary of Terms	63
Notice of Annual General Meeting	65

This document is important and refers to certain matters on which voting action is required. Shareholders who are in any doubt as to what action to take should consult an appropriate independent adviser immediately.

If any shareholder has sold or transferred all their shares in the Company, he or she should pass this document to the purchaser or transferee or to the person through whom the transfer or sale was effected for onward transmission to the transferee or purchaser.

Cover Images



- ① **De Longhi’s** Kenwood Cooking Chef
- ② **Vitrolife’s** EmbryoGlue
- ③ A cross section of the PW1000G engine, showcasing **MTU Aero Engines** components
- ④ **Rational’s** VarioCooking Center
- ⑤ A **Sartorius Stedim** Flexboy bag
- ⑥ A **LEM** current transducer

- ⑦ Clothing by **Brunello Cucinelli**
- ⑧ An **I.M.A.** Evo Flex Rotary automatic assembly machine
- ⑨ Freeze-dried Lactic Culture for Direct Vat Set by **Christian Hansen**
- ⑩ A **Brembo** brake caliper

Highlights

for the year ended 31 March 2019

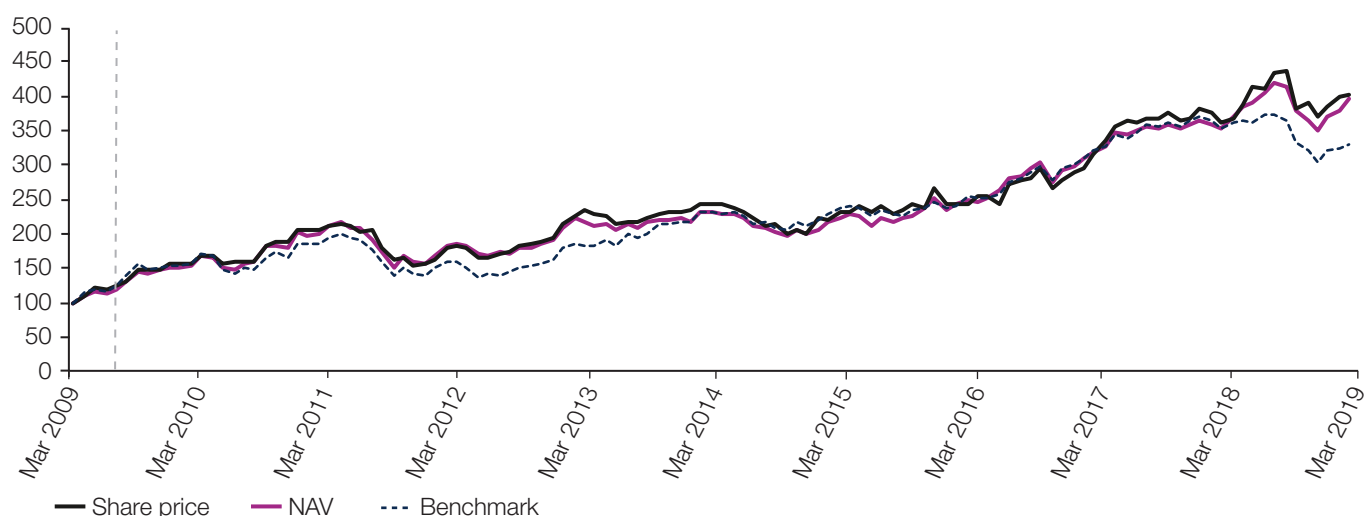
Results	% Change from 31 March 2018
> Net asset value ('NAV') per Ordinary Share	+12.2%
> NAV Total Return per Ordinary Share ⁽¹⁾	+13.1%
> Share price	+11.3%
> Benchmark index (capital return)	-6.3%
> Total assets	+2.9% (£178 million)

	As at 31 March 2019	As at 31 March 2018
Net assets ('000s)	£169,141	£150,776
NAV per Ordinary Share	1,010.8p	901.1p
Ordinary Share price	890.0p	800.0p
Discount ⁽¹⁾	12.0%	11.2%
Dividends per Ordinary Share	9.00p	8.50p
Gearing ⁽¹⁾	0.4%	0.6%
Ongoing charges ⁽¹⁾	1.2%	1.2%

⁽¹⁾ Refer to Alternative Performance Measures on page 62.

NAV, Share Price and Benchmark Index 10 year performance graph

rebased to 100 at 31 March 2009



--- From 5 September 2006, the benchmark was the MSCI Europe SmallCap Index. The benchmark was changed on 1 June 2009 to the MSCI Europe SmallCap (ex UK) Index (in sterling terms).

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

Chairman's Statement

for the year ended 31 March 2019



Results

The year to 31 March 2019 was turbulent for investors in European smaller companies: the MSCI Europe SmallCap (ex UK) Index (in sterling terms) declined by -6.3%. In comparison, the net asset value ('NAV') of your Company rose by 12.2% to 1,010.8p per share. In total return terms the NAV per share rose by 13.1%. The share price rose by 11.3% to 890.0p as the discount widened from 11.2% to 12.0%.

I am delighted with the excellent investment performance delivered by our manager over the year, not only relative to the benchmark but also relative to all the other European SmallCap – and indeed LargeCap – investment trusts. Definitely a vintage year. I would also point out that your Company is now the best performing European investment trust over 3 years and 5 years.

Over the course of the year most European currencies, with the exception of the Swiss Franc, declined slightly against Sterling. This will have resulted in a small reduction in the net asset value. We do not hedge currencies.

Since the appointment of Montanaro Asset Management Limited ('Montanaro') in September 2006, the NAV per share has increased by

192.7% compared with an increase of 118.7% in the benchmark index.

A review of the market, investment approach and a further analysis of performance is set out in the Manager's Report together with more detail on some of the businesses in which the Company is invested.

Earnings and Dividends

Revenue earnings per share for the year were 9.5p (2018: 9.5p).

The Company's primary aim is to deliver capital growth to its shareholders. However, our substantial revenue reserve combined with the long-term growth in dividends of the companies in which we invest, have allowed us to maintain a consistent and robust dividend payout. An interim dividend of 1.75p per share was paid on 4 January 2019. The Board recommends the payment of a final dividend of 7.25p per share payable on 17 September 2019 to shareholders on the register on 16 August 2019. Subject to shareholder approval, this would bring the total dividends for the year to 9.00p per share, an increase of 5.9% compared to the previous year.

Directors

After 26 years on the Board and 14 years as Chairman, Andy Irvine retired following the conclusion of the Annual General Meeting on 29 August 2018.

I was honoured to accept the Board's invitation to become Chairman. Andy has been a truly exceptional Chairman for the Company and its shareholders and I would like to thank him for his dedication and service. Bruce Graham and Alex Hammond-Chambers also retired following the 2018 Annual General Meeting. I would also like to thank Bruce and Alex for their outstanding contribution, sound advice and commitment to the Company over many years. The Board continues to keep under review the appropriate size of the Board.

Administrator and Company Secretary

On 1 April 2019, the Company appointed Link Company Matters Limited and Link Alternative Fund Administrators Limited as Company Secretary and Administrator respectively, in place of BMO Investment Business Limited (formerly F&C Investment Business Limited) ('BIB'). I would like to thank the staff at BIB for their excellent service over the years that they have worked with the Company and its Board.

Borrowings

The Board, in discussion with the Manager, regularly reviews the gearing strategy of the Company and approves the arrangement of any gearing facility. Gearing increases or decreases the returns from underlying

profits or losses generated by the investment portfolio. This is a key feature of investment trusts that we believe offers a strong competitive advantage over open-ended investment funds. Therefore, the Board encourages the active use of gearing by the Manager in both a strategic and tactical way whilst remaining cognisant of the risks that this may involve.

The Board has set a maximum limit on borrowing, net of cash, of 30% of shareholders' funds at the time of borrowing. At the end of the fiscal year, the Company had borrowings, net of cash, of 0.4% compared to 0.6% at the beginning of the year. The low level of gearing gives the Manager plenty of flexibility to invest more as and when they consider the conditions are right. During the year, the Company renewed its borrowing facility arrangements.

The Company currently has borrowing facilities in the form of a fixed rate loan of €10 million and a revolving loan facility of €15 million, both of which are due to mature on 13 September 2023. The Board believes that the combination of these facilities gives the Company greater flexibility in pursuit of its investment objective.

Treasury Shares

During the year, the Company did not buy back shares into or sell shares from Treasury. The Board's stated Treasury shares policy is included in the Annual Report and Accounts. The Board will seek to renew the Company's share buyback and share issuance authorities at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held on 12 September 2019 at 12.30pm at the offices of Montanaro Asset Management, 53 Threadneedle Street, London EC2R 8AR.

Shareholders are encouraged to attend the Meeting where there will be an opportunity to meet and ask questions of the Board and the Manager over a coffee.

Outlook

We continue to believe that the fundamentals behind the market remain positive. Global economies are still growing and monetary policy remains accommodative. However, leading indicators of global growth have generally weakened over the last year and it remains to be seen whether these deteriorate further or rebound in the next 12 months. Brexit and the increased risk of global trade wars also add to the uncertainty. We do not attempt to time such market shifts, preferring to invest in companies that can thrive irrespective of the economic cycle.

Your portfolio consists of some of the highest quality, quoted companies in Europe. Their strong management teams, good growth prospects, sound balance sheets and cash generative business models should ensure that long-term returns will remain attractive for investors.

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Chairman

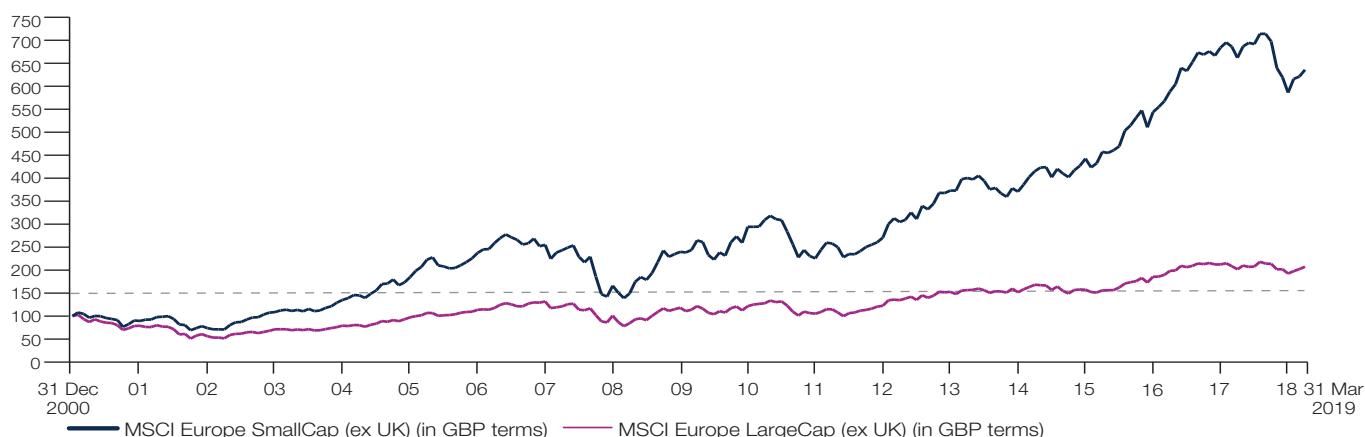
18 June 2019

Forward-looking statements

This document may contain forward-looking statements with respect to the financial condition, results of operations and business of the Company. Such statements involve risk and uncertainty because they relate to future events and circumstances that could cause actual results to differ materially from those expressed or implied by forward-looking statements. The forward-looking statements are based on the Directors' current view and on information known to them at the date of this document. Nothing should be construed as a profit forecast.

Manager's Report

Continental European Small v. LargeCap (MSCI Europe ex UK SmallCap v. LargeCap indices, Net TR) (rebased to 100 from 31 December 2000)



The Attractions of Quoted European Smaller Companies ('SmallCap')

The key attraction of investing in smaller companies is their long term record of delivering higher returns to investors than large companies. In the UK, over the last 64 years, this has amounted to an average of 3.3% per annum ("the SmallCap Effect"). £1 invested in UK large companies in 1954 would now be worth £961 whereas the same £1 invested in smaller companies would now be worth £6,420 – six times more.

We have less comprehensive data on Europe – it only goes back to 2000. But this suggests that the SmallCap Effect is even more pronounced on the Continent: as the chart above illustrates, European "small" companies have outperformed by over 6.6% per annum.

The market for European smaller companies is inefficient. While some large companies are analysed by more than 50 brokers, many smaller companies in Europe have little or no such coverage. We believe that this makes it easier for those with a high

level of internal resources to identify attractive, undervalued and unrecognised investment opportunities. This in turn makes it possible to deliver long-term performance over and above that of the benchmark.

Montanaro

Montanaro was established in 1991. We have one of the largest and most experienced specialist teams in the UK dedicated exclusively to researching and investing in quoted smaller companies. We have a particular focus on those with a market value below €5 billion.

At 31 March 2019, Montanaro's assets under management were over €2 billion.

Investment Process

We specialise in researching and investing in quoted smaller companies.

We have a disciplined, two-stage investment process. Firstly, we try to identify "good businesses" within our investable universe. In the second stage, we determine the intrinsic value of each company to ensure they will

make a "good investment" (the two are not always the same). When we consider that we have identified a good company, it must pass our stringent Quality Checklist and be approved by our Investment Committee before it can be added to the "Approved List". Only the most attractive companies make it on to the List and it is from these that we construct your Portfolio.

We have an in-house team of ten Analysts who are sector specialists. Utilising their industry knowledge and a range of proprietary screens, they are continually searching for new ideas. With around 4,000 companies to choose from, we are spoiled for choice.

We look for high quality companies in markets that are growing. They must be profitable; have good and experienced management; deliver sustainably high returns on capital employed; enjoy high and ideally growing profit margins reflecting pricing power and a strong market position; and provide goods and services that are in demand and likely to remain so.

We prefer companies that can deliver self-funded organic growth and remain focused on their core areas of expertise, rather than businesses that spend a lot of time on acquisitions.

Conversely, we avoid those with stretched balance sheets; poor free cash flow generation; incomprehensible or heavily adjusted accounts; unproven or unreliable management; or that face structurally challenged business models with stiff competition.

We believe that a deep understanding of a company's business model and the way it is managed are essential. Therefore, we visit our investee companies on a regular basis. These visits are important: we meet employees who have not met investors before; gain a better insight into the products and services provided; and observe and come to appreciate the culture of the company that is hard to glean from reading an annual report. Few of our peers have the in-house resources to conduct such thorough due diligence. Although hard work, these site visits are a way for us to add value.

Management's past track record is examined in detail as we seek to understand their goals and aspirations. In smaller companies, the decisions of the entrepreneurial management can make or break a business (which is why meeting them is so important). We look closely at the Board structure; the level of insider ownership; and examine remuneration and corporate governance policies. This helps us to predict where a company will be in 5 – 10 years. We are long-term investors.

Once a company has been added to the Portfolio, our Analysts conduct ongoing analysis. We will sell a holding if we believe that the

company's underlying quality is deteriorating or if there has been a fundamental change to the investment case or management. We will get things wrong.

In summary, we invest in well managed, high quality, growth companies bought at sensible valuations. We keep turnover and transaction costs low and follow our companies closely over many years. We would rather pay more for a higher quality, more predictable company that can be valued with greater certainty. Finally, we align ourselves with our investors by investing meaningful amounts of our own money alongside yours.

Environmental, Social & Governance

As responsible Shareholders, we believe that it is our duty to engage with investee companies in an effort to improve corporate behaviour.

Montanaro believes there is a clear correlation between how well a business fares on Environmental, Social and Corporate Governance grounds and the value it creates for its shareholders. Therefore, ESG considerations form an integral part of our assessment of a company's "Quality" and are fully integrated into our investment process. All the ESG research is done in-house by our Analysts.

In addition, we engage with companies in an effort to improve corporate behaviour. As responsible shareholders, we believe that it is our duty to engage with our investee companies. In our experience, active engagement can help to foster positive long-term change in the way businesses are run.

We do not invest in companies that generate a significant proportion of

sales from products with negative societal impact such as tobacco, gambling, armaments, alcohol, high-interest-rate lending and fossil fuels. With the "sustainability" trend a growing feature of the investment landscape, we believe that we are ahead of the curve. In SmallCap, it is particularly important to engage with companies to influence the impact they have on the world. Our high level of in-house resources makes this possible.

Portfolio Construction

As discussed above, the portfolio is constructed by selecting stocks from our Approved List. We believe the best form of risk management is investing in fundamentally good and growing businesses. We also have a number of internal risk controls aimed at limiting our exposure to any individual company and ensuring liquidity is adequate for us to enter and exit a position if required.

We will generally hold between 45 and 55 companies in the portfolio. This means that our performance relative to the benchmark index can fluctuate. However, over the long term, our fundamental, research-driven investment approach has delivered attractive absolute and relative returns. We see no reason why this should change.

Country and sector distribution within the portfolio is driven by stock selection. Overweight and underweight positions are based on where the greatest value is perceived to be. We do not try to position the portfolio based on economic or political forecasts. Geographical and sector weightings are monitored and risk limits applied to ensure that your portfolio is not overly concentrated towards one specific macroeconomic outcome.

Manager's Report continued

Our bottom-up, quality focused approach and aversion to macroeconomic predictions also tends to mean we have different weightings to certain sub-sectors compared to the index. For example, we do not invest in any commercial banks or mining companies but we are significantly overweight in healthcare and information technology.

More broadly, our investment approach does lead us to be continually overweight in higher quality and growth companies. There are times when lower quality, "value" companies outperform and we will usually perform less well than the overall smaller companies market during such periods.

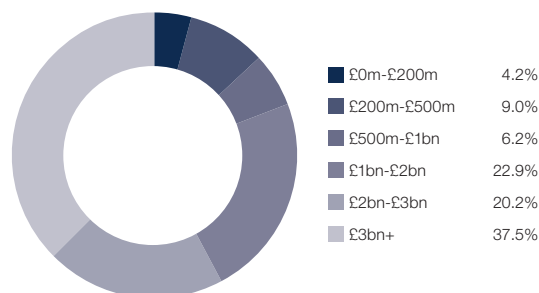
Performance Attribution

The year to 31 March 2019 again saw some strong performances from our largest contributors. **MTU Aero Engines**, which develops, manufactures, maintains and repairs aircraft engines, was the biggest single contributor to performance thanks to the company posting record results and occupying a significant weighting in the portfolio throughout the year.

Sartorius Stedim, the developer of equipment used to manufacture biologic drugs, again delivered excellent financial results which were duly reflected in the share price.

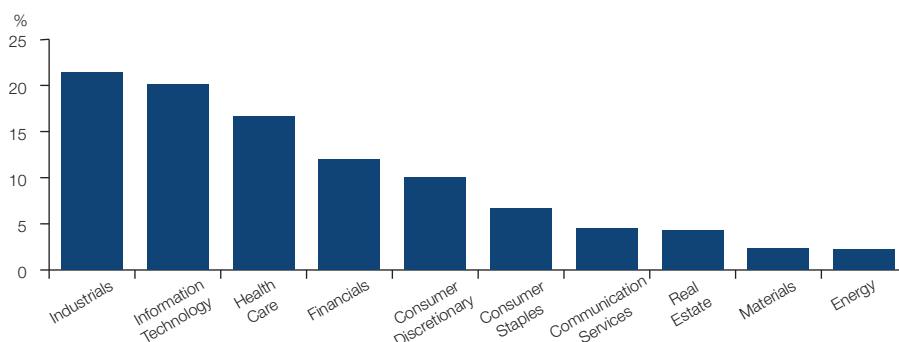
While both of these companies have been in your portfolio for years now, some of the newer names also did particularly well. **MIPS** sells a patented insert for recreational helmets which protects against rotational motion. The company was added to your portfolio during the year and subsequently rose by more than 90% as the business delivered extremely strong growth in revenues and profits. Likewise last year

Market Capitalisation of Holdings by Value (31 March 2019)



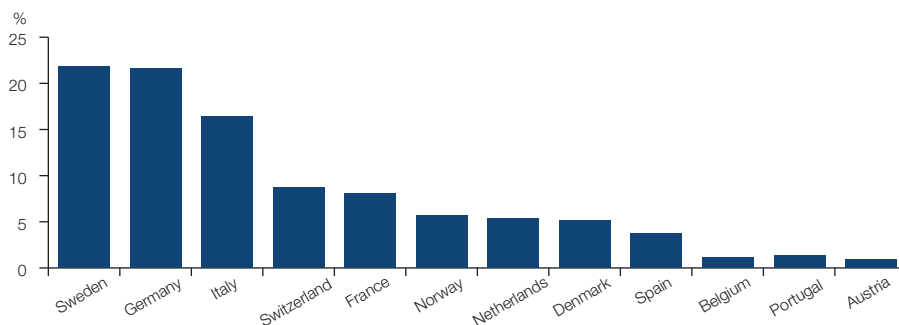
Source: Montanaro Asset Management Limited

Sector Distribution (31 March 2019)



Source: Montanaro Asset Management Limited

Geographical Analysis (31 March 2019)



Source: Montanaro Asset Management Limited

we mentioned the addition of **Fortnox**, which provides cloud-based accounting systems to companies in Sweden. This company also delivered exceptional growth and profitability and was rewarded with a share price that rose by more than 80% in the period.

Our largest detractor was **Krones**, a developer of bottling solutions for drinks manufacturers. While the company grew its orders, revenues and cash flows during 2018, profitability declined due to higher raw material costs combined with reorganisation and acquisition expenses. The company has raised prices in response to these pressures and we continue to monitor their progress closely.

Melexis, which develops sensors primarily for automotive applications, declined as global trade tensions led to customer inventory corrections. We expect these will prove temporary and believe that the structural growth case is intact, hence we added to our position as the share price weakened in the final quarter of 2018.

Portfolio Changes

We try to keep portfolio turnover as low as possible. Nonetheless, we typically make a few changes each year as we find new ideas that we believe will provide stronger long term returns than existing holdings. Companies that become too large, get acquired or whose investment case deteriorates are also replaced with new stocks from our Approved List.

In the year to 31 March 2019, we exited positions in companies including **AF Group**, the consulting and engineering company, after the company announced it would pay a substantial premium to purchase one of its peers. We are wary of companies that embark on such “strategic” M&A and believe it often ends badly. It is also a departure from the smaller bolt-on approach the company took historically – hence we sold the shares. **Probi**, which sells probiotics, was sold after significant changes in management and because we felt the valuation was too high given our expectations for the medium term future of the company. **Comet Holding**, the developer of components based on x-ray, radio frequency and electron beam technology, was sold as we felt the x-ray business was under-invested and the company began to change the strategic direction of the e-beam business.

New additions to the portfolio included **MIPS** (see above); **NCAB**, a full service supplier of printed circuit boards; and **Esker**, which develops document processing automation solutions.

At 31 March 2019, the portfolio consisted of 55 companies of which the top ten holdings represented 29% of the total by value.

Gearing

The Board determines levels of gearing following recommendation from the Manager. The Company ended the fiscal year with gearing of 0.4% (31 March 2018: 0.6%). The low level of gearing held throughout the year was due to our cautious approach towards valuations and what we felt was excessively positive general sentiment. The market correction between September and December 2018 has improved this situation and we are finding attractive investment ideas for which we now have plenty of cash ready to invest.

MONTANARO ASSET MANAGEMENT LIMITED

18 June 2019

Twenty Largest Holdings

as at 31 March 2019

1. MTU Aero Engines

manufactures and maintains aircraft engines and components.

2. IMCD

is one of the world's largest specialty chemical distributors.

3. CTS Eventim

is the market leading ticketing company in Europe, providing an online platform from which to sell tickets to a range of events such as operas and pop concerts.

4. Nemetschek

is a leading global software provider for the architecture, engineering and construction industry.

5. SimCorp

provides integrated investment management software solutions to the world's leading asset managers.

6. Sartorius Stedim

is a world leading supplier of equipment and technologies used to produce biopharmaceuticals.

7. Industria Macchine Automatiche

develops and manufactures packaging machines for the food and pharmaceutical markets.

8. Fortnox

is Sweden's leading provider of internet-based applications for accounting, invoicing and payroll administration.

9. VZ Holding

is a Swiss independent financial consultant and wealth manager.

10. Merlin Properties

is a real estate company with a focus on commercial property in Spain.

11. Christian Hansen

is a global supplier of bioscience based ingredients to the food, health and animal feed industries.

12. Belimo Holding

develops and manufactures electrical motorised control devices (actuators) for air and water. These are predominantly used in large buildings with sophisticated Heating, Ventilation and Air Conditioning ('HVAC') systems.

13. Elekta

develops equipment and software that is used in the delivery of radiation therapy.

14. Rational

is the global market leader in the field of advanced cooking systems for commercial kitchens.

15. MIPS

develops patented inserts for helmets, which protect against rotational motion.

16. Recordati

is a specialty pharmaceutical company with a particularly strong presence in the main European markets. The company also has a portfolio of drugs for treating rare diseases.

17. Vitrolife

is a leading global supplier of media, consumables and equipment for use in IVF treatment.

18. Brembo

manufactures high performance braking systems for cars, commercial vehicles and motorbikes.

19. AAK

is an ingredients business with a focus on specialty vegetable oils and fats.

20. Cerved

is Italy's dominant corporate credit bureau, used for assessing commercial counterparty risk. It is also one of the largest credit management platforms in Italy, helping banks to recover their non-performing loans.

Holding	Country	31 March 2019 Value £'000	31 March 2018 Value £'000	31 March 2019 % of investment portfolio	31 March 2019 % of net assets	31 March 2019 Market cap £m
MTU Aero Engines	Germany	6,078	5,409	3.6%	3.6%	9,013
IMCD	Netherlands	5,839	4,377	3.4%	3.5%	3,078
CTS Eventim	Germany	5,632	5,156	3.3%	3.3%	3,490
Nemetschek	Germany	5,174	–	3.0%	3.1%	4,901
SimCorp	Denmark	4,814	4,938	2.8%	2.8%	2,984
Sartorius Stedim	France	4,372	6,413	2.6%	2.6%	8,870
Industria Macchine Automatiche	Italy	4,295	3,809	2.5%	2.5%	2,244
Fortnox	Sweden	4,268	–	2.5%	2.5%	465
VZ Holding	Switzerland	4,016	3,856	2.4%	2.4%	1,647
Merlin Properties	Spain	4,015	4,359	2.4%	2.4%	4,716
Christian Hansen	Denmark	3,888	5,509	2.3%	2.3%	10,382
Belimo Holding	Switzerland	3,835	3,570	2.3%	2.3%	2,361
Elekta	Sweden	3,817	3,027	2.2%	2.3%	3,653
Rational	Germany	3,783	3,570	2.2%	2.2%	5,367
MIPS	Sweden	3,677	–	2.2%	2.2%	286
Recordati	Italy	3,584	–	2.1%	2.1%	6,244
Vitrolife	Sweden	3,494	–	2.1%	2.1%	1,879
Brembo	Italy	3,480	3,293	2.0%	2.1%	2,880
AAK	Sweden	3,434	3,130	2.0%	2.0%	2,900
Cerved	Italy	3,431	5,279	2.0%	2.0%	1,496
Twenty Largest Holdings		84,926		49.9	50.3	

A full portfolio listing is available on request from the Manager.

Analysis of Investment Portfolio by Sector

as at 31 March 2019

Sector	% of portfolio
Energy Equipment & Services	2.2
Energy	2.2
Chemicals	2.3
Materials	2.3
Aerospace & Defense	3.6
Building Products	2.3
Electrical Equipment	0.6
Machinery	7.7
Trading Companies & Distributors	3.4
Commercial Services & Supplies	1.9
Professional Services	1.9
Industrials	21.4
Auto Components	2.0
Household Durables	1.7
Leisure Equipment & Products	3.9
Textiles Apparel & Luxury Goods	2.3
Consumer Discretionary	9.9
Food & Staples Retailing	1.6
Food Products	5.0
Consumer Staples	6.6
Health Care Equipment & Supplies	3.2
Health Care Providers & Services	1.9
Health Care Technology	2.3
Biotechnology	2.1
Pharmaceuticals	2.1
Life Sciences Tools & Services	5.0
Health Care	16.6
Diversified Financial Services	5.4
Consumer Finance	1.4
Capital Markets	5.2
Financials	12.0
IT Services	3.2
Software	11.6
Electronic Equipment, Instruments & Components	4.0
Semiconductors & Semiconductor Equipment	1.4
Information Technology	20.2
Media	1.1
Entertainment	3.3
Communication Services	4.4
Equity REITs	2.4
Real Estate Management & Development	2.0
Property	4.4
Total	100.0

Business Model and Strategy

Our objective is to achieve capital growth for our shareholders by investing principally in Continental European quoted smaller companies. We seek to invest in well managed, high quality, growth companies. We keep portfolio turnover low and follow our companies closely over many years.

Introduction

The Company carries on business as an investment trust. Its Ordinary Shares are traded on the Main Market of the London Stock Exchange. The Company has no employees but contracts investment management and administration to appropriate external service providers, who are subject to oversight by the Board of Directors.

The principal service providers during the year were:

- Montanaro Asset Management Limited ('Montanaro' or the 'Manager'), which was appointed as Investment Manager on 5 September 2006 and the Company's AIFM on 22 July 2014.
- BIB provided company secretarial and general administrative services.

In addition, the Company has appointed Equiniti Limited to act as Registrar and Bank of New York Mellon (International) Limited as Depositary. Link Company Matters Limited and Link Alternative Fund Administrators Limited were appointed as Company Secretary and Administrator, respectively with effect from 1 April 2019 in place of BIB.

Board of Directors

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, gearing, corporate strategy, corporate governance and risk management. Biographical details of the Directors, all of whom are independent and non-executive, can be found on page 19. The Board consists of one male Director and two female Directors.

The Directors have considered their duties under section 172 of the Companies Act 2006 in promoting the success of the Company for the benefit of stakeholders. An important responsibility is the annual evaluation and appointment of the Manager, which also acts as the Alternative Investment Fund Manager ('AIFM'). The outcome of the evaluation in the current year is set out on page 21.

The Manager

Established in 1991, Montanaro is a highly experienced specialist investor in quoted smaller companies. It has one of the largest teams in the UK researching and investing exclusively in quoted smaller companies and currently manages approximately €2 billion, mainly on behalf of leading financial institutions. Montanaro's investment

philosophy and approach is set out in the Manager's Report on pages 4 to 7.

Investment Strategy

The Company's investment strategy is set out in its objective and investment policy as set out below.

Objective

The Company's objective is to achieve capital growth by investing principally in Continental European quoted smaller companies.

The Company's benchmark index is the MSCI Europe SmallCap (ex UK) Index (in Sterling terms).

Investment Policy

The Company invests principally in quoted smaller companies within the European Union, Norway and Switzerland (but is not restricted from investing in smaller companies quoted on other European stock exchanges). In addition, the Company may invest in:

- Companies listed on non-European stock exchanges that derive significant revenues or profits from Europe;
- European securities, such as global depositary receipts, listed on other international stock exchanges; and
- Debt issued by European governments or denominated in European currencies.

The Company's investment policy is flexible, enabling it to invest in all types of securities of companies, including (but not limited to) equities, preference shares, debt, convertible securities, warrants and other equity-related securities. The Company may also invest, where appropriate, in open-ended collective investment schemes and closed-ended funds that invest in Europe. It is not intended that the Company will acquire securities that are unquoted or unlisted at the time of investment (with the exception of securities which are about to be listed or traded on a stock exchange). However, the Company may continue to hold securities that cease to be quoted or listed if the Manager considers this to be appropriate.

Investment risk is diffused through holding a range of securities in different countries and industry sectors. Investments are not limited as to country or sector basis weightings, but no investment in the portfolio may exceed 10% of the Company's total assets at the time of investment. The Company may invest in derivatives,

Business Model and Strategy continued

financial instruments, money market instruments and currencies solely for the purpose of efficient portfolio management (i.e. solely for the purpose of reducing, transferring or eliminating investment risk in the Company's investments, including any technique or instrument used to provide protection against currency and credit risks).

The Company borrows funds for investment to enhance returns over the long-term and may borrow in Sterling, Euros or other currencies. The Board has set a maximum limit on borrowing, net of cash, of 30% of shareholders' funds at the time of borrowing. The Company's portfolio will normally be fully invested. However, during periods in which changes in economic conditions or other factors so warrant, the Company may reduce its exposure to securities and increase its position in cash and money market instruments.

The Company will not invest more than 10%, in aggregate, of the value of its total assets at the time of investment in other investment trusts or investment companies admitted to the Official List of the UK Listing Authority.

Investment of Assets

At each Board Meeting, the Board receives a detailed presentation from the Manager together with a comprehensive analysis of the performance of the Company and compliance with investment restrictions during the reporting period. An analysis of how the portfolio was invested as at 31 March 2019 is contained on page 10 and the 20 largest holdings are shown on pages 8 and 9.

Principal Risks

The Company's Principal Risks are set out in detail on pages 14 to 16.

Review of Performance and Outlook

The Company's performance in meeting its objectives is measured against key performance indicators ("KPIs") as set out on page 13. Reviews of the Company's returns during the financial year, the position of the Company at the year end, and the outlook for the coming year are contained in the Chairman's Statement on pages 2 and 3 and the Manager's Report on pages 4 to 7, both of which form part of this Strategic Report.

Dividend Policy

The Company's primary aim is to deliver capital growth to its shareholders, rather than dividend income. In determining dividend payments, the Board takes account of income forecasts, brought forward revenue reserves, the Company's dividend payment record and the Corporation Tax rules governing investment trust status. These rules determine the minimum level of dividend which must be paid in order to comply with Section 1158 of the Corporation Tax Act 2010 in respect of the retention of distributable income.

Dividends can also be paid from the Capital Reserve from any surplus arising from the realisation of any investment.

Taxation Policy

The Company complies at all times with Section 1158 of the Corporation Tax Act 2010 ("**Section 1158**") such that it does not suffer UK Corporation Tax on capital gains; and ensures that it submits correct taxation returns annually to HMRC and settles promptly any taxation due.

The Board is fully committed to complying with applicable legislation and statutory guidelines, including the UK's Criminal Finances Act 2017, designed to prevent tax evasion in the jurisdictions in which the Company operates.

Board Diversity

Diversity is an important consideration in ensuring that the Board and its committees have the right balance of skills, experience, independence and knowledge necessary to discharge their responsibilities. The Board is composed solely of non-executive Directors and has two thirds female representation. The Board's approach to the appointment of non-executive Directors is based on its belief in the benefits of having a diverse range of experience, skills, length of service and backgrounds, including gender. The Board will always appoint the best person for the job and will not discriminate on the grounds of gender, race, ethnicity, religion, sexual orientation, age or physical ability. The right blend of perspective is critical to ensuring an effective Board and successful company.

Key Performance Indicators

The Board recognises that it is long term share price returns that are most important to the Company's shareholders. They are largely driven by competitive portfolio returns and by keeping down the level of both the discount and ongoing charges.

The Board uses a number of key performance indicators to assess the Company's success in pursuing its objectives. They are as follows:

- NAV and share price returns, both absolute and against the benchmark;
- Discount of share price to NAV per share;
- Ongoing charges;
- Gearing; and
- NAV and Share Price Total Returns both absolute and against benchmark.

The NAV and share price returns against the benchmark index for the one, three, five and ten year period ended 31 March 2019 and for the period since Montanaro Asset Management Limited ("MAM") were appointed as Investment Manager are shown below. The historic discount and ongoing charges figures are included in the Historic Record below.

The Company's performance for the year against the key performance indicators, together with the outlook for the coming year, is reported within the Chairman's Statement on pages 2 and 3 and the Manager's Report on pages 4 to 7.

NAV and Share Price Return to 31 March 2019⁽¹⁾

	1 Year %	3 Year %	5 Year %	10 Year %	MAM* %
Montanaro European Smaller Companies Trust NAV	12.2	58.9	70.4	292.8	192.7
Montanaro European Smaller Companies Trust Share price	11.3	64.8	64.8	303.2	176.4
Benchmark**	(6.3)	29.3	41.4	229.5	118.7

* From 5 September 2006, when MAM were appointed as Investment Manager.

** From 5 September 2006, the benchmark was the MSCI Europe Small Cap Index. The benchmark was changed on 1 June 2009 to the MSCI Europe Small Cap (ex UK) Index (in Sterling terms).

⁽¹⁾ NAV and Share price return figures have been calculated using published historical annual reports.

Historic Record

	Net assets £'000s	NAV per share	Ordinary Share price	Discount ⁽¹⁾	Dividends per share	Ongoing Charges***
5 September 2006*	60,022	344.0p	322.0p	6.4%	n/a	1.6%
31 March 2007	74,447	426.7p	404.0p	5.3%	4.00p	1.8%
31 March 2008	69,061	401.6p	340.0p	15.3%	4.00p	1.8%
31 March 2009	42,653	257.4p	220.8p	14.2%	7.33p**	1.6%
31 March 2010	71,059	428.8p	373.0p	13.0%	4.50p	1.7%
31 March 2011	88,837	536.0p	467.0p	12.9%	4.50p	1.6%
31 March 2012	81,278	471.6p	405.0p	14.1%	5.50p	1.5%
31 March 2013	93,009	559.2p	519.3p	7.1%	6.75p	1.5%
31 March 2014	98,683	593.3p	540.0p	9.0%	7.00p	1.5%
31 March 2015	95,751	572.2p	515.0p	10.0%	7.50p	1.5%
31 March 2016	106,418	636.0p	540.0p	15.1%	7.50p	1.4%
31 March 2017	136,050	813.1p	695.0p	14.5%	8.25p	1.2%
31 March 2018	150,776	901.1p	800.0p	11.2%	8.50p	1.2%
31 March 2019	169,141	1,010.8p	890.0p	12.0%	9.00p	1.2%

* Date of commencement of current management arrangements.

** Includes special dividends of 2.83p per share.

*** Ongoing Charges. Refer to Alternative Performance Measures on page 62.

⁽¹⁾ Discount. Refer to Alternative Performance Measures on page 62.

Business Model and Strategy continued

Principal Risks and Uncertainties and Risk Mitigation

In accordance with the UK Corporate Governance Code, the Board has an established process for identifying, evaluating and managing the significant risks faced by the Company. The Board carefully considers the Company's principal and emerging risks and seeks to mitigate these risks through continued and regular review, policy setting, compliance with and enforcement of contractual obligations and active communication with the Manager, the Administrator and shareholders.

Most of the principal and emerging risks that could threaten the Company's objective, strategy, future returns and solvency are market related and comparable to those of other investment trusts investing primarily in quoted securities.

The Report of the Audit Committee on pages 28 to 30 summarises the Company's internal control and risk

management arrangements. By means of the procedures set out in that summary, and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, issued by the Financial Reporting Council, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. It has also regularly reviewed the effectiveness of the Company's risk management and internal control systems for the period.

The principal risks and uncertainties faced by the Company, and the Board's mitigation approach are described below.

Notes 15 to 20 to the accounts provide detailed explanations of the risks associated with the Company's financial instruments and their management.

PRINCIPAL RISKS

Investment and strategic risk

Inappropriate strategy, including country and sector allocation and stock selection could lead to poor returns for shareholders.

No change in overall risk in year

MITIGATION

At each Board Meeting, the Manager discusses portfolio performance and strategy with the Directors and performance against the benchmark and the peer group is reviewed. The Manager also provides the Board with monthly reports. The portfolio is well diversified with typically 45-55 holdings, thereby reducing stock-specific risk. The Board formally reviews the performance of the Manager and its terms of appointment annually.

Gearing

One of the benefits of an investment trust is its ability to use borrowings, which can enhance returns to shareholders in a rising stock market. However, gearing exacerbates movements in the NAV both positively and negatively and will exaggerate declines in NAV when share prices of investee companies are falling.

No change in overall risk in year

The Board is responsible for setting the gearing range within which the Manager may operate and has set a maximum limit on borrowing, net of cash, of 30% of shareholders' funds at the time of borrowing. The Company currently has borrowing facilities of €25 million that mature in September 2023. As at 31 March 2019, €10 million was drawn down from these facilities.

The Board receives recommendations on gearing levels from the Manager, and monitors and discusses with the Manager the appropriate level of gearing at each Board Meeting.

PRINCIPAL RISKS

Other financial risks

The Company invests principally in Continental European quoted smaller companies and its principal risks are therefore market related with short term risk arising from the volatility in the prices of the Company's investments and foreign exchange. Events such as terrorism, disease, protectionism, inflation or deflation, changes in regulation and taxation, excessive stock market speculation, economic recessions, political instability and movements in interest rates and exchange rates could affect share prices in particular markets.

As with all small company investment trusts, there is liquidity risk at times when the liquidity of the underlying portfolio is poor, such as when smaller companies are out of favour or during periods of adverse financial conditions. The portfolio is focused on investments in smaller European companies where the opportunities may be more attractive than in larger companies but where overall portfolio liquidity may be more challenging. This may result in difficulties in buying or selling individual holdings in difficult markets. In addition, illiquid stock markets may impact the discount of the Company's share price to the NAV per share.

No change in overall risk in year

Discount volatility

As with all small company investment trusts, discounts can fluctuate significantly both in absolute terms and relative to their peer group.

No change in overall risk in year

MITIGATION

Portfolio diversification, both geographical and sectoral, can mitigate the consequences of such risky events and the Board reviews the portfolio with the Manager on a regular basis. However, it is not the Company's policy to hedge currency risk. The Board has also set investment restrictions and guidelines which are adhered to and reported on by the Manager. If required, it is also possible to raise the level of cash held, thereby reducing the risk of declining share prices and the effect of gearing on lower portfolio valuations. However, the portfolio's liquidity is not managed on the basis of timing short-term market fluctuations.

One of the benefits of an investment trust is that the Manager is rarely forced to buy or sell individual holdings at inopportune times. The Manager constantly reviews the underlying liquidity of the portfolio, which is well diversified, and deals with a wide range of brokers to enhance its ability to execute and minimise liquidity risk.

Further details on the financial risks arising from the Company's financial instruments, together with the policies for managing these risks are included in notes 15 to 20 to the accounts.

The Board and Manager actively monitor the discount of share price to NAV per share and seek to influence this through liaising closely with the Company's Broker, share buybacks and effective marketing. The Board has stated its commitment to an active discount management policy, such that it will consider a buyback of shares where the discount of the share price to the NAV per share is greater than 10% for a sustained period of time and is significantly wider than the average for similar trusts. Any such transaction must be value enhancing for shareholders and the Board will take into consideration the effect of the buyback on the liquidity of the Company's shares. The Board encourages the Manager to market the Company to new investors to increase demand for the Company's shares, which may help to reduce the discount.

Business Model and Strategy continued

PRINCIPAL RISKS

MITIGATION

Regulatory

The Company carries on business as an investment trust and has been approved as such by HM Revenue & Customs subject to it continuing to meet eligibility conditions and ongoing requirements. As a result, it is not liable to corporation tax on capital gains. Breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on chargeable gains.

Breach of regulatory rules could also lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

No change in overall risk in year

The Administrator monitors the Company's compliance with Section 1158 of the Corporation Tax Act 2010 including revenue forecasts and the amount of proposed dividends to ensure the rules are not breached. The results are reported to the Board at each meeting.

The Administrator monitors compliance with the Listing Rules of the UK Listing Authority and compliance with the principal rules is reviewed by the Directors at each Board Meeting.

The Board and AIFM also monitor changes in legislation which may have an impact on the Company.

Operational

In common with most other investment trust companies, the Company has no employees. The Company is therefore reliant on the services provided by third parties such as the Manager, the Administrator and the Custodian (as a delegate of the Depositary). Disruption or failure of the Manager's or Administrator's systems, or those of other third-party service providers could lead to an inability to provide accurate reporting and monitoring of the Company's financial position or a breach of regulatory and legal regulations.

Minor increase in the overall risk due to the appointment of a new administrator, with effect from 1 April 2019

The Board and the Audit Committee receive regular reports on the operation of internal controls to mitigate against the risk of failure, including those at the Manager, the Administrator and the Custodian as explained in more detail within Risk Management and Internal Control on pages 28 to 29. These have been tested and monitored throughout the year which is evidenced from their control reports regarding their internal controls which are reported on by their reporting accountants. Quarterly reports are also received from the Depositary which is responsible for the safekeeping of all custodial assets of the Company. Prior to the appointment of the new administrator, a period of transition and hand over was undertaken between BIB and Link to ensure the seamless transfer of accounting data and administration information. Control reports have also been received from Link and considered by the Board and Audit Committee.

Manager

Should the Manager not be in a position to continue to manage the Company, performance may be impacted.

No change in overall risk in year

Montanaro has one of the largest specialist teams in the UK focusing on quoted European smaller companies. Montanaro operates a team approach in the management of the investment portfolio which mitigates against the impact of the departure of any one member of the investment team. The Manager keeps the Board informed of developments within its business.

Viability Assessment and Statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over the coming three years in order to assess the viability of the Company, the Board is required to assess its future prospects and has considered that a number of characteristics of its business model and strategy were relevant to this assessment:

- The Company's objective is to achieve capital growth.
- The Company's investment policy, which is subject to regular Board monitoring, means that the Company is invested principally in the securities of Continental European quoted smaller companies.
- The Company is a closed-end investment trust, whose shares are not subject to redemptions by shareholders.
- The Company's business model and strategy is not time limited.

Also relevant were a number of aspects of the Company's operational arrangements:

- The Company retains title to all assets held by the Custodian under the terms of a formal agreement with the Depositary and Custodian.
- The borrowing facilities, which remain available until September 2023, are also subject to formal agreements, including financial covenants with which the Company complied in full during the year.
- Revenue and expenditure forecasts are reviewed by the Directors at each Board Meeting.

In considering the viability of the Company, the Directors carried out a robust assessment of the principal risks and uncertainties which could threaten the Company's objective and strategy, future performance and solvency, including the impact of a significant fall in equity markets or adverse currency movements on the Company's investment portfolio. These risks, their mitigations and the processes for monitoring them are set out on pages 14 to 16 in Principal Risks and Uncertainties and Risk Mitigation, pages 28 and 29 in the Report of the Audit Committee and in notes 15 to 20 of the accounts.

The Directors have also considered:

- The level of ongoing charges incurred by the Company which are modest and predictable and that these were covered approximately 1.6 times by investment income and total 1.2% of average net assets;
- Future revenue and expenditure projections;
- The Company's borrowing in the form of a secured fixed rate 5 year term loan facility of €10 million, which is due to mature in September 2023, noting that the Company has a large margin of safety over the covenants on this debt. This loan was covered

21 times by the Company's total assets at 31 March 2019. The Company also has a €15 million secured revolving loan facility which also matures in September 2023. As at 31 March 2019, no amounts were drawn down under this facility;

- Its ability to meet liquidity requirements given the Company's investment portfolio consists principally of Continental European quoted smaller companies which can be realised if required. It is estimated that approximately 93% of the portfolio could be liquidated under normal conditions within seven trading days;
- The ability to undertake share buybacks if required;
- That the Company's objective and investment policy continue to be relevant to investors; and
- The Company has no employees, having only non-executive Directors and consequently does not have redundancy or other employment related liabilities (including pensions) or responsibilities.

These matters were assessed over a three year period to June 2022, and the Board will continue to assess viability over three year rolling periods, taking account of severe but plausible scenarios. In the absence of any adverse change to the regulatory environment and to the treatment of UK investment trusts a rolling three year period represents the horizon over which the Directors do not expect there to be any significant change to the Company's principal risks or their mitigation and they believe they can form a reasonable expectation of the Company's prospects.

Based on their assessment, and in the context of the Company's business model, strategy and operational arrangements set out above, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period to June 2022. For this reason, the Board also considers it appropriate to continue adopting the going concern basis in preparing the Report and Accounts.

The Chairman's Statement on pages 2 and 3, the Manager's Report on pages 4 to 7, the Twenty Largest Holdings on pages 8 and 9, and the Analysis of Investment Portfolio by Sector on page 10 all form part of this Strategic Report on pages 2 to 17, which has been approved by the Board of Directors.

By order of the Board

LINK COMPANY MATTERS LIMITED

Company Secretary
65 Gresham Street
London EC2V 7NQ
18 June 2019

Advisers

Investment Manager and Alternative Investment Fund Manager ('AIFM')

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Company Secretary

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Registrar

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Registrar's Shareholder Helpline

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Tel: 0906 559 6025

Stockbroker

CENKOS SECURITIES PLC

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London EC2R 7AS

Depository & Custodian

THE BANK OF NEW YORK MELLON
(INTERNATIONAL) LIMITED

One Canada Square

London E14 5AL

Bankers

ING BANK N.V., LONDON BRANCH

60 London Wall

London EC2M 5TQ

Auditor

ERNST & YOUNG LLP

Atria One

144 Morrison Street

Edinburgh EH3 8EX

Solicitor

DICKSON MINTO W.S.

16 Charlotte Square

Edinburgh EH2 4DF

Montanaro European Smaller Companies Trust plc

Registered in Scotland No. SC074677

An investment company as defined under Section 833 of the Companies Act 2006.

* Lines are open 8.30am to 5.30pm, Monday to Friday.

Board of Directors

Richard Curling – Chairman

Chairman of the Board and Chairman of the Nomination Committee

Date of Appointment: 2 November 2015

Richard was appointed to the Board as an independent non-executive director in 2015. Following the resignation of the previous Chairman in 2018, Richard was appointed as Chairman of the Board on 29 August 2018. Richard has over 30 years' experience as a fund manager and is currently an investment director at Jupiter Fund Management Plc with extensive experience of investment trusts.



Caroline Roxburgh

Chair of the Audit Committee

Date of Appointment: 8 November 2017

Caroline is a Chartered Accountant and was previously a partner at PricewaterhouseCoopers. She has over 30 years' business, finance and audit experience across a number of industries and sectors bringing extensive experience to the Board. Caroline also holds a number of other board positions.

Merryn Somerset Webb

Senior Independent Director & Chair of the Remuneration Committee

Date of Appointment: 28 March 2011

Merryn is the Editor-in-Chief of UK personal finance magazine MoneyWeek, writes for the Financial Times and is a radio and television commentator on financial matters. She is also a director of Baillie Gifford Shin Nippon plc.



Report of the Directors

The Directors submit the Annual Report and Accounts of the Company for the year ended 31 March 2019.

Statement Regarding Annual Report and Accounts

Following a detailed review of the Annual Report and Accounts by the Audit Committee, the Directors consider that taken as a whole it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Accounts would have a reasonable level of knowledge of the investment industry in general and investment trusts in particular. The outlook for the Company is set out in the Chairman's Statement on page 3. Principal risks can be found on pages 14 to 16 with further information in notes 15 to 20 to the accounts.

Results and Dividends

The results for the year are set out in the attached accounts. An interim dividend of 1.75p per Ordinary Share was paid on 4 January 2019. The Board recommends a final dividend for the year of 7.25p per Ordinary Share payable on 17 September 2019 to shareholders on the register on 16 August 2019.

Principal Activity and Status

The Company is registered as a public limited company in Scotland (**registered number SC074677**) and is an investment company within the terms of Section 833 of the Companies Act 2006. Its shares are quoted on the Main Market of the London Stock Exchange.

The Company carries on business as an investment trust and has been approved as such by HM Revenue and Customs, subject to it continuing to meet the relevant eligibility conditions and ongoing requirements. The Company intends to conduct its affairs so as to enable it to comply with the requirements.

Disclosure of Relevant Information to the Auditor

Having made the requisite enquiries, so far as the Directors are aware, there is no relevant audit information (as defined by Section 418(3) of the Companies Act 2006) of which the Company's Auditor is unaware and each Director has taken all steps that ought to have been taken to make himself or herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Re-appointment of Auditor

Ernst & Young LLP has expressed its willingness to continue in office as the Company's Auditor and resolutions proposing its re-appointment and authorising

the Directors to determine its remuneration will be proposed at the Annual General Meeting. (Resolutions 7 and 8). Further information in relation to the proposed re-appointment can be found on page 30.

Directors

Biographical details of the Directors, all of whom are independent and non-executive, can be found on page 19. All Directors noted on page 19, held office throughout the year under review. With effect from 29 August 2018, A R Irvine, R B M Graham and R A Hammond Chambers retired as Directors of the Company. Unless otherwise determined by ordinary resolution, the Company shall not have fewer than two or more than ten Directors (disregarding alternate Directors). The Company or the Board may appoint any person to be a Director and a Director is not required to hold any shares of the Company. Any Director appointed by the Board shall hold office only until the next annual general meeting and shall then be eligible for election.

In accordance with the Company's Articles (the "Articles"), each Director must retire from office at the third Annual General Meeting after the Annual General Meeting at which he or she was last elected. However, as explained in more detail under the Corporate Governance Statement on page 25 the Board has agreed that all Directors will retire annually.

Accordingly, Mr R M Curling, Mrs M R Somerset Webb and Mrs C A Roxburgh will retire at the Annual General Meeting and, being eligible, offer themselves for re-election (Resolutions 4, 5 and 6). The Board confirms that, following formal performance evaluations, the performance of each of the Directors seeking election/re-election continues to be effective and demonstrates commitment to the role, and believes that it is therefore in the interests of shareholders that they are re-elected.

In addition to any power of removal conferred by the Companies Acts (the "Companies Acts"), the Company may by special resolution remove any Director before the expiration of his or her period of office. Furthermore, the office of a Director must be vacated if any of the circumstances set out in Article 98 of the Articles arise, for example if: (i) a Director resigns by notice in writing delivered to the registered office or tendered at a meeting of the Board; or (ii) by reason of a Director's mental health, a court makes an order which wholly or partly prevents that Director from personally exercising any powers or rights which that Director would otherwise have. No Director has a contract of service with the Company and

no Director has any material interest in any contract to which the Company is a party.

Directors' Indemnities

As at the date of this report, indemnities are in force between the Company and each of its Directors under which the Company has agreed to indemnify each Director, to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out his or her role as a Director of the Company. The Directors are also indemnified against the costs of defending any criminal or civil proceedings or any claim by the Company or a regulator as they are incurred provided that where the defence is unsuccessful the Director must repay those defence costs to the Company. The indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006.

A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

Powers of the Directors

Subject to the provisions of the Companies Acts, the Articles and to any directions given by the Company in general meeting by special resolution, the business of the Company is managed by the Board, which may exercise all the powers of the Company whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to issue shares or other securities and to borrow money and to mortgage or charge all or any part of the Company's assets.

Conflicts of Interest

Each Director has a statutory duty to avoid a situation where he or she has, or could have, a direct or indirect interest which conflicts, or may conflict with the interests of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles.

The Board has approved a protocol for identifying and dealing with conflicts and has resolved to conduct a regular review of actual or possible conflicts and any authorised conflicts. No conflicts or potential conflicts were identified during the year.

Investment Management Arrangements

Montanaro provides investment management services to the Company and is the Company's AIFM. Under the terms of the investment management agreement,

Montanaro is entitled to receive a management fee of 0.9% per annum of the Company's market capitalisation (payable monthly in arrears). Montanaro is also entitled to a fee of £50,000 per annum for acting as the Company's AIFM. Montanaro's appointment may be terminated by either party giving to the other not less than six months' notice. The investment management agreement may be terminated earlier by the Company provided that a payment in lieu of notice, equivalent to the amount the Manager would otherwise have received during the notice period, is made.

Since the year end, the Remuneration Committee and the Board have reviewed the appropriateness of the Manager's appointment. In carrying out its review, the Board considered the skills, experience, resources and commitment of the Manager together with the investment performance during the year and since its appointment. It also considered the length of the notice period of the investment management agreement and the fees payable to the Manager. Following this review, it is the Directors' opinion that the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole.

Depository and Custodian

The Bank of New York Mellon (International) Limited acts as the Company's Depository and Custodian in accordance with the AIFM Directive. The Depository's responsibilities include cash monitoring, segregation and safe keeping of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements.

Capital Structure

The Company's capital structure is composed solely of Ordinary Shares. The rights and obligations of shareholders are set out in the Articles (which can be amended by special resolution). All shares rank equally for dividends and entitlement to capital, and at a general meeting of the Company every shareholder who is present in person or by proxy or by a corporate representative shall have one vote for all of the shares of which he/she is the holder on a show of hands, and one vote for each share on a poll. Unless the Board otherwise decides, no member is entitled in respect of any share held by him/her to vote (either personally or by proxy or by a corporate representative) at any general meeting of the Company if any calls or other sums presently payable by him/her in respect of that share remain unpaid or if he/she is a person with a minimum of 0.25% interest (as defined in the Articles) and he/she has been served with a restriction notice (as defined in the Articles) after failure to provide

Report of the Directors continued

the Company with information concerning interests in those shares required to be provided under the Companies Acts.

Subject to the provisions of the Companies Acts, the Company may by ordinary resolution from time to time declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board. Subject to the provisions of the Companies Acts, the Board may pay such dividends as appear to it to be justified by the financial position of the Company. The Board may deduct from any dividend or other moneys payable to a member by the Company on or in respect of any shares all sums of money (if any) payable by him/her to the Company on account of calls or otherwise in respect of shares of the Company. The Board may also withhold payment of all or any part of any dividends or other moneys payable in respect of the Company's shares from a person with a minimum of 0.25% interest (as defined in the Articles) if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts. There are no restrictions on the transfer of shares of the Company, except that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws).

Substantial Interests in Share Capital

As at 31 March 2019, the Company had received notification of the following substantial holdings of voting rights (being only those received under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules):

	Number of shares held	Percentage held
Quilter plc	1,990,178	11.9
Wells Capital Management	1,640,378	9.8
Lazard Asset Management	1,339,207	8.0
Montanaro Asset Management Ltd	900,000	5.4
Brewin Dolphin Limited	820,197	4.9
1607 Capital Partners LLC	604,430	3.6

Since 31 March 2019, to the date of this report, the Company has not received any notifications of voting rights.

The Company has not received any other notification of any changes in these voting rights and no other notifications of voting rights have been received since the year end.

Corporate Governance

Full details of the Company's corporate governance arrangements are given in the Corporate Governance Statement, which forms part of this Report of the Directors and can be found on pages 25 to 27.

Accounting and Going Concern

The Financial statements start on page 41 and the unqualified Independent Auditor's Report on the financial statements is on pages 35 to 40. Shareholders will be asked to approve the Annual Report and Accounts at the AGM (Resolution 1). In assessing the going concern basis of accounting, the Directors have had regard to the guidance issued by the Financial Reporting Council and have undertaken a rigorous review of the Company's ability to continue as a going concern.

The Directors have taken into account the Company's investment policy, which is described on pages 11 and 12 and which is subject to regular Board monitoring processes and is designed to ensure that the Company is invested mainly in liquid, listed securities. The Company retains title to all assets held by its custodian, and has financial covenants relating to its bank borrowings with which it complied during the year.

As part of the going concern review, the Directors have also considered the current cash position of the Company, the availability of the fixed rate loan, the secured revolving loan Facility, compliance with the Company's banking covenants, the Company's other liabilities and forecast revenues.

Notes 15 to 20 to the accounts set out the financial risk profile of the Company and indicate the effect on its assets and liabilities of falls and rises in the value of securities, market rates of interest and changes in exchange rates.

The Directors believe, in light of the controls and review processes noted above and bearing in mind the nature of the Company's business and assets and liabilities, that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the accounts. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The Company's longer term viability is considered in the 'Viability Assessment and Statement' on page 17.

Future Developments of the Company

The outlook for the Company is set out in the Chairman's Statement on page 3 and the Manager's Report on page 7.

Greenhouse Gas Emissions

All of the Company's activities are outsourced to third parties. As such it does not have any physical assets, property, employees or operations of its own and does not generate any greenhouse gas or other emissions.

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank debt and debtors and creditors that arise directly from its operations, such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in notes 15 to 20 to the accounts.

Annual General Meeting

The notice of Annual General Meeting to be held on 12 September 2019 is set out on pages 65 to 68.

Directors' Authority to Allot Shares (Resolution 9)

The Company's Articles empower the Directors to allot unissued shares. In accordance with section 551 of the Companies Act 2006, such allotments must be authorised by shareholders in a general meeting. Resolution 9 to be proposed at the forthcoming Annual General Meeting renews the Directors' authority, granted by shareholders at last year's Annual General Meeting, to allot new shares under section 551 of the Companies Act 2006. This authority will allow the Directors to allot shares up to an aggregate nominal amount of £836,500, representing an amount equal to approximately 10% of the Company's total issued ordinary share capital as at 18 June 2019 (being the latest practicable date before the publication of the Annual Report and Accounts) excluding shares held in treasury. This authority will expire at the conclusion of the Company's next Annual General Meeting, to be held in 2020 or, if earlier, on 30 September 2020.

Directors' Authority to Allot Shares other than on a Pre-emptive Basis (Resolution 10)

Resolution 10 to be proposed at the Annual General Meeting grants the Directors authority to allot new shares for cash and to dispose of treasury shares, up to an aggregate nominal amount of £836,500, representing an

amount equal to approximately 9.6% of the Company's issued Ordinary Share capital (including treasury shares) as at 18 June 2019, without having to offer such shares to existing shareholders pro rata to their existing holdings. The authority also allows the Directors to take such steps as they consider necessary in relation to the treatment of overseas shareholders, treasury shares and fractional entitlements on pre-emptive share issues. This authority will expire at the conclusion of the Company's next Annual General Meeting to be held in 2020 or, if earlier, on 30 September 2020 and will enable the Company to issue new shares and to dispose of treasury shares at any price for cash, including where shares are being issued from treasury at a price representing a discount to the NAV per share at the time of issue.

The Directors will only allot new shares pursuant to the authorities proposed to be conferred by Resolutions 9 and 10 if they believe it is advantageous to the Company's shareholders to do so and in no circumstances, would result in an overall dilution of the NAV per share. The Board's policy regarding the issue of shares from treasury is described on page 24. The Directors consider that the authorities proposed to be conferred by Resolutions 9 and 10 are necessary to retain flexibility, although they do not have any intention of exercising such authorities at the present time.

Directors' Authority to Buy Back Shares (Resolution 11)

The Company did not buy back any Ordinary Shares during the year.

The current authority of the Company to make market purchases of up to 14.99% of the issued Ordinary Shares expires at the end of the Annual General Meeting and Resolution 11, as set out in the notice of the Annual General Meeting, seeks renewal of such authority. The renewed authority to make market purchases will be in respect of a maximum of 14.99% of the issued Ordinary Shares of the Company as at the date of the passing of the resolution, excluding treasury shares (approximately 2.5 million Ordinary Shares). The resolution specifies the minimum and maximum prices which may be paid for any Ordinary Shares purchased under this authority. This power will only be exercised if, in the opinion of the Directors, a purchase would result in an increase in the NAV per share and be in the best interests of the shareholders as a whole.

Report of the Directors continued

The Board's intention is to apply an active discount management policy, and to consider a buyback of shares where the discount of the share price to the NAV per share is greater than 10% for a sustained period of time and is significantly wider than the average for similar trusts. Any such transaction must be value enhancing for shareholders and the Board will take into consideration the effect of the buyback on the liquidity of the Company's shares.

Treasury Shares

Shares which are bought back by the Company pursuant to the share buyback authority may be cancelled or held by the Company in treasury and subsequently re-issued. It is the Board's intention that any further shares bought back by the Company will be held in treasury. Shares held in treasury will not carry any voting rights, dividends payable in respect of them will be suspended and they will have no entitlements on a winding-up of the Company. It is the Board's policy that shares will only be re-issued from treasury either at a price representing a premium to the NAV per share at the time of re-issue, or at a discount to the NAV per share provided that such discount is lower than the weighted average discount to the NAV per share when they were bought back by the Company. It is also the Board's policy that shares may be held in treasury indefinitely.

The Board believes that the treasury shares policy will improve liquidity in the shares and help to maintain the size of the Company. Furthermore, the Board believes that the re-issuance of shares from treasury at a discount to the NAV per share within the parameters described above will, in conjunction with the Company's share buyback policy, ensure that the overall effect of the 'round trip' of

repurchasing shares and subsequently reissuing them from treasury will be an enhancement to the NAV per share.

As at 18 June 2019, being the latest practicable date before the publication of the Annual Report and Accounts, there were 17,448,260 Ordinary Shares in issue, including 715,000 Ordinary Shares held in treasury (which represented 4.3% of the total issued Ordinary Share capital (excluding treasury shares) as at 18 June 2019).

Recommendation

The Directors consider that the passing of each of the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of these resolutions.

Individual Savings Accounts ('ISAs')

The Company's shares are qualifying investments as defined by HM Revenue & Customs' regulations for ISAs. It is the current intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

By order of the Board

LINK COMPANY MATTERS LIMITED

Company Secretary
65 Gresham Street
London
EC2V 7NQ
18 June 2019

Corporate Governance Statement

Introduction

Arrangements in respect of corporate governance, appropriate to an investment trust, have been made by the Board. Except as disclosed below, the Company complied throughout the year with the relevant provisions of the UK Corporate Governance Code (July 2016) issued by the Financial Reporting Council ('UK Code'), which can be found at www.frc.org.uk.

The Board has also taken into account the recommendations of the AIC Code of Corporate Governance ('AIC Code') (July 2016) which can be found at www.theaic.co.uk

Since all the Directors are non-executive, the provisions of the UK Code in respect of the role of the chief executive are not relevant to the Company and, likewise, the provisions of the UK Code relating to Directors' remuneration are not relevant except in so far as they relate specifically to non-executive Directors. For the reasons set out in the preamble to the UK Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment trust. The Company has therefore not reported further in respect of these provisions.

Revised AIC Code

In February 2019, the AIC published the revised AIC Code to reflect the changes that had been introduced by the new 2018 edition of the UK Corporate Governance Code in so far as they are appropriate to an investment company. The new Code applies to financial periods beginning on and after 1 January 2019. In light of the updated AIC Code principles and provisions, as well as the new requirements simultaneously introduced by The Companies (Miscellaneous Reporting) Regulations 2018, the Board reviewed the Company's governance arrangements during the year and will report against the new AIC Code in its 2020 Annual Report.

The Company is committed to maintaining the highest standards of governance and will work to ensure that it continues to meet all applicable requirements.

The Chairman of the Company

For a period, during the year, Mr R M Curling had primary responsibility for the investment management of a holding in the Company held by Jupiter Asset Management ("JAM") on behalf of their clients. JAM disposed of its holding in the Company prior to Mr Curling's appointment as Chairman. The Board considers Mr Curling to be independent.

Mr Curling is also a member of the Audit Committee and Chairman of the Nomination Committee. The Board believes it is appropriate for Mr Curling to be a member of

both committees as he is considered to bring valuable experience, to be independent and there are no conflicts of interest.

The Company Secretary

The Board has direct access to the services of the Company Secretary who is responsible for ensuring Board and Committee procedures are followed and that applicable regulations are complied with. The Company Secretary is also responsible to the Board for ensuring the timely delivery of the information and reports which the directors require and that statutory obligations are met.

The Board

The Board consists solely of non-executive Directors. All Directors are considered by the Board to be independent of the Manager. Under the requirements of the Articles of Association, Directors are subject to election at the next Annual General Meeting after their appointment. New Directors receive an induction from the Manager and Company Secretary on joining the Board, and all Directors are encouraged to attend relevant training courses and seminars.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate directors' and officers' liability insurance.

Mr A R Irvine, Mr R B M Graham and Mr R A Hammond-Chambers retired from the Board on 29 August 2018. Following the retirement of the Directors, Mr R M Curling was appointed as Chairman to the Board, Mrs C A Roxburgh was appointed as Chair of the Audit Committee. Mrs M R Somerset Webb was appointed as the Chair of the Remuneration Committee and also appointed as Senior Independent Director as recommended by provision A.4.1 of the UK Code.

The Board continues to keep under review the size of the Board and the appropriate number of directors.

Appointment and re-election of Directors

Under the provisions of the Company's Articles, the Directors retire by rotation at least every three years however in accordance with corporate governance best practice as set out in UK Code and AIC Code, all Directors should put themselves forward for re-election every year. As such, each of the Directors is subject to annual re-election by the shareholders at the Annual General Meeting and have confirmed that they will be standing for re-election at the forthcoming Annual General Meeting.

Corporate Governance Statement continued

Board independence and tenure

The Board ensures that it has the appropriate balance of skills, experience, knowledge and independence in order to remain effective and regularly reviews the independence of its members and considers all of the Directors to be independent. The Board's policy regarding tenure of service is that any decisions regarding tenure should balance the need to maintain continuity, knowledge, experience and independence, against the need to periodically refresh the Board composition in order to have the appropriate mix of skills, experience, age and length of service.

The Board considers that the length of service of a Director should be determined on an individual basis.

It is believed that the Directors provide, individually and collectively, the breadth of skill and experience to manage the Company and ensuring its long-term sustainable success.

The basis on which the Company aims to generate value over the longer term is set out in the Business Model and Strategy on pages 11 to 17.

The Board currently meets at least four times a year and, in addition, informally on a frequent basis. It receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings.

The following table sets out the number of scheduled Board and Committee meetings held during the year ended 31 March 2019 and the number of meetings attended by each Director.

No. of meetings attended	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
A R Irvine*	2/2	1/1	1/1	2/2
R M Curling	5/5	2/2	1/1	2/2
R B M Graham*	2/2	1/1	1/1	2/2
R A Hammond-Chambers*	1/2	1/1	1/1	2/2
C A Roxburgh	5/5	3/3	1/1	2/2
M R Somerset Webb	4/5	3/3	1/1	2/2

* Retired on 29 August 2018

In addition to the above meetings, the Board met informally on a number of occasions during the year.

Board effectiveness and performance evaluation

During the year, the Directors undertook a formal and rigorous performance evaluation and also considered the output from the previous year's evaluation. The process was led by the Chairman and was designed to assess the strengths and independence of the board together with the

performance of its committees, the Chairman and Individual Directors.

The Board completed evaluation questionnaires which covered a range of areas including processes and effectiveness, size and composition, and corporate governance and were also intended to analyse the focus of meetings and assess whether they are appropriate, or if any additional information may be required to facilitate future Board discussions. The evaluation of the Chairman was carried out by the other Directors of the Company and the process was led by the Senior Independent Director. The results of the Board evaluation process were reviewed and discussed by both the Nomination Committee and Board, as a whole and the Board believes that the Directors provide the breadth of skills and experience to manage and promote the Company to ensure its long-term sustainable success.

Voting Policy on Portfolio Investments

The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. Environmental, social and governance factors are taken into account by the Manager as part of its investment analysis and decision making processes. The Board notes the Manager has been a signatory of the UK Stewardship Code, since its publication in 2010 and its statement can be found on its website www.montanaro.co.uk.

Committees

The Board has established three committees to assist with its operations. Throughout the year the following committees have been in operation, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of the committees delegated responsibilities are clearly defined in formal terms of reference which are available on request from the Company Secretary.

Audit Committee

The Report of the Audit Committee is included on pages 28 to 30 and forms part of this statement.

Remuneration Committee

The Remuneration Committee, chaired by Mrs M R Somerset Webb, comprises the full Board and reviews the appropriateness of the Manager's continuing appointment together with its terms and conditions thereof on a regular basis. The Remuneration Committee also determines the level of Directors' fees. The Directors' Remuneration Report on pages 31 to 33 provides information on the remuneration arrangements for the Directors of the Company.

Nomination Committee and Board Diversity

The Nomination Committee, chaired by Mr R M Curling, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. The Board is composed solely of non-executive Directors and has two thirds female representation.

The Company's Board diversity policy is shown on page 12. The Directors will ensure it adheres to set objectives in relation to the diversity of the Board when and if they seek to appoint additional directors, in the future.

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Manager holds meetings with the Company's largest shareholders and reports back to the Board on these meetings. The Chairman and other Directors offer to meet with significant shareholders every year and are available to meet other shareholders if required. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and the Manager of the Company. The Annual Report and Accounts (which includes the Notice of Annual General Meeting) is sent to shareholders at least 20 working days before the Annual General Meeting.

Statement on Modern Slavery

In October 2015, the UK Government introduced the 2015 Modern Slavery Act (The 'Act'). As an Investment Trust, the

Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that the Company is not in scope because it has insufficient turnover and is therefore not required to make any slavery or human trafficking statement under the Act.

The Company's own supply chain which consists predominately of professional advisers and service providers in the financial services industry, is considered to be low risk in relation to this matter.

Risk Management and Internal Controls

Details of the principal risks and internal controls applied by the Board are set out on pages 14 to 16 and pages 28 and 29 respectively.

Share Capital and Companies Act Disclosures

Details of the Company's share capital structure and other Companies Act 2006 Disclosures and details of substantial interests are set out on page 21.

By order of the Board

LINK COMPANY MATTERS LIMITED

Company Secretary
65 Gresham Street
London
EC2V 7NQ
18 June 2019

Report of the Audit Committee

Composition of the Committee

The Board recognises the requirement for the Audit Committee as a whole to have competence relevant to the sector in which the Company operates and at least one member with recent and relevant experience.

The Audit Committee is chaired by Mrs C A Roxburgh, a Chartered Accountant, who has recent and relevant financial experience, operates within clearly defined terms of reference and comprises all the Directors. The Directors have a combination of financial, investment and business experience, specifically with respect to the investment trust sector.

Role of the Committee

The duties of the Audit Committee include reviewing: the annual and interim financial statements; the system of internal controls; and the terms of appointment and remuneration of the Auditor, Ernst & Young LLP ('EY'), including its independence and objectivity.

The Audit Committee met on three occasions during the year which included two meetings with EY. The attendance of each of the members is set out on page 26. In the course of its duties throughout the year, the Committee had direct access to EY, BIB and Montanaro Asset Management Limited ('Montanaro' and 'AIFM'). Amongst other things, the Audit Committee considered and reviewed the following matters and reported thereon to the Board:

- The annual and half-yearly reports and accounts and results announcements;
- The accounting policies of the Company and the allocation of management expenses and interest costs between capital and revenue;
- The principal risks faced by the Company and the effectiveness of the Company's internal control and risk management environment including consideration of the assumptions underlying the Board's Viability Statement;
- The effectiveness of the audit process and related non-audit services and the independence and objectivity of EY, its re-appointment, remuneration and terms of engagement;
- The policy on the engagement of EY to supply non audit services and approval of any such services;
- The implications of proposed new accounting standards and regulatory changes;
- The need for the Company to have its own internal audit function;
- The receipt of AAF (01/06) and ISAE 3402 reports or their equivalent from the Manager, Administrator, Custodian and other service providers; and
- Whether the Annual Report and Accounts is fair, balanced and understandable.

Risk Management

The Board has established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the related guidance issued by the Financial Reporting Council.

Montanaro's Compliance and Risk department and BIB's Business Risk department provide regular control reports to the Audit Committee and the Board covering administration, risk and compliance matters. With effect from 1 April 2019, Link Alternative Fund Administrators Limited were appointed as Administrator. Control reports have been provided to the Audit Committee and Board by Link covering administration, risk and compliance matters. Link will continue to provide regular reports to the Audit Committee and Board.

A key risk summary is produced to identify the risks to which the Company is exposed, the controls in place and the actions being taken to mitigate them. The Board has a robust process for considering the resulting risk matrix and reviews the significance of the risks and reasons for any change.

The Company's principal risks and their mitigations are set out on pages 14 to 16 with additional information provided in notes 15 to 20 to the accounts.

The integration of these risks into the consideration of the Viability Assessment and Statement on page 17 was also fully considered.

Internal Control

The Board is responsible for the Company's systems of internal controls and for reviewing their effectiveness. The Audit Committee has reviewed and reported to the Board on these controls which aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable.

The key procedures which have been established to provide an effective internal control environment are as set out below:

- Investment management services are provided by Montanaro, which is regulated by the Financial Conduct Authority. At each Board Meeting the Board monitors the investment performance of the Company in comparison to its stated investment objective, the benchmark index and comparable investment trusts. The Board also reviews the Company's activities since the last Board Meeting to ensure that Montanaro adheres to the agreed investment policy and approved investment guidelines. On an annual basis, Montanaro produces an AAF 01/06 Report on internal controls, which is reviewed by a firm of independent reporting

accountants, for consideration by the Audit Committee. Montanaro is also the Company's AIFM and in this capacity provides a quarterly report to the Board.

- BIB were responsible for the provision of company secretarial, accounting and administration services to the Company. On an annual basis, BIB produced an AAF 01/06 Report on internal controls, which is reviewed by a firm of independent reporting accountants, for consideration by the Audit Committee. These services were provided by BIB up until 31 March 2019. Link Company Matters Limited and Link Alternative Fund Administrators Limited were appointed as Company Secretary and Administrator, with effect from 1 April 2019 and are responsible for the provision of Company secretarial, accounting and administration services to the Company. Link has produced a report on its internal controls to the Board and Audit Committee and will provide an internal controls report annually.
- The Bank of New York Mellon (International) Limited is responsible for the custody of the Company's investments. Lists of investments held are reconciled to the Company's records on a regular basis and a report on controls, which is reviewed by a firm of independent reporting accountants, is produced annually for consideration by the Audit Committee.
- The Bank of New York Mellon (International) Limited, as the Company's Depositary provides quarterly reports to the Board and carries out daily independent checks on cash and investment transactions.
- The Board reviews contracts with other third party service providers, including the standard of services provided, on a regular basis.
- Board procedures are set within clearly defined parameters.
- At every Board meeting the Directors review financial information prepared by the Administrator, including management accounts and forecasts of income and expenditure.

A formal annual review of these procedures is carried out by the Audit Committee. The review meeting is attended by the Company's Auditor. During the year, the Committee received updates on any material changes in the risk environment and the action taken.

These procedures have been in place throughout the year and up to the date of approval of the Annual Report and the Board is satisfied with their effectiveness. The procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function. It has decided that the systems and procedures employed by the Manager and the Administrator, including their risk management and internal audit functions, provide assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. In addition, reporting is also provided by the Depositary with respect to their monitoring and oversight of the Company. An internal audit function, specific to the Company, is therefore considered unnecessary.

External audit process and significant matters considered by the Audit Committee

As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved EY's plan for the audit of the financial statements for the year ended 31 March 2019. At the conclusion of the audit EY did not highlight any issues to the Audit Committee which would cause it to qualify its audit report nor did it highlight any fundamental internal control weaknesses. EY issued an unqualified audit report which is included on pages 35 to 40. The significant issues considered by the Audit Committee are discussed in the table on page 30.

Non-audit Services

The Committee regards the continued independence of the auditor to be a matter of the highest priority. The Company's policy with regard to the provision of non-audit services by the external auditor ensures that no engagement will be permitted if:

- the provision of the services would contravene any regulation or ethical standard;
- the auditor is not considered to be an expert provider of the non-audit services;
- the provision of such services by the auditor creates a conflict of interest for either the Board or the Manager; and
- the services are considered to be likely to inhibit the auditor's independence or objectivity as auditor.

As the Company is a Public Interest Entity listed on the London Stock Exchange, with effect from 1 April 2017, under EU legislation, prohibitions of certain services and a cap on the level of fees incurred for permissible non-audit services now applies and should not exceed 70% of the average audit fee for the previous three years.

The Committee has a policy, with effect from 1 April 2017, that the accumulated costs of all non-audit services sought from the auditor in any one year should not exceed 30% of the likely audit fees for that year.

Report of the Audit Committee continued

Significant Issues Considered by the Audit Committee in Relation to the Financial Statements

Matter	Action
Investment Portfolio Valuation The Company's portfolio is invested in the shares of European quoted smaller companies. Errors in the portfolio valuation could have a material impact on the Company's net asset value per share.	The Board reviews a full portfolio valuation at each Board meeting and, since the implementation of the AIFM Directive in July 2014, receives quarterly reports from the AIFM and the Depositary. The Audit Committee reviewed the Administrator's annual internal controls report, which is reported on by independent external accountants, and which details the systems, processes and controls around the daily pricing of securities, including the application of exchange rate movements.
Misappropriation of Assets Misappropriation of the Company's investments or cash balances could have a material impact on its net asset value per share.	The Audit Committee reviewed the Administrator's annual internal control report, as referred to above, which details the controls around the reconciliation of the Administrator's records to those of the Custodian. The Audit Committee also reviewed the Custodian's annual internal controls report, which is reported on by independent external accountants, and which provides details regarding its control environment. As stated above, since the implementation of the AIFM Directive in July 2014, the Board receives quarterly reports from the AIFM and the Depositary.
Income Recognition Incomplete or inaccurate income recognition, including allocation between revenue and capital, could have an adverse effect on the Company's net asset value and earnings per share and its level of distributable revenue.	The Audit Committee reviewed the Administrator's annual internal controls report, as referred to above, which details the systems, processes and controls around the recording of investment income. It also compared the final level of income received for the year to the budget which was set at the start of the year and considered the accounting treatment of all special dividends received with the Manager.
Annual Report and Accounts Ensuring the Annual Report and Accounts is fair, balanced and understandable.	The Audit Committee read and discussed this Annual Report and Accounts and advised the Board that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Auditor assessment, independence and re-appointment

The Audit Committee reviews the reappointment of the auditor every year. As part of this year's review of auditor independence and effectiveness, EY has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating EY, the Audit Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The Audit Committee, from direct observation and enquiry of the Administrator, remains satisfied that EY continues to provide effective independent challenge in carrying out its responsibilities. EY's fee for the audit was £21,500 (2018: £21,000).

Under mandatory audit rotation rules, the Company will be required to put the external audit out to tender at least every ten years.

Given the EU regulations and transitional provisions, as EY has been the Company's auditor for more than twenty years, then rotation is required at the latest, following the year ended 31 March 2021 audit. Following professional guidelines, the audit partner rotates after five years. The year ended 31 March 2019 will be Caroline Mercer's second year as audit partner. On the basis of their assessment, the Audit Committee has recommended the re-appointment of EY to the Board. EY's performance will continue to be reviewed annually taking into account all relevant guidance and best practice.

C A Roxburgh

Chairman of the Audit Committee
18 June 2019

Directors' Remuneration Report

The Board consists solely of independent non-executive Directors. The Company has no executive Directors or employees. The level of Directors' fees is determined by the Remuneration Committee within the limits defined in the Articles of Association and approved by shareholders.

Full details of the Company's policy with regards to Directors' fees, and fees paid during the year ended 31 March 2019, are shown below and on page 32. This shows all major decisions on Directors' remuneration and any substantial changes made during the year relating to Directors' remuneration, including the context in which any changes occurred.

Under company law, the Auditor is required to audit certain disclosures provided. Where disclosures have been audited they are indicated as such. The Auditor's opinion is included in its report on pages 35 to 40.

Remuneration Committee

The Remuneration Committee consists solely of independent non-executive Directors and determines the level of the Directors' fees in accordance with the UK Code. The Administrator provides information on comparative levels of Directors' fees to the Remuneration Committee in advance of each review.

The Remuneration Committee consists of all non-executive Directors and it is chaired by Mrs M R Somerset Webb. As the Company has no executive Directors, the Committee meets at least annually to determine the level of Directors' fees.

Directors' Remuneration Policy

The Company's policy is to remunerate Directors exclusively by fixed fees in cash at a rate which should reflect the responsibilities of being a non-executive Director, including the potential liabilities associated with the position, and the time committed by them to these responsibilities including, where appropriate, Board Committee duties. There were no changes to the policy during the year.

The Company has not received any views from its shareholders in respect of the levels of Directors' remuneration. It is intended that the policy will continue for the three year period ending at the AGM in 2020.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £200,000 in aggregate

per annum and may not be changed without seeking shareholder approval at a general meeting. There is no performance related remuneration scheme and therefore non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors do not have service contracts, but new Directors are provided with a letter of appointment. These letters of appointment are available for inspection at the Company's registered office. The terms of Directors' appointments provide that they should retire and be subject to election at the next Annual General Meeting after their appointment. Under the terms of the Company's Articles of Association, Directors are obliged to offer themselves for re-election by shareholders by not later than the third Annual General Meeting after they were last elected. However, the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. There is no notice period and no provision for compensation upon early termination of appointment.

Voting at Annual General Meeting on Directors' Remuneration Policy

The Directors' Remuneration Policy was last approved by shareholders at the Company's Annual General Meeting, held on 27 July 2017. 99.7% of votes were in favour of the resolution and 0.3% of votes were against.

It is the Board's intention that the Directors' Remuneration Policy will be put to a shareholder vote again at the Annual General Meeting in 2020.

Annual Statement

Following a review of the level of Directors' fees, the Remuneration Committee concluded that the amounts paid to Directors should remain unchanged. The current fees were last increased with effect from 1 April 2017, and it is anticipated that these fees will remain unchanged at least until 31 March 2020.

Based on these fees, Directors' fees for the forthcoming financial year would be as follows:

	31 March 2019 £	31 March 2018 £
Chairman	32,000	32,000
Audit Committee Chair	27,000	27,000
Director	23,000	23,000

Directors' Remuneration Report continued

Annual Report on Directors' Remuneration

Directors' Emoluments for the Year (audited)

The Directors who served during the financial year received the following amounts for services as non-executive Directors for the years ended 31 March 2019 and 2018 as well as reimbursement for expenses necessarily incurred. No other forms of remuneration were paid during the year.

Fees for services to the Company (audited)

	Fees (audited)		Taxable Benefits** (audited)		Total (audited)	
	2019 £	2018 £	2019 £	2018 £	2019 £	2018 £
A R Irvine*	13,260	32,000	–	–	13,260	32,000
R M Curling	28,289	23,000	4,086	2,914	32,375	25,914
R B M Graham*	11,188	27,000	–	–	11,188	27,000
R A Hammond-Chambers*(1)	9,513	23,000	13	–	9,526	23,000
C A Roxburgh	25,351	9,116	300	–	25,651	9,116
M R Somerset Webb	23,000	23,000	328	–	23,328	23,000
Total	110,601	137,116	4,727	2,914	115,328	140,030

* Retired on 29 August 2018

** Comprises amounts reimbursed for expenses incurred in carrying out business for the Company, which have been grossed up to include PAYE and NI Contributions.

(1) 2019 fees include a payment of £5,370 (2018: £13,000) paid to a company called Alex Hammond-Chambers and Company.

Relative Importance of Expenditure on Pay

As the Company has no employees, the table above represents the total remuneration costs and benefits paid by the Company. To enable shareholders to assess the relative importance of expenditure on Directors' remuneration, the table below shows the actual expenditure during the year in relation to Directors' remuneration (excluding taxable benefits), other operating expenses and shareholder distributions:

	2019 £	2018 £	Change %
Aggregate Directors' Remuneration	110,601	137,116	-19.3
Management and other operating expenses*	2,049,000	1,930,000	+5.7
Dividends paid to shareholders	1,506,000	1,381,000	+8.3

* Includes Directors' remuneration.

Directors' Shareholdings (audited)

The Directors who held office at the year end and their interests in the shares of the Company were as follows:

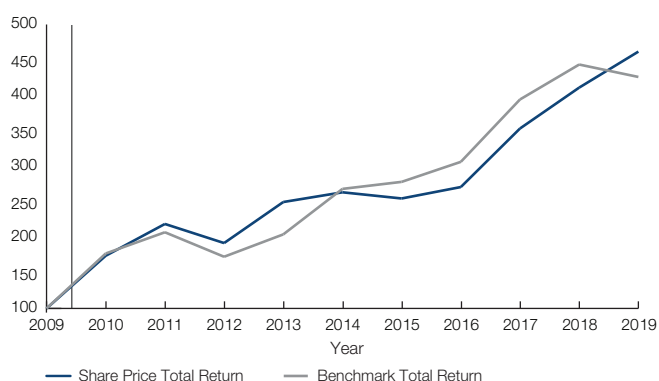
		2019 Ordinary Shares	2018 Ordinary Shares
R M Curling	Beneficial	5,000	5,000
C A Roxburgh	Beneficial	3,314	nil
M R Somerset Webb	Beneficial	4,095	4,013

There have been no changes in the Directors' interests in the shares of the Company between 31 March 2019 and 18 June 2019.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to Montanaro through the investment management agreement, as referred to in the Report of the Directors on page 21. The graph below compares, for the ten financial years ended 31 March 2019, the share price total return (assuming all dividends are reinvested) to shareholders compared to the return from the benchmark index. An explanation of the performance of the Company for the year ended 31 March 2019 is given in the Chairman's Statement and the Manager's Report.

Total Return and Benchmark Performance* (rebased at 100 on 31 March 2009, GBP)



* From 5 September 2006: MSCI Europe SmallCap Index. The benchmark was changed on 1 June 2009 to the MSCI Europe SmallCap (ex UK) Index (in Sterling terms).

Voting at Annual General Meeting on Annual Report

At the Company's last Annual General Meeting, held on 29 August 2018, shareholders approved the Annual Report on Directors' Remuneration for the year ended 31 March 2018. 99.73% of votes were in favour of the resolution and 0.17% were against.

An ordinary resolution for the approval of this Annual Report on Directors' Remuneration will be put to shareholders at the forthcoming Annual General Meeting.

On behalf of the Board

M R SOMERSET WEBB

Director

18 June 2019

Management Report and Directors' Responsibilities Statement

Management Report

Listed companies are required by the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (the 'Rules') to include a management report in their annual financial statements. The information required to be in the management report for the purpose of the Rules is included in the Chairman's Statement (pages 2 and 3), the Manager's Report (pages 4 to 7), Twenty Largest Holdings (pages 8 and 9), Analysis of Investment Portfolio by Sector (page 10), the Business Model and Strategy (pages 11 to 17) and the Report of the Directors (pages 20 to 24). Therefore, a separate management report has not been included.

Directors' Responsibilities Statement in Relation to the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union. The Directors are also required to prepare a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they present a fair, balanced and understandable report and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: *'Accounting Policies, Changes in Accounting Estimates and Errors'* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and

- prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility Statements under the Disclosure Guidance and Transparency Rules

Each of the Directors confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic Report (comprising the Chairman's Statement, Manager's Report, Twenty Largest Holdings, Analysis of Investment Portfolio by Sector and Business Model and Strategy) and the Report of the Directors include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces;
- taken as a whole, the Annual Report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the financial statements include details on related party transactions; and
- having assessed the principal risks and other matters discussed in connection with the Viability Statement, it is appropriate to adopt the going concern basis in preparing the financial statements.

The Annual Report and Accounts were approved by the Board and the above responsibility statement was signed on its behalf by:

R M CURLING

Director

18 June 2019

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MONTANARO EUROPEAN SMALLER COMPANIES TRUST PLC

Opinion

We have audited the financial statements of Montanaro European Smaller Companies Trust plc (the 'Company') for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 14 to 16 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 17 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 22 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 17 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent Auditor's Report continued

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income • Risk of incorrect valuation and defective title to the investment portfolio
Materiality	<ul style="list-style-type: none"> • Overall materiality of £1.69m which represents 1% of equity shareholders' funds

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income (per the Audit Committee report set out on page 30 and the accounting policy set out on page 46).</p> <p>The income received for the year to 31 March 2019 was £3.08m (2018: £3.09m), consisting primarily of dividend income from the investment portfolio.</p> <p>The income receivable by the Company during the year directly affects the Company's revenue return. There is a risk of incomplete or inaccurate recognition of income through the failure to recognise proper income entitlements or applying appropriate accounting treatment.</p> <p>In addition to the above, the Directors are required to exercise judgment in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'.</p>	<p>We have performed the following procedures:</p> <p>We obtained an understanding of the Manager's and Administrator's processes and controls surrounding revenue recognition and classification of special dividends by reviewing their internal controls report and performing our walkthrough procedures to evaluate the design and implementation of controls.</p> <p>We agreed a sample of dividends received from the income report to the corresponding announcement made by the investee company. We recalculated the dividend amount receivable using exchange rates obtained from an independent data vendor and confirmed that the cash received as shown on bank statements was consistent with the recalculated amount.</p> <p>We agreed a sample of investee company dividend announcements from an independent data vendor to the income recorded by the Company to test completeness of the income recorded.</p> <p>For all dividends accrued at the year end, we reviewed the investee company announcements to assess</p>	<p>The results of our procedures are:</p> <p>We have no issues to communicate with respect to our procedures performed over the risk of incomplete or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>whether the obligation arose prior to 31 March 2019. We agreed the dividend rate to corresponding announcements made by the investee company. We recalculated the dividend amount receivable and confirmed this was consistent with cash received as shown on post year end bank statements, where paid.</p> <p>We reviewed the income and capital reports produced by the Administrator and used independent data sources to identify special dividends received or accrued in excess of our testing threshold. The Company received one special dividend above our testing threshold, amounting to £35k. We reviewed the underlying circumstances and motives for the payment to verify the classification of the special dividend as revenue.</p> <p>Incorrect valuation and defective title to the investment portfolio (as described on page 30 in the Report of the Audit Committee and as per the accounting policy set out on page 47).</p> <p>The valuation of the investment portfolio at 31 March 2019 was £169.83m (2018: £151.73m) consisting entirely of listed investments.</p> <p>The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect investment pricing, or a failure to maintain proper legal title of the investments held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders.</p> <p>The fair value of listed investments is determined by reference to stock exchange quoted market bid prices at the close of business on the year-end date.</p>	<p>whether the obligation arose prior to 31 March 2019. We agreed the dividend rate to corresponding announcements made by the investee company. We recalculated the dividend amount receivable and confirmed this was consistent with cash received as shown on post year end bank statements, where paid.</p> <p>We reviewed the income and capital reports produced by the Administrator and used independent data sources to identify special dividends received or accrued in excess of our testing threshold. The Company received one special dividend above our testing threshold, amounting to £35k. We reviewed the underlying circumstances and motives for the payment to verify the classification of the special dividend as revenue.</p> <p>We performed the following procedures:</p> <p>We obtained an understanding of the Manager's and Administrators processes and controls surrounding investment valuation and legal title.</p> <p>For all listed investments in the portfolio, we compared the market values and exchange rates applied to an independent pricing vendor.</p> <p>We reviewed the price exception and stale pricing reports produced by the Administrator to highlight and investigate any unexpected price movements in investments held as at the year-end. We agreed the Company's investments to the independent confirmation received from the Company's Custodian and Depositary as at 31 March 2019</p>	<p>The results of our procedures are:</p> <p>We have no issues to communicate with respect to our procedures performed over the risk of incorrect valuation and defective title to the investment portfolio.</p>

There have been no changes to the areas of key focus raised in the above risk table from the prior year.

Independent Auditor's Report continued

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £1.69m (2018: £1.51m) which is 1% of equity shareholders' funds. We believe that equity shareholders' funds provides us with materiality aligned to the key measurement of the Company's performance.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £1.27m (2018: £1.13m).

Given the importance of the distinction between revenue and capital for the Company, we have also applied a separate testing threshold for the revenue column of the Statement of Comprehensive Income of £0.09m (2018: £0.09m) being 5% of profit before taxation.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.08m (2018: £0.08m) which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 20** – the statement given by the directors that they

consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit committee reporting set out on pages 28 to 30** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 25** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report continued

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are IFRS, the Companies Act 2006, AIC SORP, the Listing Rules, the UK Corporate Governance Code and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to the incomplete or inaccurate revenue recognition through incorrect classification of special dividends between revenue and capital. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the Audit Committee, we were appointed by the Company to audit the financial statements for the period ended 31 March 1982 and subsequent financial periods. Our appointment was subsequently ratified at the annual general meeting of the Company on 22 June 1982. The period of total uninterrupted engagement, including previous renewals and reappointments, is 38 years, covering the periods ending 31 March 1982 to 31 March 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

CAROLINE MERCER

(Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Edinburgh
18 June 2019

Notes:

1. The maintenance and integrity of the Montanaro European Smaller Companies Trust plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Comprehensive Income

for the year ended 31 March 2019

	Notes	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Capital gains on investments							
Gains on investments held at fair value	9	–	19,215	19,215	–	15,962	15,962
Exchange gains/(losses)		–	67	67	–	(284)	(284)
		–	19,282	19,282	–	15,678	15,678
Revenue							
Investment income	2	3,082	–	3,082	3,094	–	3,094
Total income		3,082	19,282	22,364	3,094	15,678	18,772
Expenditure							
Management expenses	3	(481)	(892)	(1,373)	(442)	(821)	(1,263)
Other expenses	4	(676)	–	(676)	(667)	–	(667)
Total expenditure		(1,157)	(892)	(2,049)	(1,109)	(821)	(1,930)
Profit before finance costs and taxation		1,925	18,390	20,315	1,985	14,857	16,842
Finance costs	5	(105)	(196)	(301)	(179)	(333)	(512)
Profit before taxation		1,820	18,194	20,014	1,806	14,524	16,330
Taxation	6	(227)	–	(227)	(223)	–	(223)
Total comprehensive income		1,593	18,194	19,787	1,583	14,524	16,107
Return per share	8	9.5p	108.7p	118.2p	9.5p	86.8p	96.3p

The total column of this statement represents the Company's Income Statement and Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year. The accompanying notes are an integral part of the financial statements.

Balance Sheet

as at 31 March 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Investments held at fair value through profit and loss	9	169,828	151,728
Current assets			
Trade and other receivables	10	646	578
Cash and cash equivalents	10	7,443	20,574
		8,089	21,152
Total assets		177,917	172,880
Current liabilities			
Trade and other payables	11	(204)	(201)
Interest-bearing bank loans	12	–	(21,903)
		(204)	(22,104)
Non-current liabilities			
Interest-bearing bank loans	12	(8,572)	–
Total liabilities		(8,776)	(22,104)
Net assets		169,141	150,776
Capital and reserves			
Called-up share capital	13	8,724	8,724
Share premium account		5,283	5,283
Capital redemption reserve		2,212	2,212
Capital reserve		149,110	130,916
Revenue reserve		3,812	3,641
Shareholders' funds		169,141	150,776
Net asset value per share	14	1,010.8p	901.1p

The financial statements on pages 41 to 58 were approved and authorised for issue by the Board of Directors on 18 June 2019 and signed on its behalf by:

R M CURLING

Director

Statement of Changes in Equity

for the year ended 31 March 2019

Notes	Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Balance at 1 April 2018	8,724	5,283	2,212	130,916	3,641	150,776
Total comprehensive income	—	—	—	18,194	1,593	19,787
Dividends paid 7	—	—	—	—	(1,422)	(1,422)
Balance at 31 March 2019	8,724	5,283	2,212	149,110	3,812	169,141

Notes	Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Balance at 1 April 2017	8,724	5,283	2,212	116,392	3,439	136,050
Total comprehensive income	—	—	—	14,524	1,583	16,107
Dividends paid 7	—	—	—	—	(1,381)	(1,381)
Balance at 31 March 2018	8,724	5,283	2,212	130,916	3,641	150,776

The accompanying notes are an integral part of the financial statements.

Cash Flow Statement

for the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Profit before finance costs and taxation		20,315	16,842
Investment gains		(19,215)	(15,962)
Exchange (gains)/losses		(67)	284
Withholding tax		(204)	(325)
Investment income		(3,082)	(3,094)
Dividends received		3,015	3,142
(Increase)/decrease in receivables		(23)	1
Increase/(decrease) in payables		23	(72)
Purchases of investments		(35,690)	(26,404)
Sales of investments		36,805	36,627
Net cash inflow from operating activities		1,877	11,039
Cash flows from financing activities			
Repayment of loan	7	(13,393)	–
Dividends paid	7	(1,422)	(1,381)
Interest paid		(351)	(478)
Net cash outflow from financing activities		(15,166)	(1,859)
Net (decrease)/increase in cash and cash equivalents		(13,289)	9,180
Exchange gains		158	250
(Decrease)/increase in cash and cash equivalents		(13,131)	9,430
Cash and cash equivalents at beginning of year		20,574	11,144
Cash and cash equivalents at end of year	10	7,443	20,574

Notes to the Accounts

for the year ended 31 March 2019

1 Accounting Policies

A summary of the principal accounting policies is set out below.

BASIS OF ACCOUNTING

The financial statements of the Company have been prepared in accordance with the Companies Act 2006, International Financial Reporting Standards ('IFRS'), which comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ('IASC') that remain in effect, and to the extent that they have been adopted by the European Union.

The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment companies issued by the Association of Investment Companies ('AIC') is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The functional and presentational currency of the Company is Pounds Sterling and has been determined on the basis of the currency of the Company's share capital and the currency in which dividends and expenses are paid.

The valuation of financial assets held by the Company at the year end have been derived from active, liquid markets. Risks relating to the valuations are disclosed in note 16.

In assessing the going concern basis of accounting, the Directors have given due regard to the guidance issued by the Financial Reporting Council. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Further detail is included in the Report of the Directors on pages 22 and 23.

The accounting policies adopted are consistent with those of the previous financial year, except that the following amendments to IFRS 9 and IFRS 15 have been adopted in the current year:

IFRS 9 Financial Instruments

In the current period the Company has adopted IFRS 9 Financial Instruments on its effective date of 1 January 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is not applicable to items that have already been derecognised at 1 January 2018, the date of initial application.

Receivables that were previously measured at amortised cost under IAS 39 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. Therefore, such instruments continue to be measured at amortised cost under IFRS 9.

The classification of financial liabilities under IFRS 9 remains broadly the same as under IAS 39. The main impact on measurement from the classification of liabilities under IFRS 9 relates to the element of gains or losses for financial liabilities designated at fair value through profit or loss attributable to changes in credit risk. The Company has not designated any financial liabilities at fair value through profit or loss therefore this requirement has not had an impact on the Company.

IFRS 9 requires the Company to record expected credit losses on all of its receivables, either on a 12 month or lifetime basis. As the Company has limited exposure to credit risk, this amendment has not had a material impact on the financial statements as the Company only holds receivables with no financing component that have maturities of 12 months or less. This requirement has not significantly changed the carrying amounts of the Company's financial assets under IFRS 9.

Notes to the Accounts continued

for the year ended 31 March 2019

1 Accounting Policies continued

Comparative figures for the year ended 31 December 2017 have not been restated and are still accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15 Revenue from Contracts with Customers on its effective date of 1 January 2018. IFRS 15 replaces IAS 18 Revenue and establishes a five-step model to account for revenue arising from contracts with customers. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements. Therefore, there was no impact of adopting IFRS 15 for the Company.

Standards issued but not yet effective

There are no standards or amendments to standards not yet effective that are relevant to the Company and should be disclosed.

OPERATING SEGMENTS

The Board has considered the requirements of IFRS 8 '*Operating Segments*'. The Board is of the view that the Company is engaged in a single segment of business, of investing in European quoted smaller companies, and that therefore the Company has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Company. The key measure of performance used by the Board to assess the Company's performance is the total return on the Company's net asset value, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

PRESENTATION OF STATEMENT OF COMPREHENSIVE INCOME

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. The net revenue return is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1158 of the Corporation Tax Act 2010.

INCOME

Dividends are recognised as income on the date that the related investments are marked ex-dividend.

Dividends receivable on equity shares where no ex-dividend date is quoted are recognised when the Company's right to receive payment is established. The treatment of special dividends is disclosed on page 49.

Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income.

Interest income is accounted for on an accruals basis.

EXPENSES AND FINANCE COSTS

All expenses and finance costs are accounted for on an accruals basis and are charged against revenue, except where incurred in connection with the maintenance or enhancement of the value of the Company's assets and taking account of the expected long-term returns as follows:

- finance costs payable are allocated 35% to revenue and 65% to capital.
- management expenses payable are allocated 35% to revenue and 65% to capital.

1 Accounting Policies continued

TAXATION

The tax expense represents the sum of the tax currently payable and movements in deferred tax. Tax payable is based on the taxable profit for the year and withholding tax payable. Taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the 'marginal basis'. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Investment trusts which have approval under Section 1158 of the Corporation Tax Act 2010 are not liable to taxation on capital gains.

INVESTMENTS

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within a timeframe established by the market concerned, and are initially measured at fair value being consideration paid. Equity Investments are classified as fair value through profit or loss.

The Company manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided internally on this basis to the entity's key management personnel.

Equity Investments are measured at subsequent reporting dates at fair value, which is the bid price or the last traded price depending on the convention of the exchange on which the investment is listed.

Gains and losses arising from changes in fair value and investment realisations are included in the net profit or loss for the period as a capital item.

All investments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy in note 15, described as follows, based on the lowest significant applicable input:

Level 1 reflects financial instruments quoted in an active market.

Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables includes only observable market data.

Notes to the Accounts continued

for the year ended 31 March 2019

1 Accounting Policies continued

Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data.

For investments that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest significant applicable input) at the date of the event that caused the transfer.

CASH AND CASH EQUIVALENTS

Cash comprises bank balances and cash held by the Company. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

INTEREST-BEARING BORROWINGS

All borrowings are initially recognised at cost, being fair value of the consideration received. After initial recognition, all interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any loan arrangement costs.

RESERVES

(i) Share Premium Account

The following are included in this reserve:

- the surplus of net proceeds received from the issue of new Ordinary Shares over the par value of such shares.
- surplus arising on the sale of Ordinary Shares from treasury.

(ii) Capital Redemption Reserve

The nominal value of Ordinary Shares bought back for cancellation is added to this reserve. This reserve is non-distributable.

(iii) Capital Reserve

The following are included in this reserve:

- gains and losses on the realisation of investments.
- increases and decreases in the valuation of investments held at the year end.
- exchange differences of a capital nature.
- special dividends of a capital nature.
- expenses and finance costs, together with the related taxation effect, charged in accordance with the above policies.
- cost of purchasing Ordinary Shares to be held in treasury or cancelled.
- proceeds from the issue of Ordinary Shares held in treasury equivalent to the original cost of the repurchase.

In addition, the Company's Articles of Association permit it to distribute from the Capital Reserve any surplus arising from the realisation of its investments.

(iv) Revenue Reserve

The net profit arising in the revenue column of the Statement of Comprehensive Income is added to this reserve. Dividends paid during the year may be deducted from this reserve.

1 Accounting Policies continued

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Balance Sheet of the Company when the Company becomes a party to the contractual provisions of the instrument. The Company shall offset financial assets and financial liabilities if it has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis. As at 31 March 2019, no financial assets or financial liabilities had been offset.

FOREIGN CURRENCIES

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Non-monetary items expressed in foreign currencies held at fair value are translated into sterling at rates of exchange ruling at the date the fair value is measured. Transactions in foreign currencies are converted to sterling at the rate ruling at the date of the transaction. Exchange gains and losses are taken to the Statement of Comprehensive Income as a capital or revenue item depending on the nature of the underlying item.

Exchange gains and losses on investments are included within 'Gains on investments held at fair value' and are taken to the Capital Reserve. Exchange differences on other financial instruments are included in the Statement of Comprehensive Income as 'Exchange gains'.

Rates of exchange (per Pound Sterling)	31 March 2019	31 March 2018	Change %
Danish Krone	8.66	8.50	1.9
Euro	1.16	1.14	1.8
Norwegian Krone	11.22	11.01	1.9
Swedish Krona	12.09	11.75	2.9
Swiss Franc	1.30	1.34	-3.0

USE OF JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The presentation of the financial statements in accordance with accounting standards requires the Board to make judgements, estimates and assumptions that affect the accounting policies and reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on perceived risks, historical experience, expectations of plausible future events and other factors. Actual results may differ from these estimates.

The areas requiring the most significant judgement and estimation in the preparation of the financial statements are: recognising and classifying unusual or special dividends received as either revenue or capital in nature.

Dividends received which appear to be unusual in size or circumstance are assessed on a case-by-case basis, based on interpretation of the investee companies' relevant statements, to determine their allocation in accordance with the SORP to either the revenue account or capital reserves. Dividends which have clearly arisen out of the investee company's reconstruction or reorganisation are usually considered to be capital in nature and allocated to capital reserves. Investee company dividends which appear to be paid in excess of current year profits will still be considered as revenue in nature unless evidence suggests otherwise.

Notes to the Accounts continued

for the year ended 31 March 2019

2 Income

	2019 £'000	2018 £'000
Investment income		
Overseas dividend income	3,082	3,094
Total	3,082	3,094

3 Management Expenses

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Investment management fee	463	860	1,323	424	789	1,213
AIFM fee	18	32	50	18	32	50
	481	892	1,373	442	821	1,263

Details of the management fee arrangements during the year are contained within the Report of the Directors on page 21 and details of fees owed to the Manager at the balance sheet date are included in note 11.

4 Other Expenses

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2017 Capital £'000	2017 Total £'000
Directors' fees	111	–	111	137	–	137
Auditor's remuneration for:						
– statutory audit ¹	22	–	22	21	–	21
Secretarial and administration fees	133	–	133	129	–	129
Legal, professional and advisory fees	17	–	17	24	–	24
Custody and depositary fees	101	–	101	87	–	87
Bank charges – negative interest	103	–	103	121	–	121
Credit facility commitment fee	33	–	33	–	–	–
Other	156	–	156	148	–	148
	676	–	676	667	–	667

¹ Auditors remuneration paid excludes VAT.

5 Finance Costs

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Interest payable on bank borrowings	105	196	301	179	333	512

6 Taxation

	2019 Revenue £'000	2019 Capital £'000	2019 Total £'000	2018 Revenue £'000	2018 Capital £'000	2018 Total £'000
Overseas tax	227	–	227	223	–	223

6 Taxation continued**FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

The tax charge for the year is lower than the standard rate of corporation tax in the UK for an investment company.

The differences are explained below:

	2019 £'000	2018 £'000
Profit on ordinary activities before taxation	20,014	16,330
Corporation tax at standard rate of 19% (2018: 19%)	3,803	3,103
Effects of:		
Non-taxable gains on investments	(3,651)	(3,033)
Movement in unutilised expenses	445	443
Non-taxable overseas income	(585)	(564)
Exchange (gains)/losses	(13)	54
Overseas tax	242	241
Overseas tax expensed	(10)	(4)
Adjustment to provision for prior years	(4)	(17)
Total tax charge for the year	227	223

As at 31 March 2019, the Company had unutilised management expenses for taxation purposes of £27,015,000 (2018: £24,666,000). A deferred tax asset of £4,593,000 (2018: £4,193,000) has not been recognised on the unutilised expenses as it is unlikely that there will be suitable taxable profits from which the future reversal of the deferred tax could be deducted.

7 Dividends

	2019 £'000	2018 £'000
Final dividend for the year ended 31 March 2017 of 6.50p per share	–	1,088
Interim dividend for the year ended 31 March 2018 of 1.75p per share	–	293
Final dividend for the year ended 31 March 2018 of 6.75p per share	1,129	–
Interim dividend for the year ended 31 March 2019 of 1.75p per share	293	–
	1,422	1,381

Amounts relating to the year but not paid at the year end:

Final dividend for the year ended 31 March 2018 of 6.75p per share	–	1,129
Final dividend for the year ended 31 March 2019 of 7.25p per share	1,213	–
	1,213	1,129

The Directors have proposed a final dividend in respect of the year ended 31 March 2019 of 7.25p per share, payable on 17 September 2019 to all shareholders on the register on 16 August 2019. The final dividend is subject to approval by shareholders at the Annual General Meeting.

Notes to the Accounts continued

for the year ended 31 March 2019

7 Dividends continued

The attributable revenue and the dividends paid and proposed for the purposes of the income retention test for section 1159 of the Income and Corporation Tax Act 2010, are set out below:

	2019 £'000	2018 £'000
Revenue attributable to equity shareholders	1,593	1,583
Interim dividend for the year ended 31 March 2018 of 1.75p per share	–	(293)
Final dividend for the year ended 31 March 2018 of 6.50p per share	–	(1,129)
Interim dividend for the year ended 31 March 2019 of 1.75p per share	(293)	–
Proposed final dividend for the year ended 31 March 2019 of 7.25p per share*	(1,213)	–
Revenue reserve transfer	87	161

* Based on 16,733,260 Ordinary Shares in issue at 18 June 2019.

8 Return Per Share

	2019 Revenue	2019 Capital	2019 Total	2018 Revenue	2018 Capital	2018 Total
Basic	9.5p	108.7p	118.2p	9.5p	86.8p	96.3p

Basic total return per Ordinary Share is based on the total comprehensive income for the financial year of £19,787,000 (2018: £16,107,000) and on 16,733,260 (2018: 16,733,260) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year, excluding those shares bought back and held in treasury.

Basic revenue return per Ordinary Share is based on the net revenue return on ordinary activities after taxation of £1,593,000 (2018: £1,583,000), and on 16,733,260 (2018: 16,733,260) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year, excluding those shares bought back and held in treasury.

Basic capital return per Ordinary Share is based on the net capital return for the financial year of £18,194,000 (2018: £14,524,000), and on 16,733,260 (2018: 16,733,260) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year, excluding those shares bought back and held in treasury.

9 Investments at Fair Value Through Profit and Loss

	2019 £'000	2018 £'000
Opening cost	93,523	89,157
Holding gains	58,205	56,832
Opening fair value	151,728	145,989
Purchases at cost	35,690	26,404
Sales – proceeds	(36,805)	(36,627)
– gains on sales	14,764	14,589
Holding gains	4,451	1,373
Closing fair value	169,828	151,728
Closing cost	107,172	93,523
Holding gains	62,656	58,205
Closing valuation	169,828	151,728

Net gains on the realisation of investments during the year represents the difference between the net proceeds of sale and the book cost of investment sold.

9 Investments at Fair Value Through Profit and Loss continued

Movement in fair value represents the increase in the difference between book cost of investments held and their market value at 31 March 2019 compared with the difference between the book cost of investments held and their market value at 31 March 2018.

TRANSACTION COSTS

The Company incurred transaction costs on the purchase of investments of £20,000 and sale of investments of £17,000 (2018: £20,000 on purchases and £26,000 on sales).

	2019 £'000	2018 £'000
Gains on sales	14,764	14,589
Increase in holding gains	4,451	1,373
Gains on investments held at fair value	19,215	15,962

10 Current Assets

	2019 £'000	2018 £'000
Prepayments and accrued income	97	6
Overseas tax recoverable	549	572
	646	578

The carrying value of the balances above approximates to fair value. There are no amounts which are past due or impaired at the year end (2018: £nil).

CASH AND CASH EQUIVALENTS

These comprise bank balances and cash held by the Company. The carrying amount of these assets approximates to their fair value.

	2019 £'000	2018 £'000
Cash at bank and on hand	7,443	20,574

11 Current Liabilities

	2019 £'000	2018 £'000
Investment management and AIFM fee	116	105
Other creditors	88	96
	204	201

The carrying value of the balances above approximates to fair value.

Notes to the Accounts continued

for the year ended 31 March 2019

12 Interest-Bearing Bank Loans

	2019 £'000	2018 £'000
Opening balance	21,903	21,335
Loan repaid during the year	(13,393)	–
Amortisation of set-up costs	45	34
Non-cash foreign currency movements	17	534
Closing balance	8,572	21,903

The Company's fixed rate loan facilities totalling €25 million matured on 13 September 2018. The Company refinanced €10 million by entering into a five year secured loan at a fixed rate of 1.33% per annum with ING Bank N.V. This loan will mature on 13 September 2023. The Company's other fixed rate loan totalling €15 million was repaid. The Company has also entered into a five year secured revolving loan facility with ING, for €15 million which will also mature on 13 September 2023. As at 31 March 2019, no amounts were drawn down under this facility.

Under the bank covenants relating to the loans, the Company is to ensure that at all times the total borrowings of the Company do not exceed 40% of the Adjusted Net Asset Value (as defined in the loan agreements) and that the Adjusted Net Asset Value does not fall below £45 million (2018: £45 million). The Company met all covenant conditions during the year.

The fair value of the fixed rate term loans, on a marked to market basis, was £8,596,000 at 31 March 2019 (2018: £22,002,000). The fair value is calculated using a discounted cash flow technique based on relevant current interest rates.

13 Share Capital

	Listed		Held in Treasury		In Issue	
	Number	£'000	Number	£'000	Number	£'000
Allotted, issued and fully paid:						
Ordinary Shares of 50p each						
Balance at 1 April 2018	17,448,260	8,724	(715,000)	(357)	16,733,260	8,367
Balance at 31 March 2019	17,448,260	8,724	(715,000)	(357)	16,733,260	8,367

During the year, the Company did not sell any Ordinary Shares held in Treasury (2018: nil) and there were no share issues or share buybacks (2018: Nil).

CAPITAL MANAGEMENT

The Company's capital is represented by the issued Share Capital, Share Premium Account, Capital Redemption Reserve, Capital Reserve, Revenue Reserve and external debt financing. Details of the movement through each reserve are shown in the Statement of Changes in Equity. The Company is not subject to any externally imposed capital requirements other than those associated with the loan finance.

The Company's capital is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Business Model and Strategy. The Company's capital structure is also explained in the Report of the Directors on page 21.

14 Net Asset Value per Ordinary Share

	Net asset value per share		Net asset value	
	2019 p	2018 p	2019 £'000	2018 £'000
Net asset value per Ordinary Share	1,010.8	901.1	169,141	150,776

The net asset value per share is based on net assets at the year end and on 16,733,260 (2018: 16,733,260) Ordinary Shares, being the number of Ordinary Shares in issue at the year end, excluding those shares bought back and held in treasury.

15 Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank loans, and debtors and creditors that arise directly from its operations. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company makes use of borrowings, as detailed in note 12 and the Chairman's Statement, to achieve improved performance in rising markets. The downside risk of borrowings may be reduced by raising the level of cash balances held.

The Company's principal risks are described in the Business Model and Strategy on pages 14 to 16.

Financial risks arising from the Company's financial instruments are:

- (i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements;
- (ii) interest rate risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates;
- (iii) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales, bank loans and accrued income will fluctuate because of movements in currency rates;
- (iv) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and
- (v) liquidity risk, being the risk that the Company may not be able to liquidate quickly its investments to meet obligations associated with its financial liabilities.

FAIR VALUE HIERARCHY

IFRS 13 requires disclosures relating to fair value measurements using a three-level hierarchy (see definitions on pages 47 and 48). The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

The Company held the following categories of financial instruments as at 31 March 2019:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2019 Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2018 Total £'000
Financial instruments								
Investments	169,828	–	–	169,828	151,728	–	–	151,728
Loans	–	(8,596)	–	(8,596)	–	(22,002)	–	(22,002)

There were no transfers between levels in the fair value hierarchy in the year ended 31 March 2019 (2018: none).

Listed fixed asset investments held (see note 9) are valued at fair value through profit or loss. For listed securities this is either bid price or the last traded price depending on the convention of the exchange on which the investment is listed. The interest-bearing bank loans are recognised in the Balance Sheet in accordance with IFRS. The fair value of the loans are calculated using a discounted cash flow technique based on relevant current interest rates compared to its value as stated on the Balance Sheet at amortised cost of £8,572,000 (2018: £21,903,000). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 42.

Notes to the Accounts continued

for the year ended 31 March 2019

16 Market Price Risk

Mitigation of market price risk is part of the fund management process and is typical of equity investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Further information on the investment portfolio is set out on pages 8 to 10.

If the investment portfolio valuation had fallen by 10% (2018: 10%) at 31 March 2019, the impact on the profit or loss and the net asset value would have been negative £17.0 million (2018: negative £15.2 million). If the investment portfolio valuation had risen by 10% (2018: 10%) at 31 March 2019, the impact on the profit or loss and the net asset value would have been positive £17.0 million (2018: positive £15.2 million). The calculations are based on the portfolio valuation as at the respective balance sheet dates.

17 Interest Rate Risk

FIXED RATE

The Company has a €10 million fully drawn fixed rate term loan with ING Bank N.V., with a Sterling equivalent of £8.6 million as at 31 March 2019, at a rate of interest of 1.33% per annum. An interest rate sensitivity analysis has not been performed as the Company has borrowed at a fixed rate of interest.

FLOATING RATE

When the Company retains cash balances, the cash is primarily held in accounts at the custodian. Interest received or paid on cash balances and bank overdrafts is at market rates and is monitored and reviewed by the Investment Manager and the Board. As at 31 March 2019, the cash position of the Company was £7.4 million (2018: £20.6 million).

If interest rates had increased by 1.0%, the impact on the profit or loss and the net asset value would have been positive £74,000 (2018: positive £206,000). If interest rates had decreased by 1.0%, the impact on the profit or loss and the net asset value would have been negative £74,000 (2018: negative £206,000). The calculations are based on the floating rate balances as at the respective balance sheet dates.

18 Foreign Currency Risk

The Company invests in overseas securities and holds foreign currency cash balances and foreign currency borrowings which give rise to currency risks. It is not the Company's policy to hedge this risk.

Foreign currency exposure:

2019	Investments £'000	Trade and other receivables £'000	Cash £'000	Trade and other payables £'000	Loans* £'000	Net exposure £'000
Danish Krone	8,709	120	–	–	–	8,829
Euro	99,769	209	7,271	(6)	(8,617)	98,626
Norwegian Krone	9,579	32	–	–	–	9,611
Swedish Krona	37,151	15	73	–	–	37,239
Swiss Franc	14,620	240	–	–	–	14,860
Total	169,828	616	7,344	(6)	(8,617)	169,165

* Par value excluding amortised Costs

18 Foreign Currency Risk continued

2018	Investments £'000	Trade and other receivables £'000	Cash £'000	Trade and other payables £'000	Loans £'000	Net exposure £'000
Danish Krone	10,446	65	56	–	–	10,567
Euro	89,390	312	20,333	(26)	(21,918)	88,091
Norwegian Krone	4,976	14	–	–	–	4,990
Swedish Krona	32,411	–	85	–	–	32,496
Swiss Franc	14,505	181	–	–	–	14,686
Total	151,728	572	20,474	(26)	(21,918)	150,830

If the value of Sterling had weakened by 5% (2018: 5%) against each of the currencies in the portfolio, the impact on the profit or loss and the net asset value would have been positive £8,938,000 (2018: positive £7,986,000). If the value of Sterling had strengthened by 5% (2018: 5%) against each of the currencies in the portfolio, the impact on the profit or loss and the net asset value would have been negative £8,087,000 (2018: negative £7,225,000). These calculations are based on the foreign currency exposure balances as at the respective balance sheet dates.

19 Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date.

The Company had the following categories of financial assets exposed to credit risk as at 31 March 2019:

	2019 £'000	2018 £'000
Cash and cash equivalents	7,443	20,574
Prepayments, accrued income and overseas tax recoverable	646	578
	8,089	21,152

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the financial stability and credit quality of the brokers used, which are monitored on an ongoing basis by the Manager. The Manager also monitors the quality of service provided by the brokers used to further mitigate this risk.

There were no significant concentrations of credit risk to counterparties at 31 March 2019 or 31 March 2018. No individual investment exceeded 3.6% of the investment portfolio at 31 March 2019 (2018: 4.2%).

A significant majority of the assets of the Company, including those that are traded on a recognised exchange, are held in segregated accounts on behalf of the Company by The Bank of New York Mellon (International) Limited, the Company's custodian. Bankruptcy or insolvency of this or other custodians may cause the Company's rights with respect to securities held by the custodians to be delayed. The Board monitors the Company's risk by reviewing the custodian's internal control reports.

Notes to the Accounts continued

for the year ended 31 March 2019

20 Liquidity Risk

The Company does not hold unlisted securities (2018: £nil). The Company's listed securities are considered to be readily realisable.

However, as with all smaller company investment trusts, there are times when the liquidity of the underlying portfolio is poor, such as when smaller companies are out of favour or during periods of adverse economic conditions. The Manager focuses on smaller companies where the opportunities may be more attractive but this can decrease overall underlying liquidity. This may result in the Manager being unable to buy or sell individual holdings within the portfolio. The Manager constantly reviews the underlying liquidity of the portfolio and deals with a wide range of brokers to enhance its ability to execute transactions and minimise liquidity risk. The Company's overall exposure to liquidity risks is monitored on a regular basis by the Board.

Liquidity risk is mitigated as the Company maintains sufficient cash to pay accounts payable and accrued expenses. As at 31 March 2019, the cash position of the Company was £7.4 million (2018: £20.6 million).

CONTRACTUAL MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

As at 31 March 2019	Within one month £'000	Between one and three months £'000	Between three and twelve months £'000	Between one and five years £'000	Total £'000
Current liabilities:					
Other creditors	122	63	19	–	204
Loan and loan interest	–	–	116	8,947	9,063
Total liabilities	122	63	135	8,947	9,267

As at 31 March 2018	Within one month £'000	Between one and three months £'000	Between three and twelve months £'000	Between one and five years £'000	Total £'000
Current liabilities:					
Other creditors	110	65	26	–	201
Interest-bearing bank loans	–	–	22,158	–	22,158
Total liabilities	110	65	22,184	–	22,359

21 Related Parties and Transactions with the Manager

The following are considered related parties: the Board of Directors. The Directors of the Company received fees for their services and dividends from their shareholdings in the Company. Further details are provided in the Directors' Remuneration Report on pages 31 and 32.

Transactions between the Company and the Manager are detailed in note 3 on management fees and note 11 on fees owed to the Manager at the balance sheet date. The existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies and therefore, under the AIC SORP, the Manager is not considered to be a related party.

22 Securities financing transactions ("SFT")

The Company has not, in the year to 31 March 2019 (2018: same), participated in any: repurchase transactions; securities lending or borrowing; buy-sell back transactions; margin lending transactions; or total return swap transactions (collectively called SFT). As such, it has no disclosure to make in satisfaction of the EU regulations on transparency of SFT, issued in November 2015.

AIFM Disclosures

Alternative Investment Fund Managers ('AIFM') Directive ('AIFMD')

In accordance with the AIFMD, information in relation to the Company's leverage (as defined on page 63) and the remuneration of the Company's AIFM, Montanaro Asset Management Limited, is required to be made available to investors. Detailed regulatory disclosures including those on the AIFM's remuneration policy are available on the Company's website or from Montanaro Asset Management Limited on request. The Company's maximum and actual leverage levels at 31 March 2019 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	200%	200%
Actual	100%	105%

For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of Company's exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Company's positions after deduction of cash and cash equivalents, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash and cash equivalents and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the AIFM and approved by the Board. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings. Detailed regulatory disclosures to investors in accordance with the AIFMD are contained on the AIFM's website.

Shareholder Information

Annual General Meeting

The Annual General Meeting of Montanaro European Smaller Companies Trust plc will be held at the offices of Montanaro Asset Management, 53 Threadneedle Street, London, EC2R 8AR, on Thursday, 12 September 2019 at 12.30pm.

Key Dates

31 March 2019	Company year end
12 September 2019	Annual General Meeting
17 September 2019	Payment of final dividend
November 2019	Interim results announced
January 2020	Payment of expected interim dividend

Dividends

Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Mandates can be obtained from Equiniti Limited on request at the address shown on page 18.

Change of Address

Communications with shareholders are mailed to the address shown on the share register. In the event of a change of address or other amendment this should be notified to Equiniti Limited under the signature of the registered holder.

Frequency of NAV Publication

The Company's NAV is released to the London Stock Exchange on a daily basis.

ISA Status

The Company's shares are fully eligible for inclusion in ISAs.

AIC

The Company is a member of the Association of Investment Companies ('AIC').

Sources of Further Information

The Company's share price is listed in the *Financial Times* under Investment Companies, and in other newspapers. Information on the Company is also available on the Manager's website: www.montanaro.co.uk.

Data protection

The Company is committed to protecting and respecting the confidentiality, integrity and security of the personal data it holds. For information on the processing of personal data, please see the privacy policy on the website at www.montanaro.co.uk.

Warning to Shareholders – Beware of Share Fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

If you receive unsolicited investment advice or requests:

- Check the Financial Services Register at **www.fca.org.uk** to see if the person or firm contacting you is authorised by the Financial Conduct Authority ('FCA').
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at **www.fca.org.uk/scams**.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice.

If you are approached by fraudsters please tell the FCA by using the share fraud reporting form at **www.fca.org.uk/scams** where you can find out more about investment scams. You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

Alternative Performance Measures (“APMs”)

The Company uses the following APMs:

Discount (or Premium)

If the share price of an Investment Trust is less than its Net Asset Value per share, the shares are trading at a discount. If the share price is greater than the Net Asset Value per share, the shares are trading at a premium.

As at 31 March 2019, the Net Asset Value per share was 1,010.8p and the share price was 890.0p. The Discount is therefore calculated at 12.0% as shown in the highlights on page 1.

Gearing

Unlike open-ended investment companies, Investment Trusts have the ability to borrow to invest. This term is used to describe the level of borrowings that an Investment Trust has undertaken, and is stated as a percentage of shareholders' funds. The higher the level of borrowings, the higher the gearing ratio. Gearing is calculated as total liabilities less current assets divided by net assets.

As at 31 March 2019, total liabilities were (£8,776,000), current assets were £8,089,000 and net assets were £169,141,000. As at 31 March 2019, Gearing is therefore equal to 0.4% as shown in the highlights on page 1.

Ongoing Charges (expressed as a percentage)

All operating costs expected to be incurred in future and that are payable by the Company expressed as a proportion of the average Net Assets of the Company over the reporting year. The costs of buying and selling investments are excluded, as are interest costs, taxation, non-recurring costs and the costs of buying back or issuing Ordinary Shares.

Ongoing charges calculation

	31 March 2019 £'000	31 March 2018 £'000
Total expenditure	2,049	1,930
Less negative interest (see note 4)	(103)	(121)
Less non-recurring costs	–	–
Total	(a) 1,946	1,809
Average daily net assets	(b) 164,541	151,110
Ongoing charges (c = a/b)	(c) 1.2%	1.2%

Total Return – NAV and Share Price Returns

Total Return enables the Investor to make performance comparisons between investment trusts with different dividend policies. The total return measures the combined effect of any dividends paid, together with the rise or fall in the Share price or NAV. This is calculated by the movement in the Share price or NAV plus dividend income reinvested by the Company at the prevailing NAV. As at 31 March 2019, the 1 year NAV Total Return was +13.1% (2018: +11.8%) as shown in the highlights on page 1.

NAV Total Return calculation as at 31 March 2019

NAV per share as at 31 March 2019	1010.8	(c)
NAV Per share as at 31 March 2018	901.1	(d)
Dividend Adjustment Factor (+ 1)	1.01	(a)
Pre Dividend Re-investment Factor	1.12	(b) (b=c/d)
NAV Total Return	13.1%	((a*b)-1)

(a) Dividend Adjustment Factor

Dividend – pps	Dividend XD Date	NAV at Dividend XD Date	NAV Multiplier
Interim Dividend – 1.75	7 December 2018	903.0	0.00
Final Dividend – 6.75	13 July 2018	1006.4	0.01
			0.01

NAV Total Return calculation as at 31 March 2018

NAV Per share as at 31 March 2018	901.1	(c)
NAV Per share as at 31 March 2017	813.1	(d)
Dividend Adjustment Factor (+ 1)	1.01	(a)
Pre Dividend Re-investment Factor	1.11	(b) (b=c/d)
NAV Total Return	11.8%	((a*b)-1)

(a) Dividend Adjustment Factor

Dividend – pps	Dividend XD Date	NAV at Dividend XD Date	NAV Multiplier
Interim Dividend – 1.75	8 December 2017	894.8	0.00
Final Dividend – 6.5	23 June 2017	895.7	0.01
			0.01

Glossary of Terms

AIFMD

Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires that all investment vehicles in the European Union, including Investment Trusts, must, with effect from 22 July 2014, appoint a Depositary and an Alternative Investment Fund Manager (AIFM). The Board of Directors of an Investment Trust, nevertheless, remains fully responsible for all aspects of the Company's strategy, operations and compliance with regulations.

Association of Investment Companies ('AIC')

The Association of Investment Companies is the trade body for Closed-end Investment Companies (www.theaic.co.uk).

Benchmark

This is a measure against which an Investment Trust's performance is compared. The benchmark of the Company is the MSCI Europe SmallCap (ex UK) Index (capital return in Sterling terms). The index averages the performance of a defined selection of companies listed in European smaller company stock markets and gives an indication of how those markets have performed in any period.

Closed-end Investment Company

A company, including an Investment Trust, with a fixed issued ordinary share capital which is traded on an exchange at a price not necessarily related to the Net Asset Value of the company and where shares can only be issued or bought back by the company in certain circumstances. This contrasts with an open-ended investment company, which has units not traded on an exchange but issued or bought back from investors at a price directly related to the Net Asset Value.

Custodian

A specialised financial institution responsible for safeguarding, worldwide, the listed securities and certain cash assets of the Company, as well as the income arising therefrom, through provision of custodial, settlement and associated services. The Company's Custodian is The Bank of New York Mellon (International) Limited.

Depositary

Under AIFMD rules applying from 22 July 2014, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. The Depositary has strict liability for loss of any investments or other assets where it has safekeeping duties. The Depositary's oversight duties include, but are not limited to, oversight of share buybacks, dividend payments and adherence to investment limits. The Company's Depositary is Bank of New York Mellon (International) Limited.

Dividend

The income from an investment. Some Investment Trusts pay dividends on a quarterly or monthly basis. Montanaro European Smaller Companies Trust plc currently pays dividends twice a year.

IFRS

International Financial Reporting Standards as adopted by the European Union.

Investment Trust

A Closed-end Investment Company which satisfies the requirements of Section 1158 of the Corporation Tax Act 2010. Companies which meet these criteria are exempt from having to pay tax on the capital gains they realise from sales of the investments within their portfolios.

Leverage

As defined under the AIFMD rules, Leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to Gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowings). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash and cash equivalents, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash and cash equivalents and after certain hedging and netting positions are offset against each other.

Manager

The Company's investment manager is Montanaro Asset Management Limited. The responsibilities and remuneration of the Manager are set out in the Business Model and Strategy on page 11 and in the Report of the Directors on page 21.

Marked to Market

Accounting for the fair value of an asset or liability that can change over time and reflects its current market value rather than its book cost.

Market Capitalisation

The stock market value of a company as determined by multiplying the number of shares in issue, excluding those shares held in treasury, by the market price of the shares.

Net Assets (or Shareholders' Funds)

This is calculated as the value of the investments and other assets of an Investment Trust, plus cash and debtors, less borrowings and any other creditors. It represents the underlying value of an Investment Trust at a point in time.

Glossary of Terms continued

Net Asset Value ('NAV') per Ordinary Share

This is calculated as the net assets of an Investment Trust divided by the number of shares in issue, excluding those shares held in treasury.

Ordinary Shares

The main type of equity capital issued by conventional Investment Trusts. Shareholders are entitled to their share of both income, in the form of dividends paid by the Investment Trust, and any capital growth. Montanaro European Smaller Companies Trust plc has only Ordinary Shares in issue.

Share Price

The value of a share at a point in time as quoted on a stock exchange. The shares of Montanaro European Smaller Companies Trust plc are quoted on the Main Market of the London Stock Exchange.

SORP

Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the AIC.

Total Assets

This is calculated as the value of the investments and other assets of an Investment Trust, plus cash and debtors.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Montanaro European Smaller Companies Trust plc (the 'Company') will be held at the offices of Montanaro Asset Management, 53 Threadneedle Street, London, EC2R 8AR, on Thursday 12 September 2019 at 12.30pm for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 9 will be proposed as ordinary resolutions and resolutions 10 and 11 will be proposed as special resolutions.

Ordinary Resolutions

RESOLUTION 1 – ANNUAL REPORT AND ACCOUNTS

That the Annual Report and Accounts of the Company for the year ended 31 March 2019 be received.

RESOLUTION 2 – ANNUAL REPORT ON DIRECTORS' REMUNERATION

That the Annual Report on Directors' Remuneration for the year ended 31 March 2019 be approved.

RESOLUTION 3 – FINAL DIVIDEND

That a final dividend of 7.25p per Ordinary Share be declared.

RESOLUTION 4 – RE-ELECTION OF DIRECTOR

That Mr R M Curling, who retires annually, be re-elected as a Director.

RESOLUTION 5 – RE-ELECTION OF DIRECTOR

That Mrs C A Roxburgh, who retires annually, be elected as a Director.

RESOLUTION 6 – RE-ELECTION OF DIRECTOR

That Mrs M R Somerset Webb, who retires annually, be re-elected as a Director.

RESOLUTION 7 – RE-APPOINTMENT OF AUDITOR

That Ernst & Young LLP be re-appointed as the Company's auditor, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

RESOLUTION 8 – AUDITOR'S REMUNERATION

That the Directors be authorised to determine the auditor's remuneration.

RESOLUTION 9 – AUTHORITY TO ALLOT SHARES

That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date of the passing of this resolution, the Board of Directors of the Company (the 'Board') be and is hereby generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot

shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £836,500, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2020 or, if earlier, on 30 September 2020 save that the Company may before such expiry make an offer or enter into an agreement which would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the Board may allot shares or grant such rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Resolutions

RESOLUTION 10 – AUTHORITY TO ALLOT SHARES OTHER THAN ON A PRE-EMPTIVE BASIS

That, subject to the passing of resolution 9 set out in the notice of the Annual General Meeting of the Company convened for 12 September 2019 and in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date of the passing of this resolution, the Board of Directors of the Company (the 'Board') be and is hereby generally empowered pursuant to sections 570 and 573 of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of section 560 of the Act) (including the grant of rights to subscribe for, or to convert any securities into, ordinary shares of 50 pence each in the capital of the Company ('Ordinary Shares')) wholly for cash either pursuant to the authority conferred on them by such resolution 9 or by way of a sale of treasury shares (within the meaning of section 560(3) of the Act) as if section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited to the allotment of equity securities and the sale of treasury shares:

- (i) in connection with a rights issue, open offer or other pre-emptive offer in favour of the holders of Ordinary Shares who are on the register of members on a date fixed by the Board where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them on that date (subject to such exclusions or other arrangements in connection with the rights issue, open offer or other offer as the Board deem necessary or expedient to deal with shares held in treasury, fractional entitlements to equity securities and to deal with any legal or practical problems or issues arising in any overseas territory or under the requirements of any regulatory body or stock exchange); and

Notice of Annual General Meeting continued

- (ii) otherwise than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £836,500, and shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the Annual General Meeting of the Company to be held in 2020 or, if earlier, on 30 September 2020 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. This power shall authorise the Board to issue equity securities at such issue price as the Board may determine (including, without limitation, where equity securities are being issued from treasury at a price below the net asset value per Ordinary Share of the Company at the time of the relevant issue).

RESOLUTION 11 – AUTHORITY TO BUY BACK SHARES

That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date of the passing of this resolution, the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the 'Act') to make one or more market purchases (as defined in section 693(4) of the Act) of ordinary shares of 50 pence each in the capital of the Company ('Ordinary Shares') on such terms and in such manner as the Board of Directors may determine provided that:

- (i) the maximum aggregate number of Ordinary Shares which may be purchased is 2,508,315 (or if less, 14.99 per cent of the number of Ordinary Shares in issue (excluding treasury shares) immediately prior to the passing of this resolution);
- (ii) the minimum price which may be paid for an Ordinary Share is 50 pence (exclusive of associated expenses);
- (iii) the maximum price which may be paid for an Ordinary Share (exclusive of associated expenses) is the higher of: (a) 105 per cent of the average of the market value of an Ordinary Share for the five business days immediately preceding the day on which the Ordinary Share is purchased; and (b) the value of an Ordinary Share calculated on the basis of the higher price quoted for (i) the last independent trade of; and (ii) the highest current independent bid for any number of Ordinary Shares on the trading venue where the purchase is carried out; and
- (iv) unless previously renewed, varied or revoked, this authority shall expire at the conclusion of the Annual

General Meeting of the Company to be held in 2020 or, if earlier, on 30 September 2020 save that the Company may before such expiry enter into a contract to purchase Ordinary Shares which will or may be completed wholly or partly after such expiry and a purchase of Ordinary Shares may be made pursuant to any such contract.

By order of the Board

LINK COMPANY MATTERS

Company Secretary
65 Gresham Street
London EC2V 7NQ
18 June 2019

Notes

1. Attending the Annual General Meeting in Person

If you wish to attend the Annual General Meeting in person, you should arrive at the venue for the Annual General Meeting in good time to allow your attendance to be registered. It is advisable to have some form of identification with you as you may be asked to provide evidence of your identity to the Company's registrar, Equiniti Limited (the 'Registrar'), prior to being admitted to the Annual General Meeting.

2. Appointment of Proxies

Members are entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote at the Annual General Meeting. A proxy need not be a member of the Company but must attend the Annual General Meeting to represent a member. To be validly appointed a proxy must be appointed using the procedures set out in these notes and in the notes to the accompanying proxy form.

If members wish their proxy to speak on their behalf at the meeting, members will need to appoint their own choice of proxy (not the Chairman of the Annual General Meeting) and give their instructions directly to them.

Members can only appoint more than one proxy where each proxy is appointed to exercise rights attached to different shares. Members cannot appoint more than one proxy to exercise the rights attached to the same share(s). If a member wishes to appoint more than one proxy, they should contact the Registrar on 0371 384 2030. Lines are open from 8.30am to 5.30pm, Monday to Friday excluding UK public holidays. If calling from overseas please call +44 121 415 7047.

A member may instruct their proxy to abstain from voting on any resolution to be considered at the meeting by marking the 'Abstain' option when appointing their proxy. It should be noted that an abstention is not a vote in law

and will not be counted in the calculation of the proportion of votes 'For' or 'Against' the resolution.

The appointment of a proxy will not prevent a member from attending the Annual General Meeting and voting in person if he or she wishes.

A person who is not a member of the Company but who has been nominated by a member to enjoy information rights does not have a right to appoint any proxies under the procedures set out in these notes and should read note 8 below.

3. Appointment of a Proxy Using a Proxy Form

A proxy form for use in connection with the Annual General Meeting is enclosed. To be valid, any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand by the Registrar at FREEPOST RTHJ-CLLL-KBKU, Equiniti, Aspect House, Spencer Road, Lancing, BN99 6DA no later than 48 hours (excluding non-working days) before the time of the Annual General Meeting or any adjournment of that meeting.

If you do not have a proxy form and believe that you should have one, or you require additional proxy forms, please contact the Registrar on 0371 384 2030. Lines are open from 8.30am to 5.30pm, Monday to Friday excluding UK public holidays. If calling from overseas please call +44 121 415 7047.

4. Appointment of a Proxy Through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the following website: www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must in order to be valid, be transmitted so as to be received by the Registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the Annual General Meeting or any adjournment of that meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp

applied to the message by the CREST Application Host) from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. Appointment of Proxy by Joint Holders

In the case of joint holders, where more than one of the joint holders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

6. Corporate Representatives

Any corporation which is a member can appoint one or more corporate representatives. Members can only appoint more than one corporate representative where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s).

7. Entitlement to Attend and Vote

To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6.30pm on 10 September 2019 (or, if the Annual General Meeting is adjourned, at 6.30pm on the day two days prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

Notice of Annual General Meeting continued

8. Nominated Persons

Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the '2006 Act') to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

9. Website Giving Information Regarding the Annual General Meeting

Information regarding the Annual General Meeting, including information required by section 311A of the 2006 Act, and a copy of this notice of Annual General Meeting is available from www.montanaro.co.uk.

10. Audit Concerns

Members should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the 2006 Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the 2006 Act to publish on a website.

11. Members resolution

Under Section 338 and Section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (a) to give to members of the Company entitled to receive notice of meeting, notice of any resolution which may properly be moved and is intended to be moved at the meeting and/or (b) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is

defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 1 August 2019, being the date six weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

12. Voting Rights

As at 18 June 2019 (being the latest practicable date prior to the publication of this notice) the Company had 17,448,260 Ordinary Shares in issue of £0.50 each, including 715,000 Ordinary Shares of £0.50 each held in treasury. Each Ordinary Share (other than those held in treasury) carries one vote. The total voting rights in the Company as at 18 June 2019 were 16,733,260 votes.

13. Notification of Shareholdings

Any person holding 3 per cent or more of the total voting rights of the Company who appoints a person other than the Chairman of the Annual General Meeting as his proxy will need to ensure that both he, and his proxy, comply with their respective disclosure obligations under the UK Disclosure Guidance and Transparency Rules.

14. Further Questions and Communication

Under section 319A of the 2006 Act, the Company must cause to be answered any question relating to the business being dealt with at the Annual General Meeting put by a member attending the meeting unless answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, or the answer has already been given on a website in the form of an answer to a question, or it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Members who have any queries about the Annual General Meeting should contact the Company Secretary, Link Company Matters Limited at 65 Gresham Street, London, EC2V 7NQ.

Members may not use any electronic address provided in this notice or in any related documents (including the Annual Report and Accounts and proxy form) to communicate with the Company for any purpose other than those expressly stated.

15. Documents Available for Inspection

The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and English public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting:

- 15.1 copies of the Directors' letters of appointment; and
- 15.2 copies of the Directors' deeds of indemnity.

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