

Montanaro UK Smaller Companies Investment Trust PLC **(“MUSCIT” or the “Company”)**

Half-Yearly Report for the six months ended 30 September 2015

MUSCIT was launched in March 1995 and is listed with the UKLA and its shares are traded on the London Stock Exchange.

Investment Objective

MUSCIT's investment objective is capital appreciation through investing in small quoted companies listed on the London Stock Exchange or traded on the Alternative Investment Market (“AIM”) and to achieve relative outperformance of its benchmark, the Numis Smaller Companies Index (excluding Investment Companies) (“NSCI”).

No unquoted investments are permitted.

Investment Policy

The Company seeks to achieve its objective and to manage risk by investing in a diversified portfolio of quoted UK small companies. At the time of initial investment, a potential investee company must be profitable and no bigger than the largest constituent of the NSCI, which represents the smallest 10% of the UK Stock Market by value. At the start of 2015, this was any company below £1.5 billion in size. The Manager focuses on the smaller end of this index.

In order to manage risk, the Manager limits any one holding to a maximum of 4% of the Company's investments. The portfolio weighting of each investment is closely monitored to reflect the underlying liquidity of the particular company. The Company's AIM exposure is also closely monitored by the Board and is limited to 30% of total investments, with Board approval required for exposure above 25%. The Company currently holds no investments in companies traded on AIM.

The Manager is focused on identifying high-quality, niche companies operating in growth markets. This typically leads the Manager to invest in companies that enjoy high barriers to entry, pricing power, a sustainable competitive advantage and strong management teams. The portfolio is therefore constructed on a “bottom up” basis.

The Alternative Investment Fund Manager (“AIFM”), in consultation with the Board, is responsible for determining the gearing levels of the Company and has determined that the Company's borrowings should be limited to 25% of shareholders' funds. Gearing is used to enhance returns when the timing is considered appropriate. The Company currently has credit facilities of £25 million with ING Bank, of which £20 million was drawn down as at 30 September 2015 (amounting to net gearing of 7.7%).

Highlights

for the six months to 30 September 2015

Results

	As at 30 September 2015	As at 31 March 2015	% Change
Ordinary share price	502.0p	463.0p	8.4
Net Asset Value per Ordinary share	578.8p	564.7p	2.5
NAV (excluding current period revenue) per Ordinary share	572.0p	554.4p	3.2
Discount to NAV (excluding current period revenue)	12.2%	16.5%	
NSCI*	6,658.05	6,578.9	1.2

* Capital only.

	As at 30 September 2015	As at 31 March 2015	% Change
Gross Assets	£214.3m	£207.7m	3.2
Net Assets	£193.8m	£189.0m	2.5
Market capitalisation	£168.0m	£155.0m	8.4
Net gearing employed*	7.7%	5.4%	
Ongoing charges	1.2%	1.2%	
Portfolio turnover**	18.0%	19.3%	

* Borrowing net of cash.

** Calculated using average transactions as a percentage of the average total Investments at fair value during the year.

Performance

Capital Return Percentage	6 month	1 year	3 year	5 year	10 year	Since Launch
Share Price	8.4	12.8	36.0	66.6	140.8	428.4
NAV (excluding current period revenue)	3.2	11.0	25.4	58.7	127.9	480.2
Benchmark*	1.2	6.7	42.9	56.0	23.9	124.4

Total Return Percentage	6 month	1 year	3 year	5 year	10 year	Since Launch
Share Price**	10.3	14.7 [†]	42.9 [†]	81.8 [†]	188.4 [†]	502.2
NAV**	4.1	12.5 [†]	31.0 [†]	71.2 [†]	165.4 [†]	558.1
Benchmark*	2.9	9.9	55.5	80.3	66.9	309.6

* The Benchmark is a composite index comprising the FTSE SmallCap Index (excluding investment companies) until 31 March 2013 and the NSCI Index from 1 April 2013 onwards.

** Returns have been adjusted for dividends paid.

[†] Source: AIC.

Capital Structure

As at 30 September 2015, the Company had 33,475,958 Ordinary shares of 10p each in issue (none of which were held in Treasury). Holders of Ordinary shares have unrestricted voting rights of one vote per share at all general meetings of the Company.

Directors

At the Company's Annual General Meeting held on 31 July 2015, Michael Moule stood down as a Director after ten years on the Board. His vast experience, sound advice and huge enthusiasm for investing has been invaluable and will be sorely missed.

Manager's Review

The last six months provided investors with the contrast of an improving domestic economy set against the fragility of growth in emerging countries (notably China) and fears of a slowdown in the United States. This was reflected in the stock market indices, with the more domestically focused NSCI rising by 1.2%, outperforming the wider UK Stock Market (as represented by the FTSE All-Share Index) by a remarkable 10.1%.

Against this, it is pleasing to report a 3.2% increase in the Company's NAV, an outperformance relative to the benchmark index of 2.0% due to good stock selection and a favourable style tailwind. The Company has also seen increased corporate activity during the period with three stocks subject to takeover, which was helpful to performance. During the period the share price rose by 8.4%, narrowing the discount to NAV from 16.5% to 12.2%.

The UK emerged from this period with a more stable political climate as the Conservative Party surprisingly won a majority mandate at the General Election. Political opinion polls were not the only predictive measure that proved off-beat; reports suggesting a stuttering economic recovery in the UK were also shown to be false, as the UK was revealed to have grown faster than any other G7 nation in 2013 and 2014. Increased activity in the business and professional services sector, alongside strong retail sales, helped move business and consumer confidence in the right direction. The favourable backdrop for the consumer, including low mortgage rates, moderately rising real wages and low energy prices, was reflected in the performance of the quoted sector.

There was also good news from across the Channel, where after much huffing and puffing an agreement was reached to ensure that Greece was kept within the European Monetary Union. The absence of any dislocation in Europe was positive for the UK, given that the Continent absorbs half of its exports. Reassuringly from an investment perspective, markets reacted to the lengthy deliberations in sanguine fashion.

It was from elsewhere that the rumblings of market volatility originated. In response to the swings of China's roller-coaster stock market, the government enacted a 3% devaluation of the Renminbi. This exacerbated worries surrounding the trajectory of global growth, such that the oil price tumbled to \$40 per barrel. This deflationary move was a factor in staying the hand of the Bank of England and the US Federal Reserve, who both refrained from raising interest rates.

Outlook

Set against this backdrop, there are reasons for cautious optimism for SmallCap investors. Firstly, the asset class is less exposed to energy and commodities, which are under acute pressure from investors as global overcapacity is yet to be reduced. Secondly, SmallCap is more domestically focused and has therefore been less buffeted by conditions abroad. Investors are favouring the asset class because of the UK's better economic performance, while they are also rewarding those companies that are able to translate a more dynamic economic environment into earnings growth. Accordingly, May 2015 marked the first month in over a year when investors began investing in UK SmallCap again (source: the Investment Association).

We therefore believe that the outperformance of SmallCap can continue into the New Year, if not beyond. Barring any unforeseen events, an increase in gearing is likely ahead of the traditionally strong month of December.

Montanaro Asset Management Limited
23 November 2015

Investment Portfolio
as at 30 September 2015

Holding	Sector	Value £'000	Market cap £m	% of	% of
				portfolio 30 September 2015	portfolio 31 March 2015
Consort Medical	Health Care, Equipment and Services	7,714	459	3.7	3.6
NCC Group	Software and Computer Services	7,569	628	3.7	3.1
Marshalls	Construction and Materials	7,493	711	3.6	3.5
Cineworld Group	Travel and Leisure	7,493	1,472	3.6	3.6
Big Yellow Group	Real Estate/Real Estate Investment Trusts	7,240	1,139	3.5	3.3
Dignity	General Retailers	7,150	1,175	3.4	3.2
Bovis Homes Group	Household Goods and Home Construction	6,826	1,353	3.3	3.2
Victrex	Chemicals	6,468	1,514	3.1	2.4
Shaftesbury	Real Estate/Real Estate Investment Trusts	6,369	2,551	3.1	2.9
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	5,634	826	2.7	3.0
Domino's Pizza Group	Travel and Leisure	5,603	1,477	2.7	-
Entertainment One	Media	5,576	734	2.7	3.0
Jupiter Fund Management	Financial Services	5,287	1,984	2.6	2.5
Hilton Food Group	Food Producers	5,210	333	2.5	2.5
Restaurant Group	Travel and Leisure	5,198	1,360	2.5	2.6
Rathbone Brothers	Financial Services	4,966	991	2.4	2.5
St. Modwen Properties	Real Estate/Real Estate Investment Trusts	4,864	922	2.3	2.0
AVEVA Group	Software and Computer Services	4,715	1,302	2.3	1.7
Ted Baker	Personal Goods	4,631	1,409	2.2	2.3
Cranswick	Food Producers	4,592	793	2.2	2.0
Twenty Largest Holdings		120,598		58.1	
Workspace Group	Real Estate/Real Estate Investment Trusts	4,487	1,521	2.2	-
Clarkson	Industrial Transportation	4,414	615	2.1	2.9
Helical Bar	Real Estate/Real Estate Investment Trusts	4,308	485	2.1	2.1
Hellermann Tyton Group	Electronic and Electrical Equipment	4,248	1,005	2.1	1.9
Ricardo	Support Services	4,180	461	2.0	-
Wilmington	Media	3,944	235	1.9	1.2
Mears Group	Support Services	3,913	393	1.9	2.2
AG Barr	Beverages	3,829	612	1.8	2.2
Berendsen	Support Services	3,711	1,731	1.8	2.1
RPS Group	Support Services	3,596	499	1.7	1.8
Galliford Try	Household Goods and Home Construction	3,537	1,305	1.7	1.6
Arrow Global Group	Financial Services	3,500	488	1.7	1.6
Renishaw	Electronic and Electrical Equipment	3,427	1,467	1.7	2.1
Senior	Aerospace and Defence	3,404	1,054	1.6	2.2
Halma	Electronic and Electrical Equipment	3,391	2,732	1.6	1.6
Dunelm Group	General Retailers	3,348	1,822	1.6	1.6
Diploma	Support Services	3,325	753	1.6	2.0
James Fisher and Sons	Industrial Transportation	3,259	467	1.6	2.3
Brewin Dolphin Holdings	Financial Services	3,212	718	1.5	2.0
Dialight	Electronic and Electrical Equipment	2,860	207	1.4	1.7
Paypoint	Support Services	2,810	696	1.4	1.1
SuperGroup	Personal Goods	2,680	1,106	1.3	1.4
Euromoney Institutional Investor	Media	2,057	1,218	1.0	1.2
EnQuest	Oil and Gas Producers	1,429	223	0.7	0.5
Hunting	Oil Equipment, Services and Distribution	1,413	597	0.7	0.9
ITE Group	Media	1,339	362	0.6	0.9
Brammer	Support Services	1,308	335	0.6	1.8
Total Holdings		207,527		100.0	

Breakdown by Index (Ex Cash)

Classification	% of portfolio as at 30 September 2015	% of portfolio as at 31 March 2015
	FTSE 100	-
FTSE 250*	19%	19%
Numis Smaller Companies	81%	81%
AIM	-	-

* Represents those holdings that are in the FTSE 250 and are above the threshold for the NSCI.

Interim Management Report and Responsibility Statement

Interim Management Report

The important events that have occurred during the period under review and the key factors influencing the financial statements are set out in the Manager's Review. The principal risks facing the Company are unchanged since the date of the Annual Report for the year ended 31 March 2015 and continue to be as set out in that report on pages 8 to 10 and pages 40 to 42. Risks faced by the Company include, but are not limited to, credit risk, market price risk, interest rate risk, liquidity risk, gearing and use of derivatives.

Responsibility Statement

The Directors confirm that to the best of their knowledge:

- The condensed set of financial statements, which has been neither reviewed nor audited by the external auditors, has been prepared in accordance with FRS 104 'Interim Financial Reporting'; and gives a true and fair view of the assets, liabilities, financial position and profit of the Company;
- The Manager's Review (constituting the Interim Management Report) includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements;
- The statement of principal risks and uncertainties for the remaining six months of the financial year set out above is a fair review of the information required by DTR 4.2.7R; and
- The financial statements include a fair review of the information required by DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period, and any changes in the related party transactions described in the last Annual Report that could do so.

This Half-yearly Report was approved by the Board of Directors on 23 November 2015 and the above Responsibility Statement was signed on its behalf by Kathryn Matthews, Chairman.

Income Statement (unaudited)

for the six months to 30 September 2015

	6 months to 30 September 2015			6 months to 30 September 2014			Year to 31 March 2015		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments at fair value	-	6,358	6,358	-	(21,326)	(21,326)	-	(7,753)	(7,753)
Dividends and interest	2,849	-	2,849	3,087	-	3,087	5,162	260	5,422
Management fee	(238)	(715)	(953)	(445)	(445)	(890)	(879)	(879)	(1,758)
Other expenses	(252)	-	(252)	(210)	-	(210)	(479)	-	(479)
Movement in fair value of derivative financial instruments	-	63	63	-	26	26	-	(81)	(81)
Profit/(loss) on ordinary activities before finance costs and taxation	2,359	5,706	8,065	2,432	(21,745)	(19,313)	3,804	(8,453)	(4,649)
Interest payable and similar charges	(86)	(257)	(343)	(181)	(181)	(362)	(363)	(363)	(726)
Profit/(loss) on ordinary activities before taxation	2,273	5,449	7,722	2,251	(21,926)	(19,675)	3,441	(8,816)	(5,375)
Taxation (Note 2)	(3)	-	(3)	(2)	-	(2)	(3)	-	(3)
Profit/(loss) for the period, being total comprehensive income for the period	2,270	5,449	7,719	2,249	(21,926)	(19,677)	3,438	(8,816)	(5,378)
Return/(loss) per Ordinary share	6.8p	16.3p	23.1p	6.7p	(65.5)p	(58.8)p	10.3p	(26.4)p	(16.1)p

All items in the above statement derive from continuing operations.

The revenue column of the Income Statement includes all income and expenses. The capital column accounts for the realised and unrealised profit or loss on investments and the proportion of the management fee charged to capital.

The total column of this statement is the Statement of Total Comprehensive Income of the Company prepared in accordance with Financial Reporting Standards ("FRS"). The supplementary revenue return and capital return columns are prepared in accordance with the Statement of Recommended Practice issued in November 2014 by the Association of Investment Companies ("AIC SORP").

Statement of Changes in Equity (unaudited)
for the six months to 30 September 2015

	Called-up share capital	Share premium account	Capital redemption reserve	Special reserve*	Capital reserve*	Revenue reserve*	Total equity shareholders' funds
6 months to 30 September 2015	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2015	3,348	19,307	1,362	4,642	154,842	5,522	189,023
Fair value movement of investments	-	-	-	-	6,358	-	6,358
Costs allocated to capital	-	-	-	-	(972)	-	(972)
Dividends paid in the period	-	-	-	-	-	(2,979)	(2,979)
Movement in fair value of derivative financial instruments	-	-	-	-	63	-	63
Net revenue for the period	-	-	-	-	-	2,270	2,270
As at 30 September 2015	3,348	19,307	1,362	4,642	160,291	4,813	193,763
6 months to 30 September 2014							
As at 1 April 2014	3,348	19,307	1,362	4,642	163,658	4,595	196,912
Fair value movement of investments	-	-	-	-	(21,326)	-	(21,326)
Costs allocated to capital	-	-	-	-	(626)	-	(626)
Dividends paid in the period	-	-	-	-	-	(2,511)	(2,511)
Movement in fair value of derivative financial instruments	-	-	-	-	26	-	26
Net revenue for the period	-	-	-	-	-	2,249	2,249
As at 30 September 2014	3,348	19,307	1,362	4,642	141,732	4,333	174,724
Year to 31 March 2015							
As at 1 April 2014	3,348	19,307	1,362	4,642	163,658	4,595	196,912
Fair value movement of investments	-	-	-	-	(7,753)	-	(7,753)
Capital dividend received	-	-	-	-	260	-	260
Costs allocated to capital	-	-	-	-	(1,242)	-	(1,242)
Dividends paid in the year	-	-	-	-	-	(2,511)	(2,511)
Movement in fair value of derivative financial instruments	-	-	-	-	(81)	-	(81)
Net revenue for the year	-	-	-	-	-	3,438	3,438
As at 31 March 2015	3,348	19,307	1,362	4,642	154,842	5,522	189,023

*These reserves are distributable, excluding any gains in unrealised Capital Reserve.

Balance Sheet (unaudited)
as at 30 September 2015

	As at 30 September 2015 £'000	As at 30 September 2014 £'000	As at 31 March 2015 £'000
Fixed assets			
Investments at fair value	207,527	191,819	198,575
Current assets			
Debtors	1,635	1,283	1,281
Cash at bank	5,145	244	7,847
	6,780	1,527	9,128
Creditors: amounts falling due within one year			
Other creditors	(343)	(465)	(416)
Revolving credit facility	(20,000)	(18,000)	(18,000)
	(20,343)	(18,465)	(18,416)
Net current liabilities	(13,563)	(16,938)	(9,288)
Total assets less current liabilities	193,964	174,881	189,287
Creditors: amounts falling due after more than one year			
Interest rate swap	(201)	(157)	(264)
Net assets	193,763	174,724	189,023
Share capital and reserves			
Called-up share capital	3,348	3,348	3,348
Share premium account	19,307	19,307	19,307
Capital redemption reserve	1,362	1,362	1,362
Special reserve	4,642	4,642	4,642
Capital reserve	160,291	141,732	154,842
Revenue reserve	4,813	4,333	5,522
Total equity shareholders' funds	193,763	174,724	189,023
Net asset value per Ordinary share	578.8p	521.9p	564.7p

Notes to the Financial Statements

as at 30 September 2015

1 Financial information

The condensed financial statements for the six months ended 30 September 2015 comprise the statements together with the related notes. The Company applies UK Generally Accepted Accounting Principles in its annual financial statements, and is intending to adopt FRS 102 and the AIC's Statement of Recommended Practice issued in November 2014 for its financial year ending 31 March 2016. The condensed financial statements for the six months to 30 September 2015 have therefore been prepared in accordance with FRS 104 'Interim Financial Reporting'. The Directors do not expect any significant changes to the Company's accounting policies as a result of the adoption of FRS 102. With one exception (see note 2 below), the financial statements have therefore been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and Financial Statements for the year ended 31 March 2015.

The Company has elected to remove its cash flow statement following the adoption of FRS 102.

The financial information contained in this report does not constitute full statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the six months to 30 September 2015 and 30 September 2014 has not been audited or reviewed by the Company's Auditor pursuant to the Auditing Practices Board guidance on such reviews.

The information for the year ended 31 March 2015 has been extracted from the latest published audited financial statements, which have been filed with the Registrar of Companies. The Report of the Auditors on those financial statements was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2 Management Expenses and Finance Costs

With effect from 1 April 2015, the Board has agreed on an allocation of 75% to the capital reserve and 25% to the revenue account. Prior to that date management fees and finance costs were allocated 50% to the capital reserve and 50% to the revenue account. All other expenses are allocated in full to the revenue account.

3 Tax credit/charge on ordinary activities

The tax charge for the six months to 30 September 2015 is £3,000 (six months to 30 September 2014: £2,000; year to 31 March 2015: £3,000). The tax charge comprises a corporation tax charge for the six months to 30 September 2015 of £nil (six months to 30 September 2014: £nil; year to 31 March 2015: £nil) and irrecoverable withholding tax suffered of £3,000 (six months to 30 September 2014: £2,000; year to 31 March 2015: £3,000).

The corporation tax charge is based on an estimated effective tax rate of 0% as investment gains are exempt from tax owing to the Company's status as an investment trust and there is expected to be an excess of management expenses over taxable income.

4 Dividends

	6 months to 30 September 2015 £'000	Year to 31 March 2015 £'000
Paid		
2015 Final dividend of 8.90p (2014: 7.50p) per Ordinary share	2,979	2,511

5 Fair value hierarchy

In accordance with FRS 104, the Company must disclose the fair value hierarchy of financial instruments.

The fair value hierarchy consists of the following four levels:

- level a – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- level b – inputs other than quoted prices included within level a that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- level c – i) inputs for the asset or liability that are based on observable market data (unobservable inputs) or;
ii) inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For financial instruments (within the scope of FRS 102), which are measured at fair value in the Balance Sheet, an entity shall disclose the following for each class of financial instruments:

- the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety;
- any significant transfers between level a and level b of the fair value hierarchy and the reasons for those transfers; and
- for fair value measurements in level c (i) and level c (ii) of the hierarchy, a reconciliation from the opening balances to the closing balances. As well as highlighting purchases, sales and gains and losses, this reconciliation will identify transfers into or out of level c (i) or level c (ii) and the reasons for those transfers.

The table below sets out fair value measurements of financial assets in accordance with FRS 102 fair value hierarchy:

	30 September 2015			31 March 2015		
	Level a £'000	Level b £'000	Total £'000	Level a £'000	Level b £'000	Total £'000
Equity investments	207,527	-	207,527	198,575	-	198,575
	207,527	-	207,527	198,575	-	198,575

The table below sets out fair value measurements of financial liabilities in accordance with FRS 102 fair value hierarchy system:

	30 September 2015			31 March 2015		
	Level a £'000	Level b £'000	Total £'000	Level a £'000	Level b £'000	Total £'000
Revolving Credit Loan Facility	-	20,000	20,000	-	18,000	18,000
Derivative financial instruments	-	201	201	-	264	264
	-	20,201	20,201	-	18,264	18,264

There were no level c (i) or c (ii) investments.

6 Going concern

The Company has adequate financial resources to meet its investment commitments and as a consequence, the Directors believe that the Company is well placed to manage its business risks. After making appropriate enquiries and due consideration of the Company's cash balances, the liquidity of the Company's investment portfolio and the cost base of the Company, the Directors have a reasonable expectation that the Company has adequate available financial resources to continue in operational existence for the foreseeable future and accordingly have concluded that it is appropriate to continue to adopt the going concern basis in preparing the Half-Yearly Report, consistent with previous years.

7 Segmental reporting

The Company has one reportable segment, investing in UK listed businesses.

8 Related Party Transactions

Under the Listing Rules, the Manager is regarded as a related party of the Company. The amounts paid to the Manager during the period were £953,000 (six months to 30 September 2014: £890,000; year to 31 March 2015: £1,758,000). At 30 September 2015, the amount due to Montanaro, included in creditors, was £213,000. However, the existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies and therefore, in terms of FRS 102, the Manager is not considered a related party. The relationship between the Company, its Directors and the Manager is disclosed in the Annual Report and Accounts 2015 in the Directors' Report.

Directors

Kathryn Matthews (Chairman)
Kate Bolsover
Roger Cumming
James Robinson

Principal Advisers

Alternative Investment Fund Manager and Manager

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Montanaro UK Smaller Companies Investment Trust PLC

Registered in England and Wales No. 3004101
An investment company as defined under
Section 833 of the Companies Act 2006

Sources of Further Information

Information on the Company, including this Half-Yearly Report is available on the Manager's website: www.montanaro.co.uk and the Company's website: www.montanarouksmaller.co.uk.

Key Dates

March	Company Year End
June	Annual Results
July	Annual General Meeting
August	Payment of Dividend
November	Interim Results

Frequency of NAV Publication

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

ISA Status

The Company is fully eligible for inclusion in ISAs.

Association of Investment Companies ("AIC")

The Company is a member of the AIC.

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on this announcement (or any other website) is incorporated into, or forms part of, this announcement.