

This document is issued by Montanaro UK Smaller Companies Investment Trust PLC (the "Company") solely in order to make certain particular information available to investors in the Company before they invest, in accordance with the requirements of the FCA Rules implementing the AIFM Directive in the United Kingdom. It is made available to investors in the Company by being made available at www.montanaro.co.uk.

Potential investors in the Company's shares should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.

Montanaro UK Smaller Companies Investment Trust Plc

Investor Disclosure Document

IMPORTANT INFORMATION

Regulatory status of the Company and its alternative investment fund manager ("AIFM")

Montanaro UK Smaller Companies Investment Trust PLC is an 'alternative investment fund' ("AIF") for the purposes of the EU Alternative Investment Fund Managers Directive (Directive 2011/61/EU) (the "AIFM Directive"). The AIFM of the Company is Montanaro Asset Management Limited ("Montanaro") which is authorised and regulated by the United Kingdom Financial Conduct Authority as a 'full-scope UK AIFM' for the purposes of the AIFMD.

The Company's shares are listed on the premium segment of the Official List of the UK Listing Authority and are admitted to trading on the main market of the London Stock Exchange. The Company is subject to its articles of association, the Listing Rules, the Disclosure and Transparency Rules, the UK corporate governance code and the Companies Act 2006. In addition as an Investment Trust the Company needs to comply with sections 1158/1159 of the Corporation Tax Act 2010.

The provisions of the Company's articles of association are binding on the Company and its shareholders. The articles of association set out the respective rights and restrictions attaching to the Company's shares. These rights and restrictions apply equally to all shareholders. All shareholders are entitled to the benefit of, and are bound by and are deemed to have notice of, the Company's articles of association. The Company's articles of association are governed by English law.

Limited purpose of this document

This document is not being issued for any purpose other than to make certain, required regulatory disclosures to investors and, to the fullest extent permitted under applicable law and regulations, the Company and its AIFM and its Directors will not be responsible to persons other than the Company's shareholders for their use of this document, nor will they be responsible to any person (including the Company's shareholders) for any use which they may make of this document other than to inform a decision to invest in shares in the Company.

This document does not constitute, and may not be used for the purposes of, an offer or solicitation to buy or sell, or otherwise undertake investment activity in relation to, the Company's shares.

This document is not a prospectus and it is not intended to be an invitation or inducement to any person to engage in any investment activity. This document may not include (and it is not intended to include) all the information which investors and their professional advisers may require for the purpose of making an informed decision in relation to an investment in the Company and its shares.

Potential investors in the Company's shares should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.

No advice

The Company, the AIFM and its Directors are not advising any person in relation to any investment or other transaction involving shares in the Company. Recipients must not treat the contents of this document or any subsequent communications from the Company, or any of its affiliates, Officers, Directors, employees or agents, as advice relating to financial, investment, taxation, accountant, legal, regulatory or any other matters. Prospective investors must rely on their own professional advisers, including their own legal advisers and accountants, as to legal, tax, accounting, regulatory, investment or any other related matters concerning the Company and an investment in its shares.

Potential investors in the Company's shares should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser before investing in the Company.

Overseas investors

The distribution of this document in certain jurisdictions may be restricted and accordingly persons into whose possession this document comes are required to inform themselves about and to observe such restrictions. The shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) or under any of the relevant securities laws of Canada, Australia or Japan. Accordingly, the shares may not (unless an exemption from such Act or such laws is available) be offered, sold or delivered, directly or indirectly, in or into the USA, Canada, Australia or Japan. The Company is not registered under the United States Investment Company Act of 1940 (as amended) and investors are not entitled to the benefits of such Act.

Prospective investors must inform themselves as to (a) the legal requirements within their own countries for the purchase, holding, transfer or other disposal of shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of shares.

THE COMPANY**Investment Objective and Policy**

The Company's investment objective is capital appreciation achieved by 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").

The Company seeks to achieve its investment objective and diversify risk by investing in a 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.

Investment restrictions and guidelines

No unquoted investments are permitted.

The Manager will normally limit any one holding to a maximum of 4% of the Company's investments at the time of initial investment. The portfolio weighting of each investment is closely monitored to reflect the underlying liquidity of the particular company; smaller investments are made in less liquid companies. AIM exposure is also closely monitored by the Board and is limited to 40% of total investments, with Board approval required for exposure above 35%.

The Manager is focused on identifying high quality niche companies operating in growth markets. This typically leads to investment in companies that enjoy high barriers to entry, pricing power, a sustainable competitive advantage and strong management teams. The portfolio is constructed on a "bottom up" basis and there are no sectoral constraints placed on the Manager.

Leverage

The Board, in consultation with the Manager, is responsible for determining the gearing strategy for the Company. Gearing is used to enhance returns when the timing is considered appropriate. The Company currently has a credit facility of £30 million through ING Bank. The Board has agreed to limit borrowings to 25% of shareholders' funds.

The Board monitors and discusses with the Manager the appropriate gearing and cash levels at each Board meeting. The Board agreed with the Manager on 19 December 2016 to take out a £30 million five year borrowing commitment to December 2021.

Material changes to leverage policies must be agreed by the Company and will be notified to shareholders and included in the annual Report and Accounts, which are available at www.montanaro.co.uk.

The total leverage employed by the Company is updated regularly on the “Monthly Factsheet” available at www.montanaro.co.uk.

Investment strategy and investment techniques

The Company’s Investment Strategy and Policy are set out in full in the Annual Report and Accounts, which can be found on Montanaro’s website.

As a closed-ended investment fund whose shares are admitted to the Official List under Chapter 15 of the Listing Rules, the Company is required to obtain the prior approval of shareholders to any material change to its published investment policy. Accordingly, the Company will not make any material change to its published investment policy without the approval of its shareholders by ordinary resolution. The Company will announce any such change through a Regulatory Information Service. The Company's published investment policy is set out in the section entitled 'Investment policy' above.

In addition any change of investment policy will need to be notified to HMRC in order for the Company to maintain its Investment Trust Status.

Dividend policy

The Company intends to pay a regular quarterly dividend of 1% of the NAV, totalling approximately 4% of the average NAV over the year.

ADMINISTRATION AND MANAGEMENT OF THE COMPANY

The Alternative Investment Fund Manager (AIFM)

Montanaro Asset Management Limited (‘Montanaro’) is the Company’s AIFM. Montanaro is a company incorporated in England and Wales. The Directors of the AIFM are Charles Montanaro, Cedric Durant Des Aulnois, David Gamble (Non-Executive) and Julian Tregoning (Non-Executive).

The Company has entered into a revised management agreement with Montanaro dated 19 June 2014 appointing it to act as AIFM to the Company in accordance with the requirements of the AIFM Directive, which includes the provision of discretionary investment management services and risk oversight and management services in relation to the Company’s investment portfolio.

Montanaro’s remuneration is based on a fee of 0.5% per annum of the gross assets of the Company, calculated monthly in arrears; the fee is reduced by any fees payable to Montanaro in respect of any investments in any other vehicle managed, or in respect of which advice is given, by Montanaro. Montanaro also receives a fee of up to £50,000 per annum for acting as the AIFM.

Montanaro’s staff remuneration policy is available at www.montanaro.co.uk.

The management agreement continues unless or until terminated by either party giving to the other not less than twelve months’ notice in writing or unless otherwise terminated with cause upon immediate written notice from the Company to Montanaro.

The Depositary

The Company appointed BNY Mellon Trust & Depositary (UK) Limited (“BNYMTD”) to provide depositary services, under the AIFM Directive, under the terms of a depositary agreement dated 11 July 2014 to which both the Company and the

AIFM were parties. Effective 1 August 2018, the role of Depositary was transferred from BNYMTD to its parent company, The Bank of New York Mellon (International) Limited (“BoNY”). The Depositary now also acts as the Global Custodian. (Previously this function was delegated to The Bank of New York Mellon SA/NV, London Branch). The services provided by BoNY as Depositary for the Company include:

- general oversight responsibilities over the issue and cancellation of the Company’s share capital, the carrying out of net asset value calculations, the application of income, and the ex-post review of investment transactions;
- monitoring the Company’s cash flows and ensuring that all cash is booked in appropriate accounts in the name of the Company or Montanaro or BoNY acting on behalf of the Company; and
- ensuring that the Company’s financial instruments are retained in segregated custody accounts so that they can be clearly identified as belonging to the Company and that sufficient records are maintained for verification of the Company’s ownership rights in relation to assets other than financial instruments.

The terms of the depositary agreement provide that, where certain assets of the Company are invested in a country whose laws require certain financial instruments to be held in custody by a local entity and no such entity is able to satisfy the requirements under the AIFM Directive in relation to use of delegates by Depositaries, BoNY may still delegate its functions to such a local entity and be fully discharged of all liability for loss of financial instruments of the Company by such local entity. However, this is strictly subject to the prior approval of the directors and a prior notification to shareholders.

in the event of loss of those assets that constitute financial instruments under the AIFM Directive, the Depositary will be obliged to return to the Company financial instruments of an identical type, or the corresponding amount of money, unless it can demonstrate that the loss has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary.

The Depositary receives a fee for its services of 0.034% per annum in respect of the value of the Company’s net assets between £0 and £150 million and 0.025% per annum in respect of the value of the Company’s net assets above £150 million, subject to a minimum fee of £20,000 per annum.

The depositary agreement in place with BoNY continues unless and until terminated by either party giving not less than 90 days’ notice.

The Depositary’s duties are owed to the Company and not directly to investors in the Company, whether individually or in groups. Accordingly, investors may not bring any action or make a claim against the Depositary under the depositary agreement.

The Auditor

The Company’s Auditor is Ernst & Young LLP. The fees paid to the Auditor are set out in the Annual Report, available on the Company’s website at <http://www.montanaro.co.uk/our-trusts/uk-smaller-companies-investment-trust/overview>.

The Auditor’s report is published in the Company’s Annual Report. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council’s website at www.frc.org.uk/auditscopeukprivate.

The Auditor’s report is made solely to the Company’s members as a body and is subject to important explanations and disclaimers regarding their responsibilities which are published on the Auditor’s website at www.ey.com.

The Registrar and Administrator

Link Asset Services is the Company’s Registrar and Link Alternative Fund Administrators Limited is the Company’s Administrator. The fees and expenses paid to Link are set out in the Annual Report and Accounts on the Company’s website.

The duties of the Registrar include the maintenance of the Company’s share register and the payment of the Annual Dividend. The contact details for shareholders who have a query on the holding is given in the Company’s Annual Report.

The Administrator is responsible for obtaining security valuation information for the purposes of calculating the NAV. The Investment Trust is valued on a daily basis.

The Company Secretary

Maitland Administration Services Limited is the Company Secretary with effect from 1 January 2017. The fees and expenses paid to them are set out in the Annual Report and Accounts on the Company's website.

Maitland's role includes the preparation of the Annual Report for the Company and assisting the Company's Board in fulfilling their obligations under the articles of association, the Listing Rules, the Disclosure Guidance and Transparency Rules, the UK corporate governance code and the Companies Act 2006.

SHAREHOLDER INFORMATION

Annual Reports and Accounts

Copies of the Company's latest annual and interim reports may be accessed at <http://www.montanaro.co.uk/our-trusts/uk-smaller-companies-investment-trust/overview>.

Publication of net asset values

The latest net asset value of the Company is released to the London Stock Exchange on a daily basis and is available on their website.

Valuation Policy

The Company's Valuation Policy in respect of its investments is contained within the Accounting Policies note in the Annual Report and Accounts.

Historical performance of the Company

Details of the Company's historical financial performance are provided in the Company's annual reports and accounts and monthly factsheets are available at www.montanaro.co.uk.

Investors should note that past performance of the Company is not necessarily indicative of future performance. Investors may not get back the amount invested.

Purchases and sales of shares by investors

The Company's shares are admitted to the Official List of the UKLA and to trading on the main market of the London Stock Exchange. Accordingly, the Company's shares may be purchased and sold on the main market of the London Stock Exchange.

New shares may not currently be issued by the Company. The Company's shares are not redeemable. While the Company has shareholder authority to buy back shares, shareholders do not have the right to have their shares purchased by the Company.

Fair treatment of investors

The legal and regulatory regime to which the Company, the AIFM and the Directors are subject ensures the fair treatment of investors. The Listing Rules require that the Company treats all shareholders of the same class of shares equally.

In particular, as directors of a company incorporated in the United Kingdom, the Directors have certain statutory duties under the Companies Act 2006 with which they must comply. These include a duty upon each Director to act in the way she or he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

No investor has a right to obtain preferential treatment in relation to their investment in the Company and the Company does not give preferential treatment to any investors.

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RISK FACTORS AND RISK MANAGEMENT

The principal risks the Company faces in its portfolio management activities are:

- credit risk;
- market price risk, i.e. movements in the value of investment holdings caused by factors other than interest rate or currency movement;
- interest rate risk;
- liquidity risk, i.e. the risk that the Company has difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments; and
- gearing.

The Company has little or no exposure to cash flow or foreign currency risk.

The Manager monitors the financial risks affecting the Company on a daily basis. The Directors receive financial information on a monthly basis which is used to identify and monitor risk.

The Company discloses the current risk profile of the Company to investors. The Company will make this disclosure on its website at the same time as it makes its annual report and accounts available to investors.

Risk management systems

The Board carefully considers the principal risks for the Company and seeks to manage these risks through continual and regular review, policy setting, compliance with and enforcement of contractual obligations and active communication with the Manager, the Administrator and shareholders.

The Company's annual report which is also available on the Company's website contains full details of the Company's risks and how they are mitigated.

Liquidity risk management

The Company's investment portfolio includes investments in quoted smaller companies and there may be times when the liquidity of the underlying portfolio is poor. This may result in the Company being unable to quickly sell individual holdings within the portfolio in order to meet its liquidity requirements.

The AIFM and the Directors have in place a liquidity management policy in relation to the Company which is intended to ensure that the Company's investment portfolio maintains a level of liquidity which is appropriate to its obligations in respect of investment transactions, share buybacks, loan repayments, dividend payments and other operating costs.

Details of the Company's investment portfolio are contained within the Annual Report and Accounts.

A list of pre-approved counterparties, selected on strict criteria, is maintained by the AIFM.

Investors will be notified by way of a disclosure on Montanaro's website in the event of any material changes being made to the liquidity management systems and procedures, or where any new arrangements for managing the Company's liquidity are introduced.

Professional negligence liability risks

The AIFM is covered under the professional indemnity insurance maintained by Montanaro Asset Management Limited as part of its comprehensive insurance coverage. This is a worldwide policy appropriate to the risks covered.