

Montanaro European Smaller Companies Trust plc
LEI: 213800CWSC5B8BG3RS21

Unaudited Half-Yearly Report for the Six Months Ended 30 September 2022

The Board of Montanaro European Smaller Companies Trust plc (the “Company”) announces the unaudited half-yearly results of the Company for the six months ended 30 September 2022.

Highlights (unaudited)
for the six months ended 30 September 2022

Performance

Capital Returns%(2)	6 Month	1 year	3 year	5 year	10 year	MAM*
Ordinary share price	(36.1)	(46.3)	5.0	32.7	166.8	236.4
Net Asset Value ('NAV') per Ordinary share**	(27.6)	(37.5)	13.5	37.0	169.3	263.2
Benchmark (Composite)(1)**	(20.8)	(25.4)	2.3	(1.1)	134.9	133.0

Total Returns%(2)	6 Month	1 year	3 year	5 year	10 year	MAM*
Ordinary share price	(35.7)	(46.0)	7.0	37.7	196.3	308.8
NAV per Ordinary share**	(27.3)	(37.4)	14.8	41.0	195.1	332.4
Benchmark (Composite)(1)**	(19.3)	(23.7)	7.7	8.2	180.9	215.7

Sources: Morningstar Direct, Association of Investment Companies ('AIC'), Montanaro Asset Management Limited.

	As at 30 September 2022	As at 30 September 2021	12 month % change	As at 31 March 2022 (Audited)	6 month % change
Ordinary share price*	107.4p	200.0p	(46.3%)	168.0p	(36.1%)
NAV per Ordinary share**	124.1p	198.7p	(37.5%)	171.5p	(27.6%)
(Discount)/Premium to NAV(2)	(13.5%)	0.7%		(2.0%)	
Gross assets**(2,3) (£'000s)	248,314	365,590	(32.1%)	341,789	(27.3%)
Net assets** (£'000s)	235,173	357,015	(34.1%)	324,905	(27.6%)
Market capitalisation** (£'000s)	203,445	359,365	(43.4%)	318,238	(36.1%)
Net gearing employed(2)	5.3%	0.9%		4.6%	

	6 months ended 30 September 2022	6 months ended 30 September 2021	12 month % change	12 months ended 31 March 2022 (Audited)	6 month % change
Revenue return per Ordinary share	1.02p	0.80p	27.5%	0.96p	6.3%
Dividend per Ordinary share	0.200p	0.200p		0.925p	
Ongoing charges (annualised) ⁽²⁾	1.0%	1.1%	-	1.1%	
Portfolio turnover (annualised)**	19%	15%		11%	

*From 5 September 2006, when Montanaro Asset Management Limited ('MAM') was appointed as Investment Manager.

**Details provided in the Glossary below.

⁽¹⁾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).

⁽²⁾Refer to Alternative Performance Measures below.

⁽³⁾Gross assets from prior period have been represented due to the change in definition, see Glossary for new definition.

Chairman's Statement

Performance

The first six months of the financial year saw a weak period of absolute and relative performance for your Company. It should be noted that previous year numbers have been adjusted to account for the share split for comparative purposes, details of which are available in the annual report.

The Net Asset Value fell by -27.6% to 124.1p per share, underperforming the Benchmark (MSCI Europe SmallCap (ex-UK) index), which fell by -20.8%. At the end of the period the discount was 13.5% versus 2.0% at the start. As a result, the share price of the company fell by -36.1% during the period, providing a total return of -35.7%.

This is a disappointing short-term performance, reflecting a number of headwinds. Inflationary pressures and subsequent monetary tightening by central banks have increased the cost of capital globally. Such increases have disproportionately affected quality growth stocks, with high quality companies underperforming low quality companies in Europe and growth companies underperforming value companies. Montanaro seeks to invest exclusively in high quality, growing companies and so these style shifts have created a headwind during the period.

Montanaro take a long-term approach to investing and despite the setback so far this year, your Company has delivered NAV per share total returns of 14.8%, 41.0% and 195.1% over the three, five and ten year periods to 30 September 2022 respectively – well ahead of the Benchmark for each of these periods.

The Board believes that Montanaro's quality growth investment philosophy, combined with their high level of internal resources and rigorous focus on company fundamentals, positions the Company to emerge stronger from the current period of market upheaval. Through consistent application of their investment process, Montanaro have been able to successfully weather multiple economic cycles and take advantage of periods of high market volatility over the past 30 years. This gives us confidence that your Company is well positioned to continue delivering strong returns over the long term.

The Board recognises shareholders will be disappointed that the share price has declined by more than the net asset value as a result of the discount widening. This has been a common feature amongst investment trusts this year and the investment trust sector as a whole now trades on a significantly wider discount than it did at the start of the year. The current level of discount for our company is in line with our sector peers. The Board will continue to monitor the situation closely.

Earnings and Dividends

Revenue earnings per share increased in the period to 1.02p (2021: 0.80p).

The Board has declared an interim dividend of 0.2p per Ordinary Share (2021: 0.2p per share) payable on 5 January 2023 to shareholders on the register on 2 December 2022.

Borrowings

At the end of the period, the Company had gearing, net of cash, of 5.3% compared to 4.6% at 31 March 2022.

Outlook

The global economic backdrop has been deteriorating as inflation and higher interest rates put pressure on consumer demand and corporate profit margins. The ongoing conflict in Ukraine and escalating concerns around energy security have exacerbated these stresses.

We believe that the nature of this cycle is changing. While central banks have yet to show signs of easing monetary policy, many of the inflationary forces seen in 2021 are reversing: container freight rates have fallen significantly and several commodity prices are now in outright decline. There are signs that wage inflation is normalising. Meanwhile, the companies in your portfolio are reporting a rapidly improving availability of semiconductor chips. We therefore expect investor focus to shift away from such supply chain issues and towards company resilience, quality of earnings and balance sheet strength as recessionary fears increase. In other words, we would expect the high-quality nature of your portfolio to be rewarded by investors once again.

The other significant change is in investor sentiment and expectations. Forward P/E ratios for European Small Caps have fallen to lows not seen for a decade. In the last two decades their discount to Large Caps has only been lower in the depths of the Global Financial Crisis and Covid.

While trying to perfectly time markets is probably futile, and while the depressed multiples likely portend earnings estimate downgrades, we believe the outlook for long term investors is becoming increasingly attractive. Indeed, the combination of high levels of market volatility and significant (and sometimes unjustified) share price falls for many high quality growth companies represents a compelling opportunity for the Manager. Pleasingly, they have recently begun to increase positions in some of their core holdings and established entirely new positions in companies previously deemed to be overvalued. This gives the Board reason for optimism about the outlook for the Company.

R M CURLING

Chairman

16 November 2022

Portfolio Summary

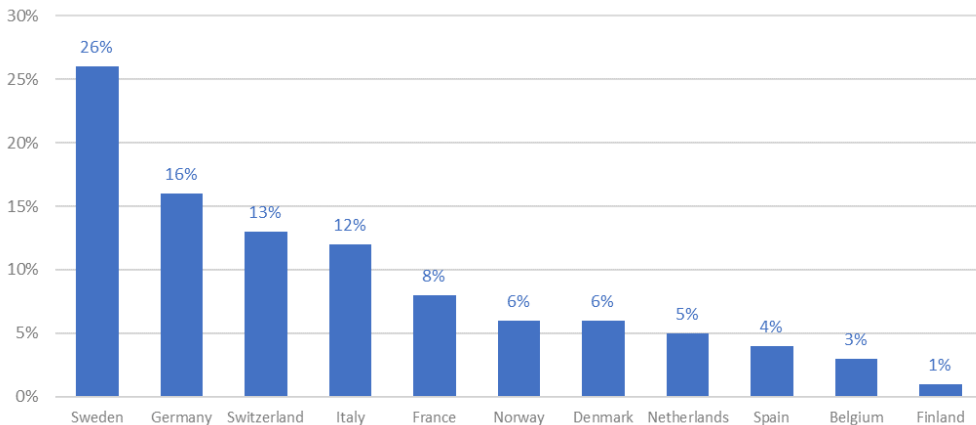
Twenty Largest Holdings

As at 30 September 2022

Holding	Country	Value £'000	% of investment portfolio	% of net assets
NCAB	Sweden	12,821	5.2	5.5
Sartorius Stedim	France	9,730	3.9	4.1
VZ Holding	Switzerland	9,482	3.8	4.0
MTU Aero Engines	Germany	9,442	3.8	4.0
IMCD	Netherlands	9,136	3.7	3.9
Tecan	Switzerland	8,736	3.5	3.7
Melexis	Belgium	7,973	3.2	3.4
CTS Eventim	Germany	7,869	3.2	3.3
Fortnox	Sweden	7,838	3.2	3.3
Kitron	Norway	7,732	3.1	3.3
Reply	Italy	6,604	2.7	2.8
Brunello Cucinelli	Italy	6,560	2.7	2.8
Belimo	Switzerland	6,176	2.5	2.6
Viscofan	Spain	6,126	2.5	2.6
MIPS	Sweden	6,045	2.5	2.6
Brembo	Italy	5,958	2.4	2.5
Esker	France	5,627	2.3	2.4
Thule	Sweden	5,385	2.2	2.3
Amadeus FiRe	Germany	5,161	2.1	2.2
Atoss Software	Germany	5,059	2.0	2.2
Twenty Largest Holdings		149,460	60.5%	63.6%

Geographical Analysis

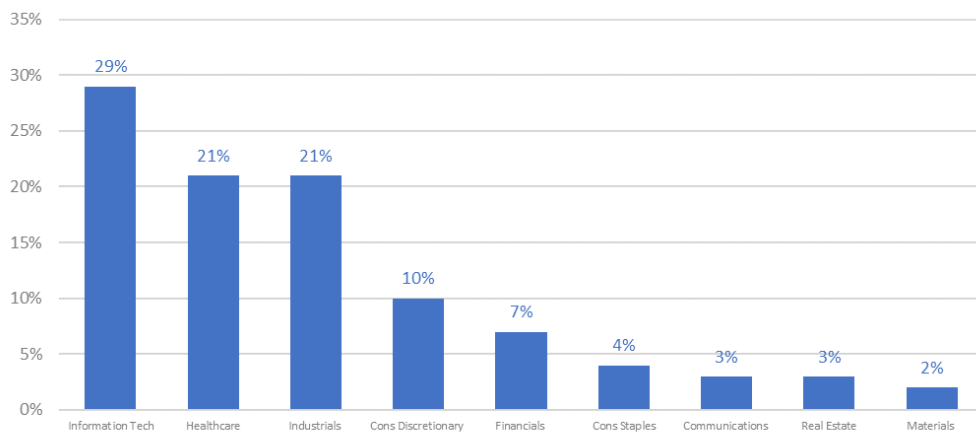
As at 30 September 2022



Source: Montanaro Asset Management Limited

Sector Analysis

As at 30 September 2022



Source: Montanaro Asset Management Limited

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 Chairman's Statement above.

Statement of Principal Risks and Uncertainties:

Most of the principal 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 principal risks faced by the Company are investment and strategic, gearing, financial, discount volatility, regulatory, operational, cyber security, ESG and manager risks. These risks and the way in which they are mitigated are described in more detail under the heading 'Principal and Emerging Risks and Uncertainties and Risk Mitigation' within the Business Model and Strategy section on pages 14 to 17 of the Company's Annual Report for the year ended 31 March 2022. The Company's principal risks and uncertainties have not changed materially since the date of that report and are not expected to change materially for the remaining six months of the Company's financial year.

Related party transactions:

Related party transactions are disclosed in note 15 below. There have been no material changes in the related party transactions described in the last Annual Report.

Going concern:

As stated in note 14 to the condensed financial statements, the Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

Directors' Responsibility Statement in respect of the Half-Yearly Report

We confirm that to the best of our knowledge:

- the condensed set of financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Interim Management Report includes a fair review of the information required by the Disclosure Guidance and Transparency Rule ('DTR') 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the financial statements;
- the Statement of Principal Risks and Uncertainties shown above is a fair review of the information required by DTR 4.2.7R; and
- the Chairman's Statement, together with the condensed set of financial statements, include a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Company during the period, and any changes in the related party transactions described in the last Annual Report that could do so.

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

R M CURLING

Chairman

16 November 2022

**Condensed Statement of Comprehensive Income (unaudited)
for the six months ended 30 September 2022**

		Six months to 30 September 2022			Six months to 30 September 2021			Year to 31 March 2022 (Audited)		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments held at fair value		-	(88,982)	(88,982)	-	69,767	69,767	-	18,806	18,806
Exchange losses		-	(500)	(500)	-	(114)	(114)	-	(264)	(264)
Revenue										
Investment income	3	2,981	-	2,981	2,447	-	2,447	3,788	-	3,788
Total income		2,981	(89,482)	(86,501)	2,447	69,653	72,100	3,788	18,542	22,330
Expenditure										
Management expenses	4	(396)	(736)	(1,132)	(530)	(984)	(1,514)	(1,092)	(2,028)	(3,120)
Other expenses		(293)	-	(293)	(271)	(36)	(307)	(570)	(38)	(608)
Total expenditure		(689)	(736)	(1,425)	(801)	(1,020)	(1,821)	(1,662)	(2,066)	(3,728)
Return before finance costs and tax		2,292	(90,218)	(87,926)	1,646	68,633	70,279	2,126	16,476	18,602
Finance costs		(39)	(73)	(112)	(28)	(51)	(79)	(56)	(104)	(160)
Return before tax		2,253	(90,291)	(88,038)	1,618	68,582	70,200	2,070	16,372	18,442
Tax		(321)	-	(321)	(222)	-	(222)	(348)	-	(348)
Return after taxation		1,932	(90,291)	(88,359)	1,396	68,582	69,978	1,722	16,372	18,094
Return per share	5	1.02p	(47.67p)	(46.65p)	0.8p	39.14p	39.94p	0.96p	9.09p	10.05p

The total column of this statement represents the Company's Income Statement and Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards.

The supplementary revenue return and capital return columns are both prepared under guidance published by the AIC.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period.

**Condensed Balance Sheet (unaudited)
as at 30 September 2022**

	Note	As at 30 September 2022 £'000	As at 30 September 2021 £'000	As at 31 March 2022 (Audited) £'000
Non-current assets				
Investments held at fair value through profit and loss	7	247,129	357,152	339,788
Current assets				
Trade and other receivables		886	3,636	967
Cash and cash equivalents		771	5,465	1,821
		1,657	9,101	2,788
Total assets		248,786	366,253	342,576
Current liabilities				
Trade and other payables		(472)	(663)	(787)
Revolving credit facility		(4,384)	-	(8,450)
Interest-bearing bank loans	8	(8,757)	-	-
		(13,613)	(663)	(9,237)
Non-current liabilities				
Interest-bearing bank loans	8	-	(8,575)	(8,434)
Total liabilities		(13,613)	(9,238)	(17,671)
Net assets		235,173	357,015	324,905
Capital and reserves				
Called-up share capital		9,471	8,984	9,471
Share premium account		44,057	24,410	44,057
Capital redemption reserve		2,212	2,212	2,212
Capital reserve		175,552	318,052	265,843
Revenue reserve		3,881	3,357	3,322
Shareholders' funds		235,173	357,015	324,905
NAV per share	9	124.1p	198.7p	171.5p

**Condensed Statement of Changes in Equity (unaudited)
for the six months ended 30 September 2022**

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 April 2022	9,471	44,057	2,212	265,843	3,322	324,905
Return after taxation	-	-	-	(90,291)	1,932	(88,359)
Dividends paid	-	-	-	-	(1,373)	(1,373)
Balance at 30 September 2022	9,471	44,057	2,212	175,552	3,881	235,173

for the six months ended 30 September 2021 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 April 2021	8,724	12,707	2,212	249,185	3,237	276,065
Return after taxation	-	-	-	68,582	1,396	69,978
Share issues	260	11,703	-	285	-	12,248
Dividends paid	-	-	-	-	(1,276)	(1,276)
Balance at 30 September 2021	8,984	24,410	2,212	318,052	3,357	357,015

for the year ended 31 March 2022 (Audited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital Reserve £'000	Revenue reserve £'000	Total £'000
As at 1 April 2021	8,724	12,707	2,212	249,185	3,237	276,065
Return after taxation	-	-	-	16,372	1,722	18,094
Share issues	747	31,350	-	286	-	32,383
Dividends paid	-	-	-	-	(1,637)	(1,637)
Balance at 31 March 2022	9,471	44,057	2,212	265,843	3,322	324,905

Condensed Statement of Cash Flows (unaudited)
for the six months ended 30 September 2022

	Six months to 30 September 2022 £'000	Six months to 30 September 2021 £'000	Year to 31 March 2022 (Audited) £'000
Net cash inflow/(outflow) from operating activities	4,717	(7,098)	(38,483)
Cash outflow from financing activities	(5,813)	10,858	38,947
	(1,096)	3,760	464
Exchange gains	46	(62)	(410)
(Decrease)/increase in cash and cash equivalents	(1,050)	3,698	54

Reconciliation of profit before finance costs and tax to
net cash inflow from operating activities

Return before taxation	(88,038)	70,200	18,442
Losses/(Gains) on investments held at fair value	88,982	(69,667)	(18,806)
Exchange losses	500	114	264
Finance costs	112	79	160
Withholding tax	(373)	(222)	(348)
Purchases of investments	(22,614)	(28,563)	(75,661)
Sales of investments	26,243	20,863	37,583
Changes in working capital and other non-cash items	(95)	98	(117)
Net cash inflow/(outflow) from operating activities	4,717	(7,098)	(38,483)

Notes to the Accounts (unaudited)

- The condensed unaudited financial statements have been prepared in accordance with International Financial Reporting Standard ('IFRS') IAS 34 'Interim Financial Reporting' and the accounting policies set out in the statutory accounts of the Company for the year ended 31 March 2022. The condensed financial statements do not include all of the information required for a complete set of IFRS financial statements and should be read in conjunction with the financial statements of the Company for the year ended 31 March 2022, which were prepared under full IFRS requirements.
- Earnings for the first six months should not be taken as a guide to the results for the full year.
- Income for the period is derived from:

	Six months to 30 September 2022 £'000	Six months to 30 September 2021 £'000	Year ended 31 March 2022 (Audited) £'000
Overseas dividend income	2,933	2,445	3,785
Exchange gains	35	1	3
Other Income	13	1	-
Total	2,981	2,447	3,788

- Management fee:

	Six months to 30 September 2022 £'000			Six months to 30 September 2021 £'000			Year ended 31 March 2022 (Audited) £'000		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	387	719	1,107	521	968	1,489	1,074	1,996	3,070
AIFM fee	9	16	25	9	16	25	18	32	50
	396	736	1,132	530	984	1,514	1,092	2,028	3,120

As set out in the Company's Annual Report, the management fee will be linked to the size of the Company, as follows:

- 0.90% p.a. of the amount of the Company's market capitalisation up to £500 million;
- 0.75% p.a. of the amount of the Company's market capitalisation between £500 million and £750 million; and
- 0.65% p.a. of the amount of the Company's market capitalisation above £750 million.

The management fee is payable monthly in arrears.

MAM is also entitled to a fee of £50,000 per annum for acting as the Company's Alternative Investment Fund Manager ("AIFM").

5. Return per Share

Earnings per Ordinary Share is based on a weighted average of 189,427,600 Ordinary Shares in issue during the period (year ended 31 March 2022: 180,046,654 and six months ended 30 September 2021: 175,223,174), excluding those shares bought back and held in treasury.

6. Dividends

The interim dividend relating to the year ended 31 March 2023 of 0.2p per Ordinary Share will be paid on 5 January 2023 to shareholders on the register on 2 December 2022. In accordance with IFRS, this dividend has not been recognised in these financial statements. The ex-dividend date for this payment is 1 December 2022.

A final dividend relating to the year ended 31 March 2022 of 0.725p per Ordinary Share was paid during the six months to 30 September 2022 and amounted to £1,373,350.

7. Investments at Fair Value Through Profit and Loss:

	30 September 2022 £'000	30 September 2021 £'000	31 March 2022 £'000 (Audited)
Opening book cost	196,337	145,479	145,479
Holding gains	143,451	137,096	137,096
Opening fair value	339,788	282,575	282,575
Purchases at cost	22,427	28,563	75,867
Sales – proceeds	(26,104)	(23,753)	(37,460)
– gains on sales	4,019	10,085	12,451
Holding (losses)/gains	(93,001)	59,682	6,355
Closing fair value	247,129	357,152	339,788
Closing book cost	196,679	160,374	196,337
Holding gains	50,450	196,778	143,451
Closing valuation	247,129	357,152	339,788

8. Interest-Bearing Bank Loans:

	30 September 2022 £'000	30 September 2021 £'000	31 March 2022 £'000 (Audited)
Opening balance	8,434	8,495	8,495
Amortisation of set-up costs	5	5	10
Non-cash foreign currency movements	318	75	(71)
Closing balance	8,757	8,575	8,434

The Company has a €10 million secured loan with ING Bank N.V. ('ING') at a fixed rate of 1.33% per annum. This loan will mature on 13 September 2023.

The Company also has a €15 million five year secured revolving loan facility with ING which will also mature on 13 September 2023.

As at 30 September 2022, €5 million was drawn down under these facilities.

Under the bank covenants relating to these facilities, the Company is to ensure that at all times the total borrowings of the Company do not exceed 40% of the Adjusted NAV (as defined in the loan agreements) and that the Adjusted NAV does not fall below £45 million. The Company met all covenant conditions during the period.

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

9. Share Capital

Allotted, issued and fully paid
Ordinary Shares of 5p each
For the six months ended 30 September 2022

	Listed Number	£'000	In Issue Number	£'000
Opening balance in issue	189,427,600	9,471	189,427,600	9,471
Closing balance in issue	189,427,600	9,471	189,427,600	9,471

10. Net Assets Value per Ordinary Share

The NAV per Ordinary Share was based on 189,427,600 Ordinary Shares in issue at the end of the period (31 March 2022: 189,427,600 and 30 September 2021: 179,682,600), excluding those shares bought back and held in treasury. As at 30 September 2022, there were no Ordinary Shares held in treasury (31 March 2022: Nil and 30 September 2021: Nil).

11. Fair value Hierarchy

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

- Level 1 – valued using quoted prices unadjusted in active markets for identical assets or liabilities.
- Level 2 – valued by reference to valuation techniques using observable inputs

for the asset or liability other than quoted prices included within Level 1.

- Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

The tables below set out fair value measurements of financial instruments as at the period end, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
30 September 2022				
Investments	247,129	-	-	247,129
Loan	-	(13,141)	-	(13,141)
30 September 2021				
Investments	357,152	-	-	357,152
Loan	-	(8,575)	-	(8,575)
31 March 2022 (Audited)				
Investments	339,788	-	-	339,788
Loan	-	(16,884)	-	(16,884)

There were no transfers between levels during the period ended 30 September 2022 (year ended 31 March 2022 and period ended 30 September 2021: None).

Listed investments held (see note 7) 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 fair value of the loans is calculated using a discounted cash flow technique based on relevant current interest rates compared to their value as stated on the Balance Sheet at amortised cost of £13,141,000 (31 March 2022: £16,884,000 and 30 September 2021: £8,575,000). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown above.

Other aspects of the Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements, as at and for the year ended, 31 March 2022.

12. Rates of exchange (to Sterling):

	30 September 2022 £'000	30 September 2021 £'000	31 March 2022 £'000 (Audited)
Danish Krone	8.48	8.65	8.80
Euro	1.14	1.16	1.18
Norwegian Krone	12.17	11.77	11.52
Swedish Krona	12.40	11.80	12.27
Swiss Franc	1.10	1.26	1.21

13. 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, that 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.

14. **Going Concern:**

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. They have considered the current cash position of the Company, the availability of the borrowing facility to 13 September 2023 and the likelihood of its renewal, compliance with their covenants, the Company's other liabilities and forecast revenues. The Directors have also taken into account the Company's investment policy, 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 period.

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.

15. **Related Parties:**

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 as outlined below.

The amount charged by the Manager during the period was £1,132,000 (six months to 30 September 2022: £1,514,000; year to 31 March 2021: £3,120,000). At 30 September 2022, the amount due to the Manager, included in creditors, was £340,000. The existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies.

Directors' Emoluments

At 30 September 2022, the Board consisted of three non-executive Directors. All Directors are considered to be independent of the Manager. None of the

Directors has a service contract with the Company. The Chairman receives an annual fee of £39,000, the Chair of the Audit Committee receives an annual fee of £33,500 and non-executive Directors receive £28,000 per annum.

At 30 September 2022, the amount outstanding in respect of Directors' fees was £nil (31 March 2022: £nil).

At 30 September 2022, the interests of the Directors in the Ordinary Shares of the Company were as follows:

	As at 30 September 2022	As at 31 March 2022
	No. of shares	No. of shares
R M Curling	150,000	100,000
G J Neilly	61,796	61,496
C A Roxburgh*	61,885	61,885

* Includes 3,580 shares held by Ms Roxburgh's spouse.

The following changes in the Directors' interests occurred between 30 September 2022 and the date of this report:

C A Roxburgh acquired 384 shares on 12 October 2022.

16. These are not statutory accounts in terms of Section 434 of the Companies Act 2006 and have not been audited or reviewed by the Company's Auditor. The information for the year ended 31 March 2022 has been extracted from the latest published financial statements and which have been filed with the Registrar of Companies. The Auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006. No statutory accounts in respect of any period after 31 March 2022 have been reported on by the Company's Auditor or delivered to the Registrar of Companies.

Alternative Performance Measures (“APMs”)

The Company uses the following APMs:

Capital Return – NAV and Share Price Returns

Capital returns measure the effect of any rise or fall in the share price or NAV, excluding any dividends paid. As at 30 September 2022, the 6 month NAV Capital Return was (27.6%), and the 6 month Ordinary share price Capital Return was 36.1%, as shown in the Highlights above.

NAV Capital Return calculation as at 30 September 2022

NAV per share as at 30 September 2022	124.10	(a)
NAV per share as at 31 March 2022	171.50	(b)
NAV Capital Return	(27.6%)	((a-b)/b)

Share Price Capital Return calculation as at 30 September 2022

Share Price as at 30 September 2022	107.40	(a)
Share Price as at 31 March 2022	168.00	(b)
Share Price Capital Return	(36.1%)	((a-b)/b)

Total Return – NAV and Share Price Returns

Total returns measure the effect of any rise or fall in the share price or NAV, plus dividends paid which are reinvested at the prevailing NAV or share price on the ex-dividend date. As at 30 September 2022, the 6 month NAV Total Return was (27.3%), and the 6 month Ordinary share price Total Return was (35.74%), as shown in the Highlights above.

NAV Total Return calculation as at 30 September 2022

NAV per share as at 30 September 2022	124.10	(c)
NAV per share as at 31 March 2022	171.50	(d)
Dividend adjustment factor (+1)	1.0046	(a)
Pre-Dividend Reinvestment Factor	0.7240	(b)(b=c/d)
NAV Total Return	(27.3%)	((a*b)-1)

(a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	NAV at Dividend XD date	Share price Multiplier
Final dividend*	0.725	11.Aug.22	156.32	0.0046

Share price Total Return calculation as at 30 September 2022

Share price as at 30 September 2022	107.40	(c)
Share price as at 31 March 2022	168.00	(d)
Dividend adjustment factor (+1)	1.0052	(a)
Pre-Dividend Reinvestment Factor	0.6393	(b)(b=c/d)
Share price Total Return	(35.7%)	((a*b)-1)

(a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	Share price at Dividend XD date	Share price Multiplier
Final dividend*	0.725	11.Aug.22	139.60	0.0052

Discount or Premium to NAV

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

As at 30 September 2022, the NAV per share was 124.1p and the share price was 107.4p. The discount is therefore calculated at 13.5% as shown in the highlights above.

Gross assets

Gross assets are calculated as net assets adding back borrowings.

	As at 30/09/2022 £'000	As at 30/09/2021 £'000	As at 31/03/2022 £'000
Net Assets	235,173	357,015	324,905
Bank borrowings	13,141	8,575	16,884
Gross assets	248,314	365,590	341,789

Net gearing employed

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.

Net gearing is calculated as total debt, net of cash and cash equivalents, as a percentage of the total shareholders' funds.

As at 30 September 2022, interest bearing bank loans were (£13,151,000), cash and cash equivalents were £771,000 and net assets were £235,173,000. As at 30 September 2022, Gearing was therefore equal to 5.3% as shown in the highlights above.

Ongoing charges (expressed as a percentage)

Ongoing charges are the Company's revenue and capital expenses (excluding finance costs and certain non-recurring items) expressed as a percentage of the average daily net assets of the Company during the period.

Ongoing charges calculation

		Six months to 30 September 2022	Six months to 30 September 2021	31 March 2022
		£'000	£'000	£'000 (Audited)
Total expenditure		1,425	1,785	3,728
Less negative interest		-	-	(38)
Total	(a)	1,425	1,785	3,690
Average daily net assets	(b)	279,257	325,750	338,296
Ongoing charges (c = a/b)*	(c)	1.0%	1.1%	1.1%

* 30 September 2022 and 30 September 2021 figures annualised for comparison (c = (a/b) x 2).

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 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.

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 NAV 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 NAV.

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 Bank of New York Mellon SA/NV.

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 The 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.

Gearing

Gearing is calculated as total liabilities less current assets divided by net assets.

Gross assets

Gross assets are calculated as net assets adding back borrowings.

IFRS

International Financial Reporting Standards.

Investment Manager

The Company's Investment Manager is Montanaro Asset Management Limited.

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.

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.

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.

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.

Net Gearing

Net Gearing is calculated as total debt, net of cash and cash equivalents, as a percentage of the total shareholders' funds.

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.

Portfolio Turnover

Calculated using total sales proceeds as a percentage of the average monthly net assets during the period, annualised.

Related Party Transactions

Under the Listing Rules, the Manager is regarded as a related party of the Company.

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.

Directors and Advisers

Registered Office

16 Charlotte Square
Edinburgh EH2 4DF

Depositary

THE BANK OF NEW YORK MELLON
(INTERNATIONAL) LIMITED
One Canada Square
London E14 5AL

Registered in Scotland No. SC074677

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

Custodian

BANK OF NEW YORK MELLON SA/NV
One Canada Square
London E14 5AL

Directors

R M Curling (Chairman)
C A Roxburgh

G J Neilly

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

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Website

<https://montanaro.co.uk/trust/montanaro-european-smaller-companies-trust/>

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.

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