MONTANARO

European Smaller Companies Trust plc

Annual Report and Accounts 2020

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 ex-UK SmallCap 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.

Contents

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.

Highlights
for the year ended 31 March 2020

Performance

Capital Returns%[1]	1 year	3 year	5 year	10 year	MAM*
Ordinary share price	(1.1)	26.6	70.9	135.9	173.3
Net Asset Value ('NAV')**	(5.3)	17.6	67.4	124.1	178.1
Benchmark (Composite)[2]**	(15.1)	(12.5)	18.3	63.7	84.9

Total Returns%[1]	1 year	3 year	5 year	10 year	MAM*
Ordinary share price	(0.3)	30.3	80.7	164.5	229.2
NAV**	(4.5)	20.2	75.4	144.5	216.9
Benchmark (Composite)[2]**	(13.4)	(7.5)	29.6	97.3	138.6

Sources: Morningstar Direct, Association of Investment Companies ('AIC'), MAM.

	As at 31 March 2020	As at 31 March 2019	12 month % change
Ordinary share price	**880.0p**	890.0p	(1.1)
NAV per Ordinary share**	**956.9p**	1,010.8p	(5.3)
Discount to NAV[1]	**8.0%**	12.0%	
Gross assets** (£'000s)	**168,932**	177,713	(4.4)
Net assets** (£'000s)	**160,123**	169,141	(5.3)
Market capitalisation** (£'000s)	**147,253**	148,926	(1.1)
Net gearing employed[1]	**5.8%**	0.7%	

	Year ended 31 March 2020	Year ended 31 March 2019	12 month % change
Revenue return per Ordinary share	**11.9p**	9.5p	25.3
Dividend per Ordinary share	**9.25p**	9.0p	2.8
Ongoing charges[1]	**1.2%**	1.2%	
Portfolio turnover**	**14%**	15%	

* From 5 September 2006, when Montanaro Asset Management ('MAM') were appointed as Investment Manager.
** Details provided in the glossary on pages 64 to 65.
[1] Refer to Alternative Performance Measures on page 63.
[2] From 5 September 2006, the benchmark was the MSCI Europe SmallCap Index. The benchmark was changed on 1 June 2009 to the MSCI Europe ex-UK SmallCap Index (in sterling terms).

Chairman's Statement
for the year ended 31 March 2020

Results
In a difficult and volatile year for investors in European smaller companies, the MSCI Europe (ex UK) Small Cap Index (in Sterling terms) declined by 15.1% for the financial year ended 31 March 2020. In comparison, the Net Asset Value ("NAV") of your Company declined by 5.3% to 956.9p per share. Shareholders benefitted from a narrowing of the discount from 12% to 8%. As a result the share price of the Company provided a return of (1.1)%.

Although it is always disappointing to lose money, I am nevertheless pleased with the investment performance, relative not only to our benchmark but also to other European smaller company funds, delivered by our manager over the year. Subsequent to the year end, the Company's NAV recovered from the sharp decline experienced in the final quarter of the financial year as the global Covid-19 crisis unfolded. Between 31 March 2020 and 15 June 2020 (being the latest practicable date), the NAV rose from 956.9p to 1,216.6p, an increase of 27.1%. As a result, the NAV was 10.7% higher than 12 months earlier.

Over the medium and longer term performance has also been exceptional with your Trust being ranked 1st over 3 years and 5 years amongst all European Investment Trusts. Since the appointment of Montanaro Asset Management Limited ("Montanaro") in September 2006, the NAV per share has provided a total return of 216.9%, compared with 138.6% for the benchmark index.

A review of the investment philosophy, process, 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 11.9p (2019: 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 2p per share was paid on 3 January 2020. The Board recommends the payment of a final dividend of 7.25p per share payable on 15 September 2020 to shareholders on the register on 14 August 2020. Subject to shareholder approval, this would bring the total dividends for the year to 9.25p per share, an increase of 2.8% compared to the previous year.

In the fiscal year to March 2021 it is very likely that income from your investee companies will decline from the high levels seen this year. Companies throughout Europe are reducing or postponing their dividends in the face of global economic uncertainty and political pressure to limit such distributions given the government support schemes that have been put in place. We remain confident in the long-term prospects of your investee companies and, as mentioned above, have a substantial revenue reserve.

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 alternative open-ended investment funds. Therefore, the Board encourages the active use of gearing by the Manager.

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 5.8% compared to 0.7% 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.

The Company currently has borrowings in the form of a €10 million fixed rate loan and a €15 million revolving credit facility, both of which are due to mature on 13 September 2023.

Directors

As part of the normal process of Board refreshment, the Nomination Committee has been involved for some time in the recruitment process for a replacement for Mrs Somerset Webb, who has served on the Board since 2011. However, in light of the lockdown due to Covid-19, this process remains ongoing at the date of this report. Merryn has kindly agreed to remain on the Board until her replacement is found to ensure that the Board retains a sufficient balance of skills during this transition period. An announcement will be made to the market once a replacement has been identified.

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.

Coronavirus Pandemic

Since the end of February 2020, global financial markets have seen considerable disruption due to the rapid spread of the Coronavirus (Covid-19). All the Company's service providers have enacted their respective business continuity plans and continue to operate normally. At times of stock market volatility, the benefits of a closed end structure become evident.

Annual General Meeting

The Annual General Meeting will be held behind closed doors on 10 September 2020 at 12.30pm. At the time of publication of this document, the UK Government has prohibited large public gatherings, save in certain limited circumstances. In light of these measures and in order to protect the health and safety of the Company's shareholders and Directors, the AGM will be conducted as a closed meeting and will be held to complete the formal business only. A separate event to allow shareholders the chance to ask questions to the Board or the Manager will be arranged prior to the AGM and details of this will be announced to the Stock Exchange in due course.

The Board recognises that the situation is fluid and any changes to our planned approach will be communicated to shareholders via a Stock Exchange announcement and by an update on the Company's website.

Outlook

The final quarter of the financial year will undoubtedly enter the history books: the bull market came to an abrupt end as the Covid-19 virus spread across the globe.

During these unprecedented times, the Montanaro team have been busy speaking to your investee companies to understand how they are being impacted by the collapse in global economic activity. In particular, they have been looking closely at balance sheet risk and companies' access to credit. It is in times like these that we are reminded of the importance of the Manager's unwavering emphasis on investing in high quality businesses with strong balance sheets. These are the companies that will survive and should emerge stronger from the storm.

We should also expect the global health crisis to result in greater investor focus on the Environmental, Social and Governance ("ESG") credentials of investment funds in the years to come. This has long been one of the strengths of the Montanaro investment process in which ESG has been integrated for many years. Our shareholders may have noticed that Montanaro have recently started to report on the carbon footprint of the Company's investments. Together with the Company's aggregate ESG score, this additional disclosure will allow our investors to gauge the results of Montanaro's constructive engagement with your investee companies.

In last year's report I noted that your portfolio consists of some of the highest quality, quoted companies in Europe. Their strong management teams, sound balance sheets, cash generative business models and good growth prospects have never been more important, and it is these attributes that give us confidence that long-term returns will remain attractive for investors.

I would also like to congratulate the whole team at Montanaro for the awards that our Trust has won over the past year – Best European Trust at the Money Observer Investment Trust Awards 2020, Winner of the European Equity category in the 2019 FTAdviser Investment 100 Club and Winner of the CityWire European Equities Investment Trust Award 2019.

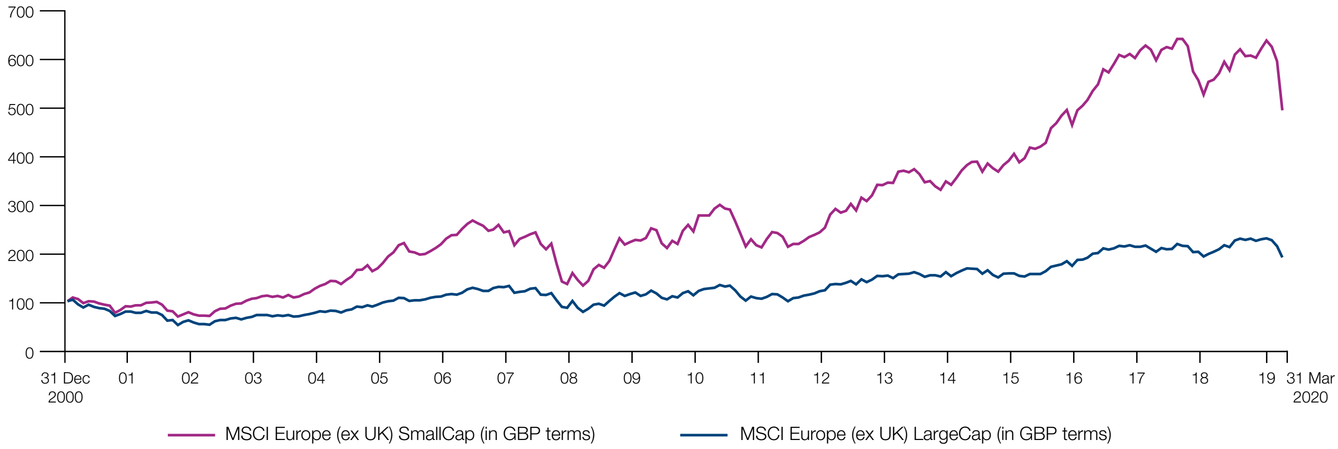
I would like to thank our investors for their support and finally, on behalf of the Board and Montanaro, I would like to wish all of our investors and their loved ones well.

R M CURLING
Chairman
17 June 2020

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 65 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 £1,176 whereas the same £1 invested in smaller companies would now be worth over £7,800 – more than 6 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 5.2% 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 small companies. Our team of 31 includes 10 nationalities, which gives us the breadth and scope to conduct thorough in-house research.

At 31 March 2020, we were looking after over £2 billion of assets.

Investment Philosophy and Approach

We specialise in researching and investing in quoted small companies.

We have a disciplined, two-stage investment process. Firstly, we 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 and ESG checklists and be approved by our Investment Committee before it can be added to the "approved list". ESG has been integrated in our disciplined investment process for many years. Only the most attractive companies make it on to the approved list and it is from these that we construct your portfolio.

We have an in-house team of eleven analysts who are sector specialists. This is one of the largest such specialist teams in the country. 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 and they help us to predict where a company will be in 5 – 10 years. We are long-term investors.

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 company (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.

Once a company has been added to the portfolio, our team 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, growing 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. We are significant shareholders in the Trust.

Environmental, Social and Governance ("ESG")

Montanaro became a B Corporation in June 2019. "B Corps" are businesses that meet the highest standard of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose.

As part of our due diligence work, we place a great deal of emphasis on ethical and ESG factors. We work closely with our companies to encourage sustainable business practices, which we believe play an integral part in the creation of long-term shareholder value.

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 and constructive 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. Similarly, we do not invest in companies that conduct animal testing, unless it is required by law for healthcare purposes. 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.

How to invest

We have invested a great deal of time to make the Trust readily available to all investors. We have continued to grow our presence across the UK's investment platforms and are delighted to see a steady increase, year after year, in the Trust's retail following.

Together with the Board, we have appointed Marten & Co to provide sponsored research – you can find the initiation report published in March 2019 here:
https://www.montanaro.co.uk/mesct-quality-business/

And an update report published in September 2019 here:
https://www.montanaro.co.uk/focus-on-the-small-picture/

For further details about how to invest, please refer to the website:
https://www.montanaro.co.uk/trust/mesct

The Portfolio

At 31 March 2020, the portfolio consisted of 56 companies of which the top ten holdings represented 34%.

Sector distribution within the portfolio is driven by stock selection. Although weightings relative to the market are monitored, overweight and underweight positions are held based on where the greatest value and upside are perceived to be.

Performance Attribution

The year to 31 March 2020 saw some strong performances from our largest contributors.

Manager's Report continued

Sartorius Stedim, the developer of equipment used to manufacture biologic drugs, again delivered excellent financial results. As a supplier of critical components to develop and manufacture vaccines, we believe the company has a significant role to play in the global response against Covid-19.

Fortnox provides cloud-based accounting systems to companies in Sweden. The company's market leading product and the inherent scalability of its distribution ensured another year of rapid growth and expanding profitability.

MIPS sells a patented insert for recreational helmets which protects against rotational motion. More and more helmet brands have been adopting the technology in their ranges and some are now even using it in every helmet model they produce. This higher adoption drove a strong period of growth.

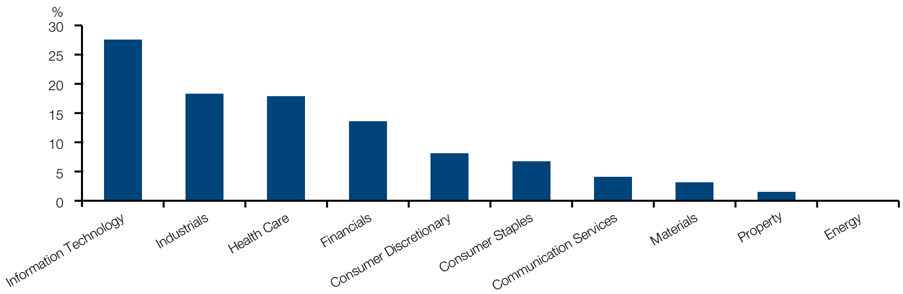
Our largest detractor was **MTU Aero Engines**, which develops, manufactures and repairs aircraft engines. The company was the largest contributor to performance last year and continued to perform very well through 2019. However, the Covid-19 crisis has led to unprecedented declines in global air traffic, from which it is not immune.

Merlin Properties, the Spanish commercial Real Estate Investment Trust, also saw its share price drop significantly as a result of the severe lockdowns in its core markets. These lockdowns limit the ability of some of Merlin's tenants to operate and in turn pay rent to the company in the short term.

Market Capitalisation of Holdings by Value (31 March 2020)

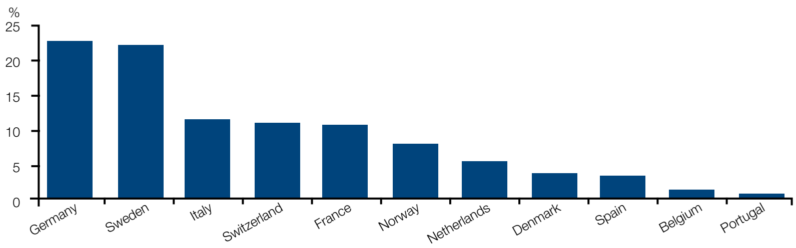
	2020	2019
£0–£200m	**4.0%**	4.2%
£200m–£500m	**10.0%**	9.0%
£500m–£1bn	**16.5%**	6.2%
£1bn–£2bn	**16.9%**	22.9%
£2bn–£3bn	**23.4%**	20.2%
>£3bn	**29.1%**	37.5%

Sector Distribution (31 March 2020)



Source: Montanaro Asset Management Limited

Geographical Analysis (31 March 2020)



Source: Montanaro Asset Management Limited

Atea is the market leading supplier of IT infrastructure for businesses and public sector organisations in the Nordic and Baltic regions. The company's share price suffered as the traditional end-of-year budget flush by their customers was weaker than expected and as the Danish subsidiary underperformed. We believe these issues are temporary and that the company is well positioned for the future, hence we added to our position.

Portfolio Changes

We try to keep portfolio turnover as low as possible. Nevertheless, 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 2020 we exited positions in companies including **Hufvudstaden**, which owns prime property in major Swedish cities. The business is high quality and well managed but after a strong share price performance we felt there were better investment opportunities elsewhere. **Nilorn**, which designs labels and packaging products was sold because we disagreed with the management's capital allocation priorities and had concerns with the deteriorating quality of their reporting. **Chr. Hansen**, which develops ingredients such as cultures, enzymes, probiotics and natural colours, was sold as its market capitalisation became large and because we felt future growth and returns would likely decelerate – concerns which we did not feel were reflected in the company's valuation.

New additions to the portfolio included **Medistim**, which makes intraoperative quality control equipment for cardiac and vascular surgery; **Marel**, the provider of food processing technology; and **Atoss Software**, which develops software used for the optimisation of workforce management.

Gearing

The Alternative Investment Fund Manager ("AIFM"), in consultation with the Board, is responsible for determining the net gearing level of the Company. The company ended the fiscal year with gearing of 5.8% (31 March 2019: 0.7%).

Covid-19

The bleak economic outlook sparked by the global response to Covid-19 most threatens businesses with structural weaknesses – poor management, a weak balance sheet, a lack of recurring revenue or pricing power. However, despite our steadfast commitment to investing in high quality businesses, we are taking nothing for granted.

From the very first day of lockdown, our analysts have been working remotely. Aside from this change it has been business as normal. We have learned how each company is coping in this new reality and checked that management and staff are safe and well.

Opportunities are already emerging from the darkness of the pandemic – some of our companies are seeing their competitors struggle while others are even seeing demand for their products and services increase. As always, the strong will emerge stronger from the ashes of the world economy.

Montanaro has always retained high levels of cash precisely for times like these. In past bear markets we have grown the team. This time is no exception and we have recruited a healthcare analyst and made two further additions to our back office team.

MONTANARO ASSET MANAGEMENT LIMITED
17 June 2020

Twenty Largest Holdings
as at 31 March 2020

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

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

3. VZ Holding
is a Swiss independent financial consultant and wealth manager.

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

5. 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.

6. 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.

7. Tecan
develops automated instruments and solutions that are used in laboratories.

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

9. Esker
offers a cloud-based platform that allows companies to digitise and automate their accounts payable and receivable processes.

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

11. MTU Aero Engines
manufactures and maintains aircraft engines and components.

12. Industria Macchine Automatiche
develops and manufactures packaging machines for the food and pharmaceutical markets.

13. Hypoport
offers a range of software platforms in the credit, insurance and real estate markets in Germany.

14. Atoss Software
develops and sells workforce management software in Europe.

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

16. IMCD
is one of the world's largest speciality chemical distributors.

17. Mensch und Maschine
develops and sells Computer Aided Manufacturing software. It is also a Value Added Reseller of Autodesk software in Europe.

18. Avanza
is Sweden's leading online savings and investment platform.

19. Euronext
is a pan-European exchange, operating regulated securities markets in a number of different countries.

20. NCAB
is a global full-service supplier of printed circuit boards (PCBs).

Holding	Country	**31 March 2020 Value £'000**	31 March 2019 Value £'000	31 March 2020 % of investment portfolio	31 March 2020 % of net assets	31 March 2020 Market cap £m
Fortnox	Sweden	7,312	4,268	4.3	4.6	797
Sartorius Stedim	France	7,275	4,372	4.3	4.5	14,903
VZ Holding	Switzerland	6,016	4,016	3.6	3.8	2,139
MIPS	Sweden	5,930	3,677	3.5	3.7	478
CTS Eventim	Germany	5,637	5,632	3.3	3.5	3,491
Belimo Holding	Switzerland	5,197	3,835	3.1	3.2	3,196
Tecan	Switzerland	4,831	2,712	2.9	3.0	2,881
Nemetschek	Germany	4,689	5,174	2.8	2.9	4,513
Esker	France	4,499	2,938	2.7	2.8	471
SimCorp	Denmark	4,387	4,814	2.6	2.7	2,733
MTU Aero Engines	Germany	4,103	6,078	2.4	2.6	6,224
Industria Macchine Automatiche	Italy	3,532	4,295	2.1	2.2	2,035
Hypoport	Germany	3,529	2,309	2.1	2.2	1,528
Atoss Software	Germany	3,476	–	2.1	2.2	461
Rational	Germany	3,437	3,783	2.0	2.1	4,885
IMCD	Netherlands	3,433	5,839	2.0	2.1	3,009
Mensch und Maschine	Germany	3,432	2,516	2.0	2.1	588
Avanza	Sweden	3,348	1,651	2.0	2.1	1,030
Euronext	France	3,296	3,162	1.9	2.1	4,194
NCAB	Sweden	3,262	2,938	1.9	2.0	183
Twenty Largest Holdings		**90,621**		**53.6**	**56.4**	

A full portfolio and sub-sector listing is available on request from the Manager.

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.

– Link Alternative Fund Administrators Limited, which provided fund administration services during the year.

– Link Company Matters Limited, which provided company secretarial services during the year.

In addition, the Company has appointed Equiniti Limited to act as Registrar and Bank of New York Mellon (International) Limited as Depositary.

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 and further detail on this can be found on pages 16 to 18. 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 and 5.

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 ex-UK SmallCap 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, 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 2020 is contained in the Manager's Report on pages 4 to 7 and the 20 largest holdings are shown on pages 8 and 9.

PRINCIPAL AND EMERGING RISKS

The Company's principal and emerging risks are set out in detail on pages 12 to 14.

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 11. 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. The Company has revenue reserves which underpin any short-term reduction in dividend income.

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:

- Capital and total return – NAV and share price returns, both absolute and against the benchmark;
- Discount of share price to NAV per share;
- Gearing; and
- Ongoing charges.

The NAV and share price returns against the benchmark index for the one, three, five and ten year periods ended 31 March 2020 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 Highlights on page 1, the Chairman's Statement on pages 2 and 3 and the Manager's Report on pages 4 to 7.

Business Model and Strategy continued

CAPITAL RETURNS TO 31 MARCH 2020

	1 Year %	3 Year %	5 Year %	10 Year %	MAM† %
Montanaro European Smaller Companies Trust Share price	(1.1)	26.6	70.9	135.9	173.3
Montanaro European Smaller Companies Trust NAV	(5.3)	17.6	67.4	124.1	178.1
Benchmark (Composite)^*	(15.1)	(12.5)	18.3	63.7	84.9

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

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

* Details provided in the glossary on pages 64 and 65.

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%
31 March 2020	160,123	956.9p	880.0p	8.0%	9.25p	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 63.

[1] Discount. Refer to Alternative Performance Measures on page 63.

PRINCIPAL AND EMERGING 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 31 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. During the year, the Audit Committee have carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

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

Notes 16 to 20 to the accounts provide detailed explanations of the risks associated with the Company's financial instruments and their management.

Principal Risks	Mitigation
Investment and strategic risk: Inappropriate strategy, including country and sector allocation and stock selection could lead to poor returns for shareholders. *No material change in overall risk in year*	*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 2020, €11 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.*
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 (such as a global pandemic), 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. *Increased due to potential impacts from global pandemic*	*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. 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. 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.* *The liquidity of the portfolio is monitored by the Manager and reported to the Board, and market conditions and their impacts are considered.* *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 16 to 20 to the accounts.*
Discount volatility: As with all small company investment trusts, discounts can fluctuate significantly both in absolute terms and relative to their peer group. *No material change in overall risk in year*	*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. Cyber security risks and their impact on data security are inherent in the operations undertaken by the company's third-party suppliers and risk disruption to business operations or financial loss. *Increased risk due to the appointment of a new administrator, with effect from 1 April 2019 and due to impact of global pandemic on business as usual operations across all third party service providers and the Manager.*	*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 and 29. These reports include controls over risks of cyber security. 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.* *Business continuity plans at all service providers have been implemented and services have continued with no disruption. The Manager has been in regular contact with the Board and has reported no matters of concern in continuity of operations.*
Manager: Should the Manager not be in a position to continue to manage the Company, performance may be impacted *Increased risk due to impact of global pandemic on business as usual operations across all third party service providers and the Manager.*	*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, liquidity and solvency, including the impact of a significant fall in equity markets or adverse currency movements on the Company's investment portfolio. They also considered the impact of the Covid-19 pandemic on the quality and continuity of the Manager's operations and those of third-party service providers. These risks, their mitigations and the processes for monitoring them are set out on pages 12 to 14 in Principal Risks and Uncertainties and Risk Mitigation, pages 28 to 30 in the Report of the Audit Committee and in the notes to 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 and the potential impact of reduced dividend income in the short term as a result of market conditions;
- The Company's borrowing in the form of fixed rate 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 16 times by the Company's total assets at 31 March 2020. The Company also has a €15 million revolving credit facility which also matures on 13 September 2023;
- 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 89% 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 2023, 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 2023. For this reason, the Board also considers it appropriate to continue adopting the going concern basis in preparing the Report and Accounts.

Directors' Duties

SECTION 172 OF THE COMPANIES ACT 2006

Section 172 of the Companies Act 2006 (the "Act") requires Directors to act in good faith and in a way that is the most likely to promote the success of the company. In doing so, Directors must take into consideration the interests of the various stakeholders of the Company, the impact the Company has on the community and the environment, take a long-term view of consequences of the decisions they make as well as aim to maintain a reputation for high standards of business conduct and fair treatment between the members of the Company.

Fulfilling this duty naturally supports the Company in achieving its Investment Objective and helps to ensure that all decisions are made in a responsible and sustainable way. In accordance with the requirements of the Companies (Miscellaneous Reporting) Regulations 2018, below, the Board explains how the Directors have individually and collectively discharged their duties under section 172 of the Act over the course of the reporting period.

To ensure that the Directors are aware of, and understand, their duties they are provided with a tailored induction, including details of all relevant regulatory and legal duties as a Director of a UK public limited company when they first join the Board, and continue to receive regular and ongoing updates and training on relevant legislative and regulatory developments. They also have continued access to the advice and services of the Company Secretary, and when deemed necessary, the Directors can seek independent professional advice. The schedule of Matters Reserved for the Board, as well as the Terms of Reference of its committees are reviewed periodically and further describe Directors' responsibilities and obligations and include any statutory and regulatory duties.

CULTURE

During the year, the Directors also considered and defined the Company's culture and values and has worked to incorporate these behaviours and processes into the annual review of the Manager, strategic planning, the annual evaluation of Board effectiveness and reporting to stakeholders - thus embedding consideration of stakeholders' interests, long-term perspective, maintaining reputation for fairness and high standards of governance, corporate reporting and business conduct more generally in the Company's culture and processes.

DECISION-MAKING

The importance of stakeholder considerations, in particular in the context of decision-making, is regularly considered by the board and taken into account at every board meeting. A paper setting out the Directors' responsibilities under s.172 is tabled at the start of every board meeting. For example, the strategic planning discussions involve careful considerations of the longer-term consequences of any decisions and their implications on shareholders and other stakeholders, and are supported by detailed analysis based on various scenarios, which include assumptions around the Company's contractual commitments; availability of funding; borrowing; foreign currency management; as well as the wider economic conditions and market performance.

COMMUNITY AND ENVIRONMENT

The Board recognises that the Company has certain responsibility to its shareholders, stakeholders and wider society. While as an externally managed investment firm the Company itself does not have employees or offices, the Board endorses the Manager's policy to invest the Company's funds in a socially responsible manner. Environmental, social and governance factors are taken into account by the Manager as part of its investment process. In addition, the Manager does not invest in companies that it deems to be harmful to society or the environment; this includes companies involved in tobacco, fossil fuels, gambling, adult entertainment, weapons manufacturing and alcohol.

The Board monitors investment activity to ensure they are compatible with the policy and receives periodic updates from the Manager on its initiatives and performance against its ESG goals.

The Manager is a signatory to the Principles for Responsible Investment, the UK Stewardship Code, the Carbon Disclosure Project and the LGPS Code of Transparency. In June 2019, Montanaro became a "B Corporation", a business certified for meeting the highest verified standards of social and environmental performance, transparency and accountability.

BUSINESS CONDUCT

Board policies are all reviewed on at least an annual basis, and the Directors ensure that they appropriately define obligations and correct procedures. The Report of the Audit Committee, which can be found on pages 28 to 31 of this Report, further explains how the Committee reviews the risk management and internal controls of the Company. This includes reasonably satisfying itself that relevant systems and controls in place remain effective and appropriate.

STAKEHOLDERS

The Board seeks to understand the needs and priorities of the Company's stakeholders and these are taken into account during all its discussions and as part of its decision-making. While as an externally managed investment Company, the Company does not have any employees or customers, its key stakeholders include:

<table>
<tr><th>Stakeholders</th><th>Why they are important</th><th>Board engagement</th></tr>
<tr><td>Shareholders</td><td>Continued shareholder support and engagement are critical to existence of the Company and the delivery of the long-term strategy of the Company.</td><td>The Company has more than 1,100 shareholders. Over the years, the Company has developed various ways of engaging with its shareholders, in order to gain an understanding of the views of our shareholders. These include:
• Annual General Meeting – The Company welcomes attendance from shareholders at its Annual General Meeting. The Manager always delivers a presentation and all shareholders have an opportunity to meet the Directors and ask questions. The Board greatly values the feedback and questions it receives from shareholders and takes action or makes changes as and when appropriate. The 2019 AGM was held in London to make it more accessible to some shareholders, and the Board's intention is to continue to alternate its AGM between Edinburgh and London in order to reach more shareholders;
• Presentations – The annual and interim results, as well as monthly factsheets are available on the Company's website. Feedback and/or questions the Company receives from the shareholders help the Company to evolve its reporting, aiming to render the reports and updates transparent and understandable; and
• Investor Relations updates – at every Board meeting, the Directors receive updates on the share trading activity, share price performance and any shareholders' feedback, as well as any publications or comments in the press.</td></tr>
<tr><td colspan="3">SERVICE PROVIDERS</td></tr>
<tr><td>The Manager</td><td>The Manager's performance is critical for the Company to successfully deliver its investment strategy and meet its objective.</td><td>Maintaining a close and constructive working relationship with the Manager is crucial as the Board and the Manager both aim to continue to achieve consistent, long-term returns in line with the Company's investment objective. Important components in the collaboration with the Manager, which are representative of the Board's culture are:
• Encouraging open discussion with the Manager;
• Recognising that the interests of shareholders and the Manager are for the most part well aligned, adopting a tone of constructive challenge, balanced when those interests are not fully congruent by robust negotiation of the Manager's terms of engagement; and
• Willingness to make the Directors' experience available to support the Manager in the sound, long-term development of its business and resources, recognising that the long-term health of the Manager is in the interests of shareholders in the Company.</td></tr>
</table>

Directors' Duties continued

Stakeholders	Why they are important	Board engagement
Other service providers, including: **the Company Secretary, the Administrator, the Registrar, the Depositary, the AIFM, the Custodian and the Broker**	In order to function as an investment trust with a premium listing on the London Stock Exchange, the Company engages a diverse range of advisors for support with meeting all relevant obligations.	The Board maintains regular contact with its key external providers, both through the Board and committee meetings, as well as outside of the regular meeting cycle. Their advice, as well as needs and views are routinely taken into account. In addition, the Board also undertakes periodic reviews of the external service providers and addresses any concerns raised in those reviews. It also holds relationship meetings and formally hears, and acts on, their feedback, as appropriate.
Bank	Availability of funding and liquidity are crucial to the Company's ability to take advantage of investment opportunities as they arise.	Considering how important the availability of funding is, the Company aims to demonstrate to lenders that it is a well-managed business, and in particular, that the Board focuses regularly and carefully on the management of risk.
Institutional Investors and proxy advisors	The evolving practice and support of the major institutional investors and proxy adviser agencies are important to the Directors, as the Company aims to maintain its reputation and high standards of corporate governance, which contributes to the long-term sustainable success of the Company.	Recognising the principles of stewardship, as promoted by the UK Stewardship Code, the Board welcomes engagement with all our investors. The Board recognises that the views, questions from, and recommendations of many institutional investors and proxy adviser agencies provide a valuable feedback mechanism and play a part in highlighting evolving shareholders' expectations and concerns.
Regulators	The Company can only operate with the approval of its regulators who have a legitimate interest in how the Company operates in the market and treats its shareholders.	The Company regularly considers how it meets various regulatory and statutory obligations and follows voluntary and best-practice guidance, is mindful of how any governance decisions it makes can have an impact on its shareholders and wider stakeholders, in the short and in the longer-term.
Community and Environment	The Board recognises that it has a responsibility to the wider environment and community.	Our engagement with the community and the environment can be found on page 16.

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, all form part of this Strategic Report on pages 2 to 18, 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
17 June 2020

Board of Directors

Richard Curling – 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. 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.

Relevant skills and experience and reasons for re-election:

Richard has comprehensive experience of investment management and the wider Investment Company sector. This has provided a strong basis for assessing, and where appropriate challenging, the Manager, on the Company's performance, and in leading the Board in strategic discussions. Following a rigorous board evaluation process, the Board agreed that Richard continues to be an effective member of the Board.

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 including as a Non-Executive director of the Edinburgh Worldwide Investment Trust plc.

Relevant skills and experience and reasons for re-election:

Caroline's experience as a senior Board advisor, Assurance Partner and Chartered Accountant brings valuable business, financial, governance and risk management skills to the Board, which enables her to assess the financial position of the Company and to lead discussions regarding the Company's risk management framework and risk appetite. Her broad range of experience helps inform her role as Chair of the Audit Committee. Following a rigorous board evaluation process, the Board agreed that Caroline continues to be an effective member of the Board.

Merryn Somerset Webb – Senior Independent Director and 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 Non-Executive director of Baillie Gifford Shin Nippon plc, Murray Income Trust PLC and Netwealth Investment Limited.

Relevant skills and experience and reasons for re-election:

Merryn has significant experience of financial matters through her role as Editor-in-Chief of MoneyWeek and her work reporting and presenting on financial matters. She is also a non-executive director for several investment trusts giving her extensive knowledge of the investment trust sector. Her experience helps inform her role as Chair of the Remuneration Committee. Following a rigorous board evaluation process, the Board agreed that Merryn continues to be an effective member of the Board.

Directors' Report

The Directors submit the Annual Report and Accounts of the Company for the year ended 31 March 2020.

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 12 to 14 with further information on risk management objectives in notes 16 to 20 to the accounts.

RESULTS AND DIVIDENDS

The results for the year are set out in this Annual Report and Accounts. An interim dividend of 2.00p per Ordinary Share was paid on 3 January 2020. The Board recommends a final dividend for the year of 7.25p per Ordinary Share payable on 15 September 2020 to shareholders on the register on 14 August 2020.

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 8 and 9). Further information in relation to the proposed reappointment can be found on page 31.

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. 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, all directors will retire at the Annual General meeting and, being eligible, offer themselves for re-election (Resolutions 5–7). Biographical details of all directors and their reasons for re-election are set out on page 19. The Board confirms that, following formal performance evaluations, the performance of all directors 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 recommending the resolutions to re-appoint Directors, the Board, supported by its Nomination Committee, has considered its current composition, to ensure the overall composition of the Board in terms of skills, experience and background is appropriate.

In addition to any power of removal conferred by the Companies Act 2006, 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 Act 2006, 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 Montanaro as Manager and AIFM on the terms agreed is in the interests of shareholders as a whole. Among the reasons for this view in particular is the Company's long-term investment performance relative to that of the markets in which the Company invests, as well as the depth and experience of the research capability of Montanaro. The Directors were also pleased with the Company's performance compared to its benchmark in the final three months of the year where the market has reacted negatively to Covid-19.

DEPOSITARY AND CUSTODIAN

The Bank of New York Mellon (International) Limited acts as the Company's Depositary and Custodian in accordance with the AIFM Directive. The Depositary'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 decides otherwise, 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 the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

Subject to the provisions of the Companies Act 2006, 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 Act 2006, the Board may pay such dividends

Directors' Report continued

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 Act 2006.

There are no restrictions on voting rights and no restrictions concerning the transfer of shares in the Company except that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws). There are no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control or trigger any compensatory payments for Directors, following a takeover bid.

SUBSTANTIAL INTERESTS IN SHARE CAPITAL

As at 31 March 2020, 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	829,197	4.9
1607 Capital Partners LLC	604,430	3.6

Since 31 March 2020, to the date of this report, the Company has not received any notifications of voting rights.

The Company has not received any other notifications 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 43 and the unqualified Independent Auditor's Report on the financial statements is on pages 36 to 42. 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 10 to 11 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 credit facility, compliance with the Company's banking covenants, the Company's other liabilities and forecast revenues. In particular, the Directors considered the impact of disruptions arising from the global pandemic on the company's liquidity, market values, bank covenants and continuity of operations.

Notes 16 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 15.

FUTURE DEVELOPMENTS OF THE COMPANY

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

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.

DONATIONS

The Company made no political or charitable donations during the year (2019: nil) to organisations either within or outside of the EU.

LISTING RULE DISCLOSURE

The Company confirms that there are no items which require disclosure under Listing Rule 9.8.4R in respect of the year ended 31 March 2020.

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 16 to 20 to the accounts.

ANNUAL GENERAL MEETING

The notice of Annual General Meeting to be held on 10 September 2020 is set out on pages 66 to 71. As explained in the Chairman's Statement on page 3, in light of the current measures in place in the UK and in order to protect the health and safety of the Company's shareholders and Directors, the AGM will be conducted as a closed meeting and will be held to complete the formal business only.

Directors' Authority to Allot Shares (Resolution 10)

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 10 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 £836,663, representing an amount equal to approximately 10% of the Company's total issued ordinary share capital as at 17 June 2020 (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 2021 or, if earlier, on 30 September 2021.

Directors' Authority to Allot Shares other than on a Pre-emptive Basis (Resolution 11)

Resolution 11 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 £872,413, representing an amount equal to approximately 10% of the Company's issued Ordinary Share capital (including treasury shares) as at 17 June 2020, 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 2021 or, if earlier, on 30 September 2021 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 10 and 11 if they believe it is advantageous to the Company's shareholders to do so and in no circumstances would it 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 10 and 11 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 12)

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 12, 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.

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.

Directors' Report continued

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 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 17 June 2020, 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 4.27% of the total issued Ordinary Share capital (excluding treasury shares).

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 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
17 June 2020

Corporate Governance Statement

The Corporate Governance Statement forms part of the Directors' Report.

INTRODUCTION

The Board has considered the Principles and Provisions of the AIC Code of Corporate Governance published in February 2019 (AIC Code). The AIC Code addresses the Principles and Provisions set out in the 2018 UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council, provides more relevant information to shareholders.

During the year, the Company has complied with the Principles and Provisions of the AIC Code.

The AIC Code is available on the AIC website www.theaic.co.uk. It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies. The UK Code is available from the Financial Reporting Council's website at www.frc.org.uk.

During the year, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

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 AIC 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.

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

Mr Curling 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. His biography can be found on page 19.

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.

The Board is formed of three independent non-executive Directors. There have been no changes to the Board during the year. Mr Curling is the Chairman of the Board and Chairman of the Nomination Committee, Mrs Roxburgh is Chair of the Audit Committee and Mrs Somerset Webb is Chair of the Remuneration Committee and also Senior Independent Director.

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 the 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 all Directors have confirmed that they will be standing for re-election at the forthcoming Annual General Meeting.

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. In line with the 2019 AIC Code, the Company has adopted a formal policy on tenure.

Corporate Governance Statement continued

The Board does not feel that it would be appropriate to set a specific tenure limit for individual Directors or the Chairman of the Board or its Committees. Instead, the Board will regularly review the size and structure of the Board with the aim of new directors bringing the challenge of fresh thinking into the Board's discussions. By doing so, the Board intends to maintain a broad range of experience in the Board, with Directors who have served a range of periods on the Board of the Company. This will ensure that on each occasion the Board enters into new investment commitments, several members have direct personal experience of negotiating previous commitments with the Manager. This is intended to reserve the cumulative experience and deep understanding of the Company, its commitments and investment portfolio, while benefiting from new perspectives and helping to promote diversity of perspective.

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. However, in light of this approach and given Mrs Somerset Webb has now been on the Board for nine years and in line with best practice, the Company has commenced a recruitment process to identify a new non-executive director to join the Board. This process remains ongoing as it has been impacted by the onset of the Covid-19 pandemic and the subsequent lockdown. As at the year end, candidates interviewed had been drawn from a number of sources, including well known industry names and personal contacts of the Board. The outcome of the recruitment process will be announced to the market once finalised, and details of the process, including whether an external search consultant was used, will be disclosed in the next annual report. Mrs Somerset Webb will retire once a suitable replacement has been identified and an announcement will be made to the market at that point. Her replacement, once appointed, will be elected at the AGM to be held in 2021.

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 10 to 15.

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

The Board has approved a formal schedule of matters reserved for it, including, but not limited to: overall strategy, investment policy, capital structure, gearing and monitoring the performance of the Manager.

The following table sets out the number of scheduled Board and Committee meetings held during the year ended 31 March 2020 and the number of meetings attended by each Director.

Number of meetings attended	Board	Audit Committee	Remuneration Committee*	Nomination Committee
R M Curling	4/4	3/3	1/1	1/1
C A Roxburgh	4/4	3/3	1/1	1/1
M R Somerset Webb	4/4	3/3	1/1	1/1

* meeting held after the year end, in relation to the year ended 31 March 2020.

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 the Board and areas of improvement were identified for the Company to focus on in the coming year, including a review of the Board structure and succession planning.

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 31 and forms part of this statement.

REMUNERATION COMMITTEE

The Remuneration Committee, chaired by Mrs Somerset Webb, comprises the full Board and reviews the appropriateness of the Manager's continuing appointment. The Remuneration Committee also determines the level of Directors' fees. The Directors' Remuneration Report on pages 32 to 34 provides information on the remuneration arrangements for the Directors of the Company.

NOMINATION COMMITTEE AND BOARD DIVERSITY

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

During the year, the Committee met to commence the recruitment process for a replacement for Mrs Somerset Webb. However, in light of the lockdown due to Covid-19, this process remains ongoing at the date of this report. An announcement will be made to the market once a replacement has been identified.

The Company's Board diversity policy is shown on page 11. The Directors will ensure it adheres to set objectives in relation to the diversity of the Board as and when 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 in line with the FRC's Guidance of Board Effectiveness.

However, at the date of this report, the UK Government has prohibited large public gatherings, save in certain limited circumstances. In light of these measures and in order to protect the health and safety of the Company's shareholders and Directors, we hope that shareholders will understand that for 2020 the Company's Annual General Meeting will be run as a closed meeting and will be held to complete the formal business only. Shareholders will not be able to attend in person. Full details are provided at the end of this Annual Report in the Notice of Meeting. To provide shareholders with the opportunity to engage with the Board and the Manager, the Company will arrange a separate event and will publish details of this in due course to the Stock Exchange and on the Company's website.

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 or turnover. 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 12 to 14 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 pages 21 and 22.

By order of the Board

LINK COMPANY MATTERS LIMITED
Company Secretary
65 Gresham Street
London
EC2V 7NQ
17 June 2020

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. Given the size of the Board, and his experience, it is felt appropriate for Mr Curling to sit on the Audit Committee. 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 in attendance. 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, Link Alternative Fund Administrators (Link) and Montanaro. 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;
- 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 implications of proposed new accounting standards and regulatory changes;
- 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 Link provide regular control reports to the Audit Committee and the Board covering administration, risk and compliance matters.

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, reasons for any change and actions arising as a result.

The Company's principal risks and their mitigations are set out on pages 12 to 14 with additional information provided in notes 16 to 20 to the accounts.

The integration of these risks into the consideration of the Viability Assessment and Statement on page 15 was also fully considered by the Committee.

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:

- Board procedures are set within clearly defined parameters, as set out in matters specifically reserved for the Board.
- At every Board meeting the Directors review financial information prepared by the Administrator, including management accounts, forecasts of income and expenditure and detailed analysis relating to the performance of the Company.
- 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.
- 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, and which is then reviewed and considered by the Audit Committee. Montanaro is also the Company's AIFM and in this capacity provides a quarterly report to the Board.

- Link were appointed on 1 April 2019 and are responsible for the provision of company secretarial, accounting and administration services to the Company. On an annual basis, Link produce an AAF 01/06 Report on internal controls, which is reviewed by a firm of independent reporting accountants, for consideration by the Audit Committee.
- 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 Board reviews contracts with other third party service providers, including the standard of services provided, on a regular basis.

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 regulatory requirements, 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 previously reviewed the need for an internal audit function. As an externally managed investment trust, 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 2020. 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 36 to 42. 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 and confirms that no non-audit services have been undertaken for the year ended 31 March 2020. Since the year end, the Committee has reviewed and updated the non-audit services policy to reflect new guidance.

Report of the Audit Committee continued

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

Matter	Action
Covid-19 The emergence of the global pandemic and resulting health risks has led to unprecedented impacts on business practices, global economies and equity markets. Continuity of third-party service providers, liquidity and performance of investments, receipt of revenue from investments, information flows and investor services could be impacted by the disruption.	The Board has been in regular contact with the Manager throughout the period of the pandemic to assess the impact on business operations and staff welfare. Business continuity plans have been implemented across all key third-party service providers and there has been no disruption or delays to services or to information flows required by the company. The AIFM has reported no equity pricing or liquidity concerns and has been in contact with significant shareholders during this time. The Board has considered the potential impact of changes to dividend policies within investee companies in future periods and its effects on the Company's current and future dividend policy. The Board has also considered the impact of market volatility and other disruptions on meeting bank covenants and in assessing both viability and going concern assumptions and is satisfied with the results.
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 £30,000 (2019: £21,500). The increase in fees from the previous year are a result of factors impacting the audit market and the resulting impact on EY.

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. The Committee has commenced the audit tender process, with a Committee meeting held to consider a range of audit firms, following which a range of audit firms have submitted their initial tender response. However, due to the ongoing Covid-19 pandemic, the formal audit tender presentations have not yet been conducted. The Company will ensure that the tender process is completed within the timeframe required by EU regulations and inform the market as soon as any decision has been made.

Following professional guidelines, the audit partner rotates after five years. The year ended 31 March 2020 is Caroline Mercer's third 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.

By Order of the Board

C A ROXBURGH
Chair of the Audit Committee
17 June 2020

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 2020, are shown below and on page 33. 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 36 to 42.

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 Company Secretary 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 annually to determine the level of Directors' fees and to review the performance of the manager. The outcome of this review can be found on page 21. No director is involved in deciding their own remuneration outcome.

ANNUAL STATEMENT

During the year, the Committee reviewed the Remuneration Policy and the Directors' fees. The outcomes of each of these reviews can be found below.

DIRECTORS' REMUNERATION POLICY

The existing Directors' remuneration policy was approved at the Company's Annual General Meeting in 2017. Accordingly, it is proposed to table an ordinary resolution to approve a new Directors' remuneration policy, as set out in this section, at the Company's 2020 Annual General Meeting. It is proposed that this new policy will be adopted at that meeting, with effect from 1 April 2020, and will replace the existing policy. The revised policy being presented and requiring approval has been determined by the Remuneration Committee, which agreed that no changes were required from the prior policy on the remuneration of the Directors. The revised policy will remain in force until the Annual General Meeting of the Company in 2023, at which time a further resolution will be proposed.

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 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.

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 2023.

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. 0% of votes were withheld.

FUTURE POLICY TABLE

Following a review of the level of Directors' fees, the Remuneration Committee concluded that, commencing 1 April 2020, the Chairman's fee be increased to £35,000 per annum, the Audit Committee Chairman's fee be increased to £30,000 per annum and other Directors' fees be increased to £25,000 per annum, the last increase having been made on 1 April 2017. These changes have been made following consideration of Directors' remuneration in the context of its peers and the wider investment trust sector.

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

	31 March 2021	31 March 2020
Chairman	**£35,000**	£32,000
Audit Committee Chairman	**£30,000**	£27,000
Director	**£25,000**	£23,000

APPROACH TO RECRUITMENT REMUNERATION

The principle adopted by the Committee in respect of recruitment of Directors is that the fees for a non-executive Director should reflect the responsibilities and time commitment required. The Committee seeks to encourage the enhancement of the Company's performance and to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate Directors of the right calibre. Any new non-executive Director would be paid on the same basis as the existing non-executive Directors. As noted above the aggregate level of Directors' fees must not exceed a set limit, as set out in the Company's articles of association, which is currently £200,000 per annum.

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 2020 and 2019 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)

	Year ended 31 March 2020 (audited)			Year ended 31 March 2019 (audited)		
	Fees £	**Taxable Benefits** £**	**Total £**	Fees £	Taxable Benefits** £	Total £
R M Curling	**32,000**	**1,250**	**33,250**	28,289	4,086	32,375
C A Roxburgh	**27,000**	**1,978**	**28,978**	25,351	300	25,651
M R Somerset Webb	**23,000**	**1,245**	**24,245**	23,000	328	23,328
A R Irvine*	**–**	**–**	**–**	13,260	–	13,260
R B M Graham*	**–**	**–**	**–**	11,188	–	11,188
R A Hammond-Chambers*(1)	**–**	**–**	**–**	9,513	13	9,526
Total	**82,000**	**4,473**	**86,473**	110,601	4,727	115,328

* 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 paid to a company called Alex Hammond-Chambers and Company

There have been no payments to past Directors during the financial year ended 31 March 2020, whether for loss of office or otherwise.

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:

	2020 £	2019 £	Change %
Aggregate Directors' Remuneration	**86,473**	110,601	(21.8%)
Management and other operating expenses*	**2,206,000**	2,049,000	7.7%
Dividends paid to shareholders	**1,548,000**	1,506,000	2.8%

* 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:

		2020 Ordinary Shares	2019 Ordinary Shares
R M Curling	Beneficial	**10,000**	5,000
C A Roxburgh	Beneficial	**6,182**	3,314
M R Somerset Webb	Beneficial	**4,095**	4,095

There have been no changes in the Directors' interests in the shares of the Company between 31 March 2020 and 17 June 2020.

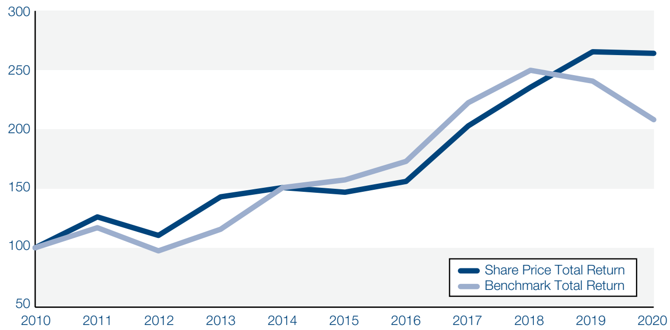
Company Performance

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

Directors' Remuneration Report continued

of the Directors on page 21. The graph below compares, for the ten financial years ended 31 March 2020, 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 2020 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 ex-UK SmallCap Index (in Sterling terms).

Voting at Annual General Meeting on Annual Report

At the Company's last Annual General Meeting, held on 12 September 2019, shareholders approved the Annual Report on Directors' Remuneration for the year ended 31 March 2019. 99.99% of votes were in favour of the resolution and 0.01% were against. 0% were withheld.

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

By Order of the Board

M R SOMERSET WEBB
Director
17 June 2020

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), the Business Model and Strategy (pages 10 to 15) 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
Chairman
17 June 2020

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 2020 which comprise of the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 23, 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 2020 and of its loss 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 12 to 14 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 15 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 15 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.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	• Risk of incomplete and/or inaccurate revenue recognition including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income • Risk of inappropriate valuation and/or defective title to the investment portfolio • Impact of Covid-19
Materiality	• Overall materiality of £1.60m which represents 1% of shareholders' funds

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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
Incomplete and/or inaccurate revenue recognition, including classification of special dividends as revenue or capital items in the Statement of Comprehensive Income (as described on page 30 in the Audit Committee's Report and as per the accounting policy set out on page 48). The total revenue for the year to 31 March 2020 was £3.50m (2019: £3.08m), consisting primarily of dividend income from listed investments. The total amount of special dividends recognised by the Company was £0.04m, £0.04m which was classified as revenue and £0.00m was classified as capital. The income receivable by the Company during the year directly affects the Company's revenue return. There is a risk of incomplete and/or inaccurate recognition of revenue through the failure to recognise proper income entitlements or applying appropriate accounting treatment. In addition to the above, the directors are required to exercise judgement in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'.	**We have performed the following procedures:** We obtained an understanding of the Manager and Administrator's processes and controls surrounding revenue recognition and the recognition and classification of special dividends by reviewing their audited controls reports and by performing walkthrough procedures to, in the case of special dividends, evaluate the design and implementation of controls. We agreed 100% of dividends received from the income report to an independent data vendor. We recalculated the dividend income by multiplying the investment holdings at the ex-dividend date, traced from the accounting records, by the dividend per share as agreed to an external source. We agreed a sample to bank statements and, where applicable, we also agreed the exchange rates to an external source. To test completeness of recorded income, we tested that a sample of expected dividends had been recorded as income with reference to investee company announcements obtained from an independent data vendor. For all dividends accrued at the year end, we reviewed the investee company announcements to assess whether the obligation arose prior to 31 March 2020. We agreed the dividend rate to dividend rates from an independent data vendor. We recalculated the dividend amount receivable and confirmed this was consistent with cash received as shown on post year end bank statements, where paid. Recognising that a number of Companies have responded to the Covid-19 pandemic by cancelling or adjusting their dividend payments, we traced a sample of the cash receipts of the accrued dividend income to post year end bank statements to ensure that the accrued dividends had subsequently been received. We performed a review of the income and acquisition and disposal reports to identify all dividends received and accrued during the period that are above our testing threshold. We identified which of the dividends above our testing threshold were special dividends with reference to an external source. There were no special dividends above our testing threshold.	**The results of our procedures are:** Based on our testing we are satisfied that income is complete, accurate and, in the case of special dividends, appropriately classified as revenue or capital.

Independent Auditor's Report continued
to the Members of Montanaro European Smaller Companies Trust plc

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate valuation and/or defective title of the investment portfolio (as described on page 30 in the Audit Committee's Report and as per the accounting policy set out on page 49). The valuation of the portfolio at 31 March 2020 was £169.02m (2019: £169.83m) consisting of listed investments. The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Inappropriate 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. The fair value of listed investments is determined by reference to stock exchange quoted market bid prices at close of business on the reporting date.	**We performed the following procedures:** We obtained an understanding of the Administrator's processes surrounding investment pricing of listed securities by reviewing their audited controls report and by performing walkthrough procedures. For all investments in the portfolio, we compared the market prices and exchange rates applied to an independent pricing vendor and recalculated the investment valuations as at the year-end. We assessed the liquidity of the investment portfolio through analysing the monthly average trading volume of the investments. We also reviewed the year end price exception and stale pricing reports to identify any prices that have not changed since the previous day and tested whether the listed price is a valid fair value. We agreed the Company's investments to the independent confirmations received from the Company's Custodian and Depositary at 31 March 2020.	**The results of our procedures are:** Based on our testing we are satisfied that the investment portfolio has been appropriately valued and that the existence has been confirmed.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impact of Covid-19 (as described on pages 3 and 7 in the Strategic Report, page 30 in the Audit Committee's Report and as per the accounting policy set out on page 47). The Covid-19 pandemic has adversely impacted global commercial activity and contributed to significant volatility in global equity and debt markets, but as of the date of our audit report, the longer term impact remains uncertain. This uncertainty had an impact on our risk assessment and, as a result, on our audit of the financial statements. The Covid-19 pandemic and resultant uncertainties had the most significant impact on our audit of the financial statements in the following areas: **Going concern** There is increased risk due to the degree of uncertainty in the assumptions underlying management's assessment of future prospects, including the impact of Covid-19 on the Company continuing to meet its stated objective. **Revenue recognition** There is risk that revenue could be incorrectly stated due to dividends accrued at year end from underlying investments being subsequently cancelled or altered. **Financial statement disclosures** There is a risk that the impact of Covid-19 is not adequately disclosed in the financial statements.	**We performed the following procedures:** **Going concern:** We obtained and reviewed the assessment of going concern which includes consideration of the impact of Covid-19 and challenged the assumptions made by the Manager in the preparation of the revenue and expenses forecast. We reviewed the revenue forecast, which takes account of any impact Covid-19 may have on the Company and which supports the Directors' assessment of going concern, and challenged the assumptions made by the Manager in the preparation of the forecast. We assessed the liquidity of the portfolio as set out in our response to the risk on inappropriate valuation and/or defective title of the investment portfolio above. We also assessed the concentration risk of the investment portfolio. We reviewed the Board's assessment of the risk of breaching the debt covenants including in stressed scenarios. We recalculated the debt covenants which are set out in the loan agreement and which do not involve any subjectivity, to confirm there were no covenant breaches as at the year end. We confirmed through discussion with the Company Secretary and the Directors that they are in close contact with key service providers and that Business Continuity Plans are in place with no significant deterioration of service being experienced. **Revenue recognition** In response to a number of companies cancelling or altering their dividend payments due to Covid-19, we have performed our audit procedures on the recoverability of accrued dividend income up to the date of the approval of the Annual Report and Financial Statements, as set out in our response to the "risk on incomplete and/or inaccurate revenue recognition." **Financial statements disclosures** We reviewed the disclosures contained within the Financial Statements.	**The results of our procedures are:** Based on the procedures performed, we are satisfied that the Directors have appropriately considered the impact of Covid-19 on the going concern assessment, revenue recognition and that adequate disclosures have been presented in the financial statements.

We re-assessed the risks determined at the planning stage of the audit and, due to the uncertainty in global markets caused by the Covid-19 pandemic, we revised our risk assessment to include the Key Audit Matter 'Impact of Covid-19'.

Independent Auditor's Report continued
to the Members of Montanaro European Smaller Companies Trust plc

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 £1.60m (2019: £1.69m) which is 1% (2019: 1%) of shareholders' funds. We believe that 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% (2019: 75%) of our planning materiality, namely £1.20m (2019: £1.27m).

Given the importance of the distinction between revenue and capital for the Company we also applied a separate testing threshold for the revenue column of the Statement of Comprehensive Income of £0.11m (2019: £0.09m) being 5% (2019: 5%) of profit before tax.

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 (2019: £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 set out on pages 1 to 35 and 60 to 72, 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 31 – 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' reports 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 35, 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.

Independent Auditor's Report continued
to the Members of Montanaro European Smaller Companies Trust plc

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.

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 IFRSs, the Companies Act 2006, 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 and/or inaccurate revenue recognition through incorrect classification of special dividends as revenue or capital in the Income Statement. 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

- We were appointed by the Company on 22 June 1982 to audit the financial statements for the year ending 31 March 1982 and subsequent financial periods.
- Our total uninterrupted period of engagement is thirty nine years, covering the period from our appointment through to the period ending 31 March 2020.
- 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
17 June 2020

Statement of Comprehensive Income
for the year ended 31 March 2020

		Year to 31 March 2020			Year to 31 March 2019		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Capital (losses)/gains on investments							
(Losses)/gains on investments held at fair value	9	**–**	**(8,126)**	**(8,126)**	–	19,215	19,215
Exchange (losses)/gains		**–**	**(211)**	**(211)**	–	67	67
Revenue							
Investment income	2	**3,497**	**–**	**3,497**	3,082	–	3,082
Total income		**3,497**	**(8,337)**	**(4,840)**	3,082	19,282	22,364
Expenditure							
Management expenses	3	**(564)**	**(1,047)**	**(1,611)**	(481)	(892)	(1,373)
Other expenses	4	**(595)**	**–**	**(595)**	(676)	–	(676)
Total expenditure		**(1,159)**	**(1,047)**	**(2,206)**	(1,157)	(892)	(2,049)
Return before finance costs and taxation		**2,338**	**(9,384)**	**(7,046)**	1,925	18,390	20,315
Finance costs	5	**(48)**	**(85)**	**(133)**	(105)	(196)	(301)
Return before taxation		**2,290**	**(9,469)**	**(7,179)**	1,820	18,194	20,014
Taxation	6	**(291)**	**–**	**(291)**	(227)	–	(227)
Return after taxation		**1,999**	**(9,469)**	**(7,470)**	1,593	18,194	19,787
Return per share	8	**11.9p**	**(56.6p)**	**(44.7p)**	9.5p	108.7p	118.2p

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 2020

	Notes	31 March 2020 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2019 £'000
Non-current assets					
Investments held at fair value through profit and loss	9		**169,018**		169,828
Current assets					
Trade and other receivables	10	**615**		646	
Cash and cash equivalents	10	**405**		7,443	
		1,020		8,089	
Total assets		**170,038**		177,917	
Current liabilities					
Trade and other payables	11	**(222)**		(204)	
Revolving credit facility	11	**(884)**		–	
		(1,106)		(204)	
Non-current liabilities					
Interest-bearing bank loan	12	**(8,809)**		(8,572)	
Total liabilities		**(9,915)**		(8,776)	
Net assets			**160,123**		169,141
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			**139,641**		149,110
Revenue reserve			**4,263**		3,812
Shareholders' funds			**160,123**		169,141
Net asset value per share			**956.9p**		1,010.8p

The financial statements on pages 43 to 59 were approved and authorised for issue by the Board of Directors on 17 June 2020 and signed on its behalf by:

R CURLING
Director

Company Registered Number: SC074677

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

Statement of Changes in Equity
for the year ended 31 March 2020

Year to 31 March 2020	Notes	**Share capital £'000**	**Share premium account £'000**	**Capital redemption reserve £'000**	**Capital reserve £'000**	**Revenue reserve £'000**	**Total £'000**
As at 1 April 2019		**8,724**	**5,283**	**2,212**	**149,110**	**3,812**	**169,141**
Return after taxation		**–**	**–**	**–**	**(9,469)**	**1,999**	**(7,470)**
Dividends paid	7	**–**	**–**	**–**	**–**	**(1,548)**	**(1,548)**
As at 31 March 2020		**8,724**	**5,283**	**2,212**	**139,641**	**4,263**	**160,123**

Year to 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
Return after taxation		–	–	–	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

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

Cash Flow Statement
for the year ended 31 March 2020

	Notes	**31 March 2020 £'000**	31 March 2019 £'000
Cash flows from operating activities			
(Loss)/profit before finance costs and taxation		**(7,046)**	20,315
Investment losses/(gains)		**8,126**	(19,215)
Exchange losses/(gains)		**211**	(67)
Withholding tax		**(291)**	(204)
Investment income		**(3,497)**	(3,082)
Dividends received		**3,502**	3,015
Decrease/(increase) in receivables		**99**	(23)
Increase/(decrease) in payables		**15**	23
Purchases of investments		**(33,739)**	(35,690)
Sales of investments		**26,361**	36,805
Net cash (outflow)/inflow from operating activities		**(6,259)**	1,877
Cash flows from financing activities			
Drawdown/(repayment) of loans		**844**	(13,393)
Dividends paid	7	**(1,548)**	(1,422)
Interest paid		**(131)**	(351)
Net cash outflow from financing activities		**(835)**	(15,166)
Net (decrease) in cash and cash equivalents		**(7,094)**	(13,289)
Exchange gains		**56**	158
(Decrease)/increase in cash and cash equivalents		**(7,038)**	(13,131)
Cash and cash equivalents at beginning of year		**7,443**	20,574
Cash and cash equivalents at end of year	10	**405**	7,443

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

Notes to the Financial Statements
at 31 March 2020

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 IFRS as adopted by the European Union which comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), and as applied in accordance with the provisions of the Companies Act 2006. The annual financial statements have been prepared in accordance with the AIC SORP for the financial statements of investment trust and venture capital trusts, except to any extent where it is not consistent with the requirements of IFRS.

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.

The financial statements have been prepared on a going concern basis that approval as an investment trust company will continue to be met.

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future, being a period of at least 12 months from the date these financial statements were approved. The Directors noted that the Company holds a portfolio of highly liquid listed investments and has undrawn banking facilities. The Company is a closed end fund, where assets are not required to be liquidated to meet redemptions. Whilst the economic impact from the pandemic is uncertain, and the Directors believe it is possible that the Company could experience reductions in income and/or market value that this should not be to a level which would threaten the Company's ability to continue as a going concern. The Directors, the Manager and other service providers have put in place contingency plans to minimise disruption. Furthermore, the Directors are not aware of any material uncertainties that may cast doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis. Further detail is included in the Report of the Directors on page 22. In addition to the Going Concern assessment the Directors have assessed the longer term viability of the company as set out in the viability assessment and statement on page 15.

ACCOUNTING DEVELOPMENTS
In the current year, the Company has applied a number of amendments to IFRS, issued by the IASB. These include annual improvements to IFRS, changes in standards, legislative and regulatory amendments, changes in disclosure and presentation requirements. The Company has also applied, with associated amendments, for the first time the following standards:

IFRS 16 Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases by lessors and lessees.

The adoption of the changes to accounting standards has had no material impact on the current or prior years' financial statements.

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.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY.
The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts in the Balance Sheet, the Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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; and setting the levels of dividends paid and proposed in satisfaction of both the Company's long-term objective and its obligations to adhere to investment trust status rules under Section 1158 of the Corporation Tax Act 2010.

The estimates and underlying assumptions are reviewed on an ongoing basis. Any revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods. There are significant judgements or estimates in these financial statements.

Notes to the Financial Statements continued
at 31 March 2020

1 Accounting Policies continued

SEGMENTAL REPORTING
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.

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.

Special dividends are taken to the revenue or capital account depending on their nature. In deciding whether a dividend should be regarded as a capital or revenue receipt, the Board reviews all relevant information as to the reasons for the sources of the dividend on a case-by-case basis.

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.

All other income is accounted for on a time apportioned 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.

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.

1 Accounting Policies continued

INVESTMENTS

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis in accordance with the documented investment strategy and information is provided internally on that basis to the Company's Board of Directors and other key management personnel.

The investments held by the Company are designated by the Company as 'at fair value through profit or loss'.

All gains and losses are allocated to the capital return within the Statement of Comprehensive Income as 'Gains or losses on investments held at fair value through profit or loss'. Also included within this heading are transaction costs in relation to the purchase or sale of investments. When a sale or purchase is made under a contract, the terms of which require delivery within the timeframe of the relevant market, the investments concerned are recognised or derecognised on the trade date.

All investments are designated upon initial recognition as held at fair value through profit or loss, and 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. The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of consideration received and receivable and the cumulative gain or loss that had been accumulated is recognised in profit or loss.

All investments for which a fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy levels set out in note 15.

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.

LOANS

The loans are valued at amortised cost. Costs in relation to arranging the debt finance have been capitalised and are amortised over the term of the finance. Hence, amortised cost is the par value less the amortised cost of issue.

The Euro loan is shown at amortised cost with the exchange difference on the principal amounts to be repaid reflected. Any gains or losses arising from changes in exchange rate between Euro and Sterling is included in the capital reserves and shown in the capital column of the Statement of Comprehensive Income.

RESERVES

Share Premium Account
The following are included in this reserve:

- premium on the issue of shares.
- surplus arising on the sale of Ordinary Shares from treasury.
- costs associated with the issue of equity.

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

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.

Notes to the Financial Statements continued
at 31 March 2020

1 Accounting Policies continued
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.

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.

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 2020, no financial assets or financial liabilities had been offset (31 March 2019: nil).

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 2020**	31 March 2019	Change %
Danish Krone	**8.44**	8.66	(2.5)
Euro	**1.13**	1.16	(2.6)
Norwegian Krone	**13.02**	11.22	16.0
Swedish Krona	**12.28**	12.09	1.6
Swiss Franc	**1.20**	1.30	(7.7)

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 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.

2 Income

	Year to 31 March 2020 £'000	Year to 31 March 2019 £'000
Investment income		
Overseas dividend income	**3,472**	3,082
Other income	**25**	–
Total	**3,497**	3,082

3 Management fee

	Year to 31 March 2020			Year to 31 March 2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**546**	**1,015**	**1,561**	463	860	1,323
AIFM fee	**18**	**32**	**50**	18	32	50
	564	**1,047**	**1,611**	481	892	1,373

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

	Year to 31 March 2020			Year to 31 March 2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Directors' fees	**85**	**–**	**85**	111	–	111
Auditor's remuneration for:						
– statutory audit[1]	**30**	**–**	**30**	22	–	22
Secretarial and administration fees	**149**	**–**	**149**	133	–	133
Legal, professional and advisory fees	**23**	**–**	**23**	17	–	17
Custody and depositary fees	**74**	**–**	**74**	101	–	101
Bank charges – negative interest	**34**	**–**	**34**	103	–	103
Credit facility commitment fee	**59**	**–**	**59**	33	–	33
Other	**141**	**–**	**141**	156	–	156
	595	**–**	**595**	676	–	676

[1] Auditors remuneration paid excludes VAT.

5 Finance Costs

	Year to 31 March 2020			Year to 31 March 2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest payable on bank borrowings	**48**	**85**	**133**	105	196	301

6 Taxation

	Year to 31 March 2020			Year to 31 March 2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Overseas tax	**291**	**–**	**291**	227	–	227

Notes to the Financial Statements continued
at 31 March 2020

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:

	Year to 31 March 2020 £'000	Year to 31 March 2019 £'000
(Loss)/profit on ordinary activities before taxation	**(7,179)**	20,014
Corporation tax at standard rate of 19% (2019: 19%)	**(1,364)**	3,803
Effects of:		
Non-taxable losses/(gains) on investments	**1,544**	(3,651)
Movement in unutilised expenses	**419**	445
Non-taxable overseas income	**(604)**	(585)
Exchange (gains)/losses	**5**	(13)
Overseas tax	**297**	242
Overseas tax expensed	**(6)**	(10)
Adjustment to provision for prior years	**–**	(4)
Total tax charge for the year	**291**	227

As at 31 March 2020, the Company had unutilised management expenses for taxation purposes of £(29,220,000) (2019: £27,015,000). A deferred tax asset of £5,552,000 (2019: £5,133,000) 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

	Year to 31 March 2020 £'000	Year to 31 March 2019 £'000
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
Final dividend for the year ended 31 March 2019 of 7.25p per share	**1,213**	–
Interim dividend for the year ended 31 March 2020 of 2.00p per share	**335**	–
	1,548	1,422
Amounts relating to the year but not paid at the year end:		
Final dividend for the year ended 31 March 2019 of 7.25p per share	**–**	1,213
Final dividend for the year ended 31 March 2020 of 7.25p per share	**1,213**	–
	1,213	1,213

The Directors have proposed a final dividend in respect of the year ended 31 March 2020 of 7.25p per share, payable on 15 September 2020 to all shareholders on the register on 14 August 2020. The final dividend is subject to approval by shareholders at the Annual General Meeting.

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:

	Year to 31 March 2020 £'000	Year to 31 March 2019 £'000
Revenue attributable to equity shareholders	**1,999**	1,593
Interim dividend for the year ended 31 March 2019 of 1.75p per share	**–**	(293)
Final dividend for the year ended 31 March 2019 of 7.25p per share	**–**	(1,213)
Interim dividend for the year ended 31 March 2020 of 2p per share	**(335)**	–
Proposed final dividend for the year ended 31 March 2020 of 7.25p per share	**(1,213)**	–
Revenue reserve transfer	**451**	87

8 Return per Share

	Year to 31 March 2020			Year to 31 March 2019		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Basic	**11.9p**	**(56.6)p**	**(44.7)p**	9.5p	108.7p	118.2p

Basic total return per Ordinary Share is based on the total comprehensive loss for the financial year of £7,470,000 (2019: gain £19,787,000) and on 16,733,260 (2019: 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 £1,999,000 (2019: £1,593,000), and on 16,733,260 (2019: 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 loss for the financial year of £9,469,000 (2019: net capital return £18,194,000), and on 16,733,260 (2019: 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

	Year to 31 March 2020 £'000	Year to 31 March 2019 £'000
Opening cost	**107,172**	93,523
Holding gains	**62,656**	58,205
Opening fair value	**169,828**	151,728
Purchases at cost	**33,739**	35,690
Sales – proceeds	**(26,423)**	(36,805)
– gains on sales	**7,224**	14,764
Holding (losses)/gains	**(15,350)**	4,451
Closing fair value	**169,018**	169,828
Closing cost	**121,712**	107,172
Holding gains	**47,306**	62,656
Closing valuation	**169,018**	169,828

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.

Movement in fair value represents the decrease in the difference between book cost of investments held and their market value at 31 March 2020 compared with the difference between the book cost of investments held and their market value at 31 March 2019.

Notes to the Financial Statements continued
at 31 March 2020

9 Investments at Fair Value Through Profit and Loss continued

TRANSACTION COSTS

The Company incurred transaction costs on the purchase of investments of £23,000 and sale of investments of £13,000 (2019: £20,000 on purchases and £17,000 on sales).

	Year to 31 March 2020 £'000	Year to 31 March 2019 £'000
Gains on sales	**7,224**	14,764
(Decrease)/increase in holding gains	**(15,350)**	4,451
(Losses)/gains on investments held at fair value	**(8,126)**	19,215

10 Current Assets

	Year to 31 March 2020 £'000	Year to 31 March 2019 £'000
Due from brokers	**62**	–
Prepayments and accrued income	**81**	97
Overseas tax recoverable	**472**	549
	615	646

The carrying value of the balances above approximates to fair value. There are no amounts which are past due at the year end (2019: £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.

	Year to 31 March 2020 £'000	Year to 31 March 2019 £'000
Cash at bank and on hand	**405**	7,443

11 Current Liabilities

	Year to 31 March 2020 £'000	Year to 31 March 2019 £'000
Trade and other payables:		
Investment management and AIFM fee	**115**	116
Other creditors	**107**	88
	222	204

The Company has a €15 million five year secured revolving credit facility with ING which will mature on 13 September 2023. Drawdowns from the facility are charged at margin over the relevant EUROBOR rate. As at 31 March 2020, €1 million (£884,000) of the facility was drawn (2019: €/£nil), at a rate of 1.2%, with €14 million available to be drawn (31 March 2019: £nil).

The facility is shown at amortised costs and revalued for exchange rate movements. Any gain or loss arising from changes in exchange rates is included in the capital reserve and shown in the capital column of the Statement of Comprehensive Income. Interest costs are charged to capital and revenue in accordance with the Company's accounting policies.

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

12 Interest-Bearing Bank Loans

	Year to 31 March 2020 £'000	Year to 31 March 2019 £'000
Opening balance	**8,572**	21,903
Loan repaid during the year	**–**	(13,393)
Amortisation of set-up costs	**10**	45
Non-cash foreign currency movements	**227**	17
Closing balance	**8,809**	8,572

The Company has a €10 million five year secured loan with ING Bank N.V. 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 credit facility with ING which will also mature on 13 September 2023. As at 31 March 2020, €1 million of the facility was drawn, at a rate of 1.2%, with €14 million available to be drawn (31 March 2019: £nil).

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 (2019: £45 million). The Company met all covenant conditions during the year.

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

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 2019	17,448,260	8,724	(715,000)	(357)	16,733,260	8,367
Balance at 31 March 2020	**17,448,260**	**8,724**	**(715,000)**	**(357)**	**16,733,260**	**8,367**

During the year, the Company did not sell any Ordinary Shares (2019: nil) and there were no share issues or share buybacks (2019: 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 pages 21 and 22.

14 Net Asset Value per Ordinary Share

	Net asset value per share		Net asset value	
	2020 p	2019 p	**2020 £'000**	2019 £'000
Net asset value per Ordinary Share	**956.9**	1,010.8	**160,123**	169,141

The net asset value per share is based on net assets at the year end and on 16,733,260 (2019: 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.

Notes to the Financial Statements continued
at 31 March 2020

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 Company's principal risks are described in the Business Model and Strategy on pages 12 to 14.

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

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 year end, by the level in the fair value hierarchy into which the fair value measurement is categorised.

The Company held the following categories of financial instruments as at 31 March 2020:

	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**2020 Total £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000	2019 Total £'000
Financial instruments								
Investments	**169,018**	**–**	**–**	**169,018**	169,828	–	–	169,828
Loan	**–**	**(8,809)**	**–**	**(8,809)**	–	(8,596)	–	(8,596)

There were no transfers between levels in the fair value hierarchy in the year ended 31 March 2020 (2019: none).

The investments held are valued at fair value through profit or loss. The loans are recognised by their carrying value being the approximate fair value.

16 Market Price Risk

Market price risk (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of investments.

The Board manages the risks inherent in the investment portfolio by ensuring full and timely reporting of relevant information from the Manager. Investment performance and exposure are reviewed at each Board meeting.

16 Market Price Risk continued

The maximum exposure to market price risk is the fair value of investments of £169,018,000 (2019: £169,828,000).

If the investment portfolio valuation fell by 10% from the amount detailed in the financial statements as at 31 March 2020, it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £16,900,000 (2019: £16,980,000). An increase of 10% in the investment portfolio valuation would have an equal and opposite effect on the net capital return before taxation. The analysis is based on closing balances only and is not representative of the year as a whole.

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 £8.9 million as at 31 March 2020, 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 2020, the cash position of the Company was £0.4 million (2019: £7.4 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 £4,000 (2019: positive £74,000). If interest rates had decreased by 1.0%, the impact on the profit or loss and the net asset value would have been negative £4,000 (2019: negative £74,000). 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:

2020	**Investments £'000**	**Trade and other receivables £'000**	**Cash £'000**	**Trade and other payables £'000**	**Loans* £'000**	**Net exposure £'000**
Danish Krone	**6,111**	**96**	**–**	**–**	**–**	**6,207**
Euro	**93,820**	**144**	**372**	**–**	**(9,693)**	**84,643**
Norwegian Krone	**13,276**	**45**	**–**	**–**	**–**	**13,321**
Swedish Krona	**37,391**	**62**	**–**	**–**	**–**	**37,453**
Swiss Franc	**18,420**	**187**	**–**	**–**	**–**	**18,607**
Total	**169,018**	**534**	**372**	**–**	**(9,693)**	**160,231**

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

If the value of Sterling had weakened by 5% (2019: 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 £8,496,000 (2019: positive £8,938,000). If the value of Sterling had strengthened by 5% (2019: 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 £8,012,000 (2019: negative £8,087,000). These calculations are based on the foreign currency exposure balances as at the respective balance sheet dates.

Notes to the Financial Statements continued
at 31 March 2020

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 2020:

	Year to 31 March 2020 £'000	Year to 31 March 2019 £'000
Cash and cash equivalents	**405**	7,443
Prepayments, accrued income and overseas tax recoverable	**650**	646
	1,055	8,089

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 2020 or 31 March 2019. No individual investment exceeded 4.3% of the investment portfolio at 31 March 2020 (2019: 3.6%).

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 SA/NV (London Branch), 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.

20 Liquidity Risk

The Company does not hold unlisted securities (2019: £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 2020, the cash position of the Company was £0.4 million (2019: £7.4 million) and the Company has undrawn bank facilities of £12.4 million (2019: £12.9 million).

20 Liquidity Risk continued

CONTRACTUAL MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

As at 31 March 2020	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	**129**	**52**	**41**	**–**	**222**
Revolving credit facility	**884**	**–**	**–**	**–**	**884**
Loan and loan interest	**–**	**–**	**120**	**9,142**	**9,262**
Total liabilities	**1,013**	**52**	**161**	**9,142**	**10,368**

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

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 32 and 33.

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 2020 (2019: 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.

23 Post Balance Sheet Events

Subsequent to the year end, the Company's NAV recovered from the sharp decline experienced in the final quarter of the Financial Year as the global Covid-19 crisis unfolded. Between 31 March 2020 and 15 June 2020 (being the latest practicable date), the NAV rose from 956.9p to 1,216.6p, an increase of 27.1%. As a result, the NAV was 10.7% higher than 12 months earlier.

AIFMD Disclosures (Unaudited)

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

In accordance with the AIFMD, information in relation to the Company's leverage (as defined on page 65) 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 2020 are shown below:

Leverage exposure

	Gross method	Commitment method
Maximum limit	200%	200%
Actual	105.57%	105.82%

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 on Thursday 10 September 2020 at 12.30pm as a closed event. Shareholders will not be able to attend. Further details can be found on page 66.

Key Dates

31 March 2020	Company year end
10 September	Annual General Meeting
15 September 2020	Payment of final dividend
November 2020	Interim results announced
January 2021	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 72.

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').

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.

Shareholder Information continued

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 call 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 2020, the Net Asset Value per share was 956.9p and the share price was 880.0p. The Discount is therefore calculated at 8.0% as shown in the highlights on page 1.

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 31 March 2020, interest bearing bank loans were (£9,728,000), cash and cash equivalents were £405,000 and net assets were £160,123,000. As at 31 March 2020, Gearing is therefore equal to 5.8% 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 2020 £'000	31 March 2019 £'000
Total expenditure	**2,206**	2,049
Less negative interest (see note 4)	**(34)**	(103)
Less non-recurring costs	**–**	–
Total (a)	**2,172**	1,946
Average monthly net assets (b)	**184,174**	164,541
Ongoing charges (c = a/b) (c)	**1.2%**	1.2%

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 31 March 2020, the 1 year NAV Capital Return was (5.3%), and the 1 year Ordinary share price Capital Return was (1.1%), as shown in the highlights on page 1.

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 31 March 2020, the 1 year NAV Total Return was (4.5%), and the 1 year Ordinary share price Total Return was (0.3%), as shown in the highlights on page 1.

NAV Total Return calculation as at 31 March 2020

	£'000	
NAV per share as at 31 March 2020	956.80	(c)
NAV per share as at 31 March 2019	1,010.74	(d)
Dividend adjustment factor (+1)	1.01	(a)
Pre-Dividend Reinvestment Factor	0.95	(b) (b=c/d)
NAV Total Return	**(4.5%)**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend – pps	**Dividend XD date**	**NAV at Dividend XD Date**	**NAV Multiplier**
Interim Dividend – 2p	05.Dec.19	1,126.22	0.00
Final Dividend – 7.25p	15.Aug.19	1,083.22	0.01
			0.01

NAV Total Return calculation as at 31 March 2019

	£'000	
NAV per share as at 31 March 2019	1,010.74	(c)
NAV per share as at 31 March 2018	900.45	(d)
Dividend adjustment factor (+1)	1.01	(a)
Pre-Dividend Reinvestment Factor	1.12	(b) (b=c/d)
NAV Total Return	**13.3%**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend – pps	**Dividend XD date**	**NAV at Dividend XD Date**	**NAV Multiplier**
Interim Dividend – 1.75p	07.Dec.18	911.45	0.00
Final Dividend – 6.75p	13.Jul.18	1,017.27	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 ex-UK SmallCap 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 SA/NV (London Branch).

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 total assets less current liabilities.

IFRS
International Financial Reporting Standards as adopted by the European Union.

Investment 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 10 and in the Report of the Directors on page 21.

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.

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 Asset Value ('NAV') per Ordinary Share
This is calculated as the net assets of an Investment Trust divided by the number of Ordinary 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.

Portfolio Turnover
Calculated using total sales proceeds as a percentage of the average monthly net assets during the year.

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

COVID-19 PANDEMIC

At the time of publication of this document, the UK Government has prohibited large public gatherings and non-essential travel, save in certain limited circumstances. In light of these measures and in order to protect the health and safety of the Montanaro European Smaller Companies Trust plc's (the "Company") shareholders and Directors, we hope that shareholders will understand that the Company's Annual General Meeting ("AGM") will be run as a closed meeting. Shareholders will not be able to attend in person. Instead, the Company will make arrangements to ensure that the legal requirements to hold the meeting can be satisfied through the attendance of two shareholders constituting the minimum quorum for the AGM. The format of the AGM will be purely functional and will comprise only the formal votes of the AGM resolutions, without any business update or Q&A.

Shareholders are therefore strongly encouraged to submit a proxy vote in advance of the meeting. A form of proxy for use at the AGM is enclosed with this document. To be valid, the form of proxy should be completed, signed and returned in accordance with the instructions printed thereon, as soon as possible, and in any event, to reach the Company's registrars, Equiniti Limited, no later than 48 hours before the time of the Annual General Meeting, or any adjournment of that meeting.

Given the restrictions on attendance set out above, shareholders are strongly encouraged to appoint the "Chair of the meeting" as their proxy, rather than a named person who will not be permitted to attend the meeting.

This situation is constantly evolving, and the UK Government may change current restrictions or implement further measures relating to the holding of general meetings during the affected period. Any changes to the arrangements for the AGM (including any change to the location of the AGM) will be communicated to shareholders before the meeting through our website www.montanaro.co.uk and, where appropriate, by RNS announcement.

Notice is hereby given that the Annual General Meeting of Montanaro European Smaller Companies Trust plc (the 'Company') will be held at 53 Threadneedle Street London EC2R 8AR, on Thursday 10 September 2020 at 12.30pm for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 10 will be proposed as ordinary resolutions and resolutions 11 and 12 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 2020 be received.

RESOLUTION 2 – DIRECTORS' REMUNERATION POLICY

That the Directors' Remuneration Policy be approved.

RESOLUTION 3 – ANNUAL REPORT ON DIRECTORS' REMUNERATION

That the Annual Report on Directors' Remuneration for the year ended 31 March 2020 be approved.

RESOLUTION 4 – FINAL DIVIDEND

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

RESOLUTION 5 – RE-ELECTION OF DIRECTOR

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

RESOLUTION 6 – RE-ELECTION OF DIRECTOR

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

RESOLUTION 7 – RE-ELECTION OF DIRECTOR

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

RESOLUTION 8 – 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 9 – AUDITOR'S REMUNERATION

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

RESOLUTION 10 – 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 £836,663, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2021 or, if earlier, on 30 September 2021 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 11 – AUTHORITY TO ALLOT SHARES OTHER THAN ON A PRE-EMPTIVE BASIS

That, subject to the passing of resolution 10 set out in the notice of the Annual General Meeting of the Company convened for 10 September 2020 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 10 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

(ii) otherwise than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £872,413, 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 2021 or, if earlier, on 30 September 2021 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).

Notice of Annual General Meeting continued

RESOLUTION 12 – 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 2021 or, if earlier, on 30 September 2021 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
17 June 2020

Notes

1. Attending the Annual General Meeting in Person

As explained above, shareholders will not be permitted to attend the AGM and are strongly encouraged to appoint a proxy to exercise their rights to vote on their behalf at the AGM. Shareholders are strongly encouraged to appoint the "Chair of the meeting" as their proxy, rather than a named person who will not be permitted to attend the meeting. Details on how to appoint a proxy can be found below.

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 2461. Lines are open from 9.00am to 5.00pm, Monday to Friday excluding public holidays in England and Wales. 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 2461. Lines are open from 9.00am to 5.00pm, Monday to Friday excluding public holidays in England and Wales. 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.

Notice of Annual General Meeting continued

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 8 September 2020 (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.

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 30 July 2020, 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 17 June 2020 (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 17 June 2020 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.

Advisers

Investment Manager and Alternative Investment Fund Manager (‘AIFM’)
MONTANARO ASSET MANAGEMENT LIMITED
53 Threadneedle Street
London EC2R 8AR
Tel: 020 7448 8600
Fax: 020 7448 8601
enquiries@montanaro.co.uk
www.montanaro.co.uk

Administrator
LINK ALTERNATIVE FUND ADMINISTRATORS LIMITED
Beaufort House
51 New North Road
Exeter EX4 4EP

Company Secretary
LINK COMPANY MATTERS LIMITED
65 Gresham Street
London EC2V 7NQ
Tel: 020 7954 9547
Contact: mesct@linkgroup.co.uk

Registered Office
16 Charlotte Square
Edinburgh EH2 4DF

Registrar
EQUINITI LIMITED
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Registrar’s Shareholder Helpline
Tel: 0371 384 2461*

Registrar’s Broker Helpline
Tel: 0906 559 6025

* Lines are open 9.00am to 5.00pm, Monday to Friday.

Stockbroker
CENKOS SECURITIES PLC
6-8 Tokenhouse Yard
London EC2R 7AS

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

Custodian
BANK OF NEW YORK MELLON SA/NV
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.

Montanaro European Smaller Companies Trust plc
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