MONTANARO

UK Smaller Companies Investment Trust PLC

Annual Report and Accounts 2015

The Montanaro UK Smaller Companies Investment Trust PLC ("MUSCIT") was launched in March 1995 and is listed on the London Stock Exchange.

Investment Objective

MUSCIT's investment objective is capital appreciation through investing in small quoted companies listed on the London Stock Exchange or traded on the Alternative Investment Market ("AIM") and to achieve relative outperformance of its benchmark, the Numis Smaller Companies Index (excluding investment companies) ("NSCI"). No unquoted investments are permitted.

Contents

Highlights
for the year ended 31 March 2015

Results

	As at 31 March 2015	As at 31 March 2014	% change
Ordinary share price	463.0p	505.5p	-8.4
Net Asset Value per Ordinary share	564.7p	588.2p	-4.0
NAV (excluding current period revenue) per Ordinary share	554.4p	580.4p	-4.5
Discount to NAV (excluding current period revenue)	16.5%	12.9%	
NSCI*	6,578.9	6,799.8	-3.2

* Capital only.

	Year to 31 March 2015	Year to 31 March 2014	% change
Revenue return per Ordinary share	10.3p	7.8p	32.1
Dividend per Ordinary share	8.9p	7.5p	18.7
Gross Assets	£207.7m	£212.6m	-2.3
Net Assets	£189.0m	£196.9m	-4.0
Market capitalisation	£155.0m	£169.2m	-8.4
Net gearing employed*	5.4%	6.5%	
Ongoing charges	1.2%	1.3%	
Portfolio turnover**	19.3%	54.5%	

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

Performance

Capital Return	1 year	3 year	5 year	10 year	Since launch
Share price	-8.4	33.0	97.9	147.6	387.4
NAV (excluding current period revenue)	-4.5	29.2	85.6	157.2	462.3
Benchmark*	-3.2	47.6	59.7	30.0	121.8

Total Return	1 year	3 year	5 year	10 year	Since launch
Share price**	-6.9†	40.2†	115.2†	196.2†	451.8
NAV**	-2.7†	35.1†	99.9†	200.0†	534.8
Benchmark*	-0.3	61.0	85.3	74.6	298.2

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

** Returns have been adjusted for dividends paid.

† Source: AIC.

Strategic Report

During the year ended 31 March 2015, MUSCIT's NAV (excluding current period revenue) per share declined by 4.5% to 554.4p compared with a fall of 3.2% by the NSCI. The Company's share price fell by 8.4% to 463.0p, representing a discount to NAV (excluding current period revenue) of 16.5% as compared to a discount of 12.9% at the start of the year.

Chairman's Statement

Results

It is with great pleasure that I present the twentieth annual report of MUSCIT, which was launched on 16 March 1995. The initial investment of £25 million was increased in 1996 through a "C" share issue. Net Assets at 31 March 2015 stood at £189 million. Since inception, MUSCIT has delivered a cumulative NAV return of 462.3% compared with an increase of 121.8% in the benchmark.

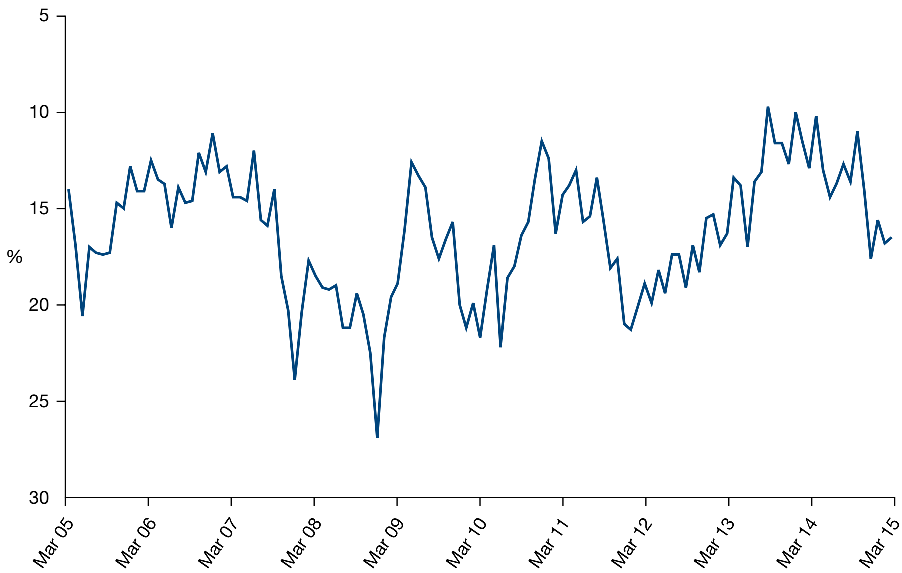
After a challenging 2014, there was a marked improvement in MUSCIT's performance in the latter part of the year. Although the NAV (excluding current period revenue) per share declined by 4.5% to 554.4p, which was 1.3% behind the NSCI benchmark index for the financial year as a whole, the headwinds faced by Montanaro Asset Management ("Montanaro")'s distinctive quality growth style began to abate half-way through the year. This resulted in much stronger relative performance from our portfolio.

I would like to take this opportunity to thank our shareholders for their continued support, record my thanks to my fellow Directors, past and present, and finally Montanaro for this excellent long term track record.

Dividend

MUSCIT's primary aim is to deliver capital growth to its shareholders rather than dividend income. The Board proposes a final dividend of 8.9p per Ordinary share, which represents an increase of 18.7% compared to last year, reflecting a healthy contribution from special dividends.

Share Price Discount to NAV*



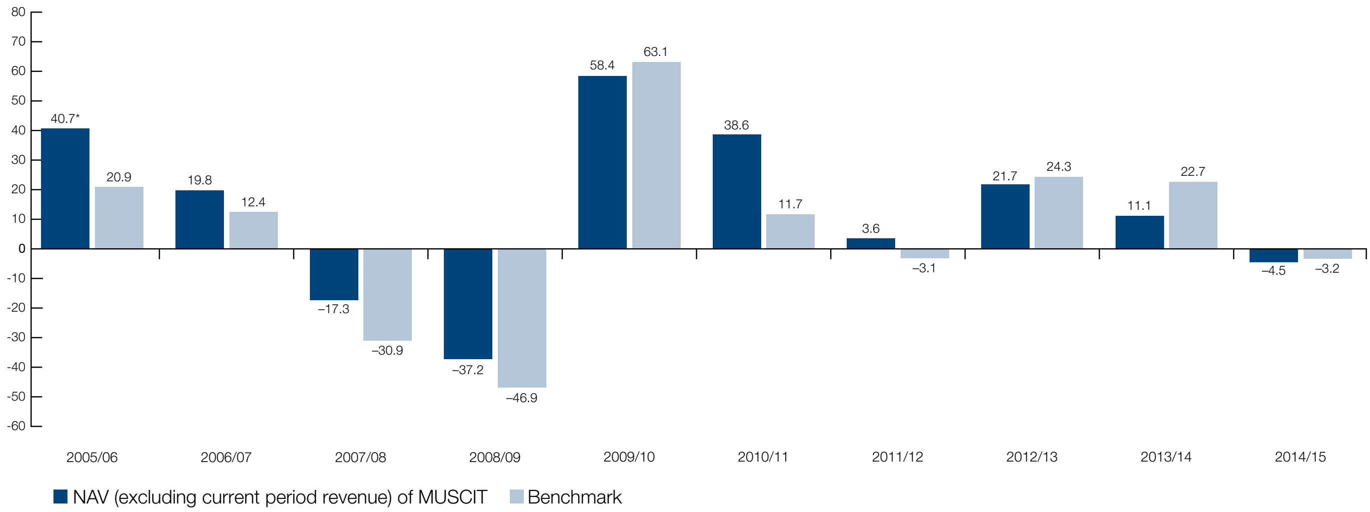
* Discount based on NAV (excluding current period revenue).

Source: Bloomberg

Strategic Report continued

Chairman's Statement continued

Annual NAV Performance vs Benchmark



* Restated for changes to UK GAAP (all other years have not been restated).

Source: Capita Sinclair Henderson Limited

Allocation of Fees

The Board has completed a review of the allocation of management fees and finance costs. Following this review, with effect from 1 April 2015, 75% will be allocated to capital and 25% to revenue (currently 50% – 50%). This allocation of expenses better reflects the derivation of the Company's returns and is therefore in keeping with best market practice. In addition, it will bring MUSCIT more into line with its peer group.

Gearing

The Board regularly reviews the level of gearing considered appropriate for the Company in discussion with the Manager. This is a key feature of Investment Trusts and we believe offers a strong competitive advantage over the alternative open-ended investment funds. The ability to gear can significantly enhance investment returns to shareholders.

At 31 March 2015, gearing was 5.4%, a level that the Board and the Manager considered as appropriate following a strong final quarter.

Regulation

The Alternative Investment Fund Managers' Directive ("AIFMD") came fully into force on 22 July 2014. At each meeting, your Board receives a report from Montanaro in their capacity as the Alternative Investment Fund Manager ("AIFM") and the Depositary, Bank of New York ("BONY"), provides regular reports to the AIFM. There have been no issues to report.

Additional unaudited disclosures in relation to AIFMD can be found on page 44.

Directors

After ten years on the Board, Michael Moule feels it is time to stand down. His vast experience, sound advice and huge enthusiasm for investing has been invaluable and will be sorely missed.

However, we are delighted to welcome Kate Bolsover to the Board. Kate has spent many years working in investment trusts. She also has considerable experience of sales and marketing, which will be invaluable as we work with the Manager to expand the shareholder base of MUSCIT.

Outlook

The debate about the future of the European Union is gathering momentum ahead of the UK referendum. However, we believe that the UK is in a strong position relative to its European neighbours. The UK has a number of advantages, such as a credible strategy to reduce the budget deficit, a revitalised banking system and an independent currency that offers greater flexibility to respond to changing market conditions. Although quoted UK small companies have performed well in recent years, the recent General Election created uncertainty and led companies to postpone capital investment. Improving confidence post the election should encourage companies to invest in their own businesses, which will lay the foundations for continued growth.

The Manager's approach is to invest in profitable, well-managed companies in growth markets that are attractively valued. Such companies should be a major beneficiary of this environment and we are confident that Montanaro will continue to deliver the strong performance that we have enjoyed over the last 20 years.

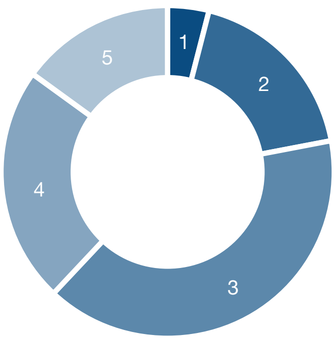
KATHRYN MATTHEWS
Chairman
22 June 2015

Manager's Report

— The UK SmallCap market gives investors access to global market-leading companies managed by dynamic entrepreneurs operating in attractive niche markets that are growing.

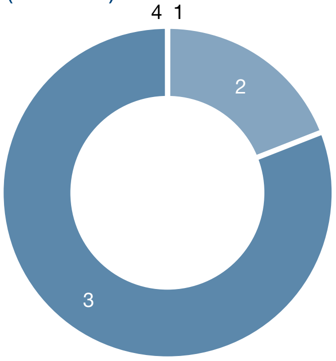
The last six months of the financial year have brought confirmation that investor appetite is slowly returning to the highest quality UK small companies. Unfazed by deflation anxiety and domestic political uncertainty, these companies are expected to continue growing their earnings by more than 10% in 2015.

Breakdown by Market Cap (Ex Cash)



1	£0–£250m	4%
2	£250m–£500m	18%
3	£500m–£1bn	40%
4	£1bn–£1.5bn	23%
5	>£1.5bn	15%

Breakdown by Index (Ex Cash)



1	FTSE 100	0%
2	FTSE 250*	19%
3	Numis Smaller Companies	81%
4	UK AIM	0%

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

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 European small companies. We have a team of 28, which gives us the benefit of local contacts and knowledge that is so essential.

At 31 March 2015, Montanaro's funds under management were over £2 billion.

Investment Philosophy and Approach

Montanaro specialises in quoted UK small companies with a particular focus on those with a stock market value below £1 billion.

Investment ideas typically are generated internally – rather than through brokers – and are researched in detail in-house. With around 2,000 UK companies within our universe, we are spoilt for choice. There is never a shortage of exciting new ideas. Before conducting detailed research on an individual company, we gather and carefully review extensive trade and industry data to help us to understand the sector in which a company operates and its growth drivers.

Investments are focused exclusively on companies that are profitable. We are mindful of our 'circle of competence' – complicated, blue-sky companies are not for us. We focus on companies we can understand, typically niche franchises with good and experienced management, sound finances, simple business models, good order visibility, high barriers to entry, a strong, normally dominant market position and a competitive advantage that ensures pricing power. If there is a choice of more than one company in a specific sector, we would normally invest in the market leader. We prefer companies that can demonstrate self-funded organic growth rather than those on the acquisition treadmill.

We believe that you "get what you pay for in life" – it is worth paying a little more for a higher quality company. We like cash generative companies with high operating profit margins – an indicator that they are providing goods or services of value to their clients – which are better able to withstand a downturn. We carefully assess potential catalysts for share price performance such as positive news flow. We never lose sight of our primary goal, which is to make money for shareholders through sound investment based on our own rigorous, fundamental analysis. We take a conservative approach. We also believe that it is right and proper to align our interests with those of our investors – we invest in our own funds.

To ensure that we remain well informed, we regularly visit the companies in which we invest. This is the fun part of the job and where we feel we can add the most value. We place great emphasis on management and seek to gain an understanding of their goals and aspirations by seeing them operate in their own environment. It is a privilege to meet them. The track record of executives is examined in detail along

Strategic Report continued

Manager's Report continued

with board structure, the level of insider ownership and the emphasis placed by management on sound corporate governance. Good communication and regular dialogue with management are an important part of our investment process. We are more interested in where an industry and a specific company will be in 5–10 years than its next set of figures. We are genuine long-term investors, seemingly an increasing rarity these days.

We believe that the major risk of investing in quoted UK small companies is stock specific. Having a high level of in-house resources and a disciplined investment process means that we are well-equipped to manage this risk. In addition, we have a number of risk disciplines aimed at limiting our exposure to a particular sector or company. For example, if an investment reaches a 4% weighting in the portfolio, we will automatically reduce our exposure even if we believe the outlook is still positive – no company is immune to external shocks or unexpected surprises.

In summary, we invest in well managed, high quality companies in growth markets at sensible valuations. We are long-term investors and keep turnover and transaction costs low. We follow the companies in which we invest very closely over many years, measured more in decades than the short-termism of others. We would rather pay more for a higher quality, more predictable company that can be valued with greater certainty. We like to sleep at night.

The Portfolio

The portfolio at 31 March 2015 consisted of 48 companies, of which the top ten holdings represented 32.4%.

At 31 March 2015, the Company held no investments in companies traded on AIM. The Manager currently considers that such companies carry a higher level of risk due to a lower level of disclosure, often weaker corporate governance and less regulation. In addition, liquidity is typically far less, leaving investors vulnerable to higher losses and greater volatility during market downturns.

Nonetheless, the Manager retains the ability to invest in companies traded on AIM in the future.

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.

Review

After two good years for investors, 2014/2015 proved to be an uninspiring one for investors in UK SmallCap, with the NSCI falling by 3.2% over the period. In comparison, the Company's NAV (excluding current period revenue) declined by 4.5%.

The UK SmallCap market experienced a sell-off which coincided with the start of the financial year that began in April 2014. A rotation out of SmallCap into LargeCap was evident throughout the summer months of 2014 as investors reacted to rising geopolitical tensions in Ukraine and the destabilising effect (once more) of events in Greece. In September 2014, investor risk appetite was further dampened by the Scottish Independence vote that raised the prospect of a possible breakup of the UK.

Aside from these political gyrations, there was a sense of a continuing economic revival in the UK as the economy expanded at a faster pace than its G7 peers. Leading economic indicators strengthened, unemployment fell below 6%, while retail sales, construction activity and manufacturing output all accelerated. The dramatic fall in the oil price supported the economic glow, lowering the inflation rate just as wage growth started to pick up.

Gearing

The AIFM, in consultation with the Board, is responsible for determining the gearing levels of the Company. In 2014, the Company started the financial year with a modest level of gearing at 6.5%. During the weak summer months, gearing rose reaching just above 10% by the end of September 2014 before falling back to 5.4% by the end of the financial year.

Outlook

We feel more optimistic about the outlook for SmallCap today compared with this time last year. The UK's improving economy, together with a pick-up in takeover activity, should support the asset class, which traditionally has outperformed during the expansionary phase of the business cycle.

Growth companies with true pricing power are more likely to excel in such an economic environment. MUSCIT's marked improvement in relative performance over the past six months suggests that investors recognise the attractions of our "Quality Growth" positioning. We look forward to what could be an exciting year for good stock-pickers.

The end of this financial year marks the 20th anniversary of the launch of the Company. MUSCIT has delivered a total return of 10.2% per annum (after fees) and has outperformed the benchmark by almost 5% per annum.

We would like to extend our thanks to our Chairmen, Directors and shareholders for their support over two decades. Several of you joined us on this memorable journey from the very start. Our sincere thanks go to you especially. We hope to count all of you amongst our shareholders in 20 years' time.

MONTANARO ASSET MANAGEMENT LIMITED
22 June 2015

The Company

MUSCIT is a closed-ended investment trust listed on the London Stock Exchange with registration number 3004101. It has been granted approval from HM Revenue & Customs ("HMRC") as an investment trust under s1158/1159 of the Corporation Tax Act 2010 ("s1158/1159"), subject to there being no serious breaches of the conditions for approval.

Rules introduced by HMRC removed the maximum holding in any one investment of 15% and replaced this with a risk diversification approach. The Board has considered this and agreed that the Company's Investment Policy offers suitable risk diversification.

MUSCIT is also an investment company as defined in Section 833 of the Companies Act 2006 ("Act"). The current portfolio of MUSCIT is such that its shares are eligible for inclusion in an ISA up to the maximum annual subscription limit and the Directors expect this eligibility to be maintained.

INVESTMENT OBJECTIVE

MUSCIT's investment objective is capital appreciation through investing in small quoted companies listed on the London Stock Exchange or traded on AIM and to achieve relative outperformance of its benchmark, the NSCI.

No unquoted investments are permitted.

The Attractions of Quoted Small Companies ("SmallCap")

The key attraction of investing in SmallCap is that investors have the opportunity to make higher returns than from investing in LargeCap. It is easier for small companies to grow faster than it is for large companies; hence they offer investors the potential for higher earnings growth. In the UK, research shows that, since 1954, SmallCap equities have outperformed LargeCap by an average of 3.4% per annum ("the SmallCap Effect"). As a result, investors have received six times higher returns.

The SmallCap market gives investors access to global market-leading companies managed by dynamic entrepreneurs operating in attractive niche markets that are growing. However, due to a lack of broker research and the illiquidity of their shares, it takes time to get to know and understand these companies. This requires a level of in-house resources beyond the scope of most institutional investors. This is why many institutions are attracted to the asset class and equally why they will often outsource the day-to-day investment decisions to dedicated specialists such as Montanaro.

INVESTMENT POLICY

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

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

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

The AIFM, in consultation with the Board, is responsible for determining the gearing levels of the Company and has determined that the Company's borrowings should be limited to 25% of shareholders' funds. Gearing is used to enhance returns when the timing is considered appropriate. The Company currently has credit facilities of £25 million with ING Bank, of which £18 million was drawn down at 31 March 2015 (amounting to net gearing of 5.4%).

Strategic Report continued

The Company continued

COMPANY INFORMATION

Share Buy Backs

The Board is responsible for share buy backs, which are undertaken at arm's length.

No shares were bought back during the year.

Holding Shares in Treasury

Since December 2003, investment trusts have had the right to buy back shares and hold them in Treasury for re-issue at a later date. This has the benefit of improving liquidity as well as retaining the opportunity to enhance the NAV.

The Board has actively and carefully considered the use of Treasury shares and had been among the industry's pioneers. Our policy is to ensure that shareholders receive a tangible benefit above and beyond an enhanced ability to manage the liquidity of the shares of MUSCIT. Shares held in Treasury will only be re-issued at a lower discount than when they were originally purchased and to produce a positive absolute return.

At 31 March 2015, no shares were held in Treasury.

Benchmark

Following a review to assess the most appropriate benchmark against which its performance should be measured, the Company adopted the NSCI on 1 April 2013. Prior to this date, the benchmark was the FTSE SmallCap Index. Both benchmarks excluded investment companies.

Dividends

The results for the year are shown in the Income Statement on page 29. The Directors recommend that a final dividend of 8.9p (2014: final 7.5p) per Ordinary share, amounting to £2,979,000 (2014: £2,511,000) be paid on 12 August 2015 to shareholders on the share register at the close of business on 3 July 2015.

Directors

As reported in the Chairman's Statement on page 4, Kate Bolsover was appointed a Director on 17 October 2014.

Michael Moule will retire as a Director on 31 July 2015.

Corporate Governance

The Directors have reviewed the recommendations of the AIC Code of Corporate Governance (the "AIC Code") and have implemented procedures where appropriate, such as an annual evaluation of the Board's performance.

MUSCIT has complied with the AIC Code throughout the year except where compliance would be inappropriate given the size and nature of the Company. Full disclosure of MUSCIT's compliance with the AIC Code is included in the Directors' Report. The Manager has signed up to the Stewardship Code and has published its voting records on its website.

AIFMD

The AIFMD relates to European legislation that creates a European-wide framework for regulating managers of alternative investment funds ("AIFs"). Closed-ended investment companies fall within the remit of these regulations, which came fully into force on 22 July 2014.

The Board reviewed the impact of AIFMD on the Company's operations and appointed Montanaro as the Company's AIFM and BONY as Depositary and Custodian.

DESCRIPTION OF PRINCIPAL RISKS ASSOCIATED WITH MUSCIT

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

The Board applies the principles detailed in the recommendations of the AIC Code as described above. Details of MUSCIT's principal risks are set out below. Internal controls may be found in the Corporate Governance section on pages 20 and 21.

Mitigation of the principal risks is sought and achieved in many ways as shown in italics below:

Corporate Objective: The Company and its objective become unattractive to investors. This is likely to be a systemic risk of all SmallCap trusts.

The Board regularly reviews the investment mandate and the long-term investment strategy in light of competition and monitoring of whether the Company should continue to exist in its present form.

Liquidity and Discount Management: The Company's share price performance lags NAV performance due to poor performance or because SmallCap is out of favour. The Company may become vulnerable to Arbitrageurs.

The Board regularly reviews the relative level of discount against the sector, the Company's investment performance relative to the competition and the benchmark, and the underlying liquidity of the investments.

Share buybacks cause the size of the Company to become too small to be viable in terms of ongoing charges or for thresholds of institutional investors.

The Board regularly considers ways in which share price performance may be enhanced, including the effectiveness of marketing and policies such as share buy-backs and Treasury shares.

The discount to the NAV (excluding current period revenue) per share averaged 13.9% over the period and ended the year at 16.5%, in line with the historical average.

Gearing: One of the benefits of closed-ended investment trusts is the ability to use borrowings which can enhance returns in a rising stock market. However, gearing exacerbates movements in the NAV both positively and negatively and will exaggerate declines in NAV when prices of quoted UK small companies are falling. Risks include an inappropriate use of gearing, interest payments becoming too high relative to the market and a breach of banking covenants.

The Board approves and discusses the gearing strategy proposed by the AIFM. In addition, it approves all loan agreements prior to commitment. A review of the terms and conditions of each loan agreement is undertaken at every Board meeting to check that covenants are being met.

Managing Shareholders' Expectations: Failure to keep current and potential investors informed of the Company's performance, investment style and development, leading to loss of investor confidence.

The Manager carries out an ongoing programme of communication with shareholders, including face-to-face presentations, factsheets and information on the website. Each year, the Board meets major shareholders at a post Board meeting lunch.

Board Composition and Succession Planning: The Board composition does not have the right mix of skills and experience leading to inadequate challenge and oversight. The Board does not have sufficient diversity leading to group think. There is inadequate succession planning.

The Nomination Committee meets regularly to discuss Board composition and succession planning. There is an annual Board appraisal to review Board effectiveness.

Corporate Ownership and Management Structure of Montanaro: A change in ownership and/or management structure of Montanaro.

The Board has no control over Montanaro's corporate future and any uncertainty that may occur from any changes in it. The Board could change the Manager under the terms of the contract if it was not happy with the new ownership structure. The Board is in regular contact with the senior management of Montanaro.

Poor Investment Performance: Underperformance of benchmark and/or peer group, as well as consistently poor performance leading to a widening of the discount.

A review is taken at each Board meeting with the Manager to compare and review the performance of the portfolio with the benchmark and the peer group. In addition, the Board seeks to understand the reasons for any underperformance as well as seeking comfort over consistency of investment approach and style.

The discount is managed through share buybacks. Ultimately, the Board can terminate the Manager's investment management contract if unsatisfactory performance is considered irreversible and the causes cannot be rectified.

Risk Oversight: The Manager is taking too much risk in the portfolio leading to unacceptable volatility in performance or there is excessive portfolio turnover.

This is primarily the responsibility of the AIFM, but the Board provides additional oversight in its portfolio reviews at each Board meeting. Portfolio turnover is reviewed through an inertia test at each Board meeting.

Strategic Report continued

The Company continued

Key Man Risk: A change in key investment management personnel who are involved in the management of the MUSCIT portfolio could impact on future investment performance and lead to loss of investor confidence.

Montanaro operates a team approach in the management of the portfolio which mitigates against the impact of the departure of any one of the investment team. There is an identified lead manager within Montanaro offering continuity of communication with MUSCIT's shareholders. The Board is in regular contact with Montanaro and its designated manager and will give their approval to any proposed change in the lead manager.

Operational Risk: Key operational risks include transactions not subject to best execution, counterparty risk, errors in settlement, title and corporate actions, misstatement of NAV and breach of the Investment policy.

The Board monitors operational issues regularly and reviews them in detail at each Board meeting. The internal control reports of each service provider are reviewed annually.

Compliance with the AIFMD: Failure to comply with the requirements of the AIFMD.

The Board has complied with the AIFMD by appointing Montanaro as AIFM and BONY as Depositary. Each provides ongoing reporting.

Breach of Regulation: Failure to comply with the Companies Act 2006, Stock Exchange rules, Financial Conduct Authority ("FCA") Listing Rules, Anti-Money Laundering procedures or other applicable regulations.

Shareholder reports and results announcements are reviewed by the Board prior to publication. Annual results are audited prior to release of the document to shareholders. Control reports from the Manager and Administrator are provided to monitor controls over ensuring compliance with applicable laws and regulations.

Changes in Regulations: The Company's business is not responsive to changes in law or regulation.

The Board reviews updates from its advisers (Auditor, Administrator and Manager) and the AIC, as and when regulations change. Reports are provided to the Board by advisers, as and when required, on key changes and confirmation as to how these have been addressed.

Failure to Comply with Legal Requirements: All price sensitive issues must be disclosed in a timely manner to prevent a misleading market in the Company's shares. Otherwise there could be action against the Company from regulatory authorities. Publication of breaches could impact the Company's reputation.

The Directors are aware of their responsibilities relating to price sensitive information and will consult as a Board with their advisers, if any potential issues arise. The Manager and Administrator notify the Board immediately if they are aware of any disclosure issues.

ANALYSIS OF PERFORMANCE USING KEY PERFORMANCE INDICATORS ("KPIs")

The Board reviews performance by reference to a number of KPIs and considers that the most relevant KPIs are those that communicate the financial performance and strength of the Company as a whole.

The Board and the Manager monitor the following KPIs:

The NAV

The NAV per Ordinary share (excluding current period revenue), at 31 March 2015 was 554.4p. Over the previous ten years and since launch, the NAV has increased by 157.2% and 462.3% respectively. In comparison, the benchmark has increased by 30.0% over the previous ten years and 121.8% since launch.

The Level of Discount

The discount of MUSCIT's share price to NAV (excluding current period revenue) stood at 16.5% on 31 March 2015 in comparison with a weighted sector average of 11.4%.

The Ongoing Charges

	2015	2014
Ongoing Charges	**1.2%**	1.3%
Finance costs	**0.4%**	0.4%
Total Ongoing Charges plus performance fees and finance costs	**1.6%**	1.7%

Further KPIs are those which show the Company's position in relation to the investment trust tests which it is required to meet and to maintain its investment trust status.

SOCIALLY RESPONSIBLE INVESTMENT

The Company has no employees and the Board is comprised entirely of non-executive Directors. Day-to-day management of the Company's business is undertaken by Montanaro as the Manager.

Montanaro receives independent third party corporate governance research and will usually vote in line with International Corporate Governance Network policies. Where possible, Montanaro engages with management teams of investee companies before an AGM or General Meeting prior to any decision to abstain or vote against a board's recommendation.

The Company aims to conduct itself responsibly, ethically and fairly.

ENVIRONMENTAL, HUMAN RIGHTS, EMPLOYEE, SOCIAL AND COMMUNITY ISSUES

The Board recognises the requirement under Section 414C of the Act to detail information about environmental matters, human rights, social and community issues, including information about any policies it has in relation to these matters and the effectiveness of these policies. These requirements do not apply to the Company as it has no employees, all the Directors are non-executive and it has outsourced its functions to third party service providers. Therefore, the Company has not reported further in respect of these provisions.

BOARD DIVERSITY

The Board strives to maintain a diversity of age, skills, gender and experience. At 31 March 2015, the Board comprised two female and three male Directors.

On behalf of the Board
KATHRYN MATTHEWS
Chairman
22 June 2015

Ten Largest Holdings
as at 31 March 2015

32.4%
of the portfolio

Cineworld Group
Travel and Leisure

A leading cinema operator in the UK.

Value	Portfolio	Market cap
£7.2m	3.6%	£1,267m

Consort Medical
Health Care, Equipment and Services

Medical device technologies for drug delivery.

Value	Portfolio	Market cap
£7.1m	3.6%	£422m

Marshalls
Construction and Materials

The UK's leading provider of landscaping products.

Value	Portfolio	Market cap
£7.0m	3.5%	£554m

Big Yellow Group
Real Estate/Real Estate Investment Trusts ("REIT")

A REIT focused on the self-storage market.

Value	Portfolio	Market cap
£6.5m	3.3%	£1,014m

Bovis Homes Group
Household Goods and Home Construction

A house builder operating primarily in the south of England.

Value	Portfolio	Market cap
£6.3m	3.2%	£1,252m

Dignity

General Retailers

The UK's largest provider of funeral-related services.

£6.3m	3.2%	£901m
Value	Portfolio	Market cap

NCC Group

Software and Computer Services

Software business specialising in escrow and cyber security.

£6.1m	3.1%	£409m
Value	Portfolio	Market cap

Dechra Pharmaceuticals

Pharmaceuticals and Biotechnology

An international veterinary pharmaceutical business.

£6.0m	3.0%	£886m
Value	Portfolio	Market cap

Entertainment One

Media

A distributor of film, TV and music content.

£6.0m	3.0%	£894m
Value	Portfolio	Market cap

Clarkson

Industrial Transportation

A leading shipping brokerage business.

£5.8m	2.9%	£678m
Value	Portfolio	Market cap

Investment Portfolio
as at 31 March 2015

Holding	**Sector**	**Value £'000**	**Market cap £m**	**% of portfolio 31 March 2015**	% of portfolio 31 March 2014
Cineworld Group	Travel and Leisure	7,200	1,267	3.6	2.1
Consort Medical	Health Care, Equipment and Services	7,095	422	3.6	2.7
Marshalls	Construction and Materials	6,950	554	3.5	2.1
Big Yellow Group	Real Estate/Real Estate Investment Trusts	6,475	1,014	3.3	2.6
Bovis Homes Group	Household Goods and Home Construction	6,321	1,252	3.2	2.1
Dignity	General Retailers	6,250	901	3.2	1.0
NCC Group	Software and Computer Services	6,101	409	3.1	2.5
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	6,042	886	3.0	1.9
Entertainment One	Media	5,954	894	3.0	1.9
Clarkson	Industrial Transportation	5,775	678	2.9	2.1
Shaftesbury	Real Estate/Real Estate Investment Trusts	5,768	2,310	2.9	1.2
Restaurant Group	Travel and Leisure	5,186	1,351	2.6	1.7
Rathbone Brothers	Financial Services	4,993	993	2.5	1.3
Jupiter Fund Management	Financial Services	4,990	1,872	2.5	2.3
Hilton Food Group	Food Producers	4,975	317	2.5	2.7
Victrex	Chemicals	4,688	1,601	2.4	2.4
Ted Baker	Personal Goods	4,610	1,098	2.3	1.9
James Fisher and Sons	Industrial Transportation	4,582	656	2.3	2.4
AG Barr	Beverages	4,449	712	2.2	2.1
Senior	Aerospace and Defence	4,406	1,361	2.2	2.0
Twenty Largest Holdings		**112,810**		**56.8**	
Mears Group	Support Services	4,298	432	2.2	2.8
Renishaw	Electronic and Electrical Equipment	4,151	1,777	2.1	1.6
Helical Bar	Real Estate/Real Estate Investment Trusts	4,140	466	2.1	2.2
Berendsen	Support Services	4,133	1,928	2.1	2.9
Diploma	Support Services	4,007	908	2.0	1.7
Cranswick	Food Producers	3,950	676	2.0	2.0
St. Modwen Properties	Real Estate/Real Estate Investment Trusts	3,893	984	2.0	–
Brewin Dolphin Holdings	Financial Services	3,881	867	2.0	2.4
Hellermanntyton Group	Electronic and Electrical Equipment	3,844	720	1.9	1.2
Brammer	Support Services	3,620	518	1.8	2.2
RPS Group	Support Services	3,605	499	1.8	2.4
AVEVA Group	Software and Computer Services	3,428	946	1.7	1.8
Dialight	Electronic and Electrical Equipment	3,402	246	1.7	2.0
Halma	Electronic and Electrical Equipment	3,283	2,642	1.6	1.6
Galliford Try	Household Goods and Home Construction	3,178	1,173	1.6	1.1
Dunelm Group	General Retailers	3,125	1,701	1.6	1.5
Arrow Global Group	Financial Services	3,097	432	1.6	–
Domino Printing Sciences Group	Electronic and Electrical Equipment	2,974	1,054	1.5	2.2
SuperGroup	Personal Goods	2,832	773	1.4	2.5
Euromoney Institutional Investor	Media	2,481	1,436	1.2	1.3
Wilmington Group	Media	2,439	201	1.2	1.2
Paypoint	Support Services	2,255	558	1.1	1.5
Telecom Plus	Fixed Line Telecommunication	1,959	697	1.0	2.0
Elementis	Chemicals	1,929	1,340	1.0	–
Hunting	Oil Equipment, Services and Distribution	1,728	730	0.9	1.5
ITE Group	Media	1,715	464	0.9	0.9
Latchways	Support Services	1,490	84	0.7	1.1
EnQuest	Oil and Gas Producers	928	281	0.5	1.6
Total Portfolio		**198,575**		**100.0**	

Analysis of Investment Portfolio by Industrial or Commercial Sector

as at 31 March 2015

Sector	% of portfolio	% of NSCI
Oil and Gas Producers	0.5	4.3
Oil Equipment, Services and Distribution	0.9	1.1
Alternative Energy	–	0.2
Oil and Gas	**1.4**	**5.6**
Chemicals	3.4	2.1
Industrial Metals	–	0.2
Mining	–	3.6
Basic Materials	**3.4**	**5.9**
Construction and Materials	3.5	3.0
Aerospace and Defence	2.2	2.8
General Industrials	–	1.8
Electronic and Electrical Equipment	8.8	2.7
Industrial Engineering	–	2.2
Industrial Transportation	5.2	1.5
Support Services	11.7	10.2
Industrials	**31.4**	**24.2**
Beverages	2.2	0.7
Food Producers	4.5	3.3
Household Goods and Home Construction	4.8	3.4
Leisure Goods	–	0.4
Personal Goods	3.7	1.6
Consumer Goods	**15.2**	**9.4**
Health Care, Equipment and Services	3.6	3.4
Pharmaceuticals and Biotechnology	3.0	2.7
Health Care	**6.6**	**6.1**
Food and Drug Retailers	–	0.7
General Retailers	4.8	7.4
Media	6.3	3.7
Travel and Leisure	6.2	7.3
Consumer Services	**17.3**	**19.1**
Fixed Line Telecommunications	1.0	1.6
Telecommunications	**1.0**	**1.6**
Electricity	–	0.4
Utilities	**–**	**0.4**
Banks	–	0.4
Life and Non-life Insurance	–	3.5
Real Estate/Real Estate Investment Trusts	10.3	11.5
Financial Services	8.6	6.7
Financials	**18.9**	**22.1**
Software and Computer Services	4.8	3.4
Technology Hardware and Equipment	–	2.2
Technology	**4.8**	**5.6**
Total	**100.0**	**100.0**

The investment portfolio comprises 48 listed UK equity holdings.

Board of Directors

MUSCIT has a highly experienced Board of Directors with extensive knowledge of investment management and investment trusts.

Kathryn Matthews – Chairman
Kathryn Matthews was appointed a Director on 1 April 2010 and became Chairman of MUSCIT on 27 July 2013. Kathryn has worked in the investment management industry since 1981. Formerly, she was the chief investment officer of Asia Pacific (ex Japan) for Fidelity International. Prior to that, she held senior appointments with William M Mercer, AXA Investment Managers, Santander Global Advisers and Baring Asset Management. She is a non-executive director of Rathbone Brothers plc, Hermes Fund Managers Limited; a non-executive director for JP Morgan Chinese Investment Trust Plc and Aperam. She is also a member of the Council of the Duchy of Lancaster and is on the board of trustees of the Nuffield Trust.

Kate Bolsover
Kate Bolsover was appointed a Director on 17 October 2014. She is a non-executive director of JPMorgan American Investment Trust plc and Chairman of Fidelity Asian Values plc. She is also chairman of Tomorrow's People Trust Limited and a director of a number of affiliated companies. She worked for Cazenove Group plc and J.P. Morgan Cazenove between 1995 and 2005 where she was managing director of the mutual fund business and latterly director of Corporate Communications. Prior to this, her work involved business development and mutual funds experience covering countries in the UK, Europe and the Far East.

Roger Cuming – Senior Independent Director
Roger Cuming was appointed a Director on 5 June 2009 and has been in the investment industry for over 35 years. He is Head of Investments for Reliance Mutual Insurance Society Limited and is a significant investor in closed and open-ended investments of all types.

Michael Moule – Nomination and Remuneration Committee Chairman
Michael Moule was appointed a Director on 28 January 2005, formerly specialising in managing investment trusts for Henderson and Touche Remnant. He has extensive experience of UK and overseas equity markets having worked with investment trusts since 1967. He is also chairman of Polar Capital Technology Trust plc, a non-executive director of The European Investment Trust plc and is a member of the investment committee of the British Heart Foundation and the Open University.

James Robinson – Audit and Management Engagement Committee Chairman
James Robinson was appointed a Director on 30 September 2013. He was chief investment officer (investment trusts) and director of hedge funds at Henderson Global Investors prior to his retirement in 2005. A chartered accountant, he has 34 years investment experience and is a director of Aberdeen New Thai Investment Trust plc, Invesco Asia Trust plc, Fidelity European Values PLC and JPMorgan Elect plc. He is also chairman of Polar Capital Global Healthcare Growth and Income Trust plc and a council member and chairman of the investment committee of the British Heart Foundation.

Directors' Report

SHARE CAPITAL

There are currently 33,475,958 Ordinary 10p shares in issue (2014: 33,475,958), none of which are held in Treasury (2014: nil). Holders of Ordinary shares have unrestricted voting rights of one vote per share at all general meetings of the Company.

SECURITIES CARRYING VOTING RIGHTS

The following information is disclosed in accordance with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and DTR 7.2.6 of the FCA Disclosure and Transparency Rules:

- The Company's capital structure and voting rights are disclosed above;
- Details of the substantial shareholders in the Company are disclosed on page 21;
- The Board's current powers to buy back shares and proposals for their renewal are disclosed on page 22; and
- There are no restrictions concerning the transfer of securities in the Company; 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 to which the Company is party that might affect its control following a successful takeover bid.

Management Agreement

The Company agreed with Montanaro that, with effect from 1 April 2014, the Manager would receive an management fee of 0.85% per annum (previously: 1%) of gross assets and no performance fee.

The Company entered into a new Management Agreement with the Manager dated 19 June 2014 under which the Manager was appointed by the Company to act as AIFM. The Company agreed to pay Montanaro a one-off set up fee of £25,000 in connection with the AIFM service. Montanaro receives an ongoing fee of £50,000 per annum to act as the Company's AIFM.

Except in certain circumstances, the Management Agreement may only be terminated by the Manager on giving 12 months' notice to the Company or by the Company on paying to the Manager a termination fee of 1% of gross assets of MUSCIT at close of business on the last day of the calendar month immediately preceding the effective date of termination of the Agreement.

During the year ended 31 March 2014, the management fee was comprised of two components: a fixed fee of 1/12 of 1% of the gross assets of MUSCIT, payable monthly in arrears, and a performance fee of 0.1% of the gross assets of MUSCIT for each 1% outperformance (or part thereof) of MUSCIT's NAV, adjusted for dividends paid, against the benchmark over the financial year, subject to a maximum of 0.5% of the gross assets calculated at the end of the financial year.

No performance fee was payable in respect of the year ended 31 March 2014.

The Board, through the Audit and Management Engagement Committee, keeps under review the performance of the Manager and the level and terms of the management fee. In the opinion of the Directors, the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole. Among the reasons for this view is the long-term investment performance of MUSCIT relative to that of the markets in which MUSCIT invests and the depth and experience of the research capability of Montanaro.

Corporate Governance

COMPLIANCE WITH THE PROVISIONS OF THE AIC CODE OF CORPORATE GOVERNANCE AND AIC GUIDE

The Board of MUSCIT has considered the principles and recommendations of the AIC Code by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to MUSCIT.

The Board considers that reporting under the principles and recommendations of the AIC Code and by reference to the AIC Guide will provide better information to shareholders.

A copy of the AIC Code and the AIC Guide can be obtained via the AIC's website: www.theaic.co.uk. A copy of the UK Corporate Governance Code can be obtained 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 2012, except where compliance would be inappropriate given the size and nature of the Company.

Directors' Report continued

As set out in the AIC Guide accompanying the AIC Code, the Board considers that the UK Code's recommendations with respect to the role of the chief executive, executive directors' remuneration (there are no executive directors) and the need for an internal audit function (not considered necessary given the inherent segregation of duties and internal controls) are not relevant to the Company's circumstances as an externally managed investment trust. The Company has therefore not reported further in respect of these provisions.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

	Board		Audit Committee		Remuneration Committee		Management Engagement Committee		Nomination Committee	
	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended
Kathryn Matthews	6	6	2	2	1	1	1	1	5	5
Kate Bolsover*	2	1**	1	1	n/a	n/a	n/a	n/a	n/a	n/a
Roger Cuming	6	6	2	2	1	1	1	1	5	5
Michael Moule	6	6	2	2	1	1	1	1	5	5
James Robinson	6	6	2	2	1	1	1	1	5	5

* Appointed 17 October 2014.

** Unable to attend due to prior commitment.

The Company holds at least five Board meetings each year at which the Directors review MUSCIT's investments and all other important issues in relation to the Company's affairs. During the year ended 31 March 2015, six Board meetings were held, one of which was a full-day session devoted entirely to reviewing strategic matters.

THE BOARD

The Board currently consists of five non-executive Directors, but will revert back to its normal size of four Directors when Michael Moule retires on 31 July 2015.

Kathryn Matthews is Chairman of MUSCIT. The Board considers her to be independent and to have no conflicting relationships. She considers herself to have sufficient time to commit to the Company's affairs.

Roger Cuming is currently the Senior Independent Director ("SID") of MUSCIT. The Board considers that Roger Cuming is ideally suited to perform the role of the SID.

The Board has formalised the arrangements under which Directors, in the furtherance of their duties, may take independent professional advice. The Company also maintains Directors' and Officers' liability insurance.

There were no third party indemnity provisions over the course of the year or since the year end.

Other than their letters of appointment, none of the Directors has a contract of service with MUSCIT nor has there been any contract or arrangement between MUSCIT and any Director at any time during the year. These letters of appointment are available for inspection on request to the Company Secretary.

The Company has neither executive directors nor employees. However, the Board has engaged external companies to undertake the investment management, administrative and custodial activities of MUSCIT. Clear, documented contractual arrangements are in place between MUSCIT and these firms that define the areas where the Board has delegated functions to them. Further details of the Management Agreement are given on page 17.

A schedule of matters specifically reserved to the Board for its decision has been adopted. These reserved matters include the approval of annual and half-yearly accounts, the recommendation of dividends, the approval of press releases and circulars, Board appointments and removals and the membership of Committees. Decisions regarding the capital structure of MUSCIT (including share buy backs and Treasury share transactions) are also taken by the Board, while the day-to-day investment of the portfolio is delegated to the Manager.

ELECTIONS AND RE-ELECTIONS AT THE ANNUAL GENERAL MEETING

Under the Company's Articles of Association ("Articles"), one-third of the Directors shall be subject to retirement by rotation retire at each AGM. In so far as the number of Directors retiring is less than one-third, those Directors who have been longest in office shall also retire. In accordance with the Company's Articles, the UK Corporate Governance Code and AIC Code, all Directors will be subject to re-election by shareholders at intervals of no more than three years. Directors will also be subject to annual re-election after nine years of service. The Board believes that there are significant benefits to the Company in having a long serving Director.

The Board will consider the continuing independence of any Director who has served on the Board for nine years or more, giving consideration to:

(i) Employee relationships.
(ii) Material business relationships.
(iii) Family ties.
(iv) Cross-directorships.
(v) Shareholdings.

A Chairman stepping down from that role will be capable of continuing to serve as a Director.

In accordance with the AIC Code and the Articles, Kate Bolsover will offer herself for election, it being the first AGM since her appointment to the Board. Fellow Directors strongly recommend the election of Kate Bolsover because of her background in marketing and sales and long-term experience of investment trusts.

Kathryn Matthews will retire by rotation at the AGM and, being eligible, will offer herself for re-election. Fellow Directors strongly recommend the re-election of Kathryn Matthews because of her knowledge and experience of the investment industry, making a valuable contribution to the Board, together with good leadership skills as Chairman.

PERFORMANCE EVALUATION

The Directors conduct an annual review of Board performance and effectiveness to monitor and improve their overall performance. This process is comprised of six elements:

1. a factual report of Board Committee procedures from MUSCIT's Company Secretary;
2. a self-evaluation by each Director against specified criteria;
3. an assessment of the Chairman by each Director against specified criteria;
4. an assessment of the Directors by the Chairman against specified criteria;
5. an assessment of each Directors' independence; and
6. an assessment of any required training.

The Board evaluation process aims to provide a powerful and valuable feedback mechanism for improving Board effectiveness, maximising strengths and highlighting areas for further development.

Kathryn Matthews, as Chairman, takes overall responsibility for the evaluation process and has selected a questionnaire methodology to achieve these objectives, which is followed by a feedback session that considers how effective the process has been and identifies any areas for improvement. Roger Cuming, as the SID, leads the appraisal of the Chairman.

The Board has reviewed the time commitment required from all Directors and noting their contributions and attendance at all Board and Committee meetings and discussions held outside these formal meetings, believes that all Directors have demonstrated the necessary commitment to the role.

The Board considers that outside commitments have not impinged on their duties as a Director of MUSCIT and have enhanced the knowledge brought to the Board meetings.

INDEPENDENCE OF DIRECTORS

The Board has considered the independent status of each Director under the AIC Guide and has determined that all Directors are independent.

The Board has reviewed the fact that Roger Cuming is a senior member of a company that, until February 2015 had a shareholding in MUSCIT. During the year, the Board was satisfied that internal controls made sure that voting and control of this shareholding was not influenced by Roger Cuming. The Board believes that the contribution of Roger Cuming is entirely aligned to the overall success of the Company and therefore considers him to be independent.

STEWARDSHIP CODE

The Company has given discretionary voting powers to the Manager. AIC Code Principle 16 recommends that the Board should agree a policy regarding voting rights exercised by Montanaro. However, the Board has agreed that there is no need to set a written policy with Montanaro concerning key operational issues as the Board and Montanaro already have a clear understanding of their respective responsibilities.

The Board encourages the Manager to give due consideration to environmental, social and governance matters whilst recognising the overall investment policy and objectives of the Company. Montanaro reports to the Board at every meeting and the Board reviews a full list of all votes cast on the Company's behalf. Montanaro votes against resolutions it considers may damage shareholders' rights or economic interests. Montanaro gives due weight to what it considers to be socially responsible investments, when making investment decisions, but its overriding objective is to produce good investment returns for shareholders.

Directors' Report continued

During the year, the Manager on behalf of the Company exercised its voting authority as follows:

Meetings	
Number of meetings voted at:	60
Number of meetings voted against management or abstained:	15
Resolutions	
Number of resolutions where voted with management:	938
Number of resolutions where abstained:	9
Number of resolutions where voted against management:	13

BOARD COMMITTEES

The Chairman of each Board Committee fulfils an important leadership role similar to that of the Chairman of the Board, particularly in creating the conditions for overall Committee and individual Director effectiveness.

Following a review of its Committees in April 2015, the Board decided that, going forward, the roles of the Audit Committee and Management Engagement Committee should be combined to form one Committee. This Committee is comprised of all Directors and is chaired by James Robinson. The Board is satisfied that James Robinson has recent and relevant financial experience to guide the Committee in its deliberations.

The report from this Committee is set out on page 23.

Each Committee has adopted formal written terms of reference which are available upon request from the Company Secretary and are available on the Company's website www.montanarouksmaller.co.uk.

The Remuneration Committee is comprised of all Directors, with Michael Moule acting as Chairman. The Remuneration Committee meets as required for the purpose of considering levels of remuneration paid to the Board and reviews the Directors' Remuneration Report and Remuneration Policy. The Chairman of the Company takes no part in discussions concerning his own salary. This Committee held one meeting during the year.

The Nomination Committee is comprised of all Directors and meets as required for the purpose of considering recruitment to, and removals from, the Board, with Michael Moule acting as Chairman. Appointments to the Board are made according to a person's existing knowledge and expertise, taking into account the Company's agreed strategic priorities.

Trust Associates, an independent external non-executive director search agency, was engaged by the Company to identify suitable candidates prior to the appointment of Kate Bolsover on 17 October 2014. The Board is committed to a policy of succession planning.

The Committee held five meetings during the year to consider other potential non-executive directors.

Following Michael Moule's retirement on 31 July 2015, the Remuneration Committee will be chaired by Kate Bolsover, the Nomination Committee will be chaired by Kathryn Matthews, and the Audit and Management Engagement Committee will be chaired by James Robinson.

GLOBAL GREENHOUSE GAS EMISSIONS

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

INFORMATION TO BE INCLUDED IN ANNUAL REPORT IN ACCORDANCE WITH LISTING RULE 9.8.4R

Listing Rule 9.8.4R requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard.

INTERNAL CONTROL AND FINANCIAL REPORTING

The Board is responsible for establishing and maintaining MUSCIT's system of internal controls and for maintaining its effectiveness. Internal control systems are designed to meet the particular needs of MUSCIT and the risks to which it is exposed and by their very nature provide reasonable but not absolute assurance against misstatement or loss. The Directors have reviewed the effectiveness of the system of internal controls, including financial, operational and compliance controls and risk management. The Board would take actions to remedy any significant failings or weaknesses identified. The key procedures, which have been established to provide effective internal controls are as follows:

- throughout the year under review and up to the date of this Annual Report, there has been an ongoing process for identifying, evaluating and managing the significant risks faced by MUSCIT, which accords with guidance supplied by the Financial Reporting Council ("FRC") on internal controls. This is reviewed on a regular basis by the Board. The process involves reports from MUSCIT's Company Secretary and Manager as described below. In addition, the Audit Committee receives internal controls statements from all the third parties to which it delegates functions;
- in accordance with guidance issued to directors of listed companies, the Board has carried out a review of the system of internal controls operated since 1 April 2014;

- investment management is provided by Montanaro which is regulated by the FCA. The Board is responsible for setting the overall investment policy and monitors the activity of the Manager at regular Board meetings. Montanaro provides reports at these meetings, which cover investment performance and compliance issues;
- Capita Sinclair Henderson Limited ("CSH") is responsible for the provision of administration and company secretarial duties. It also reports to the Board on risk control issues for MUSCIT as a whole;
- custody of assets is undertaken by an independent third party;
- the duties of investment management, accounting and the custody of assets are segregated;
- the procedures of the individual parties are designed to complement one another;
- the Board of MUSCIT clearly defines the duties and responsibilities of its agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved and the Board monitors their ongoing performance and contractual arrangements;
- mandates for authorisation of investment transactions and expense payments are set by the Board; and
- the Board reviews financial information produced by CSH in detail on a regular basis.

DIALOGUE WITH SHAREHOLDERS

Communication with shareholders is given a high priority by both the Board and the Manager. The Directors and Manager are always available to enter into dialogue with shareholders and have a policy of regularly inviting major shareholders to meet with the Board and Manager. Shareholders wishing to communicate directly with the Board should contact the Company Secretary at the registered office.

The Annual and Half-Yearly Reports of the Company are prepared by the Board and its advisers to present a fair, balanced and understandable review of the Company's performance, business model and strategy.

All shareholders have the opportunity to attend and vote at the AGM during which the Board and Manager are available to discuss issues affecting MUSCIT. The Manager has signed up to the Stewardship Code and publishes its voting records on its website.

Substantial Shareholdings

At 31 March 2015, MUSCIT had been informed of the following notifiable interests in its voting rights:

Beneficial owner	Ordinary shares	% of voting rights
Derbyshire County Council	2,925,000	8.7
East Riding of Yorkshire Council	2,743,400	8.2
Jupiter Asset Management Limited	1,875,000	5.6
Quilter Cheviot Limited	1,671,230	5.0
Newton Investment Management Limited	1,661,565	5.0
Royal London Asset Management Limited	1,534,839	4.6
Henderson Global Investors Limited	1,450,000	4.3
Montanaro Asset Management Limited	1,300,000	3.9
City of Bradford Metropolitan District Council	1,228,500	3.7
1607 Capital Partners LLC	1,165,227	3.5

At the date of this report the Company has been advised that Jupiter Asset Management Limited has an interest in 1,565,000 shares, representing 4.7% of the total voting rights of the Company. There have been no other changes notified between 31 March 2015 and the date of this report.

Going Concern

At the Company's AGM held on 26 July 2013, shareholders voted to remove the obligation under the Articles to convene a General Meeting during 2014 for the purpose of voluntarily winding up the Company. The Company will be required to propose a resolution at a General Meeting every five years thereafter, unless, at any AGM held within, and not more than, 18 months prior to expiry of the relevant period of five years, an ordinary resolution is passed releasing the Directors from the obligation to convene such a General Meeting.

The Directors, after due consideration of the Company's cash balances, the liquidity of the Company's investment portfolio and the cost base of the Company, are of the opinion that it is appropriate to presume that the Company will continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis, consistent with previous years.

Auditor

KPMG LLP is willing to remain in office and Resolution 6 for its re-appointment will be proposed at the forthcoming AGM.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Directors' Report continued

In accordance with forthcoming UK and European regulations on audit tendering and rotation, the Company will be required to appoint a new auditor by 17 June 2023.

Special Business at the Annual General Meeting

A resolution to renew MUSCIT's authority to purchase (either for cancellation or for placing into Treasury) up to 14.99% of the Ordinary shares in circulation for a further year will be put to shareholders as Resolution 7 at the AGM. Purchases will be made on the open market and prices will be in accordance with the terms laid out in Resolution 7. The authority will be used where the Directors consider it to be in the best interests of shareholders. No shares were bought back during the year.

Resolution 8, if passed, will give the Directors the general authority (pursuant to paragraph (a) of the Resolution) to allot Ordinary shares up to an aggregate nominal amount of £1,115,865, representing approximately one-third of MUSCIT's issued Ordinary shares. In addition, in accordance with the guidance from the Association of British Insurers on the expectations of institutional investors, upon the passing of Resolution 8 the Directors will have the authority (pursuant to paragraph (b) of the Resolution) to allot Ordinary shares up to an additional one-third of the current issued share capital but only for the purposes of a rights issue to existing shareholders. No shares are currently held in Treasury. The authority will be used where the Directors consider it to be in the best interests of shareholders.

Resolution 9, subject to the passing of Resolution 8, will give the Directors the general authority to allot Ordinary shares (including issues out of Treasury) for cash, up to an aggregate nominal amount of £334,760, representing approximately 10% of the issued Ordinary shares and at a price above net asset value per share, without having to offer such shares to existing shareholders in proportion to their existing holdings.

The authorities for the above Resolutions will expire at the conclusion of the Company's next AGM after the passing of the Resolutions.

Resolution 10, subject to the passing of Resolution 9, will give the Directors a general authority to sell shares held in Treasury at a discount to net asset value, up to the same aggregate nominal amount of £334,760, representing 10% of the issued Ordinary shares. Any shares will only be re-issued at an absolute profit and at a lower weighted average discount than when they were originally purchased.

Any decisions regarding placing shares into Treasury, or selling shares from Treasury, will be taken by the Directors.

Resolution 11, if passed, will allow the Directors to hold a General Meeting, other than an AGM, on a minimum of 14 clear days' notice. The notice period for AGMs will remain at 21 clear days. The Directors will only call General Meetings on 14 clear days' notice where they consider it in the best interests of the shareholders to do so and the relevant matter requires to be dealt with expeditiously.

Full details of these Resolutions are provided in the Notice of AGM.

The Directors consider that all Resolutions to be proposed at the AGM are in the best interests of the Company and its members as a whole.

The Directors unanimously recommend that all shareholders vote in favour of all the Resolutions, as they intend to do in respect of their own holdings.

By order of the Board

CAPITA SINCLAIR HENDERSON LIMITED
Company Secretary
22 June 2015

Report from the Audit and Management Engagement Committee

The primary responsibilities of the Committee are to:

- monitor the process for the production and integrity of the Company's accounts;
- consider compliance with regulatory and financial reporting requirements;
- review and monitor the effectiveness of the internal control and risk management systems;
- review annually the need for the Company to have its own internal audit function;
- consider the terms of appointment, remuneration, independence, objectivity and effectiveness of the Company's Auditor;
- make recommendations to the Board in relation to the appointment and remuneration of the Auditor;
- review annually the performance of the Manager; and
- review annually the performance of other third party service providers.

The Committee meets at least twice a year in conjunction with the annual and half-yearly financial results of MUSCIT.

The Committee has:

- reviewed the internal controls and risk management systems of the Company and its third party providers;
- agreed the audit plan with the Auditor, including the principal areas of focus;
- received and discussed with the Auditor their report on the results of the audit;
- reviewed the Company's financial statements and advised the Board accordingly; and
- reviewed the performance of the Manager and recommended to the Board that the Manager's appointment be continued.

The key area of risk that had been determined by the Committee in relation to the business activities and financial statements of the Company, was the valuation of the listed investments. The Board relies on the Administrator to use correct listed prices and seeks comfort in the testing of this process through the internal control statements. This was discussed with the Administrator, Manager and Auditor at the conclusion of the audit of the financial statements.

The Committee considers the performance of Montanaro as AIFM and Manager by reference to obligations imposed under the terms of the Investment Management Agreement. The Committee makes recommendations to the Board on any variations to the terms of the Investment Management Agreement when it considers it necessary or desirable and on the continuing appointment of the Manager.

The Committee has considered the performance of Montanaro, their terms of engagement and their continued appointment as AIFM and Manager and made recommendations to the Board.

The Committee has reviewed and accepted reports from the Auditor on its procedures for ensuring that its independence and objectivity are safeguarded. The Committee reviews the need for non-audit services and authorises such on a case by case basis, having consideration to the cost-effectiveness of the services and the independence and objectivity of the Auditor. Non-audit work may be given to the external Auditor unless there is a conflict of interest or someone else is considered to have more relevant experience. No non-audit services were provided in the year under review.

This is the first year with a new audit director, Peter Lomax. KPMG has been Auditor to the Company since incorporation in 1995. No tender for the audit of the Company has been undertaken. The Committee regularly considers the need to put the audit out to tender, the Auditor's fees and independence from the Manager, along with matters raised during each audit.

The Committee has advised the Board that, based on its assessment of their performance and independence, KPMG has fulfilled its obligations to the Company and shareholders. The Committee has recommended to the Board that KPMG LLP be re-appointed as Auditor.

The Audit and Management Engagement Committee has adopted formal written terms of reference which are available upon request from the Company Secretary and are available on the Company's website: www.montanarouksmaller.co.uk.

JAMES ROBINSON
Audit and Management Engagement Committee Chairman
22 June 2015

Directors' Remuneration Report

The Board has prepared this Report in accordance with the requirements of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. Ordinary Resolutions for the approval of this report will be put to shareholders at the forthcoming AGM.

The law requires the Company's Auditor, KPMG LLP, to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 27 and 28.

ANNUAL STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2015.

Remuneration Committee

The Remuneration Committee meets as required for the purpose of considering levels of remuneration paid to the Board. Each Director of the Company takes no part in discussions concerning their own salary. This Committee held one meeting during the year.

Directors' Fees

	2015	2014
	£	£
Chairman of the Board	**29,000**	29,000
Chairman of the Audit Committee	**23,000**	22,000
Senior Independent Director	**21,000**	21,000
Other Directors	**20,000**	20,000
	93,000	92,000

Directors' Emoluments for the Year (Audited)

The Directors who served in the year received the following emoluments in the form of fees:

	2015		2014	
	Fees	**Total**	Fees	Total
	£	**£**	£	£
Kathryn Matthews	**29,000**	**29,000**	26,145	26,145
Kate Bolsover*	**9,140**	**9,140**	–	–
Roger Cuming	**21,000**	**21,000**	21,000	21,000
Michael Moule	**20,661**	**20,661**	22,000	22,000
James Robinson**	**22,008**	**22,008**	10,056	10,056
David Gamble***	**–**	**–**	9,277	9,277
	101,809	**101,809**	88,478	88,478

* appointed 17 October 2014.
** appointed 30 September 2013.
*** resigned 26 July 2013.

Michael Moule stepped down as Audit Committee Chairman on 30 July 2014 and James Robinson assumed this role on the same day. The above fees for both Directors reflect this change.

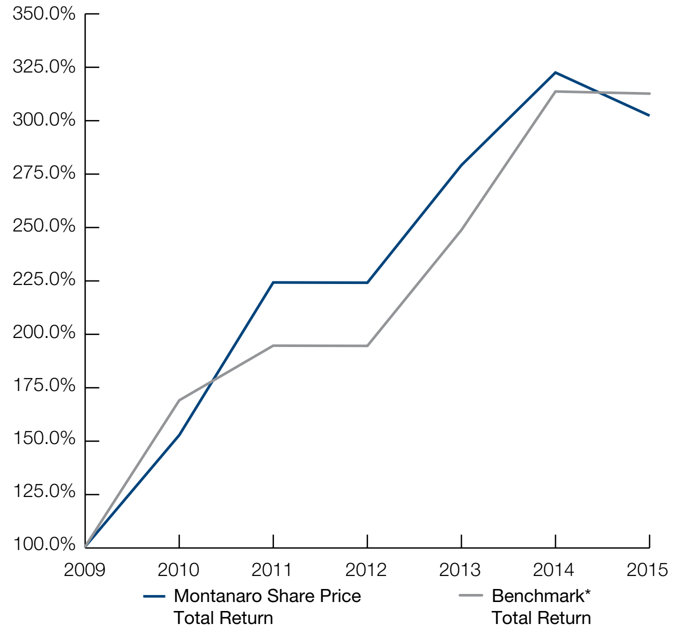
No sums are paid to any third parties in respect of Directors' services.

At the conclusion of the 2014 AGM, in recognition of increased regulation, the Board increased the fee of the Chairman of the Audit Committee from £22,000 to £23,000.

Your Company's Performance

The following graph compares the total return (assuming all dividends are reinvested) over the past six years to Ordinary shareholders to the total shareholder return of the NSCI. The NSCI was adopted as the new benchmark from 1 April 2013.

Total Return vs Benchmark* (rebased from March 2009)



Source: Capita Sinclair Henderson Limited

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

The Directors' Remuneration Report for the year ended 31 March 2014 and the Directors' Remuneration policy were approved by shareholders at the AGM held on 30 July 2014. The votes cast by proxy were as follows:

Directors' Remuneration Report

	Number of votes	% of votes cast
For	16,915,915	100.0%
Against	0	0.0%
At Chairman's discretion	0	0.0%
Total votes cast	16,915,915	100.0%
Number of votes withheld	0	

Directors' Remuneration Policy

	Number of votes	% of votes cast
For	16,915,915	100.0%
Against	0	0.0%
At Chairman's discretion	0	0.0%
Total votes cast	16,915,915	100.0%
Number of votes withheld	0	

Directors' Beneficial and Family Interests (Audited)

There is no requirement under the Articles for Directors to hold shares in the Company. The interests of the current Directors and their families in the voting rights in MUSCIT are set out below:

	As at 31 March 2015 No. of shares (or date of appointment if later)	As at 1 April 2014 No. of shares (or date of appointment if later)
Kathryn Matthews	**1,500**	1,500
Kate Bolsover*	**755**	–
Roger Cuming	**5,000**	5,000
Michael Moule	**10,000**	10,000
James Robinson	**8,000**	2,500

* appointed 17 October 2014.

There have been no changes to the above holdings between 31 March 2015 and the date of this Annual Report. None of the Directors nor any persons connected with them had a material interest in any of MUSCIT's transactions, arrangements or agreements during the year.

The table below sets out, in respect of the financial year ended 31 March 2015 and the preceding financial year:

a) The remuneration paid to the Directors; and

b) The distributions made to shareholders by way of a dividend.

	Year ended 31 March 2015 £	Year ended 31 March 2014 £	Change %
Total remuneration	**101,809**	88,478	15.1
Dividend paid	**2,510,697**	2,262,975	11.0

Remuneration Policy

The Board's policy is that the remuneration of Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other companies of a similar size and capital structure (Ordinary shares and bank borrowings) and that have a similar investment objective (capital growth).

It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that a Director shall retire and be subject to election at the first AGM after appointment and at least every three years thereafter. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

The fees of the existing or new Directors are determined within the limits set out in the Company's Articles. The maximum aggregate amount of Directors' fees in any one financial year shall not exceed £125,000. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits as they do not feel it is appropriate for the Directors of the Company at this time.

The Remuneration Committee has agreed to review fees on an annual basis. Annual increases are subject to an increase in the net assets and share price of the Company and reference will be made to the RPI and peer group to determine the level of increase.

	Expected fees for the year to 31 March 2016 (annualised)	Fees for the year to 31 March 2015
Chairman	**29,000**	29,000
Chairman of the Audit Committee	**23,000**	23,000
Senior Independent Director	**21,000**	21,000
Non-executive Director	**20,000**	20,000

Fees for any new Director appointed will be on the above basis. Fees payable in respect of subsequent periods will be determined following an annual review.

Any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board when reviewing the Directors' Remuneration Policy and in the annual review of Directors' fees.

There is no significant change in the way the current, approved Remuneration Policy will be implemented during the course of the next financial year. The Directors' Remuneration Policy will be put to shareholders' vote at least once every three years and in any year if there is to be a change in the Directors' Remuneration Policy.

Approval

The Directors' Remuneration Report was approved by the Board on 22 June 2015.

On behalf of the Board
MICHAEL MOULE
Remuneration Committee Chairman

Statement of Directors' Responsibilities
in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm to the best of their knowledge:

- the financial statements, prepared in accordance with UK Accounting Standards, give a true and fair view of the assets, liabilities, financial position and return of the Company;
- the Strategic Report and the Directors' Report 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; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board
KATHRYN MATTHEWS
Chairman
22 June 2015

Independent Auditor's Report

to the Members of Montanaro UK Smaller Companies Investment Trust PLC only

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Montanaro UK Smaller Companies Investment Trust PLC for the year ended 31 March 2015 set out on pages 29 to 43. In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its net return for the year then ended;
- have been properly prepared in accordance with UK accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

2. Our assessment of risk of material misstatement

In arriving at our audit opinion above on the financial statements the risk of material misstatement that had the greatest effect on our audit was as follows:

Carrying value of listed investments (£198,575,000):
Refer to page 23 (Audit and Management Engagement Committee Report), pages 33 and 34 (accounting policy) and pages 36 and 37 and 40 to 42 (financial disclosures).

The risk: The Company's portfolio consists entirely of listed investments which are considered to be the key driver of the Company's operations and performance results. We do not consider there is a high risk of significant misstatement or a requirement for a significant level of judgment regarding listed investments as they are comprised of liquid, quoted instruments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our response: Our procedures over the existence, completeness and valuation of the Company's investment portfolio included, but were not limited to:

- documenting and assessing the processes in place to record investment transactions and to value the portfolio;
- verifying the valuation of 100% of portfolio investments by reference to externally quoted prices;
- assessing the liquidity of the investments and the impact of this on the valuations; and
- verifying 100% of portfolio investment holdings to independently received third party confirmations.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £4,154,000. This has been determined with reference to a benchmark of Total Assets (of which it represents 2.0%).

We report to the Audit and Management Engagement Committee any corrected and uncorrected identified misstatements exceeding £205,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the office of the Administrator, Capita Sinclair Henderson Limited, in Exeter.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that 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; or
- the Corporate Governance Statement does not appropriately address matters communicated by us to the Audit and Management Engagement Committee.

Independent Auditor's Report continued
to the Members of Montanaro UK Smaller Companies Investment Trust PLC only

Under the Companies Act 2006 we are required 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 21, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 17 to 21 relating to the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

PETER LOMAX (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG
23 June 2015

Income Statement
for the year to 31 March 2015

	Notes	Year to 31 March 2015 Revenue £'000	Capital £'000	Total £'000	Year to 31 March 2014 Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments at fair value	10	**–**	**(7,753)**	**(7,753)**	–	20,352	20,352
Dividends and interest	2	**5,162**	**260**	**5,422**	4,371	–	4,371
Management fee	3	**(879)**	**(879)**	**(1,758)**	(999)	(999)	(1,998)
Other expenses	4	**(479)**	**–**	**(479)**	(422)	–	(422)
Movement in fair value of derivative financial instruments	15	**–**	**(81)**	**(81)**	–	371	371
Net (loss)/return before finance costs and taxation		**3,804**	**(8,453)**	**(4,649)**	2,950	19,724	22,674
Interest payable and similar charges	6	**(363)**	**(363)**	**(726)**	(325)	(325)	(650)
Net (loss)/return before taxation		**3,441**	**(8,816)**	**(5,375)**	2,625	19,399	22,024
Taxation	7	**(3)**	**–**	**(3)**	–	–	–
Net (loss)/return after taxation		**3,438**	**(8,816)**	**(5,378)**	2,625	19,399	22,024
(Loss)/return per Ordinary share	9	**10.3p**	**(26.4)p**	**(16.1)p**	7.8p	58.0p	65.8p

The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

No Statement of Total Recognised Gains and Losses has been prepared as all such gains and losses are shown in the Income Statement.

No operations were acquired or discontinued in the year.

The notes on pages 33 to 43 form part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year to 31 March 2015

Year to 31 March 2015	Notes	**Called-up share capital £'000**	**Share premium account £'000**	**Capital redemption reserve £'000**	**Special reserve £'000**	**Capital reserve £'000**	**Distributable revenue reserve £'000**	**Total equity shareholders' funds £'000**
As at 31 March 2014		**3,348**	**19,307**	**1,362**	**4,642**	**163,658**	**4,595**	**196,912**
Fair value movement of investments	10	**–**	**–**	**–**	**–**	**(7,753)**	**–**	**(7,753)**
Capital dividend received	2	**–**	**–**	**–**	**–**	**260**	**–**	**260**
Costs allocated to capital		**–**	**–**	**–**	**–**	**(1,242)**	**–**	**(1,242)**
Dividends paid in the year	8	**–**	**–**	**–**	**–**	**–**	**(2,511)**	**(2,511)**
Movement in fair value of derivative financial instruments	15	**–**	**–**	**–**	**–**	**(81)**	**–**	**(81)**
Net revenue for the year		**–**	**–**	**–**	**–**	**–**	**3,438**	**3,438**
As at 31 March 2015		**3,348**	**19,307**	**1,362**	**4,642**	**154,842**	**5,522**	**189,023**

Year to 31 March 2014	Notes	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Distributable revenue reserve £'000	Total equity shareholders' funds £'000
As at 31 March 2013		3,348	19,307	1,362	4,642	144,259	4,233	177,151
Fair value movement of investments	10	–	–	–	–	20,352	–	20,352
Costs allocated to capital		–	–	–	–	(1,324)	–	(1,324)
Dividends paid in the year	8	–	–	–	–	–	(2,263)	(2,263)
Movement in fair value of derivative financial instruments	15	–	–	–	–	371	–	371
Net revenue for the year		–	–	–	–	–	2,625	2,625
As at 31 March 2014		3,348	19,307	1,362	4,642	163,658	4,595	196,912

The notes on pages 33 to 43 form part of these financial statements.

Balance Sheet
as at 31 March 2015

	Notes	**31 March 2015** £'000	**31 March 2015** £'000	31 March 2014 £'000	31 March 2014 £'000
Fixed assets					
Investments at fair value	10		**198,575**		209,411
Current assets					
Debtors	12	**1,281**		1,070	
Cash at bank	21	**7,847**		2,137	
		9,128		3,207	
Creditors: amounts falling due within one year					
Other creditors	13	**(416)**		(523)	
Revolving credit facility	14	**(18,000)**		(15,000)	
		(18,416)		(15,523)	
Net current liabilities			**(9,288)**		(12,316)
Total assets less net current liabilities			**189,287**		197,095
Creditors: amounts falling due after more than one year					
Interest rate swap	15		**(264)**		(183)
Net assets			**189,023**		196,912
Share capital and reserves					
Called-up share capital	16		**3,348**		3,348
Share premium account			**19,307**		19,307
Capital redemption reserve			**1,362**		1,362
Special reserve			**4,642**		4,642
Capital reserve			**154,842**		163,658
Distributable revenue reserve			**5,522**		4,595
Total equity shareholders' funds			**189,023**		196,912
Net asset value per Ordinary share	19		**564.7p**		588.2p

These financial statements were approved by the Board of Directors on 22 June 2015.

KATHRYN MATTHEWS
Chairman

Company Registered Number: 3004101

The notes on pages 33 to 43 form part of these financial statements.

Statement of Cash Flows
for the year to 31 March 2015

	Notes	**Year to 31 March 2015 £'000**	**Year to 31 March 2015 £'000**	Year to 31 March 2014 £'000	Year to 31 March 2014 £'000
Operating activities					
Investment income received		**5,150**		4,604	
Deposit interest received		**–**		3	
Fees paid to the Manager		**(1,866)**		(1,900)	
Administration and company secretarial fees paid		**(108)**		(109)	
Other cash expenses		**(349)**		(314)	
Net cash inflow from operating activities	20		**2,827**		2,284
Servicing of finance					
Interest and similar charges paid		**(728)**		(645)	
Tax paid		**(28)**		–	
Net cash outflow from servicing of finance			**(756)**		(645)
Capital expenditure and financial investment					
Purchases of investments		**(36,124)**		(108,868)	
Sales of investments		**39,274**		98,668	
Net cash inflow/(outflow) from capital expenditure and financial investment			**3,150**		(10,200)
Equity dividends paid			**(2,511)**		(2,263)
Net cash inflow/(outflow) before financing			**2,710**		(10,824)
Financing					
Draw down of short-term credit facility			**3,000**		–
Net cash inflow from financing			**3,000**		–
Increase/(decrease) in cash	21		**5,710**		(10,824)

The notes on pages 33 to 43 form part of these financial statements.

Notes to the Financial Statements
at 31 March 2015

1 Accounting Policies

ACCOUNTING CONVENTION
The financial statements are prepared on a going concern basis under the historical cost convention as modified by the revaluation of fixed asset investments and in accordance with UK applicable accounting standards and the Statement of Recommended Practice regarding the Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued in January 2009. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the year and the preceding year.

INCOME RECOGNITION
Dividend income is included in the financial statements when the investments concerned are quoted ex-dividend and shown net of any associated tax credit where applicable.

Deposit interest and underwriting commissions receivable are included on an accruals basis.

MANAGEMENT EXPENSES AND FINANCE COSTS
All expenses are accounted for on an accruals basis. Management fees and finance costs are allocated 50% to the capital reserve and 50% to the revenue account. The Board has agreed that from 1 April 2015 an allocation of 75% to the capital reserve and 25% to the revenue account would be more in line with the expectations of long-term returns from the investment portfolio of the Company.

Costs arising on early settlement of debt are allocated 100% to capital, in accordance with the requirements of the SORP.

All other expenses are allocated in full to the revenue account.

INVESTMENTS
Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned and are initially measured at fair value.

All investments held by the Company are classified as at "fair value through profit or loss". Investments are initially recognised at cost, being the fair value of the consideration given. After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Income Statement and allocated to capital.

For investments actively traded in organised financial markets, fair value is generally determined by reference to quoted market bid prices or closing prices for SETS (London Stock Exchange's electronic trading service) stocks sourced from the London Stock Exchange on the Balance Sheet date, without adjustment for transaction costs necessary to realise the asset.

TREASURY SHARES
The consideration paid for shares held in Treasury is presented as a deduction from equity shareholders' funds in accordance with FRS 25: "Financial Instruments: Disclosure and Presentation". Any profit on the sale of shares out of Treasury is credited to the share premium account in full.

TAXATION
The charge for taxation is based on the net revenue for the year. Deferred taxation is provided in accordance with FRS 19: "Deferred Taxation" on all timing differences that have originated but not reversed by the Balance Sheet date. Deferred taxation assets are only being recognised to the extent that they are regarded as recoverable.

DIVIDENDS PAYABLE TO SHAREHOLDERS
In accordance with FRS 21: "Events after the Balance Sheet date", dividends to shareholders are recognised as a liability in the period in which they have been declared. Therefore, any interim dividends are not accounted for until paid and final dividends are accounted for when approved by shareholders at an AGM.

BANK LOANS AND BORROWINGS
All bank loans and borrowings are initially recognised at cost, being the fair value of the consideration received less issue costs where applicable. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost. Any differences between cost and redemption value are recognised in the Income Statement over the period of the borrowings on an effective interest basis.

DERIVATIVE FINANCIAL INSTRUMENTS
It is the Company's policy not to trade in derivative financial instruments. However, the Company has utilised an interest rate swap to mitigate its exposure to interest rate changes on its bank loan which is subject to a variable rate of interest. Details can be found in note 15.

Derivatives are recognised at fair value. Movement in the fair value of the derivative is recognised in the Income Statement and allocated to capital.

Notes to the Financial Statements continued
at 31 March 2015

1 Accounting Policies continued

RESERVES

Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- net movement arising from changes in the fair value of investments that can be readily converted to cash without accepting adverse terms;
- net movement from changes in the fair value of derivative financial instruments; and
- expenses, together with related taxation effect, charged to this account in accordance with the above policies.

Special reserve

The special reserve was created by a reduction in the share premium account by order of the High Court in August 1998. It can be used for the repurchase of the Company's Ordinary shares.

In accordance with the SORP, the consideration paid for shares bought into and held in Treasury is shown as a deduction from the special reserve.

Capital redemption reserve

The capital redemption reserve accounts for amounts by which the issued capital is diminished through the repurchase of the Company's own shares.

2 Income

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Income from investments	**5,422**	4,368
UK dividend income	**5,079**	4,295
UK capital dividend income*	**260**	–
Overseas dividend income	**83**	73
Other income		
Bank interest	**–**	3
Total income	**5,422**	4,371
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	**5,422**	4,368
Interest from financial assets designated at fair value through profit or loss	**–**	3
Dividends and interest	**5,422**	4,371

* Capital dividends have been allocated to the capital reserve.

3 Management fee

	Year to 31 March 2015			Year to 31 March 2014		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Management fee	**849**	**849**	**1,698**	999	999	1,998
AIFMD fee*	**30**	**30**	**60**	–	–	–
	879	**879**	**1,758**	999	999	1,998

The Manager received a monthly fee equivalent to 1/12 of 0.85% of the gross assets of the Company valued at the close of business on the last business day of each month.

At 31 March 2015, £151,000 (2014: £259,000) was due for payment to the Manager.

* The fee has been pro-rated from 22 July 2014, see page 17 for further details.

4 Other Expenses

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Administration and company secretarial fees	**108**	103
Directors' fees (see note 5)	**102**	88
Depositary fee	**50**	–
Registrar fee	**24**	22
Auditor's remuneration for:		
– audit	**22**	20
Custody and other bank charges	**19**	17
Legal fees	**15**	43
Other expenses (including VAT)	**139**	129
	479	422

5 Directors' Remuneration

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Total fees	**102**	88

A breakdown of the Directors' remuneration is set out in the Directors' Remuneration Report on page 24.
The Company has no employees.

6 Interest Payable and Similar Charges

	Year to 31 March 2015			Year to 31 March 2014		
Financial liabilities not at fair value through profit or loss	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Interest payable on loan	**349**	**349**	**698**	322	322	644
Loan commitment fee	**14**	**14**	**28**	3	3	6
	363	**363**	**726**	325	325	650

7 Taxation

	Year to 31 March 2015			Year to 31 March 2014		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Current tax:						
Overseas tax suffered	**3**	**–**	**3**	–	–	–
	3	**–**	**3**	–	–	–

	Year to 31 March 2015			Year to 31 March 2014		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before taxation	**3,441**	**(8,816)**	**(5,375)**	2,625	19,399	22,024
Theoretical corporation tax at 21% (2014: 23%)	**722**	**(1,851)**	**(1,129)**	604	4,462	5,066
Effects of:						
– capital losses/(gains) that are not taxable	**–**	**1,645**	**1,645**	–	(4,766)	(4,766)
– overseas dividend income not liable to corporation tax	**(17)**	**–**	**(17)**	(17)	–	(17)
– UK dividend income not liable to corporation tax	**(1,027)**	**(55)**	**(1,082)**	(957)	–	(957)
– overseas tax suffered	**3**	**–**	**3**	–	–	–
– excess management expenses	**322**	**261**	**583**	370	304	674
	3	**–**	**3**	–	–	–

Notes to the Financial Statements continued

at 31 March 2015

7 Taxation continued

At 31 March 2015, the Company had surplus management expenses and non-trade losses of £35,886,762 (2014: £33,109,133) which have not been recognised as a deferred taxation asset. This is because the Company is not expected to generate taxable income in future periods in excess of the deductible expenses of those future periods and accordingly, it is unlikely that the Company will be able to reduce future taxation through the use of existing surplus expenses.

Due to the Company's status as an investment trust and the intention to continue to meet the conditions required to maintain its investment trust status, the Company does not expect the disposal of investments to generate taxable gains, so no deferred tax arises on the revaluation of the Company's investments.

8 Dividends

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Paid		
2014 Final dividend of 7.50p (2013: 6.76p) per Ordinary share	**2,511**	2,263
Proposed		
2015 Final dividend of 8.90p (2014: 7.50p) per Ordinary share	**2,979**	2,511

9 Return per Ordinary Share

	Year to 31 March 2015			Year to 31 March 2014		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Ordinary share	**10.3p**	**(26.4)p**	**(16.1)p**	7.8p	58.0p	65.8p

Revenue return per Ordinary share is based on the net revenue after taxation of £3,438,000 (2014: £2,625,000) and 33,475,958 (2014: 33,475,958) Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in Treasury.

Capital return per Ordinary share is based on net capital losses for the year of £8,816,000 (2014: £19,399,000 gain), and on 33,475,958 (2014: 33,475,958) Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in Treasury.

Normal and diluted return per share are the same as there are no dilutive elements on share capital.

10 Investments

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Total investments at fair value	**198,575**	209,411

The investment portfolio comprises 48 listed UK equity holdings.

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Opening book cost	**152,875**	110,462
Opening investment holding gains	**56,536**	68,984
Opening valuation	**209,411**	179,446
Movements in the year		
Purchases at cost	**36,124**	108,868
Sales – proceeds	**(39,207)**	(99,255)
– realised gains on sales	**735**	32,800
Decrease in investment holding gains	**(8,488)**	(12,448)
Closing valuation	**198,575**	209,411
Closing book cost	**150,527**	152,875
Closing investment holding gains	**48,048**	56,536
	198,575	209,411

10 Investments continued

FAIR VALUE HIERARCHY

In accordance with FRS 29: "Financial Instruments: Disclosures", the Company must disclose the fair value hierarchy of financial instruments.

The fair value hierarchy consists of the following three levels:

- level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For financial instruments (within the scope of FRS 29), which are measured at fair value in the Balance Sheet, an entity shall disclose the following for each class of financial instruments:

- the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety;
- any significant transfers between level 1 and level 2 of the fair value hierarchy and the reasons for those transfers; and
- for fair value measurements in level 3 of the hierarchy, a reconciliation from the opening balances to the closing balances. As well as highlighting purchases, sales and gains and losses, this reconciliation will identify transfers into or out of level 3 and the reasons for those transfers.

The table below sets out fair value measurements of financial assets in accordance with the FRS 29 fair value hierarchy system:

	31 March 2015			31 March 2014		
	Level 1 £'000	**Level 2 £'000**	**Total £'000**	Level 1 £'000	Level 2 £'000	Total £'000
Equity investments	**198,575**	**–**	**198,575**	209,411	–	209,411
	198,575	**–**	**198,575**	209,411	–	209,411

The table below sets out fair value measurements of financial liabilities in accordance with the FRS 29 fair value hierarchy system:

	31 March 2015			31 March 2014		
	Level 1 £'000	**Level 2 £'000**	**Total £'000**	Level 1 £'000	Level 2 £'000	Total £'000
Revolving Credit Loan Facility	**–**	**18,000**	**18,000**	–	15,000	15,000
Derivative financial instruments	**–**	**264**	**264**	–	183	183
	–	**18,264**	**18,264**	–	15,183	15,183

Details of the Revolving Credit Loan Facility are provided in note 14.

There were no level 3 investments.

TRANSACTION COSTS

During the year, the Company incurred transaction costs of £182,000 (2014: £617,000) and £39,000 (2014: £92,000) on purchases and sales of investments respectively. These amounts are deducted in determining (losses)/gains on investments at fair value as disclosed in the Income Statement.

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Net (losses)/gains on investments		
Gains on sales	**735**	32,800
Changes in fair value	**(8,488)**	(12,448)
	(7,753)	20,352

A list of the investments by market value and an analysis of the investment portfolio by industrial or commercial sector are set on pages 14 and 15.

11 Significant Holdings

The Company has no holdings of 3% or more of the voting rights attached to shares that is material in the context of the financial statements.

Notes to the Financial Statements continued
at 31 March 2015

12 Debtors

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Prepayments and accrued income	**57**	76
Due from brokers	**520**	587
Dividends receivable	**679**	407
Taxation recoverable	**25**	–
	1,281	1,070

The carrying amount for prepayments, accrued income and dividends receivable disclosed above reasonably approximates to its fair value at the year end and is expected to be realised within a year from the Balance Sheet date.

13 Other Creditors

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Accruals	**416**	523
	416	523

The carrying amount for accruals disclosed above reasonably approximates to its fair value at the year end and is expected to be paid within a year from the Balance Sheet date.

14 Revolving Credit Loan Facility

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Falling due within one year	**18,000**	15,000
	18,000	15,000

On 19 December 2011, the Company agreed a £15,000,000 Floating Rate Revolving Credit Loan Facility with ING Bank N.V. At the same time, the Company entered into a £15,000,000 Interest Rate Swap with ING Bank N.V.

This facility is available for a five-year term from 19 December 2011 to 19 December 2016. The loan was drawn down until 19 June 2015 and will be rolled over on a short-term basis. Interest is payable at LIBOR plus a margin and mandatory costs.

The Interest Rate Swap is for five years and enables the Company to fix the effective interest rate of the £15,000,000 loan over its term at 4.2921%* per annum.

On 10 February 2014, the Company agreed an additional £10,000,000 Floating Rate Revolving Credit Loan Facility with ING Bank N.V. This facility is available for a three-year term from 24 February 2014 to 24 February 2017. On 29 April 2014, the Company drew down £3,000,000 of the Floating Rate Revolving Facility. The loan was drawn down until 27 April 2015 and will be rolled over on a short-term basis. Interest is payable at LIBOR plus a margin and mandatory costs.

Interest is payable on each advance at LIBOR plus a margin and mandatory costs. A commitment fee is payable at the rate of 0.4% if the average utilisation is less than 50% of the facility during the quarter, or 0.35% if the average utilisation is 50% or more of the facility during the quarter.

* Including margin and mandatory costs.

15 Derivative Financial Instruments

An interest rate swap is an agreement between two parties to exchange fixed and floating rate interest payments based upon interest rates defined in the contract without the exchange of the underlying principal amounts.

The Company entered into an agreement on 19 December 2011 which swapped its obligation to pay variable rates of interest on its £15,000,000 facility for a fixed rate of 4.2921% per annum until 19 December 2016.

The fair value of the derivative financial instrument is shown below:

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Opening valuation	**(183)**	(554)
Movement in fair value	**(81)**	371
Closing valuation	**(264)**	(183)

16 Share Capital

	31 March 2015 £'000	31 March 2014 £'000
Allotted, called-up and fully paid:		
33,475,958 (2014: 33,475,958) Ordinary shares of 10p each	**3,348**	3,348

Voting rights

Ordinary shareholders have unrestricted voting rights at all general meetings of the Company.

At the AGM on 30 July 2014, the Company was granted the authority to purchase 5,018,046 Ordinary shares. This authority is due to expire at the conclusion of the next AGM.

During the year, no shares were purchased for cancellation.

The Company does not have any externally imposed capital requirements. The capital of the Company is managed in accordance with its Investment Policy in pursuit of its Investment Objective, both of which are detailed in the Strategic Report on page 7.

17 Duration of the Company

The Articles prescribe that shareholders should have the opportunity to consider the future of the Company at regular intervals. At the AGM held on 26 July 2013, shareholders voted to remove the obligation to convene a General Meeting during 2014 for the purpose of voluntarily winding up the Company as provided for in the Company's Articles. The Company will be required to propose a resolution at a General Meeting every five years thereafter unless at any AGM held within, and not more than, 18 months prior to the expiry of the relevant period of five years, an ordinary resolution is passed releasing the Directors from the obligation to convene such a General Meeting.

18 Own Shares Held in Treasury

The Company has previously taken advantage of the regulations which came into force on 1 December 2003 to allow companies, including investment trusts, to buy their own shares and hold them in Treasury for re-issue at a later date. There were no shares held in Treasury at any time during the year.

19 Net Asset Value per Ordinary Share

Net asset value per Ordinary share is based on net assets of £189,023,000 (2014: £196,912,000) and on 33,475,958 (2014: 33,475,958) Ordinary shares, being the number of Ordinary shares in issue at the year-end.

Notes to the Financial Statements continued
at 31 March 2015

20 Reconciliation of Net Revenue Before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Net revenue before finance costs and taxation	**3,804**	2,950
Capital dividends received	**260**	–
Management fee charged to capital	**(879)**	(999)
(Decrease)/increase in creditors	**(107)**	105
(Increase)/decrease in prepayments and accrued income	**(251)**	228
Net cash inflow from operating activities	**2,827**	2,284

21 Reconciliation of Net Cash Flows to Movements in Net Debt

	Year to 31 March 2015 £'000	Year to 31 March 2014 £'000
Increase/(decrease) in cash in year	**5,710**	(10,824)
Draw down from credit facility	**(3,000)**	–
Movement in net funds	**5,710**	(10,824)
Net debt at beginning of year	**(12,863)**	(2,039)
Net debt at end of year	**(10,153)**	(12,863)

ANALYSIS OF NET DEBT

	1 April 2014 £'000	Cash flows £'000	**31 March 2015 £'000**
Cash at bank	2,137	5,710	**7,847**
Debt due in less than one year	(15,000)	(3,000)	**(18,000)**
	(12,863)	2,710	**(10,153)**

22 Analysis of Financial Assets and Liabilities

As required by FRS 29: "Financial Instruments: Disclosures", an analysis of financial assets and liabilities, which identifies the risk to the Company of holding such items, is given below.

BACKGROUND

The Company's financial instruments comprise securities, cash balances, debtors and creditors that arise from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income.

The risk management policies and procedures outlined in this note have not changed from the previous accounting period.

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

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

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

22 Analysis of Financial Assets and Liabilities continued

(i) Credit Risk

Credit risk is the risk of financial loss to the Company if the contractual party to a financial instrument fails to meet its contractual obligations.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the Balance Sheet date.

The Company's listed investments are held on its behalf by BONY, the Company's Custodian. Bankruptcy or insolvency of the Custodian may cause the Company's rights with respect to securities held by the Custodian to be delayed. The Board monitors the Company's risk by reviewing the Custodian's internal controls reports.

Investment transactions are carried out with a large number of brokers whose creditworthiness is reviewed by the Manager.

Transactions are ordinarily undertaken on a delivery versus payment basis within CREST, thereby the transaction will only settle if the Company and counterparty details are matching.

The banks at which cash is held are under regular review.

The maximum exposure to credit risk at 31 March 2015 was:

	31 March 2015 £'000	31 March 2014 £'000
Cash at bank	**7,847**	2,137
Debtors and prepayments	**1,281**	1,070
	9,128	3,207

None of the Company's assets are past due or impaired.

(ii) Market Price Risk

Market price risk arises mainly from uncertainty about future prices of financial instruments. The value of shares and the income from them may fall as well as rise and shareholders may not get back the full amount invested. The Manager continues to monitor the prices of financial instruments held by the Company on a real time basis. Adherence to the Company's Investment Policy shown on page 7 mitigates the risk of excessive exposure to one issuer or sector.

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Manager. The Board meets regularly and at each meeting reviews the investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and Investment Policy. The portfolio does not seek to reproduce the index, investments are selected based upon the merit of individual companies and therefore the portfolio may well diverge from the short-term fluctuations of the benchmark.

Fixed asset investments are valued at fair value as detailed in note 1. A list of the Company's equity investments, an analysis of the investment portfolio by broad industrial and commercial sector, an analysis of the portfolio by market capitalisation of holdings and a description of the 10 largest equity investments are set out on pages 12 and 13.

The maximum exposure to market price risk is the fair value of investments of £198,575,000 (2014: £209,411,000).

If the investment portfolio valuation fell by 1% from the amount detailed in the financial statements as at 31 March 2015, it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £1,986,000 (2014: £2,094,000). An increase of 1% in the investment portfolio valuation would have an equal and opposite effect on the net capital return before taxation.

(iii) Interest Rate Risk

Changes in interest rates may cause fluctuations in the income and expenses of the Company. The Revolving Credit Loan Facilities with ING Bank N.V. are floating rate facilities (see note 14). The amount of such borrowings and the approved levels are monitored and reviewed regularly by the Board. The Company mitigates the risk by the use of an interest rate swap to fix the interest rate on £15,000,000 of its total borrowings of £18,000,000.

The Company did not receive any interest on cash deposits in the year (2014: £3,000).

The interest rate risk profile of the Company is given below.

If interest rates had reduced by 1% from those paid as at 31 March 2015, it would have the effect, with all other variables held constant, of increasing the net revenue return before taxation on an annualised basis by £30,000 (2014: £150,000). If there was an increase in interest rates of 1%, the net revenue return before taxation on an annualised basis would have decreased by £30,000 (2014: £129,000). The calculations are based on cash at bank, short-term deposits and the Revolving Credit Loan Facilities as at 31 March 2015 and these may not be representative of the year as a whole.

Due to the structure of the loan facilities, changes in interest rates would not have an effect on the fair value of the loans.

Notes to the Financial Statements continued

at 31 March 2015

22 Analysis of Financial Assets and Liabilities continued

(iv) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Manager does not invest in unlisted securities on behalf of the Company. However, the investments held by the Company consist of UK quoted small companies which are inherently less liquid than quoted large companies. The Manager reviews the portfolio liquidity on a regular basis. Short-term flexibility is achieved through the use of bank borrowings. Liquidity risk is mitigated by the fact that the Company has £9.1 million cash at bank and short-term debtors which can satisfy its creditors and that, as a closed-ended fund assets do not need to be liquidated to meet redemptions.

(v) Gearing

Gearing can have amplified effects on the net asset value of the Company. It can have a positive or negative effect depending on market conditions. It is the Company's policy to determine the adequate level of gearing appropriate to its own risk profile.

The AIFM, in consultation with the Board, is responsible for determining the gearing levels of the Company. The Directors receive financial information on a monthly basis which is used to identify and monitor risk.

(vi) Use of Derivatives

It is the Company's policy not to trade in derivative financial instruments. However, the Company has utilised an interest rate swap to mitigate its exposure to interest rate changes on its £15,000,000 Revolving Credit Loan Facility.

FINANCIAL ASSETS

The Company's financial assets consist of listed equity shares, which neither pay interest nor have a maturity date, cash at bank and short-term debtors. No fixed interest assets were held at 31 March 2015 or at any time during the year. All financial assets are in sterling and disclosed at fair value through profit or loss.

FINANCIAL LIABILITIES

The Company finances its operations through equity, retained profits and bank borrowings (see note 14). The change in the fair value of financial liabilities during the year was not related to the credit risk profile. The interest rate risk profile of the financial liabilities of the Company as at 31 March 2015 is as follows:

	Total £'000	**Weighted average interest rate %**	**Period until maturity Years**
Amounts drawn down under Revolving Credit Loan Facility	**15,000**	**3.3**	**0.2**
Amounts drawn down under the additional Revolving Credit Loan Facility	**3,000**	**1.9**	**0.1**
Derivative financial instruments	**264**	**1.0**	**1.7**
Financial liabilities upon which no interest is paid	**416**	**–**	**–**

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2014 was as follows:

	Total £'000	Weighted average interest rate %	Period until maturity Years
Amounts drawn down under Revolving Credit Loan Facility	15,000	3.2	0.2
Derivative financial instruments	183	1.1	2.7
Financial liabilities upon which no interest is paid	523	–	–

The maturity profile of the Company's financial liabilities is as follows:

	31 March 2015 £'000	31 March 2014 £'000
In one year or less	**18,416**	15,523
In more than one year but not more than two years	**–**	–
In more than two years but not more than five years	**264**	183
	18,680	15,706

The Company had fully drawn down its facility under the floating rate Revolving Credit Loan Facility at 31 March 2015 (2014: fully drawn).

The Company had £7,000,000 undrawn under the additional floating rate Revolving Credit Loan Facility at 31 March 2015 (2014: £10,000,000).

The Company's Revolving Credit Loan Facilities are measured at cost and denominated in sterling. All other financial liabilities are in sterling and disclosed at fair value. It is considered that, because of the short-term nature of the facilities, cost approximates to fair value.

23 Capital Management Policies

The Investment Objective of the Company is to achieve capital appreciation through investing in small quoted companies listed on the London Stock Exchange or traded on AIM and to achieve relative outperformance of its benchmark, the NSCI. No unquoted investments are permitted. In pursuing this long-term objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern. It must therefore maintain an optimal capital structure through varying market conditions. This involves the ability to: issue and buy back share capital within limits set by the shareholders in general meeting; borrow monies in accordance with the Articles; and pay dividends to shareholders out of distributable revenue reserves.

Details of the Ordinary share capital are set out in note 16. Dividend payments are set out in note 8.

	31 March 2015 £'000	31 March 2014 £'000
Called-up share capital	**3,348**	3,348
Share premium account	**19,307**	19,307
Capital redemption reserve	**1,362**	1,362
Special reserve	**4,642**	4,642
Capital reserve	**154,842**	163,658
Distributable revenue reserve	**5,522**	4,595
Total equity shareholders' funds	**189,023**	196,912

The Company's policies for managing capital are unchanged and have been complied with throughout the year.

24 Commitments and Contingent Liabilities

At 31 March 2015, there were no capital commitments or contingent liabilities (2014: nil).

25 Related Party Transactions

Under the Listing Rules, the Manager is regarded as a related party of the Company. The amounts paid to the Manager are disclosed in note 3. However, the existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies and therefore, in terms of FRS 8: "Related Party Transactions", the Manager is not considered a related party. The relationship between the Company, its Directors and the Manager is disclosed in the Directors' Report.

AIFMD Disclosure (Unaudited)

In accordance with the AIFMD, Montanaro and the Company are required to make certain disclosures available to investors, in relation to the Company's leverage and the remuneration of the Company's AIFM. In accordance with the Directive, the AIFM's remuneration policy is available from Montanaro on request and the numerical remuneration disclosures in relation to the AIFM's first relevant accounting period will be made available in due course. The Company's maximum and average actual leverage levels at 31 March 2015 are shown below:

Leverage exposure

	Gross method	Commitment method
Maximum limit	200.0%	200.0%
Actual	113.0%	109.2%

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.

An explanation of the methods used can be found in the glossary of terms on page 46.

The leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles. 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 Company's website.

The AIFM has sufficient capital and liquid assets to meet the requirements under AIFMD. In addition, the AIFM has extended its professional liability insurance cover to £5 million.

The periodic disclosures as required under the AIFMD to investors are made below:

- pages 8 to 10 and note 22 to the financial statements set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- information on the investment strategy, geographic and sector investment focus and stock exposures are included on page 7; and
- none of the Company's assets are subject to special arrangements arising from their illiquid nature.

Company Summary

Investment Objective
MUSCIT's investment objective is capital appreciation through investing in small quoted companies listed on the London Stock Exchange or traded on AIM and to achieve relative outperformance of its benchmark, the NSCI.

No unquoted investments are permitted.

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

In order to manage risk the Manager limits any one holding to a maximum of 4% of the Company's total investments. The portfolio weighting of each investment is closely monitored to reflect the underlying liquidity of the particular company. The Company's AIM exposure is also closely monitored by the Board and is limited to 30% of total investments with Board approval required for exposure above 25%.

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

The AIFM, in consultation with the Board, is responsible for determining the gearing levels of the Company and has determined that the Company's borrowings should be limited to 25% of shareholders' funds. Gearing is used to enhance returns when the timing is considered appropriate. The Company currently has credit facilities of £25 million with ING Bank N.V. of which £18.0 million was drawn down as at 31 March 2015 (amounting to net gearing of 5.4%).

Benchmark (capital return)
For the year under review, the benchmark was the NSCI. Prior to 1 April 2013, the benchmark was the FTSE SmallCap.

Gross Assets
£207,703,000 as at 31 March 2015.

Shareholders' Funds
£189,023,000 as at 31 March 2015.

Market Capitalisation
£154,994,000 as at 31 March 2015.

Capital Structure
As at 31 March 2015 and at the date of this report, the Company had 33,475,958 Ordinary shares of 10p each in issue (of which none were held in Treasury).

Wind-up Date
In accordance with the Articles, an ordinary resolution can be put to shareholders at the AGM to be held after 30 November 2017 to release the Directors from the obligation to convene a General Meeting in 2019 for the purpose of winding up the Company.

Management Fee
With effect from 1 April 2014, the management fee was reduced to 0.85% of the gross assets with no performance fee. For further details see page 17.

Administration and Company Secretarial Fees
Secretarial and administrative services are provided by Capita Sinclair Henderson Limited, under an agreement dated 3 November 2011. Fees for these services of £108,000 were paid in the year to 31 March 2015 and are subject to an annual RPI uplift.

Glossary of Terms

Articles
Articles of Association of the Company, being its Constitutional Document.

Discount/Premium
If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, the shares are said to be trading at a premium.

Gross Assets
Gross assets are the sum of both fixed and current assets with no deductions.

Montanaro, AIFM or Manager
Montanaro Asset Management Limited.

MUSCIT
Montanaro UK Smaller Companies Investment Trust PLC.

NAV
NAV stands for Net Asset Value and represents shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of a company's assets at current market value less its liabilities.

NSCI
Numis Smaller Companies Index (excluding investment companies).

Ongoing Charges (formerly TER)
Ongoing Charges are the Company's expenses (excluding performance fees and interest payable) expressed as a percentage of its average monthly net assets.

Gearing
Gearing is the process whereby growth or decline in the total assets of a company has an exaggerated effect on the NAV of that company's ordinary shares due to the presence of borrowings or share classes with a prior ranking entitlement to capital.

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

Gross method of calculating leverage
Represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements.

Commitment method of calculating leverage
Exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

Shareholder Information

Sources of Further Information
The Company's share price is listed in the Financial Times under "Investment Companies".

Information on the Company is also available on the Company's website: www.montanarouksmaller.co.uk and the Manager's website www.montanaro.co.uk.

Key Dates

31 March 2015	Company year end
June 2015	Annual results
3 July 2015	Record date for dividend
31 July 2015	Annual General Meeting
12 August 2015	Dividend payable
November 2015	Half-yearly results

Half-Yearly Report
To reduce ongoing costs, the Board has decided not to print the Half-Yearly Report. The Report will be published on the Company's website: www.montanarouksmaller.co.uk.

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.

This document is important and requires your immediate attention. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your shares in Montanaro UK Smaller Companies Investment Trust PLC, please forward this document as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice of Annual General Meeting

Notice is hereby given that the twentieth Annual General Meeting of the Company will be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on Friday 31 July 2015 at 12 noon for the following purposes:

Ordinary Business

RESOLUTION 1 – ORDINARY RESOLUTION
To receive and, if thought fit, to accept the Strategic Report, the Directors' Report, the Auditor's Report and the audited financial statements for the year ended 31 March 2015.

RESOLUTION 2 – ORDINARY RESOLUTION
To receive and approve the Directors' Remuneration Report for the year ended 31 March 2015.

RESOLUTION 3 – ORDINARY RESOLUTION
To declare a final dividend of 8.9p per Ordinary share for the year ended 31 March 2015.

RESOLUTION 4 – ORDINARY RESOLUTION
To elect Kate Bolsover as a Director of the Company.

RESOLUTION 5 – ORDINARY RESOLUTION
To re-elect Kathryn Matthews as a Director of the Company.

RESOLUTION 6 – ORDINARY RESOLUTION
To re-appoint KPMG LLP as Auditor to the Company to hold office from the conclusion of this Meeting until the conclusion of the next General Meeting at which financial statements are laid before the Company and to authorise the Directors to determine their remuneration.

Special Business

RESOLUTION 7 – SPECIAL RESOLUTION
THAT in substitution for the Company's existing authority to make market purchases of Ordinary shares of 10p each in the capital of the Company ("Ordinary shares"), the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 ("the Act") to make market purchases (within the meaning of Section 693(4) of the Act) of Ordinary shares, provided that:

(i) the maximum number of Ordinary shares hereby authorised to be purchased shall be 5,018,046 or, if less, 14.99% of the number of shares in issue immediately following the passing of this resolution;

(ii) the minimum price which may be paid for each Ordinary share is 10p;

(iii) the maximum price payable by the Company for each Ordinary share is the higher of (i) 105% of the average of the mid-market value of the Ordinary shares in the Company for the five business days prior to the date of the market purchase and (ii) the higher of the price of the last independent trade and the highest current bid as stipulated by Article 5(1) of Buy-Back and Stabilisation Regulation 2003;

(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2016, unless such authority is renewed prior to such time; and

(v) the Company may make a contract to purchase Ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary shares pursuant to any such contract.

Notice of Annual General Meeting continued

RESOLUTION 8 – ORDINARY RESOLUTION

THAT the Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any authorities previously granted to the Directors to the extent unused) pursuant to Section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot shares and to grant rights to subscribe for, or to convert any security into shares in the Company ("Rights"):

(a) up to an aggregate nominal amount of £1,115,865 (being approximately one-third of the issued share capital (excluding Treasury shares) as at the date of this report); and

(b) comprising equity securities (within the meaning of section 560 of the Act) up to a further aggregate nominal amount of £1,115,865 in connection with an offer by way of a rights issue:

 (i) to holders of Ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and

 (ii) to holders of other equity securities (if any) as required by the rights of those securities or as the Directors otherwise consider necessary,

 and so that Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter (including any such problems arising by virtue of equity securities being represented by depositary receipts),

provided that the authorities conferred on the Directors by paragraphs (a) and (b) above shall, unless renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and so the Directors of the Company may allot shares or grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

RESOLUTION 9 – SPECIAL RESOLUTION

THAT, subject to the passing of Resolution 8 above (and in substitution for all subsisting authorities to the extent unused but without prejudice to the exercise of any such power prior to the date hereof), the Directors be and are hereby empowered pursuant to Section 570 and Section 573 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 8 as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with an offer of equity securities (but in the case of the authority granted under paragraph (b) of Resolution 8, by way of a rights issue only):

 (i) to holders of Ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and

 (ii) to holders of other equity securities (if any) as required by the rights of those securities or as Directors otherwise consider necessary,

 and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter (including any such problems arising by virtue of equity securities being represented by depositary receipts); and

(b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £334,760 (being approximately 10% of the issued share capital (excluding Treasury shares) as at the date of this report),

and shall expire at the conclusion of the Company's next Annual General Meeting after the passing of this resolution, 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 Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired.

RESOLUTION 10 – ORDINARY RESOLUTION

THAT, subject to the passing of Resolution 9 set out above, the Directors of the Company be and are hereby authorised, for the purposes of paragraph 15.4.11 of the Listing Rules of the United Kingdom Listing Authority, to issue Ordinary shares of 10p each in the capital of the Company at a price below the net asset value per share of the existing Ordinary shares in issue, provided always that such issue will be limited to:

(i) an aggregate nominal amount of £334,760, being 10% of the Ordinary shares in issue as at the date of this report;

(ii) the sale of shares which, immediately before such sale, were held by the Company as Treasury shares; and

(iii) the authority contained in Resolution 9 set out above.

RESOLUTION 11 – SPECIAL RESOLUTION

THAT a General Meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By order of the Board

CAPITA SINCLAIR HENDERSON LIMITED
Company Secretary
22 June 2015

Registered Office:
Beaufort House
51 New North Road
Exeter EX4 4EP

Notice of Annual General Meeting continued

Note 1: Pursuant to Section 324 of the Companies Act 2006, a member entitled to attend and vote at this meeting may appoint one or more persons as his/her proxy or proxies to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If multiple proxies are appointed, they must not be appointed in respect of the same shares. To be effective, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a notarially certified copy thereof, should be lodged at the office of the Company's Registrar, Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, not later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment thereof. The appointment of a proxy will not prevent a member from attending the meeting and voting in person if he/she so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every Ordinary share of which he/she is the holder. The termination of the authority of a person to act as proxy must be notified to the Company in writing. Amended instructions must be received by the Company's Registrar by the deadline for receipt of proxies. To appoint more than one proxy, shareholders will need to complete a separate proxy form in relation to each appointment (you may photocopy the proxy form), stating clearly on each proxy form the number of shares in relation to which the proxy is appointed. A failure to specify the number of shares to which each proxy appointment relates or specifying an aggregate number of shares in excess of those held by the member will result in the proxy appointment being invalid. Please indicate if the proxy instruction is one of multiple instructions being given. All proxy forms must be signed and should be returned together in the same envelope.

Note 2: Shareholders who hold their shares electronically may submit their votes through CREST, by submitting the appropriate and authenticated CREST message so as to be received by the Company's Registrar not later than 48 hours (excluding non-working days) before the start of the meeting or any adjournment thereof. Instructions on how to vote through CREST can be found by accessing the following website: www.euroclear.com/CREST. Shareholders are advised that CREST is the only method by which completed proxies can be submitted electronically. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting and any adjournment thereof by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made by means of CREST 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 instructions, as described in the CREST Manual (available via www.euroclear.com/crest). The message, in order to be valid, must be transmitted so as to be received by the Company's agent (ID RA10) by the latest time for receipt of proxy appointments specified in Note 1 above. 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 Applications Host) from which the Company's agent 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 providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. 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 service 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.

Note 3: A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder 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 shareholder as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in Note 1 above do not apply to a Nominated Person. The rights described in that Note can only be exercised by registered members of the Company.

Note 4: As at 19 June 2015 (the business day prior to the publication of this notice) the Company's issued share capital amounted to 33,475,958 Ordinary shares carrying one vote each. The total voting rights in the Company as at 19 June 2015 were 33,475,958 votes.

Note 5: Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, as amended and/or the purposes of Section 360B of the Companies Act 2006, the Company specifies that only those shareholders registered on the Register of Members of the Company as at 6.00 pm on 29 July 2015 (or, in the event that the meeting is adjourned, only those shareholders registered on the Register of Members of the Company as at 6.00 pm on the day which is two days prior to the adjourned meeting) shall be entitled to attend in person or by proxy and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Note 6: In accordance with Section 319A of the Companies Act 2006, the Company must cause any question relating to the business being dealt with at the meeting put by a member attending the meeting to be answered. No such answer need be given if:

a) to do so would:
   (i) interfere unduly with the preparation for the meeting, or
   (ii) involve the disclosure of confidential information;
b) the answer has already been given on a website in the form of an answer to a question; or
c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Note 7: A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

Note 8: Members should note that it is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) 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 (ii) any circumstances 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 Companies Act 2006. 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 Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, 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 Companies Act 2006 to publish on a website.

Note 9: A copy of this Notice and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice, will be available on the Company's website: www.montanarouksmaller.co.uk.

Note 10: None of the Directors has a contract of service with the Company. A copy of the letters of appointment of the Directors will be available for inspection at the registered office of the Company, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this notice until the date of the meeting and at the place of the meeting for a period of fifteen minutes prior to and during the meeting.

Registered in England and Wales No. 3004101.

Principal Advisers

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

Company Secretary, Administrator and Registered Office
CAPITA SINCLAIR HENDERSON LIMITED
Beaufort House
51 New North Road
Exeter EX4 4EP
Tel: 01392 412 122
Fax: 01392 253 282

Registrar
CAPITA ASSET SERVICES
Shareholder Services Department
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0871 664 0300
(calls will cost 10p per minute plus network charges)
Fax: 020 639 2342
ssd@capitaregistrars.com
www.capitaregistrars.com

Depositary
BNY MELLON TRUST & DEPOSITARY (UK) LIMITED
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

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

Banker
ING BANK N.V.
London Branch
60 London Wall
London EC2M 5TQ

Financial Adviser
CANTOR FITZGERALD EUROPE
17 Crosswall
London EC3N 2LB

Auditor
KPMG LLP
100 Temple Street
Bristol BS1 6AG

Montanaro UK Smaller Companies Investment Trust PLC
Registered in England and Wales No. 3004101

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

Form of Proxy

for use at the Twentieth Annual General Meeting

I/We (block capitals please)____

Address ____

being a member/members of Montanaro UK Smaller Companies Investment Trust PLC, hereby appoint the

Chairman of the meeting /______________________________________ (see note 1)

for the following number of shares

as my/our proxy to vote for me/us on my/our behalf at the Twentieth Annual General Meeting of the Company to be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on Friday 31 July 2015 at 12 noon and at any adjournment thereof.

Signature ____________________________________

Dated ______________________________________ 2015

Please indicate with an X in the spaces below how you wish your votes to be cast.

☐ Please tick here to indicate that this proxy appointment is one of multiple appointments being made.

		For	Against	Withheld
RESOLUTION 1	To receive and accept the Strategic Report, the Directors' Report, the Auditor's Report and the audited financial statements for the year ended 31 March 2015.			
RESOLUTION 2	To receive and approve the Directors' Remuneration Report for the year ended 31 March 2015.			
RESOLUTION 3	To declare a final dividend of 8.9p per Ordinary share for the year ended 31 March 2015.			
RESOLUTION 4	To elect Kate Bolsover as a Director of the Company.			
RESOLUTION 5	To re-elect Kathryn Matthews as a Director of the Company.			
RESOLUTION 6	To re-appoint KPMG LLP as Auditor and to authorise the Directors to determine their remuneration.			
RESOLUTION 7	That the Company be authorised to make market purchases of up to 14.99% of its Ordinary shares.			
RESOLUTION 8	To allot relevant securities in accordance with Section 551 of the Companies Act 2006.			
RESOLUTION 9	To allot equity securities for cash and to disapply pre-emption rights, in accordance with Sections 570 and 573 of the Companies Act 2006.			
RESOLUTION 10	To issue shares held in Treasury at a discount to net asset value.			
RESOLUTION 11	To hold a General Meeting on not less than 14 clear days' notice.			

Notes

1 A member may appoint a proxy of his or her own choice. If such an appointment is made, delete the words "the Chairman of the Meeting" and insert the name of the person appointed proxy in the space provided.

2 The "Vote Withheld" option is provided to enable you to instruct the registered holder to abstain from voting. A "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" or "Against" a Resolution.

3 You are entitled to appoint more than one proxy provided that each proxy is appointed to exercise rights attached to a different share or shares held by you. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional Proxy Form(s) may be obtained by contacting the Registrars helpline on 0871 664 0300 if calling within the UK or +44 20 8639 3399 if calling from outside the UK. Lines are open 9:00am–5:30pm Monday–Friday. Calls to the helpline from within the UK cost 10p per minute (including VAT) from a BT landline. Other service providers' costs may vary. Calls to the helpline from outside the UK will be charged at applicable international rates. Calls may be recorded and monitored for security and training purposes. Or you may photocopy this form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

4 If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.

5 In the case of joint holders, the signature of any one holder will be sufficient, but the names of all the joint holders should be stated.

6 If this form is returned without any indication as to how the person appointed proxy shall vote, he/she will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.

7 To be valid, this form must be completed and deposited at the office of the Registrar of the Company by post to Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF or by hand during normal business hours to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.

Please see enclosed self addressed envelope for return of this proxy form.

Notes

Notes

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Tel: 01392 477500 | www.capitaassetservices.com

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