MONTANARO

UK Smaller Companies Investment Trust PLC

Annual Report and Accounts 2018

The Montanaro UK Smaller Companies Investment Trust PLC ("MUSCIT" or the "Company") was launched in March 1995 and its shares are premium 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 outperform its benchmark, the Numis Smaller Companies Index (excluding investment companies) ("NSCI").

No unquoted investments are permitted.

Contents

Highlights
for the year ended 31 March 2018

Results

	As at 31 March 2018	As at 31 March 2017	% change
Ordinary share price[1]	560.0p	510.0p	9.8
Net Asset Value ("NAV") per Ordinary share[2]	679.1p	631.6p	7.5
NAV (excluding current period revenue) per Ordinary share	666.8p	621.6p	7.3
Discount to NAV (excluding current period revenue)	16.0%	18.0%	
NSCI[3]	7,878.4	7,701.3	2.3

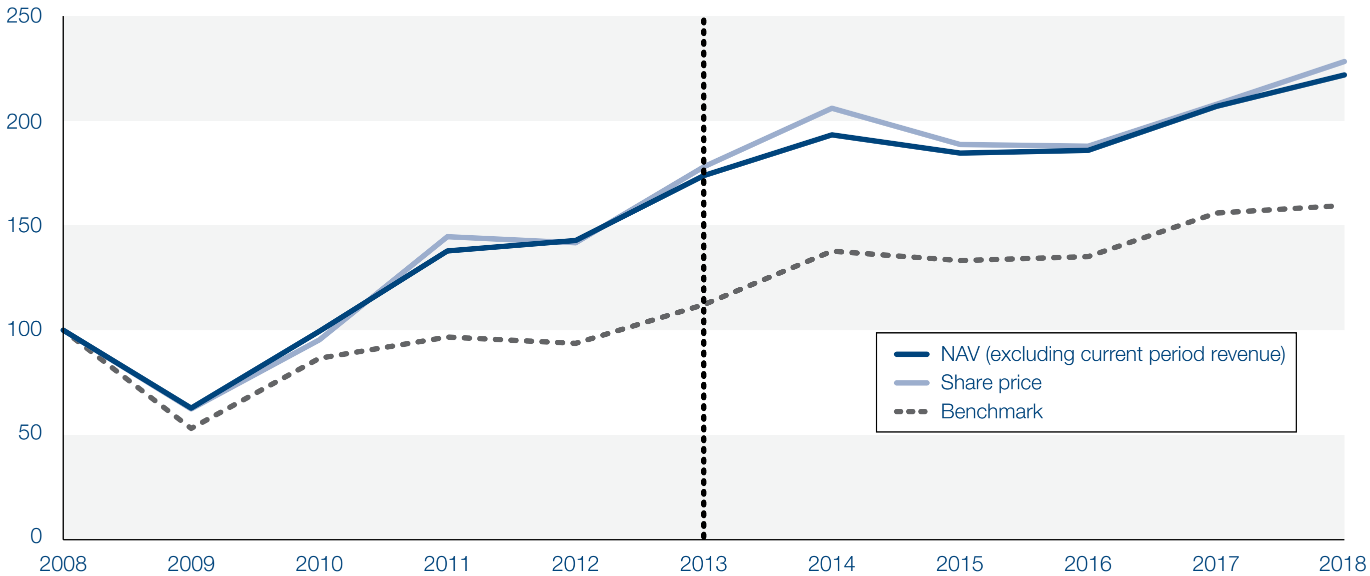
[1] London Stock Exchange closing price.
[2] Including current period revenue.
[3] Capital only.

	Year to 31 March 2018	Year to 31 March 2017	% change
Revenue return per Ordinary share	12.3p	10.0p	23.0
Dividend per Ordinary share	11.0p	10.5p	4.8
Gross assets[1]	£247.7m	£232.2m	6.7
Net assets	£227.3m	£211.4m	7.5
Market capitalisation	£187.5m	£170.7m	9.8
Net gearing employed[1]	2.9%	2.7%	
Ongoing charges	0.8%	1.2%	
Portfolio turnover[1]	26.8%	34.9%	

[1] Details provided in the glossary on page 52.

NAV, Share Price and Benchmark Index 10 year performance graph

rebased to 100 at 31 March 2008



The Benchmark is a composite index comprising the FTSE SmallCap Index (excluding investment companies) until 31 March 2013 and the NSCI from 1 April 2013 onwards, when the NSCI replaced the FTSE SmallCap Index (excluding investment companies) as the Company's Benchmark.

Source: Link Alternative Fund Administrators Limited.

Chairman's Statement

Background

I am pleased to present the twenty-third annual report of MUSCIT for the year ended 31 March 2018.

An investment trust is an attractive vehicle for shareholders to invest in quoted UK "smaller" companies, which are less well researched and more illiquid than larger, blue chip companies.

Since inception in 1995, the Company has delivered a cumulative net asset value ("NAV") total return of 681% compared with an increase of 419% for the composite benchmark.

Results

I am delighted to report that the actions taken to refresh the portfolio, which included Charles Montanaro resuming day to day management, explained in my Statement last year have resulted in a NAV outperformance of 5% (on a capital return basis) over the past year against the Benchmark. In addition, the Company's NAV per share increased by 7.3% during the year and the share price gained 9.8% rising to 560 pence, reflecting a modest tightening of the discount over the year.

The introduction of AIM stocks has been beneficial to performance. At 31 March 2018, these represented 27% of the portfolio by value. Given this was close to our self-imposed limit of 30%, the Board decided to increase the limit to 40% with Board approval required for exposure above 35%.

This amendment to the Board's investment restrictions was announced on 8 May 2018.

Benchmark

With the increased ability to invest in companies traded on AIM, the Board has considered if the NSCI remains an appropriate benchmark or whether it should be replaced by the Numis Smaller Companies plus AIM (excluding investment companies) index ("NSCI plus AIM"). The NSCI covers the bottom tenth of the main UK equity market by market value and has been published continuously for over 30 years. At the start of 2018, this latter index consisted of 350 companies.

The NSCI plus AIM consists of 1,274 constituents. However, as many of these companies would not meet Montanaro's strict investment criteria, the Board has decided to retain the existing Benchmark.

Discount

The discount of MUSCIT's share price to NAV, as shown in the graph on page 3, stood at 16.0% on 31 March 2018, compared to 18.0% at the end of the last financial year excluding current period revenue.

Share Buy Backs

The Board is responsible for the implementation of the share buy-back programme which is undertaken at arms' length from Montanaro. No shares were bought back during the year.

As at 31 March 2018, no shares were held in treasury.

Dividend

MUSCIT's primary aim is to deliver capital growth to its shareholders rather than dividend income. Nonetheless, the high quality of the companies in which we invest has allowed us to grow our dividend over time.

The Board proposes a final dividend of 11.0 pence per Ordinary share to be paid on 27 July 2018 to shareholders who appear on the register at the close of business on 29 June 2018. This represents an increase of 4.8% compared to last year. On average the dividend has increased by 14.0% per annum over the past ten financial years.

Proposed sub-division of Company's Share Capital

The Board is proposing to implement a sub-division of the Company's share capital. This may increase the attractiveness of the Company's shares to potential investors and increase the liquidity in the market for the Company's shares.

In the nine years to 31 March 2018, the Company's share price has increased from 153 pence per share to 560 pence per share. Therefore, the Directors are recommending a five for one share split which will increase the number of ordinary shares in issue by a factor of five. Of course, this will not affect the overall value of the Company.

Based on the closing share price of 560 pence per share as at 31 March 2018, each shareholder will receive five new shares for every one ordinary share previously held and the new shares would be expected to trade at 112 pence per share. The market price of the shares, both before and after completion of the proposed sub-division, will vary depending on market conditions at the time. The proposed sub-division of the Company's share capital is subject to shareholder approval at the Annual General Meeting ("AGM").

Outlook

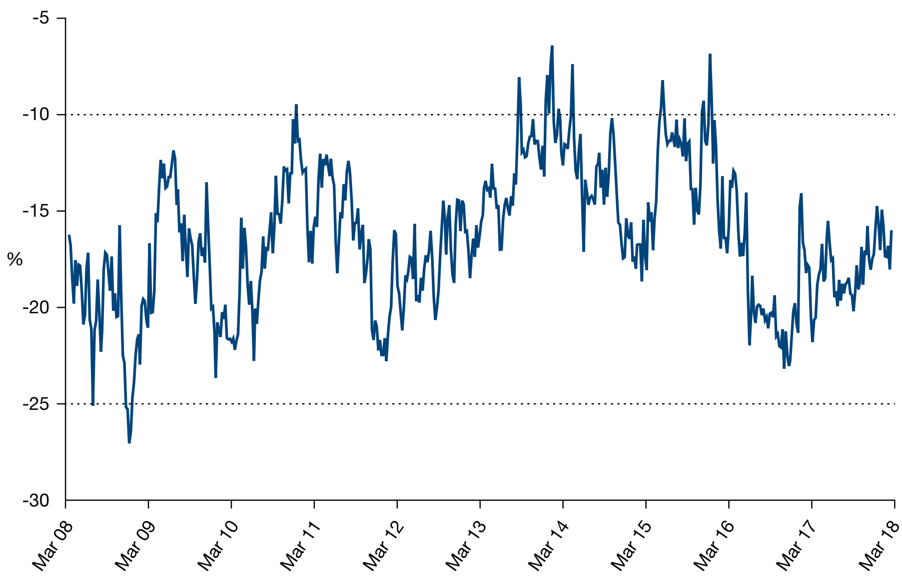
Currently, there are more reasons for caution than usual: for example, rising inflation – combined with the limited ability of governments worldwide to continue with quantitative easing indefinitely – could lead to higher interest rates and bond yields, perhaps undermining equity valuations. There are fears over trade wars and concerns over the excessive debt levels of countries, corporates and individuals. In the UK, Brexit uncertainties and slowing GDP growth have led overseas investors to reduce UK weightings in portfolios to low levels. For the long-term investor, this might represent an opportunity as these are rebuilt over time.

As nobody can predict the future, the Company's strategy of investing for the longer term in high quality companies with strong balance sheets seems to be a sensible approach in an uncertain world.

The Board was delighted that the Company was ranked sixth in the listing of the top 20 most consistently performing investment companies over the last ten years as published by The Association of Investment Companies on 5 June 2018.

ROGER CUMING
Chairman
11 June 2018

Share Price Discount to NAV*

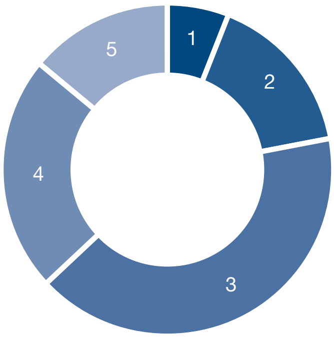


* Discount based on NAV (excluding current period revenue) over the last ten years.

Source: Montanaro Asset Management Limited.

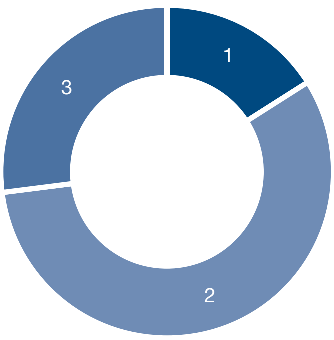
Manager's Report

Breakdown by Market Cap (Ex Cash)



		2018	(2017)
1 ■	£0–£250m	6%	(1%)
2 ■	£250m–£500m	16%	(18%)
3 ■	£500m–£1bn	41%	(36%)
4 ■	£1bn–£1.5bn	23%	(28%)
5 ■	>£1.5bn	14%	(17%)

Breakdown by Index (Ex Cash)



		2018	(2017)
1 ■	FTSE 250*	16%	(12%)
2 ■	NSCI	57%	(71%)
3 ■	UK AIM	27%	(15%)
4 ■	Other	–	(2%)

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 smaller companies. We have a team of 30, which gives us the benefit of local contacts and knowledge that is so essential.

At 31 March 2018, Montanaro's assets under management were over £2 billion.

Investment Philosophy and Approach

Montanaro specialises in researching and investing in quoted UK smaller companies.

We have a disciplined, two-stage investment process. Initially, we identify good businesses within our investable universe – the very best go onto our Approved List of stocks. In the second stage, we assess valuation and select the most attractive investments from the Approved List for your portfolio.

We have an in-house team of eleven analysts who each focus on specific sectors. Utilising their specialist industry knowledge and a range of proprietary screens, they are continually on the lookout for new investment ideas. With around 2,000 companies to choose from, they can afford to be selective.

We look for high quality companies that have strong growth prospects. They must be profitable, have good and experienced management and deliver sustainably high returns on capital employed. We prefer those that can deliver self-funded organic growth without diluting their returns or straying from their areas of expertise. Conversely, we avoid those with stretched balance sheets, poor cash generation, incomprehensible accounts or structurally challenged business models. We also do not invest in companies that generate a significant proportion of sales from products with negative societal impacts such as tobacco, gambling, armaments or alcoholic drinks.

When we consider that we have identified a good company, it must still pass our stringent checklist and be approved by Montanaro's Investment Committee before it is added to our Approved List. A company cannot be considered for inclusion in your portfolio until it has passed this hurdle.

Once approved, we conduct a detailed valuation analysis and wait until there is adequate upside before building a position. While in the short term the market is usually focused on how quarterly results compared to consensus expectations, we place particular emphasis on understanding the extent to which a company can compound its cash flows over the long term. We are willing to pay more for high quality, growing businesses.

We believe that a deep understanding of a company's business model, drivers and the way it is managed is the most important way to manage risk and to add value. We therefore visit our investee companies on a regular basis. 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. Their track record is examined in detail along with Board structure, the level of insider ownership and corporate governance policies. We seek to understand where a company will be in the next five to ten years rather than the next quarter.

Once a company has been added to a portfolio, our analysts update its checklist and their assessment of its value regularly. We will sell a holding if we believe that the company's underlying quality is deteriorating or if there has been a fundamental change to the investment case.

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

In summary, we invest in well managed, high quality, growth companies at sensible valuations. We keep portfolio turnover and transaction costs low and follow our companies closely over many years. We would rather pay more for a higher quality, more predictable company that can be valued with greater certainty. Finally, we align ourselves with our investors by investing meaningful amounts of our own money alongside yours.

Environmental, Social and Governance ("ESG")

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

Montanaro believes in a positive correlation between how well a business fares on Environmental, Social and Corporate Governance grounds and the value it creates for its long-term shareholders. Therefore, ESG considerations form an integral part of our assessment of a company's "Quality". These considerations are fully integrated into our investment process and all the research is done in-house. This is only made possible by the size of our investment team.

In addition, we engage with companies in an effort to improve corporate behaviour. As responsible shareholders, we believe that it is our duty to engage with our investee companies where necessary. In our experience, active engagement can help to foster positive long-term change in the way businesses are run.

How to invest

We have invested a great deal of time to make the Company's shares more readily available to investors, particularly through the internet. For example, it is now available on the Fidelity platform and will be added to others in due course. As a group, individual investors have trebled their holding in the Company compared to five years ago. The Board's decision to recommend a 5-for-1 stock split at the forthcoming AGM is part of our strategy to make the Company the vehicle of choice for long-term SmallCap investors.

For further details about how to invest please refer to the website: www.montanaro.co.uk/muscit

The Portfolio

The portfolio at 31 March 2018 consisted of 55 companies of which the top ten holdings represented 29%.

The Company held positions in 18 companies traded on AIM, representing 27% of the portfolio by value. Our AIM holdings have added significant value during the financial year.

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

We are pleased to report an outperformance of 5% relative to the benchmark in the year ended 31 March 2018. For the sixth time in nine years, SmallCap performed better than LargeCap: the Numis Smaller Companies (excluding investment companies) index ("NSCI") outperformed the FTSE All-Share index by 5% over the 12 month period*.

It remains a mystery to us that not all investors have an allocation to SmallCap given its remarkable performance record. Over the past decade, the NSCI has returned 11% per annum and outperformed the All-Share cumulatively by 93%. Since 1954, when the NSCI was first constructed, the outperformance of SmallCap has averaged 3.4% a year. Put another way, £1,000 invested in the NSCI at launch would be worth approximately £7 million today while the same amount invested in the FTSE All-Share index would be worth just £1 million.

Context is important when interpreting the good performance of SmallCap over the past 12 months. Investors panicked in the wake of the Brexit referendum in June 2016 and took profits in UK SmallCap, leaving price earnings valuations at a near record discount relative to the FTSE All-Share index. Much of the proceeds were recycled into LargeCap, which at the time felt safer because of its lower exposure to the domestic economy and the anticipated benefits of a weaker Sterling.

Sterling has risen by 13% compared to the US Dollar over the past 12 months, putting a dampener on exporters' earnings, while estimates of UK gross domestic product ("GDP") growth for 2018 and beyond have been seeing small upgrades. The smart money was quick to realise the once-in-a-generation opportunity on offer in UK SmallCap and by March 2017 money was trickling back into the sector again. According to the Investment Association, there have now been 12 consecutive months of net inflows into the UK SmallCap sector.

Gearing

The Alternative Investment Fund Manager ("AIFM"), in consultation with the Board, is responsible for determining the net gearing levels of the Company. Net gearing remained broadly unchanged compared to the previous year, at 2.9% at 31 March 2018 (2.7% at the start of the financial year).

* Source: Numis.

Manager's Report continued

Outlook

Your portfolio is constructed by selecting the highest "Quality Growth" smaller companies on the quoted UK markets. We do not try to position the portfolio based on economic or political forecasts – in fact we have an aversion to macro-economic predictions. We sleep better at night knowing that your money is invested in a solid business led by a competent management team.

We would like to take this opportunity to thank our investors for their overwhelming support at the AGM in July 2017 in favour of the continuation of the Company (in excess of 97% of the votes cast were in favour). Thank you. We are grateful and more excited than ever about the future of the Company.

MONTANARO ASSET MANAGEMENT LIMITED
11 June 2018

Twenty Largest Holdings
as at 31 March 2018

1. Dechra Pharmaceuticals
an international veterinary pharmaceutical business.

2. Big Yellow Group
a real estate investment trust focused on the self-storage market.

3. Marshalls
the UK's leading provider of landscaping products.

4. Hilton Food Group
a leading meat packing business.

5. Restore
the UK's second largest document storage and shredding business.

6. Consort Medical
medical device technologies for drug delivery.

7. Smart Metering Systems
an installer of smart gas and electricity meters.

8. Cranswick
a supplier of premium meat products.

9. FDM Group
a specialist service business that trains and places IT professionals.

10. Rathbone Brothers
a provider of investment management and wealth management services for private clients.

11. Clarkson
a leading shipping brokerage business.

12. 4imprint Group
a supplier of promotional merchandise.

13. Diploma
a supplier of specialised, consumable products in seals, controls and healthcare across the globe.

14. Entertainment One
a distributor of film, TV and music content.

15. Equiniti Group
a share registration and administration business.

16. Brewin Dolphin Holdings
a provider of investment management and wealth management services for private clients.

17. Shaftesbury
a property investment company focused on the West End of London.

18. Polypipe Group
a supplier of plastic pipes and ventilation systems for residential, commercial and infrastructure.

19. Ricardo
a leading automotive engineering and consultancy group.

20. Clipper Logistics
a provider of logistics solutions to the retail sector in the UK.

Twenty Largest Holdings continued
as at 31 March 2018

Holding	**Sector**	**Value £'000**	**Market cap £m**	**% of portfolio 31 March 2018**	% of portfolio 31 March 2017
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	7,884	2,688	3.4	3.3
Big Yellow Group	Real Estate/Real Estate Investment Trusts	7,037	1,353	3.0	3.0
Marshalls	Construction and Materials	6,900	834	3.0	3.5
Hilton Food Group	Food Producers	6,848	675	2.9	2.5
Restore	Support Services	6,725	608	2.9	1.8
Consort Medical	Health Care, Equipment and Services	6,720	552	2.9	2.9
Smart Metering Systems	Support Services	6,606	825	2.8	2.1
Cranswick	Food Producers	6,399	1,449	2.7	2.9
FDM Group	Software and Computer Services	6,120	1,097	2.6	1.7
Rathbone Brothers	Financial Services	6,100	1,252	2.6	2.8
Clarkson	Industrial Transportation	6,040	913	2.6	2.4
4imprint Group	Media	5,906	442	2.5	2.7
Diploma	Support Services	5,705	1,292	2.5	2.2
Entertainment One	Media	5,620	1,293	2.4	2.2
Equiniti Group	Support Services	5,522	1,088	2.4	–
Brewin Dolphin Holdings	Financial Services	5,517	977	2.4	1.8
Shaftesbury	Real Estate/Real Estate Investment Trusts	5,401	3,018	2.3	2.7
Polypipe Group	Construction and Materials	5,220	695	2.2	2.3
Ricardo	Support Services	5,038	489	2.2	2.2
Clipper Logistics	Support Services	4,928	366	2.1	–
Twenty Largest Holdings		**122,236**		**52.4**	

A full portfolio listing is available on request from the Manager.

All investments are in ordinary shares unless otherwise stated.

As at 31 March 2018, the Company did not hold any equity interests comprising more than 3% of any Company's share capital.

Analysis of Investment Portfolio by Industrial or Commercial Sector

as at 31 March 2018

Sector	% of portfolio	% of NSCI
Oil and Gas Producers	–	2.8
Oil Equipment, Services & Distribution	–	1.2
Oil and Gas	**–**	**4.0**
Chemicals	2.1	2.1
Mining	–	2.2
Basic Materials	**2.1**	**4.3**
Construction and Materials	5.2	4.9
Aerospace and Defence	–	2.9
General Industrials	–	0.9
Electronic and Electrical Equipment	5.7	2.0
Industrial Engineering	1.4	2.5
Industrial Transportation	4.4	2.3
Support Services	22.8	10.7
Industrials	**39.5**	**26.2**
Automobiles and Parts	–	0.8
Beverages	0.9	0.8
Food Producers	7.4	2.7
Household Goods and Home Construction	4.4	3.2
Leisure Goods	0.3	0.9
Personal Goods	–	1.4
Consumer Goods	**13.0**	**9.8**
Health Care, Equipment and Services	6.1	1.8
Pharmaceuticals and Biotechnology	6.1	1.9
Health Care	**12.2**	**3.7**
Food and Drug Retailers	–	1.0
General Retailers	2.6	5.2
Media	4.9	4.4
Travel and Leisure	3.8	7.7
Consumer Services	**11.3**	**18.3**
Fixed Line Telecommunications	–	1.7
Telecommunications	**–**	**1.7**
Electricity	–	0.8
Utilities	**–**	**0.8**
Banks	–	2.9
Life and Non-life Insurance	–	2.2
Real Estate / Real Estate Investment Trusts	6.6	11.5
Financial Services	6.0	8.7
Financials	**12.6**	**25.3**
Software and Computer Services	9.3	4.6
Technology Hardware & Equipment	–	1.3
Technology	**9.3**	**5.9**
Total	**100.0**	**100.0**

The investment portfolio comprises 55 traded and listed UK equity holdings.

Business Model and Strategy

PRINCIPAL ACTIVITY

The Company carries on business as an investment trust and its principal activity is portfolio investment. Its Ordinary Shares are traded on the Main Market of 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 AIM and to outperform its benchmark, the NSCI.

No unquoted investments are permitted.

INVESTMENT POLICY

The Company seeks to achieve its objectives 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 2018, this was any company below £1.53 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 at the time of initial investment. 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 40%* of total investments, with Board approval required for exposure above 35%*.

The Manager is focused on identifying high-quality, niche companies operating in growth markets. This typically leads 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 constructed on a "bottom up" basis.

The Alternative Investment Fund Manager ("AIFM"), in consultation with the Board, is responsible for determining the gearing levels of the Company and has determined that the Company's borrowings should be limited to 25% of shareholders' funds. Gearing is used to enhance returns when the timing is considered appropriate. The Company currently has credit facilities totalling £30 million with ING Bank, of which £20 million was utilised via a Fixed Rate Term Loan as at 31 March 2018. Net gearing at that date amounted to 2.9%.

The Company will not invest more than 10%, in aggregate, of the value of its total assets at the time of investment in other investment trusts or investment companies admitted to the Official List of the UK Listing Authority.

* These investment restrictions were amended on 8 May 2018. Prior to this and at the 31 March 2018 year end AIM exposure was limited to 30% with Board approval required for exposure above 25%.

PRINCIPAL RISKS

The Board carefully considers the Company's principal risks and seeks to mitigate these risks through regular review, policy setting, compliance with, and enforcement of, contractual obligations and active communication with the Manager, the Administrator and third party service providers. A core element of this process is the Company's risk register which identifies the Company's key risks, the likelihood and potential impact of each risk and the controls for mitigation.

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. A summary of the Company's risk management and internal control processes can be found in the Corporate Governance Statement on pages 20 to 23. Details of the principal risks and how these are mitigated are set out below. The principal financial risks are summarised in Note 18 to the financial statements.

Principal Risks	Mitigation

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 or a sale from a sizeable shareholder.
	The Board regularly reviews:
	• *the relative level of discount against the sector;*
	• *investment performance:*
	  – *relative to the competition; and*
	  – *the benchmark.*
	• *the underlying liquidity of the portfolio; and*
	• *the share register.*
	
	The Company may buy back shares when it considers it to be in shareholders' best interests.

Principal Risks	Mitigation
Poor Investment Performance: Returns achieved are reliant primarily on the performance of the portfolio. Underperformance relative to the benchmark and/or peer group may result in a loss of capital together with dissatisfied shareholders.	*To manage the risk a review is undertaken at each Board meeting with the Manager of portfolio performance against the benchmark and the peer group.* *The Board will seek:* • *to understand the reasons for any underperformance; and* • *comfort over the consistency of investment approach and style.* *Ultimately, the Board can terminate the Investment Management Agreement 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 excessive portfolio turnover.	*Risk oversight is primarily the responsibility of the AIFM, but the Board provides additional oversight through portfolio reviews at each Board meeting. Portfolio turnover is also reviewed at each Board meeting.*
Gearing: One of the benefits of an investment trust is its ability to use borrowings, which can enhance returns to shareholders in a rising stock market. However, gearing exacerbates movements in the NAV both positively and negatively and will exaggerate declines in NAV when share prices of investee companies are falling.	*The Board receives recommendations on gearing levels from the Manager, and monitors the appropriate level of gearing at each Board Meeting.*
Key Man Risk: A change in the key investment management personnel involved in the management of the 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 member of the investment team. There is an identified lead manager within Montanaro offering continuity of communication with the Company's shareholders. The Board is in regular contact with Montanaro and its designated manager and will be asked for their approval to any proposed change in the lead manager.*
Operational Risk: The Company has no employees, in common with most other investment trust companies, and relies on the services provided by third parties. It is therefore dependent on the control systems of the AIFM, depositary, custodian and administrator who maintain the Company's assets, dealing procedures and accounting records. 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 and reviews them in detail at each Board meeting.* *All third party service providers are subject to annual review by the Audit and Management Engagement Committee as part of which their internal control reports are reviewed.* *The Company's assets are subject to a liability regime. Unless the Depositary is able to demonstrate that any loss of financial assets held in custody was the consequence of an event beyond its reasonable control it must return assets of an identical type or the corresponding amount.*

Business Model and Strategy continued

Principal Risks	Mitigation
Breach of Regulation: The Company must comply with the provisions of the Companies Act 2006, the UK Listing Rules and Disclosure & Transparency Rules, the Market Abuse Regulations and the Alternative Investment Fund Manager's Directive. Any serious breach could result in the Company and/or the Directors being fined or the subject of criminal proceedings. The Company has been accepted by HM Revenue & Customs as an investment trust, subject to continuing to meet the relevant eligibility conditions and operates as an investment trust in accordance with the Corporation Tax Act 2010. As such, the Company is exempt from capital gains tax on profits realised from the sale of investments. Any breach of the relevant eligibility conditions could lead to the loss of investment trust status.	*The Company Secretary and the Company's professional advisers provide reports to the Board in respect of compliance with all applicable rules and regulations.* *Compliance with the accounting rules affecting the investment trust is closely monitored.* *During the year under review the Company complied with all applicable rules and regulations including AIFMD, the Packaged Retail and Insurance-based Products Regulation and the second Markets in Financial Instruments Directive.*
Financial: The Company's investment activities expose it to a variety of financial risks that include interest rate and liquidity risk.	*Further details on these risks are disclosed in note 18 to the financial statements.*

KEY PERFORMANCE INDICATORS ("KPIs")

At each Board meeting the Directors review performance by reference to a number of KPIs. Those KPIs considered most relevant are those that demonstrate the Company's success in achieving its objectives.

The principal KPIs used to measure the progress and performance of the Company are set out below:

Performance to 31 March	%	
	2018	2017
Change in NAV per share[1]	7.3	11.3
Change in share price	9.8	10.6
Relative NAV[1] per share performance vs benchmark	5.0	(4.1)
Discount to NAV[1,2]	16.0	18.0
Ongoing charges ratio	0.8	1.2

[1] Excluding current period revenue.

[2] The difference between the share price and the NAV.

VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a period longer than the twelve months required by the 'Going Concern' provision and reviewed the viability of the Company and its future prospects over the three-year period to 31 March 2021.

In the absence of any adverse change to the regulatory environment and to the treatment of UK investment trusts, the rolling three year period was determined by the Directors to:

- represent the horizon over which they do not expect there to be any significant change to the Company's principal risks or their mitigation; and
- the period over which they can form a reasonable expectation of the Company's prospects.

In its assessment the Board took into account the Company's current financial position, its ability to meet liabilities as they fell due and the principal risks as set out in the Strategic Report. In reviewing the financial position the following factors were taken into consideration:

- the portfolio is comprised solely of cash balances and equity securities traded on the London Stock Exchange;
- the current portfolio could be liquidated to the extent of 65% within five trading days and there is no expectation that the nature of the investments held within the portfolio will be materially different in future;
- future revenue and expenditure projections:
  - the expenses and interest payments of the Company are predictable and small; and
  - there are no expected capital outlays.

In addition to considering the Company's principal risks and the financial position of the Company as referenced above, the Directors also took account of the following assumptions in considering the Company's longer-term viability:

- the Board and the Manager will continue to adopt a long-term view when making investments;
- it is reasonable to believe that the Company will maintain the credit facilities currently provided by ING Bank;
- the Company invests principally in the securities of quoted UK smaller companies to which investors will wish to continue to have exposure;
- the Company has a large margin of safety over the covenants on its debt;
- there will continue to be demand for investment trusts;
- as determined at the AGM held in 2017, the next continuation vote will be in 2022. Further details are provided in the Directors Report on page 15;
- regulation will not increase to a level that makes the running of the Company uneconomic; and
- the performance of the Company will be satisfactory.

Based on the results of their analysis and in the context of the consideration given to the Company's business model, strategy and operational arrangements, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of the assessment.

FUTURE PROSPECTS

The Board's main focus is the achievement of capital appreciation and outperformance of the benchmark. The future of the Company is dependent upon the success of the Company's investment strategy. The Company's outlook is discussed in the Chairman's Statement on page 3 and the Manager's Report on page 6.

ENVIRONMENTAL, HUMAN RIGHTS, EMPLOYEE, SOCIAL AND COMMUNITY ISSUES

The Company's core activities are undertaken by Montanaro which has implemented environmental management practices which are detailed on its website.

As an investment trust the Company has no direct social or community responsibilities. However, the Company believes that it is in shareholders' interests to consider human rights issues, environmental, social and governance factors when selecting and retaining investments. Further details are provided in the Manager's report on page 5.

MODERN SLAVERY ACT 2015

As in investment trust the Company does not provide goods or services in the normal course of business, and does not have customers. Accordingly, the Directors consider that that Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

The Chairman's Statement on pages 2 and 3, the Manager's Report on pages 4 to 6 and the portfolio analysis on pages 7 to 9 also form part of the Strategic Report. The Strategic Report was approved by the Board at its meeting on 11 June 2018.

On behalf of the Board

ROGER CUMING
Chairman
11 June 2018

Board of Directors

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

Roger Cuming – Board Chairman and Nomination Committee Chairman
Roger Cuming was appointed a Director on 5 June 2009 and has been in the investment industry for over 35 years. He was head of investments for Reliance Mutual Insurance Society Limited prior to his retirement in December 2015, and was a significant investor in closed and open-ended investments of all types.

Kate Bolsover – Senior Independent Director and Remuneration Committee Chairman
Kate Bolsover was appointed a Director on 17 October 2014. She is non-executive Chairman of Fidelity Asian Values plc. She worked for Cazenove Group plc and JP 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.

Arthur Copple – Non-Executive Director
Arthur Copple was appointed a Director on 1 March 2017. He has specialised in the investment company sector for over 30 years. He was a partner at Kitcat & Aitken, an executive director of Smith New Court PLC and a managing director of Merrill Lynch. He is also chairman of Temple Bar Investment Trust plc and Vice-Chair of the University of Brighton Academies Trust.

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 JP Morgan Elect plc. He is also chairman of Polar Capital Global Healthcare Growth and Income Trust plc and a former chairman of the investment committee of the British Heart Foundation.

Directors' Report

The Directors present the Annual Report and Accounts of the Company for the year ended 31 March 2018.

STATUS OF THE COMPANY

The Company was incorporated in England and Wales in 1994 under registered number 3004101 and is domiciled in the United Kingdom and registered as an investment company as defined in section 833 of the Companies Act 2006 (the "Act").

The Company has been approved by HM Revenue & Customs ("HMRC") as an investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010, subject to continuing to meet eligibility requirements. The Directors are of the opinion that the Company has conducted its affairs in a manner compliant with the conditions for continued approval and intends to continue to do so.

As an investment company that is managed and marketed in the United Kingdom the Company is an Alternative Investment Fund ("AIF") falling within the scope of, and subject to, the requirements of the Alternative Investment Fund Managers Directive ("AIFMD"). Further details are provided in the AIFMD Disclosures on page 49.

The Company's shares are eligible for inclusion in the stocks and shares component of an Individual Savings Account ("ISA").

RESULTS AND DIVIDEND

The results for the Company are set out in the Income Statement on page 35.

The Directors recommend that a final dividend of 11.0p per existing issued Ordinary share of 10 pence each, amounting to £3,682,355 (2017: £3,515,000) be paid on 27 July 2018 to shareholders on the share register at the close of business on 29 June 2018.

CONTINUATION OF THE COMPANY

The Company's Articles of Association (the "Articles") provide that shareholders should have the opportunity to consider the future of the Company at regular intervals. At the Annual General Meeting in 2017 an ordinary resolution was approved releasing the Directors from the obligation to convene a general meeting in 2018 for the purpose of voluntarily winding up the Company.

The next general meeting for the purpose of considering a voluntary winding up of the Company must be held on or before 16 July 2022, being a period of not more than five years since the Directors were last released from the obligation to convene a general meeting. However, an ordinary resolution may be passed to release the Directors from the obligation to convene the general meeting and this meeting must be held not more than eighteen months before 16 July 2022.

GOING CONCERN

The financial statements of the Company have been prepared on a going concern basis. After reviewing the Company's forecast projections and actual performance on a regular basis throughout the year, the Directors believe that this is the appropriate basis. The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date these financial statements are approved. In reaching this conclusion the Directors had particular regard to the Company's ability to meet its obligations as they fall due and the liquidity of the portfolio. The Company is also able to meet all of its liabilities from its assets and the ongoing charges are approximately 0.8% per annum.

The Company's longer term viability is considered in the Viability Statement on pages 12 and 13.

CAPITAL STRUCTURE

Full details of the Company's issued share capital are given in note 15 on page 45.

Details of the voting rights attached to the Company's shares as at the date of this report are given in note 4 to the Notice of Annual General Meeting on page 56. The Ordinary shares carry the right to receive dividends and have one voting right per Ordinary share. There are no restrictions on the voting rights or transfer of Ordinary shares.

The Company may cancel or hold Ordinary shares acquired by way of market purchases in treasury. It is the Board's intention that any shares bought back by the Company will be held in treasury and will only be re-issued from treasury either at a price representing a premium to the NAV per share at the time of re-issue, or at a discount to the NAV per share provided that such discount is lower than the weighted average discount to the NAV per share when they were bought back by the Company. Any treasury shares re-issued must be at an absolute profit.

The Directors will only consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between supply and demand for the Company's shares.

The Company's current authorities to buy back, sell shares from treasury and issue shares expire at the conclusion of the 2018 Annual General Meeting. The Directors are proposing that these authorities be renewed at the forthcoming Annual General Meeting.

Any decisions regarding placing shares into treasury, or selling shares from treasury, will be taken by the Directors. No shares were held in treasury, bought back, sold from treasury or issued during the financial year or during the period from 31 March 2018 to the date of this report.

Directors' Report continued

As at 8 June 2018 (being the latest practicable date prior to the publication of this report), the closing share price of the Company's existing ordinary shares of 10 pence each had risen to 587.0 pence.

In order to improve the liquidity of the Company's shares, the Directors believe that it is appropriate to propose the sub-division of each of the existing ordinary shares into five new ordinary shares of 2 pence each ("New Ordinary Shares") pursuant to resolution 11 at the Annual General Meeting. Following the sub-division, each shareholder will hold five New Ordinary Shares for each existing ordinary share they held immediately prior to the sub-division. A holding of New Ordinary Shares immediately following the sub-division will represent the same proportion of the issued ordinary share capital of the Company as the corresponding holding of existing ordinary shares currently in issue.

The sub-division will increase the number of ordinary shares that are in issue but it is expected that there will be a corresponding reduction in the net asset value and market price of each New Ordinary Share, reflecting the fact that shareholders will own five times as many New Ordinary Shares. The Directors believe that this should benefit shareholders by improving the liquidity of their shares in particular by facilitating investment in the shares through investment platforms.

Shareholders should note that the proposed sub-division of the Company's share capital will not affect the overall value of their holdings in the Company. Based on the closing price per share on 31 March 2018 of 560.0 pence, the five New Ordinary Shares would be expected to trade at 112.0 pence per share. This information is provided for illustrative purposes only and the market price of the shares both before and after the completion of the proposed sub-division will vary depending on market conditions at the relevant time.

The proposed sub-division of the Company's share capital is subject to shareholder approval at the Annual General Meeting.

DIRECTORS

The biographical details of the Directors in office at the date of this report are provided on page 14 and their interests in the shares of the Company are shown on page 27. All Directors served throughout the year, are independent and non-executive.

The Directors may exercise all powers within their scope to manage the business of the Company subject to the provisions of the Articles of Association and the Companies Act 2006. These powers may be delegated to a Director, committee or agent.

In accordance with the policy adopted by the Board, all Directors will stand for re-election at the forthcoming Annual General Meeting. As set out on page 21, following a performance review, the Board believes that it is in the best interests of shareholders that each Director continues in their roles. The Board strives to maintain a diversity of age, skills, gender and experience.

At 31 March 2018, the Board comprised one female and three male Directors. The Company does not have any employees, therefore there are no disclosures to be made in respect of employees.

DIRECTOR INDEMNIFICATION AND INSURANCE

In addition to Directors' and Officers' liability insurance cover, the Company's Articles of Association provide, subject to the provisions of applicable UK legislation, an indemnity for Directors in respect of costs incurred in the defence of any proceedings brought against them by third parties arising out of their positions as Directors, in which they are acquitted or judgment is given in their favour.

CONFLICTS OF INTEREST

The Board has approved a procedure for identifying, reporting and addressing conflicts of interest, or potential conflicts, and will regularly review actual or potential conflicts. The Directors are made aware that there remains a continuing obligation to notify the Company Secretary of any new situation that may arise, or any change to a previously notified situation.

The Board considers that the procedure has worked effectively during the year under review and intends to continue to review all notified situations on an annual basis.

DISCLOSURE OF INTERESTS

No Director was a party to, or had an interest in, any contract or arrangement with the Company. All of the Directors are non-executive and no Director had a contract of services with the Company at any time during the year.

SUBSTANTIAL SHAREHOLDINGS

At 31 March 2018, the Company had been informed of the following notifiable interests in its voting rights:

Beneficial owner	Ordinary shares	% of voting rights
1607 Capital Partners LLC	3,345,579	10.0
Derbyshire County Council	2,925,000	8.7
East Riding of Yorkshire Council	2,743,400	8.2
Montanaro Asset Management Limited	1,675,000	5.0
Quilter Cheviot Limited	1,671,230	5.0
Newton Investment Management Limited	1,661,565	5.0
Brooks Macdonald Asset Management Limited	1,635,138	4.9
Jupiter Asset Management Limited	1,565,000	4.7
Royal London Asset Management Limited	1,350,566	4.0
City of Bradford Metropolitan District Council	1,228,500	3.7

The Company has not been advised of any changes to these notified interests between 31 March 2018 and the date of this report.

INVESTMENT MANAGEMENT AGREEMENT

The Board has contractually delegated the management of the investment portfolio to Montanaro Asset Management Limited ('Montanaro' or the 'Manager'). The Company entered into a Management Agreement with Montanaro dated 19 June 2014 under which, until 31 March 2017, the Manager received a management fee of 0.85% per annum of gross assets. A revised management fee of 0.50% per annum of gross assets applied from 1 April 2017. There is no performance fee.

Except in certain circumstances, the Management Agreement may only be terminated by the Manager on giving 12 months' notice in writing to the Company. The Company shall be entitled to terminate the Agreement by notice in writing to the Manager forthwith, or as at the date specified in such notice. On receiving such notice, the Manager will be entitled to a termination fee of 1% of the gross assets of the Company at the close of business on the last day of the calendar month immediately preceding the effective date of termination of the Agreement.

CONTINUING APPOINTMENT OF THE MANAGER

The Board considers arrangements for the provision of investment management and other services to the Company on an ongoing basis. A formal annual review is conducted by the Audit and Management Engagement Committee of all the Company's service providers including the Manager.

During the year, the Board considered the performance of Montanaro as AIFM and Manager by reference to the investment process, portfolio performance and how it had fulfilled its obligations under the terms of the Investment Management Agreement.

In the opinion of the Board, the continuing appointment of Montanaro as Manager and AIFM on the terms referenced above is in shareholders' interests as a whole. Among the reasons for this view is the Company's long-term investment performance relative to that of the markets in which the Company invests and the depth and experience of the research capability of Montanaro.

AIFMD

In order to comply with the Alternative Investment Fund Managers' Directive ("AIFMD"), the Company entered into a Management Agreement with Montanaro dated 19 June 2014 under which the Manager was appointed by the Company to act as the AIFM. Montanaro receives an ongoing fee of £50,000 per annum to act as the Company's AIFM.

The AIFMD requires certain information to be made available to investors in AIFs before they invest. An Investor Disclosure Document, which sets out this information, is available on the Company's website. There have been no material changes (other than those reflected in this Annual Report) to the information requiring disclosure.

DEPOSITARY AND CUSTODIAN

The Company is required under the AIFMD to appoint an AIFMD compliant Depositary. The main role of the Depositary is to act as a central custodian with additional duties to monitor the operations of the Company, including its cash flows and ensuring that the Company's assets are valued in accordance with the relevant regulations and guidance. The Depositary is also responsible for enquiring into the conduct of the AIFM in each annual accounting period.

BNY Mellon Trust & Depositary (UK) Limited was appointed as the Depositary with effect from 22 July 2014. The annual fee for depositary services is 0.025% per annum of gross assets, subject to a minimum fee of £20,000. The Depositary Agreement is subject to 90 days' written notice.

The Depositary's responsibilities include cash monitoring, segregation and safe keeping of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements. Under the depositary agreement the Depositary has delegated the custodian function to The Bank of New York Mellon SA/NV (London Branch).

ADMINISTRATOR

Link Alternative Fund Administrators Limited has been appointed as Administrator to the Company. The Administrator receives an annual fee of £72,000. The agreement may be terminated by either party by giving not less than six months' prior written notice.

COMPANY SECRETARY

Maitland Administration Services Limited has been appointed as Company Secretary pursuant to an agreement dated 29 September 2016. The Company Secretary receives an annual fee of £36,000. The agreement may be terminated by either party by giving not less than six months' prior written notice.

REGISTRAR

Link Asset Services has been appointed as the Company's registrar and is entitled to a fee calculated on the number of Shareholders and the number of transfers processed. The Registry Services Agreement may be terminated on not less than six months' notice. The Registrar is also entitled to reimbursement of all disbursements and out of pocket expenses.

CHANGE OF CONTROL

There are no agreements to which the Company is a party that might be affected by a change in control of the Company.

CORPORATE GOVERNANCE

The Corporate Governance Statement, which forms part of this Directors' Report, is set out on pages 20 to 23.

Directors' Report continued

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 emission producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

REQUIREMENTS OF THE LISTING RULES

Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the Annual Report or a table cross referencing where the information is set out. No disclosures are required in relation to Listing Rule 9.8.4.

ARTICLES OF ASSOCIATION

Any amendments to the Company's Articles of Association must be made by special resolution.

ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting ("AGM") to be held on 18 July 2018 (the "Notice") is set out on pages 53 to 57. Resolutions 1 to 12 will be proposed as Ordinary Resolutions and Resolutions 13 and 14 will be proposed as Special Resolutions.

Further information is provided below on the special business proposed for approval at the Annual General Meeting.

Sub-division of the existing ordinary shares – Resolution 11

The Directors will seek authority to sub-divide each existing ordinary share of 10 pence into five new ordinary shares of 2 pence each "New Ordinary Shares" at the AGM.

The full text of the resolution to be proposed is set out on page 53 in the Notice of Annual General Meeting. The resolution is conditional upon the New Ordinary Shares being listed on the Official List of the UK Listing Authority and admitted to trading on the main market for listed securities of the London Stock Exchange.

If resolution 11 is passed and the conditions attaching to the resolution are fulfilled immediately following completion of the sub-division (on the basis that there were 33,475,958 Ordinary shares of 10 pence each in issue at the date of the AGM) there will be 167,379,790 New Ordinary Shares of 2 pence each in issue.

The New Ordinary Shares will rank pari passu with each other and will be subject to the same rights and restrictions as the existing ordinary shares of 10 pence each (the "Existing Ordinary Shares"), including the same rights to participate in dividends or income of the Company. Mandates and other instructions for the payment of dividends received in paper form or via CREST will, unless and until revised, continue to apply to the New Ordinary Shares.

Subject to Resolution 11 being approved at the AGM it is expected that:

i. dealings in Existing Ordinary Shares will cease as at close of business on 19 July 2018 and that admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange and dealings will commence in the New Ordinary Shares on 20 July 2018;

ii. where Existing Ordinary Shares are held in certificated form, share certificates will cease to be valid from close of business on 19 July 2018. Certificates in respect of the New Ordinary Shares will be posted, at the risk of shareholders, by 3 August 2018 (these will replace existing certificates which should be destroyed); and

iii. shareholders who hold their Existing Ordinary Shares in uncertificated form will have their CREST accounts credited with the relevant entitlements to New Ordinary Shares on 20 July 2018.

The New Ordinary Shares have been allocated new stock identification codes as follows: SEDOL Code BZ1H9L8; and ISIN Code: GBDOB71H9L86.

Authority to Allot Shares (Resolution 12)

The Directors may only allot shares for cash if authorised to do so by shareholders in a general meeting. This resolution seeks to renew the authority of the Directors to allot ordinary shares for cash up to an aggregate nominal amount of £167,380 which represents 5% of the Company's issued ordinary share capital (excluding any treasury shares) as at 8 June 2018.

The Directors will use this authority when it is in the best interests of the Company to issue ordinary shares for cash. This authority will expire at the conclusion of the AGM to be held in 2019 unless renewed prior to that date.

Disapplication of Pre-emption Rights: (Resolution 13)

The Directors are required by law to seek specific authority from shareholders before allotting new shares or selling shares out of treasury for cash without first offering them to existing shareholders in proportion to their holdings.

Resolution 13 authorises the Directors to allot new ordinary shares for cash or to sell shares held by the Company in treasury, otherwise than to existing shareholders on a pro rata basis, up to an aggregate nominal amount of £334,759 which is equivalent to 3,347,595 ordinary shares and represents 10% of the Company's issued ordinary share capital as at 8 June 2018. This authority will expire at the conclusion of the AGM to be held in 2019 unless renewed prior to that date.

Authority to Buy Back Shares (Resolution 14)

The resolution to be proposed will seek to renew the authority granted to Directors enabling the Company to purchase its own shares.

The Directors are seeking authority to purchase up to 25,090,230 Ordinary shares subject to Resolution 11 being approved and becoming effective or, otherwise if less, 14.99% of the number of shares in issue immediately following the passing of this resolution. This authority will expire at the conclusion of the AGM to be held in 2019 unless renewed prior to that date.

Any ordinary shares purchased may be cancelled immediately upon completion of the purchase or held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Companies Act 2006.

RECOMMENDATION

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, which amount in aggregate to 34,669 shares representing approximately 0.1% of the voting rights in the Company.

INDEPENDENT AUDITOR

Ernst & Young ("EY") has confirmed its willingness to continue in office as the Auditor of the Company ("the Auditor"). A resolution to re-appoint EY as the Auditor to the Company and to authorise the Audit and Management Engagement Committee to determine the Auditor's remuneration will be proposed to the forthcoming Annual General Meeting.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are 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.

For and on behalf of the Board

MAITLAND ADMINISTRATION SERVICES LIMITED
Company Secretary
11 June 2018

Corporate Governance Statement

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

STATEMENT OF COMPLIANCE

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance ("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 (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The UK Code is available from the Financial Reporting Council's website at www.frc.org.uk. The AIC Code is available from the Association of Investment Companies at www.theaic.co.uk.

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.

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

The UK Corporate Governance Code includes provisions relating to: the role of the chief executive; executive directors' remuneration; and the need for an internal audit function. For the reasons set out in the AIC Guide, the Board considers that these provisions are not relevant to the position of the Company. The UK Code's recommendations with respect to the role of the chief executive and executive directors' remuneration (there are no executive directors) 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

The Company holds at least five Board meetings each year at which the Directors review portfolio investments and all other important issues in relation to the Company's affairs. During the year ended 31 March 2018, five Board meetings were held. The number of scheduled Board and Committee meetings attended by each Director is set out below.

	Board		Audit and Management Engagement		Remuneration		Nomination	
	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
Roger Cuming	5	5	2	2	1	1	1	1
Kate Bolsover	5	5	2	2	1	1	1	1
Arthur Copple	5	5	2	2	1	1	1	1
James Robinson	5	5	2	2	1	1	1	1

THE BOARD

The Board consists of four non-executive Directors.

Roger Cuming is Chairman of Company. The Board considers him to be independent and to have no conflicting relationships.

Kate Bolsover is the Senior Independent Director ("SID") and the Board considers that Kate Bolsover 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 nor has there been any contract or arrangement between the Company 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 Company's investment management, administrative and custodial activities. Clear, documented contractual arrangements are in place between the Company and its service providers 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 the Company (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.

PERFORMANCE EVALUATION

The Directors conduct an annual review of the performance of the Board, its Committees and individual Directors. The Board evaluation process aims to provide a valuable feedback mechanism for improving Board effectiveness, maximising strengths and highlighting areas for further development. This process is comprised of the following:

1. a 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 each Director's independence; and
5. an assessment of any required training.

Roger Cuming, 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. Kate Bolsover, 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 directors and have enhanced the knowledge brought to the Board meetings.

Following evaluation, the Board concluded that it had the appropriate balance of skills, experience, length of service and knowledge.

INDEPENDENCE OF DIRECTORS

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

The Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company where continuity and experience can significantly add to the strength of the Board. It is considered that Mr Cuming who has served as a Director for over nine years continues to be independent in character and judgement.

ELECTION/RE-ELECTION OF DIRECTORS

Under the Company's Articles and in accordance with the AIC Code, Directors are required to retire at the first AGM following their appointment. Thereafter, one third of Directors shall be subject to retirement by rotation 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.

Beyond these requirements, the Board has agreed a policy whereby all Directors will seek annual re-election at each Annual General Meeting. This is in line with the recommendations of the UK Corporate Governance Code for FTSE 350 companies, albeit the Company does not fall into this category.

The Board does not have a formal policy requiring Directors to stand down after a fixed period as it believes there can be significant benefits to the Company in having a long serving Director.

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

EXERCISE OF VOTING RIGHTS IN INVESTEE COMPANIES

The exercise of voting rights attached to the Company's portfolio has been delegated to the Manager.

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 votes against resolutions it considers may damage shareholders' rights or economic interests and gives due weight to what it considers to be socially responsible investments, when making investment decisions. However, its overriding objective is to produce good investment returns for shareholders.

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

Meetings	
Number of meetings voted at:	68
Number of meetings voted against management or abstained:	12
Resolutions	
Number of resolutions where voted with management:	878
Number of resolutions where abstained:	13
Number of resolutions where voted against management:	21

Corporate Governance Statement continued

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.

Audit and Management Engagement Committee

The roles of the Audit Committee and Management Engagement Committee have been combined to form one Committee. This Committee is comprised of all Directors and is chaired by James Robinson, who is a Chartered Accountant. 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 pages 24 and 25.

Remuneration Committee

The Remuneration Committee is chaired by Kate Bolsover and is comprised of all Directors. The Committee meets as required for the purpose of considering levels of remuneration paid to the Directors and reviews the Directors' Remuneration Report and Remuneration Policy.

Nomination Committee

The Nomination Committee is comprised of all Directors and meets as required for the purpose of considering recruitment to, and removals from, the Board. This Committee is chaired by Roger Cuming.

The Company will ensure that any future Board vacancies will be filled by the most qualified candidates. The value of diversity in the composition of the Board is recognised and, when Board positions become available, the Company will ensure it considers a diverse group of candidates.

All of the Company's Directors will stand either for election or for re-election at the forthcoming AGM. The Committee considers that the performance of each of the Directors continues to be effective and that they each demonstrate commitment to their role, including commitment of time for Board and Committee meetings and any other duties.

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.

INTERNAL CONTROL AND FINANCIAL REPORTING

The Board is responsible for establishing and maintaining the Company's risk management and internal control processes, and for monitoring their effectiveness. Internal control systems are designed to meet the Company's particular needs 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 that 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 principal risks faced by MUSCIT, which accords with guidance supplied by the Financial Reporting Council ("FRC") on risk management, internal control and related financial and business reporting. This is reviewed on a regular basis by the Audit and Management Engagement Committee on behalf of the Board. Details of the principal risks are set out on pages 10 to 12. The process involves reports from MUSCIT's Company Secretary and Manager as described below. In addition, the Audit and Management Engagement Committee receives internal control reports from all the third parties to which the Company delegates functions;
- in accordance with guidance issued to directors of listed companies, the Board has carried out a review of the effectiveness of the Company's risk management and internal control processes. There were no matters arising from this review that required further investigation and no significant failings or weaknesses were identified; and
- a risk register has been produced against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate them. The risk register is reviewed at each meeting of the Audit and Management Engagement Committee and at other times as necessary.

Given the nature of the Company's activities and the fact that most functions are sub-contracted, the Board has concluded that there is no need for the Company to have an internal audit function. Instead, the Directors obtain information from key third party suppliers regarding the controls operated by them. The key procedures which have been established in relation to this are as follows:

- 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;
- Link Alternative Fund Administrators Limited ("LAFA") is responsible for the provision of administration duties;
- company secretarial duties are undertaken by Maitland Administration Services Limited ("Maitland");
- depositary services and custody of assets are undertaken by BNY Mellon;
- 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 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 due diligence involving 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 the Administrator 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 the Manager. Shareholders wishing to communicate directly with the Board should contact the Company Secretary at the registered office or the Manager.

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 position and 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 the Company. The Manager has signed up to the Stewardship Code and publishes its voting records on its website.

PACKAGED RETAIL AND INSURANCE-BASED INVESTMENT PRODUCTS ("PRIIPS") REGULATION ("THE REGULATION")

Shares issued by Investment Trusts fall within scope of the European Union's PRIIPs Regulation. Investors should be aware that the PRIIPs Regulation requires the AIFM, as PRIIPs manufacturer, to prepare a key information document ("KID") in respect of the Company. This KID must be made available, free of charge, to EEA retail investors prior to them making any investment decision and has been published on Montanaro's website.

The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed. The PRIIPs KID in respect of the Company can be found at: www.montanaro.co.uk/muscit

BRIBERY PREVENTION POLICY

The Board takes its responsibility to prevent bribery very seriously and has a zero tolerance policy towards bribery and a commitment to carry out business fairly, honestly and openly.

The Manager has high level, proportionate and risk-based anti-bribery policies and procedures in place which are periodically reviewed by the Board.

CRIMINAL FINANCES ACT 2017

The Company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

DISCLOSURE AND TRANSPARENCY RULES

Other information required to be disclosed pursuant to the Disclosure and Transparency Rules has been placed in the Directors' Report on pages 15 to 19 because it is information which refers to events that have taken place during the course of the year.

For and on behalf of the Board
ROGER CUMING
Chairman
11 June 2018

Report from the Audit and Management Engagement Committee

As Chairman of the Audit and Management Engagement Committee I am pleased to present the Report of the Audit and Management Engagement Committee (the "Committee") to shareholders for the year ended 31 March 2018.

ROLE OF THE 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 of the Auditor;
- agree the Auditor's fee.
- develop and implement a policy on the supply of non-audit services by the Auditor;
- review annually the performance of the Manager; and
- review annually the performance of other third party service providers.

MATTERS CONSIDERED IN THE YEAR

The Committee meets at least twice a year in advance of the publication of the annual and half-yearly financial results of the Company. At the two meetings held during the financial year the Committee has:

- reviewed the internal controls and risk management systems of the Company and its third party providers;
- reviewed the performance of the Company's third party service providers and ensured that they complied with the terms of their agreements and the terms of the agreements remain competitive;
- agreed the audit fee and 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;
- reviewed the management contract to ensure that the terms remain competitive;
- reviewed the performance of the Manager;
- satisfied itself that the continued appointment of the Manager was in the interests of shareholders as a whole;
- recommended to the Board that the Manager's appointment be continued; and
- reviewed and, where appropriate, updated the Company's risk register.

ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2018

Following discussion with the Manager and the Auditor, the Committee determined that the key areas of risk in relation to the financial statements of the Company for the year ended 31 March 2018 and how they were addressed were:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	The Board reviews detailed portfolio valuations at each meeting. It relies on the Administrator and AIFM to use appropriate pricing in accordance with the accounting standards adopted by the Company. Ownership of listed investments is verified by reconciliation to the Custodian's records. In addition, the Depositary reports to the Audit and Management Engagement Committee in relation to its monitoring and oversight of the activities of the AIFM, administrator and custodian. No matters of significance were identified in their monitoring.
Maintenance of investment trust status	The Committee regularly considers the controls in place to ensure that the regulations for maintaining investment trust status are observed at all times and receives supporting documentation from the Manager and Administrator.
Incomplete or inaccurate revenue recognition.	Income received is accounted for in accordance with the Company's accounting policies as set out in the notes on pages 38 and 39. The Board receives income forecasts, including special dividends, and receives an explanation from the Manager for any significant movements from previous forecasts and prior year figures.

GOING CONCERN

The Committee assesses annually whether it is appropriate to prepare the Company's financial statements on a going concern basis, and makes its recommendations to the Board. The Board's conclusions are set out on page 15.

INTERNAL CONTROL

The Committee is responsible for ensuring that suitable controls are in place to prevent and detect fraud, error and misstatement of financial information. As the Company outsources all of its functions to third parties it requires these service providers to report on their internal controls.

There were no significant matters of concern identified in the Committee's review of the internal controls of its third party suppliers. The Committee paid particular attention to the developing threat of cyber-crime and has sought assurance from its suppliers regarding this risk. All main suppliers have provided written assurance of measures taken to mitigate this risk.

It is considered that the Company does not require an internal audit function, principally because the Company delegates its day-to-day operations to third parties, which are monitored by the Committee, and provide control reports on their operations annually.

EXTERNAL AUDIT, REVIEW AND RE-APPOINTMENT

An audit fee of £23,000 (excluding expenses) has been agreed in respect of the audit for the year ended 31 March 2018 (2017: £23,000 (excluding expenses)).

This is the second year in which EY has conducted the audit. EY was appointed at the AGM held on 22 July 2016. Their appointment followed a tender process undertaken by the Committee in November 2015.

As a Public Interest Entity, listed on the London Stock Exchange, the Company is subject to the mandatory auditor rotation requirements of the European Union. The Company will be required to put the external audit out to tender at least every ten years, and change Auditor at least every twenty years. Under the legislation the Company will be required to put the audit out to tender, at the latest, following the 2026 year end.

The Auditor is required to rotate partners every five years. Matthew Price, the current audit partner, has been the audit partner for two years.

The Committee reviewed the effectiveness of the external audit process during the year, considering performance, objectivity, independence and experience. The Committee has reviewed and accepted reports from EY on its procedures for ensuring that its independence and objectivity are safeguarded. Following review, the Committee concluded that the audit process was effective and that the Auditor is independent of the Company.

The Auditor has indicated its willingness to continue in office and resolutions proposing its reappointment and authorising the Audit and Management Engagement Committee to determine its remuneration for the ensuing year will be proposed at the Annual General Meeting.

POLICY ON NON-AUDIT SERVICES

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 (2017: nil).

CONCLUSION

Following the consideration of the above, and its detailed review of the half year and annual reports conducted at its meetings, the Committee is of the opinion that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Company's position and performance, business model and strategy. The Committee reported on these findings to the Board.

The Statement of Directors Responsibilities in respect of the Annual Report and Financial Statements is on page 28.

JAMES ROBINSON
Chairman, Audit and Management Engagement Committee
11 June 2018

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 and the Directors' Remuneration Policy will be put to shareholders at the forthcoming AGM.

The law requires the Company's Auditor, Ernst & Young 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 29 to 34.

ANNUAL STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2018.

Having reviewed the current level of remuneration payable to Directors, in accordance with the Remuneration Policy, the Remuneration Committee has determined, after reference to the RPI and the peer group, that there will be no change to the fees shown on page 27 for the year ending 31 March 2019. The Directors' fees were last changed in 2017.

The Remuneration Committee has proposed the incorporation of a new paragraph in the Remuneration Policy on the reimbursement of out-of-pocket expenses and their treatment as a benefit in kind as set out on page 27.

There are no other changes proposed to the way the current, approved Remuneration Policy, as set out on page 27 will be implemented during the course of the next financial year.

Remuneration Committee

The Remuneration Committee is comprised of all Directors and 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 the fees paid to them.

Directors' Emoluments for the Year (Audited)

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

	2018			2017		
	[1]Fees	Expenses	Total	Fees	Expenses	Total
	£	£	£	£	£	£
Roger Cuming	**31,458**	**–**	**31,458**	25,000	215	25,215
Kate Bolsover	**22,639**	**39**	**22,678**	20,500	396	20,896
Arthur Copple[2]	**21,638**	**–**	**21,638**	1,666	–	1,666
Kathryn Matthews[3]	**–**	**–**	**–**	23,295	–	23,295
James Robinson	**25,048**	**144**	**25,192**	23,000	265	23,265
	100,783	**183**	**100,966**	93,461	876	94,337

1 Directors' fees were increased for the year ended 31 March 2018 with effect from 7 June 2017.

2 Appointed 1 March 2017.

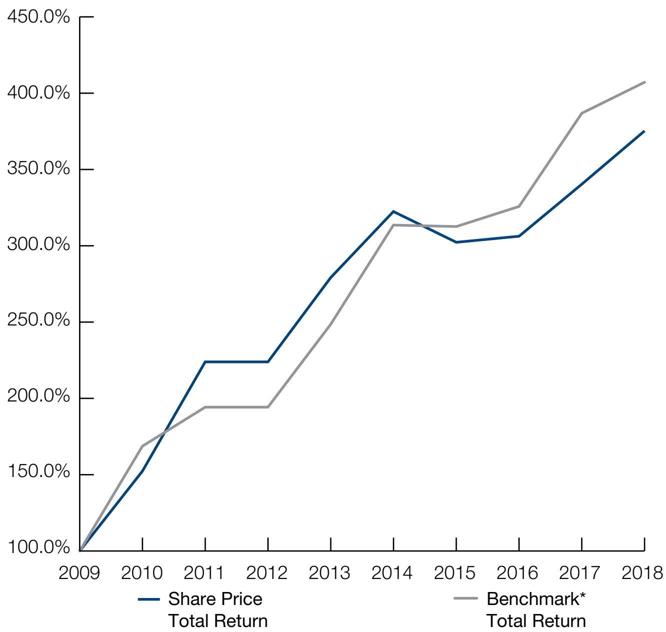
3 Resigned 8 March 2017.

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

Your Company's Performance

The following graph compares the share price to the Benchmark*. The share price includes all dividends added back.

Total Return and Benchmark Performance* (rebased from March 2009)



Source: Link Alternative Fund Administrators Limited.

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

Voting at AGM

The Directors' Remuneration Report for the year ended 31 March 2017 and the Remuneration Policy were approved by shareholders at the AGM held on 17 July 2017. The proxy voting was as follow:

	Remuneration Report		Remuneration Policy	
	Number of votes cast	%	Number of votes cast	%
For	24,631,053	99.97	24,631,053	99.99
Against	7,144	0.03	894	0.01
At Chairman's discretion	–	–	–	–
Total votes cast	**24,638,197**		**24,631,947**	
Number of votes withheld	42,916	–	49,166	–

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 of the Company are set out below:

	As at 31 March 2018 No. of shares	As at 1 April 2017 No. of shares
Roger Cuming	**10,000**	10,000
Kate Bolsover	**1,669**	1,669
Arthur Copple	**15,000**[2]	5,000[1]
James Robinson	**8,000**[3]	8,000[3]

1 Held by Mrs Copple.
2 Includes 5,000 shares held by Mrs Copple.
3 Held jointly by Mr and Mrs Robinson.

There have been no changes to the above holdings between 31 March 2018 and the date of this Annual Report. None of the Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements during the year.

Relative Importance of Spend on Pay

The table below sets out, in respect of the financial year ended 31 March 2018 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 2018 £	Year ended 31 March 2017 £	Change %
Total remuneration	**100,783**	93,461	7.8
Dividend paid	**3,514,976**	3,347,596	5.0

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 Board has agreed to a policy of annual re-election. 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.

No other payments are made to Directors except, in accordance with the Company's Articles of Association, the Directors are entitled to be reimbursed for reasonable out-of-pocket expenses incurred in the proper performance of their duties. Such expenses are treated as a benefit in kind and are subject to tax and national insurance.

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.

	Fees for the year to 31 March 2019 (annualised) £	Current fees for the year to 31 March 2018 £
Chairman	**32,000**	32,000
Chairman of the Audit and Management Engagement Committee	**25,500**	25,500
Senior Independent Director	**23,000**	23,000
Non-executive Director	**22,000**	22,000

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.

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 that Policy.

Approval

The Directors' Remuneration Report was approved by the Board on 11 June 2018.

On behalf of the Board
KATE BOLSOVER
Chairman, Remuneration Committee

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) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 that:

- 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; and
- 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.

In the opinion of the Board, 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 position and performance, business model and strategy.

On behalf of the Board
ROGER CUMING
Chairman
11 June 2018

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

OPINION
We have audited the financial statements of Montanaro UK Smaller Companies Investment Trust PLC ("the Company") for the year ended 31 March 2018 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT
We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 10 to 12 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 10 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 15 in the annual report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on pages 12 and 13 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	• Incomplete or inaccurate revenue recognition • Incorrect valuation and existence of the investment portfolio
Materiality	• Overall materiality of £2.3 million which represents 1% of net assets.

Independent Auditor's Report continued

to the Members of Montanaro UK Smaller Companies Investment Trust PLC

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit and Management Engagement Committee
Incomplete or inaccurate revenue recognition, £5.1 million (2017: £4.5 million) As described in Accounting policies (pages 38 and 39); and Note 2 (page 39) to the financial statements. The Company has reported investment income of £5.1 million (2017: £4.5 million). Special dividend income for the year amounted to £266k (2017: £73k), which was treated as revenue. Special dividends by their nature require the exercise of judgment as to whether the income receivable should be classified as 'revenue' or 'capital' for Section 1158 of the Corporation Tax Act, 2010 purposes. For special dividends the Company determines whether amounts should be credited to the revenue or capital columns of the Income Statement based on the underlying substance of the transaction. We focus on the recognition of revenue and its presentation in the financial statements as it is a key area for shareholders. There is a risk that an incorrect classification of revenue in the Income Statement could potentially result in the mis-representation of financial information to shareholders and put the Company's investment trust status at risk. Specifically in relation to our procedures on management override, we consider the risk that inappropriate journal entries are applied to the income account resulting in a manipulation of the Company's revenue to support performance targets.	**We performed the following procedures:** • We obtained an understanding of Link Alternative Fund Administrators Limited ("the Administrator") and Montanaro Asset Management Limited's ("the Manager") processes and controls for the recognition of investment income by performing walkthrough procedures, reviewing the Administrator's and Manager's internal control reports and discussing with the Manager the governance structure and protocols for oversight of investment income recognition. • For all the investments held in the year according to the investment portfolio and transactions reports, we have identified all dividend announcements for the year in a third party pricing source and confirmed they were included in the dividend income report. For this population we also recalculated the amount based on the dividend rate and holdings held as of the ex-date and traced the respective receipt to the bank statement. • We agreed all accrued dividends at the period end to the Depositary statement, an independent pricing source, and traced their receipt to post year-end bank statements. • We reviewed the income reports and the investment transactions report to identify special dividends, above our testing threshold, received in the year. • For all special dividends received during the year, we reviewed their recognition basis to ensure they were appropriately allocated between revenue and capital within the Income Statement. • We corroborated the appropriateness of journal entry adjustments made in relation to investment income in the preparation of the financial statements with source documentation.	The results of our procedures to test investment income identified no issues with the occurrence, measurement or completeness of investment income. We concurred with the accounting treatment adopted for all special dividends. Based on the work performed, we had no further observations to communicate.

Risk	Our response to the risk	Key observations communicated to the Audit and Management Engagement Committee
Incorrect valuation and existence of the investment portfolio As described in Accounting policies (pages 38 and 39); and Note 9 (pages 42 and 43) to the financial statements. The Company holds a portfolio of quoted investments in the UK. Quoted investments held as at year-end were valued at £233.5 million (2017: £217.5 million). The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and investment return. Incorrect asset pricing or a failure to maintain proper legal title of assets by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders.	**We performed the following procedures:** • We obtained an understanding of the Manager's and the Administrator's systems and controls in relation to investments by performing a walkthrough, reviewing the Administrator's and Manager's internal control reports and discussing with the Manager the governance structure and protocols for oversight of the valuation for quoted investments. • We obtained confirmation of 100% of the investment portfolio to the Custodian and Depositary confirmations. • We reviewed the year end reconciliation of the Company's records to those of the Custodian and Depositary and confirmed all reconciling items were appropriate. • We compared the prices of 100% of the quoted investment portfolio to an independent pricing source.	The results of our procedures on existence of investments identified no material errors in the reconciliation. The results of our procedures on the valuation of the total investment portfolio identified no errors. Based on the work performed, we had no further observations to communicate.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

TAILORING THE SCOPE

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £2.3 million (2017: £2.1 million), which is 1% (2017: 1%) of shareholders' funds. We have derived our materiality calculation based on a proportion of shareholders' funds as it is the most important financial metric on which shareholders judge the performance of the Company.

During the course of our audit, we reassessed initial materiality and made no changes to the basis of calculation from our original assessment at the planning stage.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2017: 50%) of our planning materiality, namely £1.7 million (2017: £1.1 million). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected. In the prior year our performance materiality was 50% of materiality as it was our first year of audit.

Given the importance of the distinction between revenue and capital for the Company we have also applied a separate testing threshold of £206k (2017: £168k) for the revenue column of the Income Statement, being 5% of the revenue net return before taxation.

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

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Management Engagement Committee that we would report to them all uncorrected audit differences in excess of £114k (2017: £106k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

OTHER INFORMATION

The other information comprises the information included in the Annual Report set out on pages 1 to 28, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** set out on page 28 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and Management Engagement Committee reporting** set out on pages 24 and 25 – the section describing the work of the Audit and Management Engagement Committee does not appropriately address matters communicated by us to the Audit and Management Engagement Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 20 – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the statement of directors' responsibilities set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, the Listing Rules, the Disclosure and Transparency Rules, the UK Corporate Governance Code 2016 and section 1158 of the Corporation Tax Act 2010.
- We understood how the Company is complying with those frameworks through discussions with the Audit and Management Engagement Committee and Company Secretary, and review of the Company's documented policies and procedures.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.
- We have reviewed and determined that the Company's control environment is adequate for the size and operating model of such a listed investment company.
- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to management override in relation to revenue recognition of special dividends. Further discussion of our approach is set out in the section on key audit matters above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report continued

to the Members of Montanaro UK Smaller Companies Investment Trust PLC

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- We were appointed by the Company on 22 July 2016 to audit the financial statements for the year ended 31 March 2017 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 31 March 2017 to 31 March 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Management Engagement Committee.

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

MATTHEW PRICE (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP
Statutory Auditor
London
11 June 2018

Notes:

1. The maintenance and integrity of the Montanaro UK Smaller Companies Investment Trust PLC web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement
for the year to 31 March 2018

		Year to 31 March 2018			Year to 31 March 2017		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Gains on investments at fair value through profit or loss	9	**–**	**16,728**	**16,728**	–	22,299	22,299
Income	2	**5,087**	**–**	**5,087**	4,535	–	4,535
Management fee	3	**(329)**	**(987)**	**(1,316)**	(480)	(1,439)	(1,919)
Other expenses	4	**(491)**	**–**	**(491)**	(495)	–	(495)
Movement in fair value of derivative financial instruments	14	**–**	**–**	**–**	–	141	141
Net return before finance costs and taxation		**4,267**	**15,741**	**20,008**	3,560	21,001	24,561
Interest payable and similar charges	5	**(148)**	**(443)**	**(591)**	(193)	(579)	(772)
Net return before taxation		**4,119**	**15,298**	**19,417**	3,367	20,422	23,789
Taxation	6	**(7)**	**–**	**(7)**	(10)	–	(10)
Net return after taxation		**4,112**	**15,298**	**19,410**	3,357	20,422	23,779
Return per Ordinary share: Basic and Diluted	8	**12.3p**	**45.7p**	**58.0p**	10.0p	61.0p	71.0p

The total column of this statement is the Statement of Total Comprehensive Income of the Company prepared in accordance with Financial Reporting Standards ("FRS 102"). The supplementary revenue return and capital return columns are prepared in accordance with the Statement of Recommended Practice issued in November 2014 and updated in January 2017 by the AIC ("AIC SORP").

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

There are no items of other comprehensive income and therefore the net return after taxation is both the profit and the total comprehensive income for the year.

No operations were acquired or discontinued in the year.

The notes on pages 38 to 48 form part of these financial statements.

Statement of Changes in Equity
for the year to 31 March 2018

Year to 31 March 2018	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 2017		**3,348**	**19,307**	**1,362**	**4,642**	**176,165**	**6,616**	**211,440**
Total comprehensive income:								
Fair value movement of investments	9	**–**	**–**	**–**	**–**	**16,728**	**–**	**16,728**
Costs allocated to capital		**–**	**–**	**–**	**–**	**(1,430)**	**–**	**(1,430)**
Net revenue for the year		**–**	**–**	**–**	**–**	**–**	**4,112**	**4,112**
		–	**–**	**–**	**–**	**15,298**	**4,112**	**19,410**
Dividends paid in the year	7	**–**	**–**	**–**	**–**	**–**	**(3,515)**	**(3,515)**
As at 31 March 2018		**3,348**	**19,307**	**1,362**	**4,642**	**191,463**	**7,213**	**227,335**

Year to 31 March 2017	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 2016		3,348	19,307	1,362	4,642	155,743	6,607	191,009
Total comprehensive income:								
Fair value movement of investments	9	–	–	–	–	22,299	–	22,299
Costs allocated to capital		–	–	–	–	(2,018)	–	(2,018)
Movement in fair value of derivative financial instruments	14	–	–	–	–	141	–	141
Net revenue for the year		–	–	–	–	–	3,357	3,357
		–	–	–	–	20,422	3,357	23,779
Dividends paid in the year	7	–	–	–	–	–	(3,348)	(3,348)
As at 31 March 2017		3,348	19,307	1,362	4,642	176,165	6,616	211,440

* These reserves are distributable, excluding any unrealised capital reserve. The special reserve can be used for the repurchase of the Company's own shares.

The notes on pages 38 to 48 form part of these financial statements.

Balance Sheet
as at 31 March 2018

	Notes	**31 March 2018 £'000**	**31 March 2018 £'000**	31 March 2017 £'000	31 March 2017 £'000
Fixed assets					
Investments at fair value	9		**233,470**		217,475
Current assets					
Debtors	11	**720**		479	
Cash at bank		**13,487**		14,261	
		14,207		14,740	
Creditors: amounts falling due within one year					
Other creditors	12	**(342)**		(775)	
		(342)		(775)	
Net current assets			**13,865**		13,965
Total assets less current liabilities			**247,335**		231,440
Creditors: amounts falling due after more than one year					
Fixed rate credit facility	13		**(20,000)**		(20,000)
Net assets			**227,335**		211,440
Share capital and reserves					
Called-up share capital	15		**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			**191,463**		176,165
Distributable revenue reserve			**7,213**		6,616
Total equity shareholders' funds			**227,335**		211,440
Net asset value per Ordinary share: Basic and Diluted	17		**679.1p**		631.6p

These financial statements were approved and authorised for issue by the Board of Directors on 11 June 2018.

ROGER CUMING
Chairman

Company Registered Number: 3004101

The notes on pages 38 to 48 form part of these financial statements.

Notes to the Financial Statements
at 31 March 2018

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 November 2014 and updated in January 2017. The financial statements have been prepared under FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Following the adoption of FRS 102, the Company elected not to present the statement of cash flows per paragraph 7.1.A. 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.

EXPENSES AND FINANCE COSTS
All expenses are accounted for on an accruals basis. Management fees and finance costs are allocated 75% to the capital reserve and 25% to the revenue reserve 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
The Company has fully adopted sections 11 and 12 of FRS 102. 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 recognised in the Income Statement and allocated to capital. Transaction costs on acquisition are included within the initial recognition and the gain or loss on disposal is calculated net of transaction costs on disposal.

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 102. 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 102 on all timing differences that have originated but not reversed by the Balance Sheet date. Provision is made for deferred taxation on the liability method, without discounting, on all timing differences calculated at the current rate of tax relevant to the benefit or liability. Deferred taxation assets are only being recognised to the extent that they are regarded as recoverable.

DIVIDENDS PAYABLE TO SHAREHOLDERS
In accordance with FRS 102, 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.

SEGMENTAL REPORTING
The Company has one reportable segment being invested primarily in a portfolio of quoted UK small companies.

1 Accounting Policies continued

DERIVATIVE FINANCIAL INSTRUMENTS

It is the Company's policy not to trade in derivative financial instruments. However, the Company had utilised an interest rate swap to mitigate its exposure to interest rate changes on its previous bank loan which was subject to a variable rate of interest; this swap expired during the year ended 31 March 2017. Details can be found in note 14.

Derivatives are recognised at fair value. Movement in the fair value of the interest rate swap has been recognised in the Income Statement and allocated to capital.

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;
- 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.

Any 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 and cancellation of the Company's own shares.

2 Income

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Income from investments	**5,079**	4,535
UK dividend income	**4,900**	4,491
Overseas dividend income	**179**	44
Other income		
Bank interest	**8**	–
Total income	**5,087**	4,535
Total income comprises		
Dividends from financial assets at fair value	**5,079**	4,535
Interest received	**8**	–
Dividends and interest	**5,087**	4,535

Notes to the Financial Statements continued
at 31 March 2018

3 Management fee

	Year to 31 March 2018			Year to 31 March 2017		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Management fee	**316**	**950**	**1,266**	467	1,402	1,869
AIFMD fee	**13**	**37**	**50**	13	37	50
	329	**987**	**1,316**	480	1,439	1,919

The Manager received a monthly management fee equivalent to 1/12 of 0.50% (2017: 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 2018, £113,000 (2017: £233,000) was due for payment to the Manager.

4 Other Expenses

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Administration and company secretarial fees (LAFA)*	**72**	102
Company secretarial fees (Maitland)*	**36**	9
Directors' fees†	**101**	93
Depositary fee	**76**	68
Registrar fee	**35**	27
Auditor's remuneration for:		
– audit	**23**	23
Custody and other bank charges	**21**	21
Legal fees	**5**	5
Other expenses (including VAT)	**122**	147
	491	495

* Maitland were appointed as Company Secretary from 1 January 2017.

† A breakdown of the Directors' remuneration is set out in the Directors' Remuneration report on page 26.

The Company has no employees.

5 Interest Payable and Similar Charges

	Year to 31 March 2018			Year to 31 March 2017		
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	**134**	**402**	**536**	186	559	745
Loan commitment fee	**14**	**41**	**55**	7	20	27
	148	**443**	**591**	193	579	772

6 Taxation

Analysis of charge in year	Year to 31 March 2018			Year to 31 March 2017		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Current tax:						
Overseas tax suffered	**7**	**–**	**7**	10	–	10
	7	**–**	**7**	10	–	10

6 Taxation continued

The taxation charge for the year is lower than the standard rate of Corporation Tax in the UK of 19% (2017: 20%). The differences are explained below.

	Year to 31 March 2018			Year to 31 March 2017		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Net return before taxation	**4,119**	**15,298**	**19,417**	3,367	20,422	23,789
Theoretical tax at UK corporation tax rate of 19% (2017: 20%)	**783**	**2,907**	**3,690**	674	4,084	4,758
Effects of:						
– UK dividends that are not taxable	**(883)**	**–**	**(883)**	(836)	–	(836)
– Foreign dividends that are not taxable	**(34)**	**–**	**(34)**	(9)	–	(9)
– Non-taxable investment gains	**–**	**(3,178)**	**(3,178)**	–	(4,488)	(4,488)
– Irrecoverable overseas tax	**7**	**–**	**7**	10	–	10
– Disallowed expenses	**–**	**–**	**–**	–	15	15
– Unrelieved excess expenses	**134**	**271**	**405**	171	389	560
Taxation charge for the year	**7**	**–**	**7**	10	–	10

Factors that may affect future tax charges

At 31 March 2018, the Company had no unprovided deferred tax liabilities (2017: £nil). Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Trust meets (and intends to continue for the foreseeable future to meet) the conditions for approval as an Investment Trust company. At that date, based on current estimates and including the accumulation of net allowable losses, the Company had unrelieved losses of £43,465,000 (2017: £41,330,000) that are available to offset future taxable revenue. A deferred tax asset of £7,389,000 (2017: £7,026,000) has not been recognised because the Company is not expected to generate sufficient taxable income in future periods in excess of the available deductible expenses and accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus losses.

7 Dividends

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Paid		
2017 Final dividend of 10.50p (2016: 10.00p) per Ordinary share	**3,515**	3,348
Proposed		
2018 Final dividend of 11.00p (2017: 10.50p) per Ordinary share	**3,682**	3,515

8 Return per Ordinary Share

	Year to 31 March 2018			Year to 31 March 2017		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Ordinary share	**12.3p**	**45.7p**	**58.0p**	10.0p	61.0p	71.0p

Revenue return per Ordinary share is based on the net revenue after taxation of £4,112,000 (2017: £3,357,000) and 33,475,958 (2017: 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 gains for the year of £15,298,000 (2017: £20,422,000), and on 33,475,958 (2017: 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.

Notes to the Financial Statements continued
at 31 March 2018

9 Investments

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Total investments at fair value	**233,470**	217,475

The investment portfolio comprises 55 (2017: 53) traded and listed UK equity holdings.

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Opening book cost	**157,446**	157,627
Opening investment holding gains	**60,029**	51,875
Opening valuation	**217,475**	209,502
Movements in the year		
Purchases at cost	**63,925**	66,150
Sales – proceeds	**(64,658)**	(80,476)
– realised gains on sales	**15,828**	14,145
Increase in investment holding gains	**900**	8,154
Closing valuation	**233,470**	217,475
Closing book cost	**172,541**	157,446
Closing investment holding gains	**60,929**	60,029
	233,470	217,475

FAIR VALUE HIERARCHY

In accordance with FRS 102, the Company must disclose the fair value hierarchy of financial instruments.

The fair value hierarchy consists of the following three levels:

- level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date;
- level 2 – Inputs other than quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

For financial instruments (within the scope of FRS 102), which are measured at fair value in the Balance Sheet, an entity shall disclose for each class of financial instruments, the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety.

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

	31 March 2018			31 March 2017		
	Level 1 £'000	**Level 2 £'000**	**Total £'000**	Level 1 £'000	Level 2 £'000	Total £'000
Equity investments	**233,470**	**–**	**233,470**	217,475	–	217,475
	233,470	**–**	**233,470**	217,475	–	217,475

There are no financial liabilities measured at fair value for the period ended 31 March 2018 (2017: £nil).

There were no level 3 investments.

9 Investments continued

TRANSACTION COSTS

During the year, the Company incurred transaction costs of £179,000 (2017: £221,000) and £51,000 (2017: £77,000) on purchases and sales of investments respectively. These amounts are deducted in determining gains on investments at fair value as disclosed in the Income Statement.

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Net gains on investments at fair value		
Gains on sales	**15,828**	14,145
Changes in fair value	**900**	8,154
	16,728	22,299

A list of the twenty largest holdings by market value and an analysis of the investment portfolio by industrial or commercial sector can be found on pages 8 and 9.

10 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.

11 Debtors

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Prepayments and accrued income	**67**	90
Due from corporate action	**–**	20
Dividends receivable	**653**	369
	720	479

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.

12 Other Creditors

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Accruals	**342**	458
Due to brokers	**–**	317
	342	775

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.

Notes to the Financial Statements continued
at 31 March 2018

13 Fixed Rate Term and Floating Rate Revolving Credit Facilities

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Falling due after more than one year	**20,000**	20,000
	20,000	20,000

On 19 December 2016, the Company agreed a £20,000,000 Fixed Rate Term Loan Facility with ING Bank N.V. At the same time, the Company also entered into a £10,000,000 Floating Rate Revolving Credit Facility.

The Fixed Rate Term Loan Facility is available for a five-year term from 19 December 2016 to 19 December 2021. The loan was fully drawn down at 31 March 2018 and 31 March 2017. Interest is payable at a fixed rate of 2.68% per annum in both the current and prior year.

The Floating Rate Revolving Credit Facility is available for a five-year term from 19 December 2016 to 19 December 2021. None of this facility was utilised at 31 March 2018 and 31 March 2017. When drawndown, interest is payable at LIBOR plus a margin of 1.65% per annum and mandatory costs. A Commitment fee is payable on the daily undrawn balance at 0.55% per annum in the event that the average utilisation is less than 50% during the applicable quarter or 0.40% per annum in the event that the average utilisation is greater than 50% during the applicable quarter.

The facilities contain covenants which require that total borrowing will not at any time exceed 30% of the adjusted net asset value, which itself shall not fall below £80,000,000 in respect of both facilities. The Company remained compliant with these covenants throughout the year.

14 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 previous loan facility for a fixed rate until 19 December 2016, when it was repaid and the Interest Rate Swap expired.

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

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Opening valuation	**–**	(141)
Movement in fair value	**–**	141
Closing valuation	**–**	–

15 Share Capital

	31 March 2018 £'000	31 March 2017 £'000
Allotted, called-up and fully paid:		
33,475,958 (2017: 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 17 July 2017, 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.

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 10.

16 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.

17 Net Asset Value per Ordinary Share

Net asset value per Ordinary share is based on net assets of £227,335,000 (2017: £211,440,000) and on 33,475,958 (2017: 33,475,958) Ordinary shares, being the number of Ordinary shares in issue at the year-end.

18 Analysis of Financial Assets and Liabilities

As required by FRS 102, 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; and
- gearing level.

Notes to the Financial Statements continued
at 31 March 2018

18 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 Company's listed and traded 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, whereby 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 2018 was:

	31 March 2018 £'000	31 March 2017 £'000
Cash at bank (held at Bank of New York Mellon)	13,487	14,261
Debtors and prepayments	720	479
	14,207	14,740

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 10 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 20 largest equity investments, an analysis of the investment portfolio by broad industrial and commercial sector, an analysis of the 20 largest holdings by market capitalisation and a description of the 20 largest equity investments are set out on pages 7 to 9.

The maximum exposure to market price risk is the fair value of investments of £233,470,000 (2017: £217,475,000).

If the investment portfolio valuation fell by 1% from the amount detailed in the financial statements as at 31 March 2018, it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £2,335,000 (2017: £2,175,000). 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 Company has a Fixed Rate Term Loan Facility (see note 13) so this would not be affected by any changes in interest rates. The Company also has a Floating Rate Revolving Credit Facility. This was undrawn at the year-end so would not yet be affected by any changes in interest rates.

The Company received interest on cash deposits of £8,000 in the year (2017: £nil).

If interest rates had reduced by 1% from those paid as at 31 March 2018, it would have the effect, with all other variables held constant, of increasing the net revenue return before taxation on an annualised basis by £nil (2017: £nil). If there was an increase in interest rates of 1%, the net revenue return before taxation on an annualised basis would have decreased by £nil (2017: £nil).

(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 traded 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 £14.2 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.

18 Analysis of Financial Assets and Liabilities continued

(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 level of gearing appropriate to its own risk profile.

The AIFM, in consultation with the Board, is responsible for determining the gearing level of the Company, which is disclosed on page 1. The Directors receive financial information on a regular basis which is used to identify and monitor risk.

FINANCIAL ASSETS

The Company's financial assets consist of listed and traded 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 2018 or at any time during the year. All financial assets are in sterling.

FINANCIAL LIABILITIES

The Company finances its operations through equity, retained profits and bank borrowings (see note 13).

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2018 was as follows:

	Total £'000	**Weighted average interest rate %**	**Period until maturity Years**
Amounts drawn down under Fixed Rate Term Loan Facility	**20,000**	**2.7**	**3.7**
Amounts drawn down under Floating Rate Revolving Credit Facility	**–**	**–**	**–**
Financial liabilities upon which no interest is paid	**342**	**–**	**–**

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2017 was as follows:

	Total £'000	Weighted average interest rate %	Period until maturity Years
Amounts drawn down under Fixed Rate Term Loan Facility	20,000	2.7	4.7
Amounts drawn down under Floating Rate Revolving Credit Facility	–	–	–
Financial liabilities upon which no interest is paid	775	–	–

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

	31 March 2018 £'000	31 March 2017 £'000
In three months or less	**427**	873
In more than three months but not more than one year	**450**	438
In more than one year but not more than three years	**1,072**	1,072
In more than three years but not more than five years	**20,386**	20,922
	22,335	23,305

Notes to the Financial Statements continued
at 31 March 2018

19 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 outperform 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 reserves.

Details of the Ordinary share capital are set out in note 15. Dividend payments are set out in note 7.

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

20 Commitments and Contingent Liabilities
At 31 March 2018, there were no capital commitments or contingent liabilities (2017: nil).

21 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.

The related party transactions with the Directors are set out in the Directors' remuneration Report on pages 26 and 27.

AIFMD Disclosures (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 2018 are shown below:

Leverage exposure

	Gross method	Commitment method
Maximum limit	200%	200%
Actual	102.7%	108.6%

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 the 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 52.

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 10 to 12 and note 18 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 pages 8 to 10; and
- none of the Company's assets are subject to special arrangements arising from their illiquid nature.

Shareholder Information

Sources of Further Information

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

Key Dates

31 March 2018	Company year end
June 2018	Annual results
29 June 2018	Record date for dividend
18 July 2018	Annual General Meeting
27 July 2018	Dividend payable
November 2018	Half-yearly results

Half-Yearly Report

To reduce ongoing costs, the Half-Yearly Report will only be published on the Company's website.

NMPI Status

The Company currently conducts its affairs so that the shares it issues can be recommended by financial advisers to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products. It is intended to continue to do so for the foreseeable future. The Company's securities are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are securities in a UK listed investment trust.

Share price and NAV

The Company's Ordinary Shares are listed on the main market of the London Stock Exchange. The market price of these shares can be found in the London Stock Exchange Daily Official List. The Company's NAV is published daily and released through the London Stock Exchange's Regulatory News Service and is available on the Company's website.

Registrar enquiries

The register for the Ordinary Shares is maintained by Link Asset Services. In the event of queries regarding your holding, please contact the registrar. For calls in the UK on 0871 664 0300, from overseas call (0)371 664 0300 calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate, or alternatively at shareholderenquiries@link.co.uk

Changes of name and/or address must be notified in writing to the registrar, whose address is: Link Asset Services, Shareholder Services Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Common Reporting Standard

Under the Common Reporting Standard financial institutions, including investment trust companies, are required to provide personal information to HMRC on investors who meet certain criteria set out in the legislation.

On an annual basis the Company will provide information to the local tax authority on the tax residencies of non-UK based certificated shareholders and corporate entities. The local tax authority may exchange this information with the tax authorities of another country or countries in which the shareholder may be a tax resident, where those countries, or the tax authorities in those countries, have entered into agreements to exchange financial account information.

New shareholders, excluding those whose shares are held in CREST, entered on the Company's share register, will be sent a certification form for the purposes of collecting this information.

Share dealing

Investors wishing to purchase more shares in the Company or sell all or part of their existing holding may do so through their financial adviser, stockbroker or, if financial advice is not required through a fund supermarket or any other execution-only platform. Further information can be found at: http://www.montanaro.co.uk/our-trusts/uk-smaller-companies-investment-trust/how-to-invest

Nominee Code

Where shares are held in a nominee company name, the Company undertakes:

- to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance;
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available; and
- Nominee companies are encouraged to provide the necessary authority to underlying shareholders to attend the Company's general meetings.

Website
Your board is committed to shareholder engagement. To receive regular email news and updates about your trust please visit: http://www.montanaro.co.uk/our-trusts/uk-smaller-companies-investment-trust/news.

Useful information on the Company, such as investor updates and half year and annual reports can also be found on the website.

AIC
The Company is a member of the Association of Investment Companies.

Stocks and Shares Individual Savings Accounts (ISA)
ISAs are a tax-efficient method of investment and the Company's shares are eligible investments for inclusion in an ISA.

Glossary of Terms

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

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.

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.

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.

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

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.

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.

NAV (excluding current period revenue)
NAV (excluding current period revenue) represents the shareholders' funds less the revenue element of the net return after taxation expressed as an amount per individual share.

NAV Total return
NAV total return is the closing NAV per share including cumulative dividends paid as a percentage over the opening NAV.

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

NSCI
Numis Smaller Companies Index (excluding investment companies).

Ongoing Charges
Ongoing Charges are the Company's expenses (excluding interest payable) expressed as a percentage of its average daily net assets.

Portfolio Turnover
Calculated using the total purchases plus the sales proceeds divided by two as a percentage of the average total investments at fair value during the year.

Relative NAV per share performance vs benchmark
This is the difference between the increase in the NAV (excluding current period revenue) as a percentage over the year and the Benchmark as a percentage over the year.

Notice of Annual General Meeting

Notice is hereby given that the twenty-third Annual General Meeting of the Company will be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on Wednesday, 18 July 2018 at 12 noon for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

RESOLUTION 1 – ANNUAL REPORT AND FINANCIAL STATEMENTS

To receive and, if thought fit, to accept the Strategic Report, the Directors' Report, the Auditor's Report and the audited financial statements of the Company for the year ended 31 March 2018.

RESOLUTION 2 – DIRECTORS' REMUNERATION REPORT

To receive and approve the Directors' Remuneration Report for the year ended 31 March 2018.

RESOLUTION 3 – DIRECTORS' REMUNERATION POLICY

To approve the Directors' Remuneration Policy as set out in the Directors' Remuneration Report on page 27.

RESOLUTION 4 – FINAL DIVIDEND

To declare a final dividend of 11.0p per Ordinary share for the year ended 31 March 2018.

RESOLUTION 5 – RE-ELECTION OF DIRECTOR

To re-elect Roger Cuming as a Director of the Company.

RESOLUTION 6 – RE-ELECTION OF DIRECTOR

To re-elect Kate Bolsover as a Director of the Company.

RESOLUTION 7 – RE-ELECTION OF DIRECTOR

To re-elect Arthur Copple as a Director of the Company.

RESOLUTION 8 – RE-ELECTION OF DIRECTOR

To re-elect James Robinson as a Director of the Company.

RESOLUTION 9 – APPOINTMENT OF AUDITOR

To appoint Ernst & Young 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.

RESOLUTION 10 – AUDITOR'S REMUNERATION

To authorise the Audit and Management Engagement Committee to determine the Auditor's remuneration.

SPECIAL BUSINESS

RESOLUTION 11 – SUB-DIVISION OF THE EXISTING ORDINARY SHARES

THAT each of the issued ordinary shares of 10 pence each in the capital of the Company be sub-divided into five ordinary shares of 2 pence each (the 'New Ordinary Shares') having the rights and being subject to the restrictions and obligations set out in the Articles of Association of the Company, such sub-division to take effect from the date the New Ordinary Shares are admitted to the Official List of the UK Listing Authority and to trading on the main market for listed securities of the London Stock Exchange.

RESOLUTION 12 – AUTHORITY TO ALLOT SHARES

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") up to an aggregate nominal amount of £167,380 (being approximately 5% of the issued share capital (excluding treasury shares) as at 8 June 2018) provided that the authorities conferred on the Directors 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 the Directors may allot shares or grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

Notice of Annual General Meeting continued

SPECIAL RESOLUTIONS

RESOLUTION 13 – DISAPPLICATION OF PRE-EMPTION RIGHTS

THAT, subject to the passing of Resolution 12 (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 12 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 12, 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 £334,759 (being approximately 10% of the issued share capital (excluding treasury shares) as at 8 June 2018),

  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. This power shall authorise the Directors to issue equity securities at such issue price as the Directors may determine (including, without limitation, where equity securities are being issued from treasury at a price below the net asset value per ordinary share (including income) of the Company at the time of the relevant issue).

RESOLUTION 14 – AUTHORITY TO BUY BACK SHARES

THAT in substitution for the Company's existing authority to make market purchases of Ordinary shares 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 25,090,230 if Resolution 11 is approved and becomes effective or otherwise, if less, 14.99% of the number of shares in issue immediately following the passing of this resolution;

(ii) the minimum price (excluding expenses) which may be paid for each Ordinary share is the nominal value of that share;

(iii) the maximum price (excluding expenses) payable by the Company for each Ordinary share is the higher of (i) 105% of the average closing market value of the Ordinary shares in the Company as derived from the Daily Official List of the London Stock Exchange, 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 independent bid on the London Stock Exchange;

(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2019, 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.

All ordinary shares purchased pursuant to the above authority shall be either:

(i) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act; or

(ii) cancelled immediately upon completion of the purchase.

By order of the Board

MAITLAND ADMINISTRATION SERVICES LIMITED
Company Secretary
11 June 2018

Registered Office:
Springfield Lodge
Colchester Road
Chelmsford
CM2 5PW

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, Link 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 8 June 2018 (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 8 June 2018 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 close of business on 16 July 2018 (or, in the event that the meeting is adjourned, only those shareholders registered on the Register of Members of the Company as at close of business 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.

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 usual business hours on any weekday (except weekends and public holidays) 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.

Notes

Form of Proxy

for use at the Twenty-third 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 twenty-third Annual General Meeting of the Company to be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on Wednesday, 18 July 2018 at 12 noon and at any adjournment thereof.

Signature ______________________________

Dated ______________________________ 2018

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	Vote 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 2018.			
RESOLUTION 2	To receive and approve the Directors' Remuneration Report for the year ended 31 March 2018.			
RESOLUTION 3	To approve the Directors' Remuneration Policy			
RESOLUTION 4	To declare a final dividend of 11.0p per Ordinary share for the year ended 31 March 2018.			
RESOLUTION 5	To re-elect Roger Cuming as a Director of the Company.			
RESOLUTION 6	To re-elect Kate Bolsover as a Director of the Company.			
RESOLUTION 7	To re-elect Arthur Copple as a Director of the Company.			
RESOLUTION 8	To re-elect James Robinson as a Director of the Company.			
RESOLUTION 9	To re-appoint Ernst & Young LLP as Auditor.			
RESOLUTION 10	To authorise the Audit and Management Engagement Committee to determine the Auditor's remuneration.			
RESOLUTION 11	To authorise the sub-division of each existing ordinary share of 10 pence into five ordinary shares of 2 pence.			
RESOLUTION 12	To authorise the allotment of relevant securities in accordance with Section 551 of the Companies Act 2006.			
RESOLUTION 13	To authorise the allotment of equity securities for cash and to disapply pre-emption rights, in accordance with Sections 570 and 573 of the Companies Act 2006.			
RESOLUTION 14	That the Company be authorised to make market purchases of up to 14.99% of its Ordinary shares.			

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. For calls in the UK on 0871 664 0300, from overseas call (0)371 664 0300 calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. We are open between 09:00 – 17:30, Monday to Friday, excluding public holidays in England and Wales. 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 Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU or by hand during normal business hours to Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours (excluding non-working days) before the time fixed for holding the meeting or adjourned meeting.

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

Principal Advisers

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
enquiries@montanaro.co.uk

Administrator
LINK ALTERNATIVE FUND ADMINISTRATORS LIMITED
Beaufort House
51 New North Road
Exeter EX4 4EP
Tel: 01392 477500
Fax: 01392 498288

Company Secretary and Registered Office
MAITLAND ADMINISTRATION SERVICES LIMITED
Springfield Lodge
Colchester Road
Chelmsford CM2 5PW
Tel: 01245 398984
Fax: 01245 398951

Registrar
LINK ASSET SERVICES
Shareholder Services Department
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0871 664 0300
(calls will cost 12p per minute plus network charges)
shareholderenquiries@link.co.uk
www.linkassetservices.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

Broker
CENKOS SECURITIES PLC
6.7.8 Tokenhouse Yard
London EC2R 7AS

Auditor
ERNST & YOUNG LLP
25 Churchill Place
London E14 5EY

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

Montanaro UK Smaller Companies Investment Trust PLC
53 Threadneedle Street
London EC2R 8AR

Tel: 020 7448 8600
Fax: 020 7448 8601
E-mail: enquiries@montanaro.co.uk
Website: www.montanaro.co.uk