MONTANARO

# UK Smaller Companies Investment Trust PLC

Annual Report and Accounts 2019

# **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 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 2019

## Performance

| Total Returns | 1 year | 3 year | 5 year | 10 year | Since launch |
|---|---|---|---|---|---|
| Ordinary share price | (1.1) | 25.4 | 18.2 | 338.0 | 724.4 |
| Net Asset Value ("NAV") | 0.5[1] | 24.2 | 23.0 | 317.2 | 828.2 |
| Benchmark (Composite) | (1.2) | 23.4 | 28.2 | 307.0 | n.a. |

Sources: Morningstar Direct, Numis, Bloomberg.

All returns are shown with dividends reinvested.

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.

| | 2019 | 2018 | % change |
|---|---|---|---|
| **For the year ended 31 March** | | | |
| Revenue return per Ordinary share | **2.5p** | 2.5p[2] | – |
| Dividend per Ordinary share | **3.9p** | 2.2p[2] | 77.3 |
| Ongoing charges[3] | **0.80%** | 0.78% | |
| Portfolio turnover[3] | **20.0%** | 26.8% | |
| **As at 31 March** | | | |
| Ordinary share price | **106.0p** | 112.0p[2] | (5.4) |
| NAV per Ordinary share[3] | **129.2p** | 135.8p[2] | (4.9)[1] |
| Discount to NAV[3] | **18.0%** | 17.5% | |
| Gross assets[3] | **£236.2m** | £247.3m | (4.6) |
| Net assets | **£216.2m** | £227.3m | (4.9) |
| Market capitalisation | **£177.4m** | £187.5m | (5.4) |
| Net gearing employed[3] | **6.2%** | 2.9% | |

[1] The difference between the NAV Total Return and the NAV per Ordinary Share Return reflects the move from annual to quarterly dividends and the impact of reinvested dividends.

[2] 2018 figures restated to reflect the subsequent five for one share split.

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

# Chairman's Statement

## Background

I am pleased to present the twenty-fourth annual report of MUSCIT for the year ended 31 March 2019.

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 828%.

## Results

The eagle-eye reader will have noticed that the Highlights page of the Annual Report has changed compared to last year. Following the change of dividend policy that took place during the year (see further details under "Corporate Events"), as a Board we felt that it was important to clearly state the returns earned by our shareholders including the impact of dividends reinvested. We will continue to report performance on a Total Return basis for both the Company and the Benchmark in future.

In what proved to be a challenging year, I am pleased to report a positive 0.5% Net Asset Value return (with dividends reinvested) for the year ended 31 March 2019. Although only a small improvement, it represented a 1.7% outperformance of our benchmark, the NSCI (excluding investment companies) Index (also with dividends reinvested). Compared with the index but including companies traded on AIM, the outperformance was just under 5%.

Although, the share price fell by 5.4% over the 12 month period, it was down only 1.1% with dividends reinvested.

## Discount

The discount of MUSCIT's share price to NAV, as shown in the graph on page 3, stood at 18% at the end of the last financial year. Following the announcement of the new dividend policy in July 2018, there was increased interest from private investors and the discount narrowed significantly. The subsequent market sell off saw the discount move back out. This wider discount, combined with the low level of the UK Small Cap market means that the Company's shares appear to offer comparatively good value at the time of writing.

## 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 2019, no shares were held in treasury.

## Corporate Events

At last year's AGM held on 18 July 2018, shareholders approved a five for one share split. Although the share split did not affect the overall value of the Company, it increases the liquidity in the market for the Company's shares.

A more substantive change was the significant increase in dividend distributions announced on 25 July 2018. Since the great financial crisis of 2008, central banks worldwide have artificially depressed interest rates. Expectations of a return to a more normal interest rate environment have repeatedly been disappointed and consequently there has been a continuing demand for income.

To meet this need and increase the attractiveness of the Company's shares, our new policy is to pay quarterly dividends equivalent to 1% of the Company's NAV on the last business day of the preceding financial quarter, being the end of March, June, September and December.

The revised dividend policy was effective from the financial quarter ending 30 September 2018. As a result, 1.43p was paid on 23 November 2018. A further 1.17p was paid on 22 February 2019 and 1.29p on 24 May 2019 with another dividend due in August for the financial quarter ending June 2019.

I must stress that there will be no change to the Company's investment philosophy and approach. The Manager will continue to look for high quality companies that have strong growth prospects and avoid those with stretched balance sheets, poor cash generation, incomprehensible accounts or structurally challenged business models.

### Environmental, Social and Governance (ESG)

There is an increasing trend for investment managers to highlight their ESG credentials, however recent they may be. Montanaro do not blow their trumpet enough about their expertise in ESG which, unlike some, has been an integral part of their investment process for many years. Only a well-resourced team makes this possible due to the patchy coverage of the smaller companies sector by ESG ratings specialists and the need for engagement with investee companies. The regular readers of MUSCIT's factsheet will have noticed that each month Montanaro report on the Trust's weighted average ESG score, which the team aims to see improve over time as their engagement efforts bear fruit.

### Board

It has been a great privilege to have been on the Board since 2009 and Chairman since 2016. I will stand down following the conclusion of the AGM on 25 July 2019. The Board intends to appoint Arthur Copple to succeed me as Chairman. Arthur has specialised in the investment company sector for over 30 years. He was appointed to the Board in March 2017 and I am sure that his wise counsel and experience will serve the Company well.

MUSCIT has seen a great deal of change over the past decade. Montanaro have been proactive in removing the original performance fee and in reducing the annual management fee to a very reasonable 0.5% per annum.

Unfortunately, regulatory and compliance costs have continued to increase. The duplication involved in the wake of the Alternative Investment Fund Managers Directive and the introduction of the flawed Key Information Document does make one question the wisdom of such costly initiatives. In a further move to contain costs and in the light of the substantial experience of the existing directors, we have decided not to appoint another director at this time and the Board will consist of three going forward.

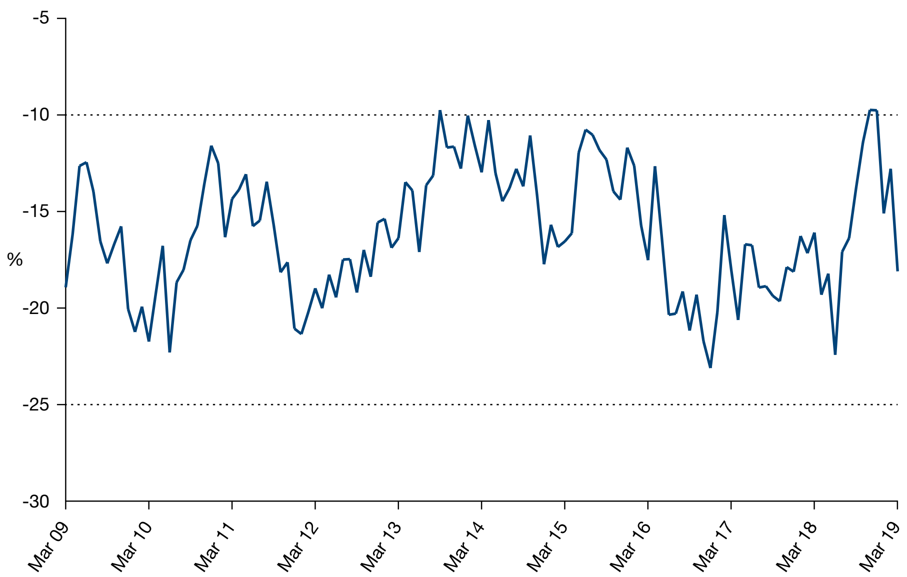
### Outlook

The unwinding of quantitative easing, if continued, will inevitably reduce liquidity in financial markets. To some extent, this contributed to the unprecedented decline in nearly every asset class during calendar 2018. Trade war fears continue to resurface, as do concerns over excessive debt levels of countries, corporates and individuals. In the US, the yield curve is flirting with inversion; it is possible to achieve a greater return from 3-month than 10-year yields, which is viewed as a harbinger of recession.

Not unreasonably, investors are nervous. However, as mentioned in the Manager's Report, UK smaller companies have already suffered disproportionately and are attractively priced. Investors in MUSCIT can take comfort in the quality of the portfolio's underlying companies. As the uncertainties surrounding Brexit clear, we would expect to see renewed interest in the asset class. Our shareholders can look to the future with confidence.

**ROGER CUMING**
Chairman
17 June 2019

Share Price Discount to NAV*

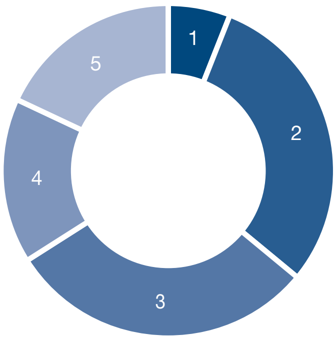



* Discount based on NAV over the last ten years.

Sources: Montanaro Asset Management Limited and Bloomberg.

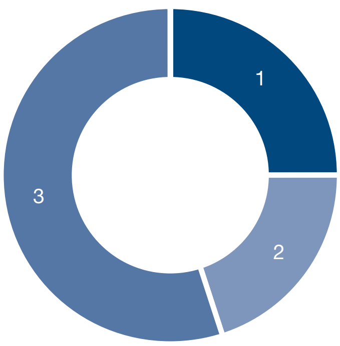
# Manager's Report

## Breakdown by Market Cap (Ex Cash)




| | | 2019 | (2018) |
|---|---|---|---|
| 1 | £0–£250m | 6% | (6%) |
| 2 | £250m–£500m | 30% | (16%) |
| 3 | £500m–£1bn | 30% | (41%) |
| 4 | £1bn–£1.5bn | 16% | (23%) |
| 5 | >£1.5bn | 19% | (14%) |

## Breakdown by Index (Ex Cash)




| | | 2019 | (2018) |
|---|---|---|---|
| 1 | AIM | 25% | (27%) |
| 2 | FTSE 250* | 20% | (16%) |
| 3 | NSCI | 55% | (57%) |

### 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. Our team of 30 includes nine nationalities, which gives us the breadth and scope to conduct thorough in-house research.

At 31 March 2019, we were looking after over £2 billion of assets.

### Investment Philosophy and Approach

We specialise in researching and investing in quoted smaller companies.

We have a disciplined, two-stage investment process. Firstly, we try to identify "*good businesses*" within our investable universe. In the second stage, we determine the intrinsic value of each company to ensure they will make a "*good investment*" (the two are not always the same). When we consider that we have identified a good company, it must pass our stringent Quality Checklist and be approved by our Investment Committee before it can be added to the "Approved List". Only the most attractive companies make it on to the List and it is from these that we construct your Portfolio.

We have an in-house team of ten Analysts who are sector specialists. Utilising their industry knowledge and a range of proprietary screens, they are continually searching for new ideas. With around 2,000 companies to choose from, we are spoiled for choice.

We look for high quality companies in markets that are growing. They must be profitable; have good and experienced management; deliver sustainably high returns on capital employed; enjoy high and ideally growing profit margins reflecting pricing power and a strong market position; and provide goods and services that are in demand and likely to remain so.

We prefer companies that can deliver self-funded organic growth and remain focused on their core areas of expertise, rather than businesses that spend a lot of time on acquisitions.

Conversely, we avoid those with stretched balance sheets; poor free cash flow generation; incomprehensible or heavily adjusted accounts; unproven or unreliable management; or that face structurally challenged business models with stiff competition.

We believe that a deep understanding of a company's business model and the way it is managed are essential. Therefore, we visit our investee companies on a regular basis. These visits are important: we meet employees who have not met investors before; gain a better insight into the products and services provided; and observe and come to appreciate the culture of the company that is hard to glean from reading an annual report. Few of our peers have the in-house resources to conduct such thorough due diligence. Although hard work, these site visits are a way for us to add value.

Management's past track record is examined in detail as we seek to understand their goals and aspirations. In smaller companies, the decisions of the entrepreneurial management can make or break a company (which is why meeting them is so important). We look closely at the Board structure, the level of insider ownership; and examine remuneration and corporate governance policies. This helps us to predict where a company will be in 5 to 10 years. We are long term investors.

Once a company has been added to the portfolio, our Analysts conduct ongoing analysis. We will sell a holding if we believe that the company's underlying quality is deteriorating or if there has been a fundamental change to the investment case or management.

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

It is worth noting that the change of dividend policy announced in July 2018 has had no impact whatsoever on the investment philosophy, process or strategy. MUSCIT will always be a "Quality Growth" investment trust looking for capital growth by investing in the best managed smaller companies in the UK.

### Environmental, Social and Governance ("ESG")

As part of our due diligence work, we place a great deal of emphasis on Ethical and 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 there is a clear correlation between how well a business fares on Environmental, Social and Corporate Governance grounds and the value it creates for its shareholders. Therefore, ESG considerations form an integral part of our assessment of a company's "Quality" and are fully integrated into our investment process. All the ESG research is done in-house by our Analysts.

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

We do not invest in companies that generate a significant proportion of sales from products with negative societal impact such as tobacco, gambling, armaments, alcohol, high-interest-rate lending and fossil fuels. With the "sustainability" trend a growing feature of the investment landscape, we believe that we are ahead of the curve. In SmallCap, it is particularly important to engage with companies to influence the impact they have on the world. Our high level of in-house resources makes this possible.

### How to invest

We have invested a great deal of time to make MUSCIT readily available to all investors. We have continued to grow our presence across the UK's investment platforms and MUSCIT has featured more regularly in the press over the last year. We are even on Twitter!

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

### The Portfolio

At 31 March 2019, the portfolio consisted of 51 companies of which the top ten holdings represented 36%. MUSCIT held 16 companies traded on AIM, representing 25% of the portfolio by value.

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

### Performance

We are pleased to report a second consecutive year of outperformance. The NAV total return increased modestly by 0.5%, outperforming the benchmark by 1.7%. Compared to the Numis Smaller Companies Index including AIM, the outperformance was even greater at almost 5%.

### Review

The first six months of the fiscal year proved positive for equity investors in developed markets. Solid economic data supported the robust outlook for global growth justifying a continuation of the now decade-old Bull Market. Even in the UK, where investors were stalked by the omnipresent shadow of Brexit, returns proved strong. It was little surprise that SmallCap underperformed LargeCap as investors continued to shun domestically exposed companies in favour of more international, export companies.

Yet volatility lurked close to the surface. As has often been the case in the past, October 2018 marked a shift in investor sentiment as worries about a global economic slowdown, rising interest rates and unpredictable politics took hold. Returns for 2018 were wiped out in a few weeks and many indices fell through the psychologically important 10% mark deemed a "correction". By Christmas 2018, UK SmallCap had fallen by some 14%.

The "see-saw" ride continued into the final quarter of the fiscal year as investors greeted 2019 with renewed optimism, a reminder that it often pays to remain invested during periods of short-term turbulence. This period proved especially strong for MUSCIT, which saw a 12% increase in the NAV total return.

### Gearing

As Alternative Investment Fund Manager ("AIFM"), Montanaro, in consultation with the Board, is responsible for determining the net gearing level of the Company. Net gearing was reduced during the year falling to just 0.5% in October 2018, a fortuitously low level in light of the volatile final calendar quarter. This was subsequently increased from December 2018 reflecting a more positive outlook, rising to 6.2% at 31 March 2019. Fortunately, this proved to be well-timed as equity markets have performed strongly since the New Year.

# Manager's Report continued

### Outlook

According to the Investment Association, the worst selling asset class among UK retail investors in 8 of the last 10 years has been the UK All Companies sector. Similarly, since the Global Financial Crisis, more than £2 billion has been withdrawn from UK smaller companies. We would expect this to reverse once there is more clarity about the impact of Brexit.

UK SmallCap valuations are well below their long-term average with the Price-to-Earnings ratio of the benchmark at 12.6x. This does not feel expensive. SmallCap is 5% cheaper than UK LargeCap and 20% cheaper than its European counterpart, close to an historic low. History suggests that now might not be a bad time for Sterling investors to address significant underweighting to the UK. We would not be surprised to see an increase in mergers and acquisition activity as overseas trade buyers take advantage of attractively valued UK companies made even more enticing by a weak pound.

We would like to thank the Board of MUSCIT as always for their support. This is a particularly poignant time as Roger Cuming will be standing down as Chairman at the forthcoming Annual General Meeting.

We have known Roger for more than two decades, both as an institutional investor in MUSCIT for many years and as a Director for the past ten years. As an investor, his breadth of knowledge of markets (at times esoteric) never failed to amaze and his investment skills remain remarkable. As Chairman, he has always given sound counsel and personal support that have been greatly appreciated. He will be missed. On your behalf, we would like to thank him.

We are only here thanks to our many investors. Some have been with us for more than two decades, voting for us to continue our efforts over numerous continuation votes. Thank you too for your support. Our interests are firmly aligned as we remain among the largest investors in MUSCIT. Almost in inverse proportion to the doom and gloom about Brexit, we are increasingly excited about the prospects for MUSCIT.

**MONTANARO ASSET MANAGEMENT LIMITED**
17 June 2019

# Twenty Largest Holdings
## as at 31 March 2019

**1. Marshalls plc**
the UK's leading provider of landscaping products.

**2. Entertainment One Ltd**
a distributor of film, TV and music content.

**3. 4imprint Group plc**
a supplier of promotional merchandise.

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

**5. Hilton Food Group plc**
a leading meat packing business.

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

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

**8. Integrafin Holdings plc**
a UK IFA platform provider.

**9. James Fisher and Sons plc**
a marine services provider.

**10. Cineworld Group plc**
a leading cinema operator in the UK and US.

**11. FDM Group Holdings plc**
a specialist service business that trains and places IT professionals.

**12. XP Power Ltd**
a provider of power solutions.

**13. Porvair plc**
an industrial filtration and environmental technology specialist.

**14. Ideagen plc**
a supplier of Governance, Risk and Compliance software for highly regulated industries.

**15. Cranswick plc**
a supplier of premium meat products.

**16. Consort Medical plc**
medical device technologies for drug delivery.

**17. Brewin Dolphin Holdings plc**
a provider of investment management and wealth management services for private clients.

**18. GB Group plc**
a world leader in identity data intelligence.

**19. Equiniti Group plc**
a share registration and administration business.

**20. Clarkson plc**
a leading shipping brokerage business.

# Twenty Largest Holdings continued
## as at 31 March 2019

| Holding | Sector | Value £'000 | Market cap £m | % of portfolio 31 March 2019 | % of portfolio 31 March 2018 |
|---|---|---|---|---|---|
| Marshalls | Construction and Materials | 10,515 | 1,237 | 4.6 | 3.0 |
| Entertainment One | Media | 10,053 | 2,077 | 4.4 | 2.4 |
| 4imprint Group | Media | 9,225 | 691 | 4.0 | 2.5 |
| Big Yellow Group | Real Estate Investment Trusts | 8,428 | 1,652 | 3.7 | 3.0 |
| Hilton Food Group | Food Producers | 7,838 | 775 | 3.4 | 2.9 |
| Diploma | Support Services | 7,290 | 1,651 | 3.2 | 2.5 |
| Polypipe Group | Construction and Materials | 6,650 | 805 | 2.9 | 2.2 |
| Integrafin Holdings | General Financial | 6,125 | 1,160 | 2.7 | 1.0 |
| James Fisher and Sons | Industrial Transportation | 5,928 | 993 | 2.6 | 1.9 |
| Cineworld Group | Travel and Leisure | 5,852 | 4,012 | 2.6 | 2.0 |
| FDM Group | Software and Computer Services | 5,844 | 973 | 2.5 | 2.6 |
| XP Power | Electronic and Electrical Equipment | 5,625 | 481 | 2.5 | 2.0 |
| Porvair | Industrial Engineering | 5,500 | 252 | 2.4 | 1.4 |
| Ideagen | Software and Computer Services | 5,475 | 321 | 2.4 | – |
| Cranswick | Food Producers | 5,444 | 1,407 | 2.4 | 2.7 |
| Consort Medical | Health Care Equipment and Services | 5,256 | 432 | 2.3 | 2.9 |
| Brewin Dolphin Holdings | General Financial | 5,229 | 885 | 2.3 | 2.4 |
| GB Group | Software and Computer Services | 4,895 | 944 | 2.1 | 1.7 |
| Equiniti Group | Support Services | 4,888 | 758 | 2.1 | 2.4 |
| Clarkson | Industrial Transportation | 4,750 | 720 | 2.1 | 2.6 |
| **Twenty Largest Holdings** | | **130,810** | | **57.2** | |

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

All investments are in ordinary shares.

As at 31 March 2019, 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 2019

| | **31 March 2019** | | 31 March 2018 | |
|---|---|---|---|---|
| **Sector** | **% of portfolio** | **% of NSCI** | % of portfolio | % of NSCI |
| Oil and Gas Producers | – | 3.6 | – | 2.8 |
| Oil Equipment, Services & Distribution | – | 1.1 | – | 1.2 |
| Alternative Energy | – | 0.0 | – | – |
| **Oil and Gas** | **–** | **4.7** | **–** | **4.0** |
| Chemicals | 2.8 | 2.5 | 2.1 | 2.1 |
| Forestry & Paper | – | – | – | – |
| Industrial Metals | – | 1.0 | – | – |
| Mining | – | 3.3 | – | 2.2 |
| **Basic Materials** | **2.8** | **6.8** | **2.1** | **4.3** |
| Construction and Materials | 7.4 | 4.8 | 5.2 | 4.9 |
| Aerospace and Defence | – | 1.9 | – | 2.9 |
| General Industrials | – | 1.0 | – | 0.9 |
| Electronic and Electrical Equipment | 5.9 | 1.8 | 5.7 | 2.0 |
| Industrial Engineering | 2.4 | 1.7 | 1.4 | 2.5 |
| Industrial Transportation | 4.7 | 2.3 | 4.4 | 2.3 |
| Support Services | 20.3 | 7.8 | 22.8 | 10.7 |
| **Industrials** | **40.7** | **21.3** | **39.5** | **26.2** |
| Automobiles and Parts | – | 0.6 | – | 0.8 |
| Beverages | – | 0.9 | 0.9 | 0.8 |
| Food Producers | 7.4 | 3.5 | 7.4 | 2.7 |
| Household Goods | 2.5 | 3.2 | 4.4 | 3.2 |
| Leisure Goods | 0.2 | 0.8 | 0.3 | 0.9 |
| Personal Goods | – | 1.3 | – | 1.4 |
| Tobacco | – | – | – | – |
| **Consumer Goods** | **10.1** | **10.3** | **13.0** | **9.8** |
| Health Care, Equipment and Services | 5.9 | 1.2 | 6.1 | 1.8 |
| Pharmaceuticals and Biotechnology | 3.1 | 1.5 | 6.1 | 1.9 |
| **Health Care** | **9.0** | **2.7** | **12.2** | **3.7** |
| Food and Drug Retailers | – | 1.3 | – | 1.0 |
| General Retailers | 1.3 | 6.4 | 2.6 | 5.2 |
| Media | 8.4 | 3.8 | 4.9 | 4.4 |
| Travel and Leisure | 3.5 | 9.8 | 3.8 | 7.7 |
| **Consumer Services** | **13.2** | **21.3** | **11.3** | **18.3** |
| Fixed Line Telecommunications | – | 1.9 | – | 1.7 |
| **Telecommunications** | **–** | **1.9** | **–** | **1.7** |
| Electricity | – | 0.8 | – | 0.8 |
| **Utilities** | **–** | **0.8** | **–** | **0.8** |
| Banks | – | 1.5 | – | 2.9 |
| Non-life Insurance | – | 2.3 | – | 2.2 |
| Life Insurance | – | 0.8 | – | – |
| Real Estate Investment and Services | – | 6.0 | – | – |
| Real Estate Investment Trusts | 4.8 | 5.0 | 6.6 | 11.5 |
| General Financial | 7.4 | 8.7 | 6.0 | 8.7 |
| Equity Investment Instruments | – | – | – | – |
| Non-equity Investment Instruments | – | – | – | – |
| **Financials** | **12.2** | **24.3** | **12.6** | **25.3** |
| Software and Computer Services | 12.0 | 5.1 | 9.3 | 4.6 |
| Technology Hardware & Equipment | – | 0.8 | – | 1.3 |
| **Technology** | **12.0** | **5.9** | **9.3** | **5.9** |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** |

The investment portfolio comprises 51 traded or 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 management. 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 2019, this was any company below £1.33 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 2019. Net gearing at that date amounted to 6.2%.

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 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. Cyber risk has been identified as having become a principal risk over the year under review, and the ways in which it is mitigated are included in the table.

A summary of the Company's risk management and internal control processes can be found in the Corporate Governance Statement on pages 19 to 22. Details of the principal risks and how these are mitigated are set out below. The principal financial risks are summarised in Note 15 to the financial statements.

| Principal Risks | Mitigation |
|---|---|
| **Liquidity and Discount Management:**<br>The Company's share price performance lags NAV performance due to poor performance, or because SmallCap is out of favour.<br><br>The Company may become vulnerable to arbitrageurs or a sale from a sizeable shareholder. | *The Board regularly reviews:*<br>• *the relative level of discount against the sector;*<br>• *investment performance*<br>  – *relative to the competition; and*<br>  – *the benchmark.*<br>• *the underlying liquidity of the portfolio; and*<br>• *the share register.*<br><br>*The Company may buy back shares when it considers it to be in shareholders' best interests.* |

| Principal Risks | Mitigation |
|---|---|
| **Poor Investment Performance:**<br>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.*<br>*The Board will seek:*<br>• *to understand the reasons for any underperformance; and*<br>• *comfort over the consistency of investment approach and style.*<br>*Ultimately, the Board can terminate the Investment Management Agreement if unsatisfactory performance is considered irreversible and the causes cannot be rectified.* |
| **Risk Oversight:**<br>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:**<br>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:**<br>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:**<br>The Company has no employees, in common with most other investment trusts, and relies on 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.<br>Key operational risks include:<br>• transactions not subject to best execution;<br>• counterparty risk;<br>• errors in settlement, title and corporate actions;<br>• misstatement of NAV; and<br>• breach of the Investment Policy. | *The Board monitors operational issues and reviews them in detail at each Board meeting.*<br>*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.*<br>*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 |
|---|---|
| **Cyber Risk**<br>The threat of cyber attack is regarded as being as important as more traditional physical threats to business continuity and security.<br><br>The Company has limited direct exposure to cyber risk. However, the Company's operations or reputation could be affected if any of its service providers suffered a major cyber security breach. | *The Board monitors the preparedness of its service providers and is satisfied that the risk is given due priority.*<br><br>*The Manager provides a report to the Board at each meeting that covers cyber risk. The Company benefits from the network and information technology controls of the Manager around the security of data.* |
| **Breach of Regulation:**<br>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.<br><br>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.*<br><br>*Compliance with the accounting rules affecting MUSCIT is closely monitored.*<br><br>*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:**<br>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 15 to the financial statements.* |

## KEY PERFORMANCE INDICATORS (“KPIs”)

At each Board meeting, the Directors review performance by reference to a number of KPIs. The 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 | % | |
|---|---|---|
| | 2019[3] | 2018[3] |
| NAV per share total return | 0.5 | 9.0 |
| Share price total return | (1.1) | 12.0 |
| Relative NAV[1] per share performance vs benchmark | 1.7 | 3.8 |
| Discount to NAV[1,2] | 18.0 | 17.5 |
| Ongoing charges ratio | 0.80 | 0.78 |

[1] London Stock Exchange closing price.

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

[3] Returns for both 2018 and 2019 are Total Returns, i.e. including dividends reinvested.

## 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 five-year period to 31 March 2024.

In the absence of any adverse change to the regulatory environment and to the treatment of UK investment trusts, the rolling five 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 listed or traded on the London Stock Exchange;
- the current portfolio could be liquidated to the extent of 64% 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 relatively 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 five-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 and 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 an 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 the 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 17 June 2019.

On behalf of the Board

**ROGER CUMING**
Chairman
17 June 2019

# 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 both Fidelity Asian Values plc and Invesco Enhanced Income Limited and a non-executive director of Global Diversified Infrastructure and Baillie Gifford & Co Limited. 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 non-executive 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 over 35 years' investment experience and is a director of JP Morgan Elect plc. He is also Chairman of Polar Capital Global Healthcare Trust plc, a governor of Lord Wandsworth College 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 2019.

## 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 40.

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.

Details of dividends paid and declared in respect of the year, together with the Company's dividend policy, are set out on page 1 of the Chairman's Statement.

## 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.

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 the financial statements were 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 0.80% 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 13 on page 44.

Details of the voting rights attached to the Company's shares as at the date of this report are given in note 13 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 and sell shares from treasury and issue shares will expire at the conclusion of the 2019 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 2019 to the date of this report.

# Directors' Report continued

As at 14 June 2019 (being the latest practicable date prior to the publication of this report), the closing share price of the Company's existing Ordinary shares of 2 pence each had risen to 114.1 pence.

As approved at the 2018 Annual General Meeting, held on 18 July 2018, each shareholder received five new Ordinary shares of 2 pence each for each Ordinary share of 10 pence they held immediately prior to the sub-division. There were no changes in the rights attached to the shares and a holding of Ordinary shares following the sub-division represented the same proportion of the issued ordinary share capital of the Company held prior to the sub-division.

## 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 with the exception of Mr Cuming who has indicated his intention to retire from the Board following the Annual General Meeting. As set out on page 25, 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 2019, 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 judgement 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 2019 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 | 16,727,895 | 10.0 |
| Border to Coast Pensions Partnership | 14,892,000 | 8.9 |
| Derbyshire County Council | 13,174,285 | 7.9 |
| Brooks Macdonald Group plc | 8,980,560 | 5.4 |
| Montanaro Asset Management Limited | 8,375,000 | 5.0 |
| Quilter Cheviot Limited | 8,356,150 | 5.0 |
| Newton Investment Management Limited | 8,307,825 | 5.0 |
| Jupiter Asset Management Limited | 7,825,000 | 4.7 |
| Royal London Asset Management Limited | 6,752,830 | 4.0 |
| City of Bradford Metropolitan District Council | 6,142,500 | 3.7 |

* re-stated following sub-division of shares.

The Company has not been advised of any changes to these notified interests between 31 March 2019 and the date of this report.

## INVESTMENT MANAGEMENT AGREEMENT

The Board contractually delegated the management of the investment portfolio to Montanaro Asset Management Limited ('Montanaro' or the 'Manager') with effect from 19 June 2014.

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.

## ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

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 ("BNYMTD") was appointed as the Depositary with effect from 22 July 2014. However, with effect from 1 November 2017, the role of Depositary was transferred, by way of a novation agreement, from BNYMTD to its parent company, The Bank of New York Mellon (International) Limited ("BNYM" or the "Depositary") The annual fee for depositary services is 0.034% per annum where gross assets are between £0 and £150 million and 0.025% per annum of gross assets above a value of £150 million, subject to a minimum fee of £20,000 per annum. 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 19 to 22.

# 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 25 July 2019 (the “Notice”) is set out on pages 53 to 56. Resolutions 1 to 10 will be proposed as Ordinary Resolutions and Resolutions 11 and 12 will be proposed as Special Resolutions.

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

#### Authority to Allot Shares (Resolution 10)

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 11 June 2019.

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 2020 unless renewed prior to that date.

#### Disapplication of Pre-emption Rights: (Resolution 11)

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 11 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 16,737,950 Ordinary shares and represents 10% of the Company’s issued ordinary share capital as at 11 June 2019. This authority will expire at the conclusion of the AGM to be held in 2020 unless renewed prior to that date.

#### Authority to Buy Back Shares (Resolution 12)

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 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 2020 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 223,345 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
17 June 2019

# 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 2019, 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 | 3 | 3 | 1 | 1 | 1 | 1 |
| Kate Bolsover | 5 | 5 | 3 | 3 | 1 | 1 | 1 | 1 |
| Arthur Copple | 5 | 4 | 3 | 3 | 1 | 1 | 1 | 1 |
| James Robinson | 5 | 5 | 3 | 3 | 1 | 1 | 1 | 1 |

## THE BOARD

The Board currently consists of four non-executive Directors. However, Roger Cuming will retire from the Board with effect from the conclusion of this year's AGM and Arthur Copple will succeed him as Chairman. 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 16.

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.

# Corporate Governance Statement continued

## 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 Roger 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: | 55 |
| Number of meetings voted against management or abstained: | 13 |
| **Resolutions** | |
| Number of resolutions where voted with management: | 813 |
| Number of resolutions where abstained: | 13 |
| Number of resolutions where voted against management: | 5 |

## 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 23 and 24.

### 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. On the retirement of Mr Cuming, Arthur Copple will succeed him as Chairman of the Nomination Committee.

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, except Roger Cuming, will stand 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.

# Corporate Governance Statement continued

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 18 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
17 June 2019

# 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 2019.

## 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 that 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 2019

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 2019 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.<br><br>Ownership of listed investments is verified by reconciliation to the Custodian's records.<br><br>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 the 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 page 38.<br><br>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. |

# Report from the Audit and Management Engagement Committee continued

## 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 2019 (2018: £23,000 (excluding expenses)).

This is the third 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 three 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 (2018: 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
17 June 2019

# 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 2019.

Having reviewed the current level of remuneration payable to Directors, in accordance with the Remuneration Policy, the Remuneration Committee has determined that, with effect from 1 April 2019, Directors' fees would be payable as set out in the following Remuneration Policy table. Directors' fees were last increased with effect from 7 June 2017.

The Remuneration Committee has proposed that the Remuneration Policy is amended to remove the reference to annual increases in Directors' fees being subject to an increase in the net assets and share price of the Company due to there being no correlation between the volume of work undertaken by Directors, the movements of markets and NAV performance. Accordingly, a resolution to approve the policy will be put to shareholders at the 2019 AGM. There are no other changes proposed to the Remuneration Policy. The policy, subject to the vote, is set out in full on pages 25 and 26.

In accordance with the Companies Act 2006, the Company is required to seek shareholder approval for its remuneration policy on a triennial basis. It is the intention of the Board that the following policy on remuneration will continue to apply for the next three financial years to 31 March 2022, subject to shareholder approval at the 2019 AGM.

### 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 and any change in the Directors' remuneration policy.

### Policy Table

The Company's policy is that remuneration should:

| | |
|---|---|
| Purpose and link to strategy | • be sufficient to attract and retain individuals of a high calibre with suitable knowledge and experience to promote the long-term success of the Company;<br>• reflect the time spent by the Directors on the Company's affairs;<br>• reflect the responsibilities borne by the Directors;<br>• recognise the more onerous roles of the Chairman of the Board and the Chairman of the Audit and Management Engagement Committee through the payment of higher fees.<br>Directors are remunerated in the form of fees. The Remuneration Committee reviews fees on an annual basis and makes recommendations to the Board. Reviews will take into account wider factors such as research carried out on the level of fees paid to the Directors of the Company's peers, any feedback from shareholders, the level of, and any change in, the complexity of the Directors' responsibilities. |
| Fixed fee element | Directors are not eligible to be compensated for loss of office, nor are they eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no performance related elements to the Directors' fees.<br>None of the Directors has a service contract with the Company and their terms of appointment are set out in a letter provided when they join the Board. These letters are available for inspection at the Company's registered office.<br>Current levels of fixed annual fee (with effect from 1 April 2019): |
| Description | Chairman: £35,000<br>Audit and Management Engagement Committee Chair: £28,000<br>Directors: £24,000<br>Additional payment for the Senior Independent Director: £1,000 |

# Directors' Remuneration Report continued

| | |
|---|---|
| Maximum | Total remuneration paid to the non-executive Directors is subject to an annual aggregate limit of £125,000 in accordance with the Company's Articles of Association. Any changes to this limit will require shareholder approval by ordinary resolution. |
| Taxable benefits | In accordance with the Company's Articles of Association, the Directors are also entitled to be reimbursed for out-of-pocket expenses and any other reasonable 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. |

## Directors' Emoluments for the Year (Audited)

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

| | **Year ended 31 March 2019** | | | Year ended 31 March 2018 | | |
|---|---|---|---|---|---|---|
| | **Fees** | **Expenses** | **Total** | [1]Fees | Expenses | Total |
| | **£** | **£** | **£** | £ | £ | £ |
| Roger Cuming | **32,000** | **–** | **32,000** | 31,458 | – | 31,458 |
| Kate Bolsover | **23,000** | **175** | **23,175** | 22,639 | 39 | 22,678 |
| Arthur Copple | **22,000** | **–** | **22,000** | 21,638 | – | 21,638 |
| James Robinson | **25,500** | **151** | **25,651** | 25,048 | 144 | 25,192 |
| | **102,500** | **326** | **102,826** | 100,783 | 183 | 100,966 |

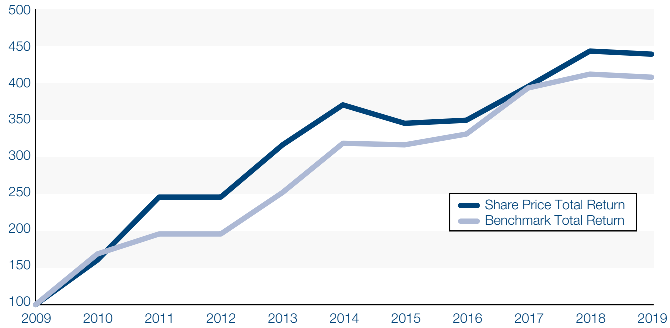
1 Directors' fees were increased for the year ended 31 March 2018 with effect from 7 June 2017.

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

## Your Company's Performance

In accordance with the Companies Act 2006, a graph showing the Company's share price total return compared to its benchmark. The share price includes all dividends reinvested.

## Share Price and Benchmark Performance* (rebased to 100 on 31 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 2018 and the Remuneration Policy were approved by shareholders at the AGM held on 18 July 2018. The proxy voting was as follow:

| | **Remuneration Report** | | **Remuneration Policy** | |
|---|---|---|---|---|
| | **Number of votes cast** | **%** | **Number of votes cast** | **%** |
| For* | 21,053,901 | 99.99 | 21,053,901 | 99.99 |
| Against | 1,144 | 0.01 | 1,144 | 0.01 |
| **Total votes cast** | **21,055,045** | | **21,055,045** | |
| Number of votes withheld | – | – | – | – |

* including votes granting discretion to the Chairman who voted in favour.

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.

## 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 2019 No. of shares[3]** | As at 1 April 2018 No. of shares |
|---|---|---|
| Roger Cuming | **50,000** | 50,000 |
| Kate Bolsover | **8,345** | 8,345 |
| Arthur Copple | **125,000[1]** | 75,000[1] |
| James Robinson | **40,000[2]** | 40,000[2] |

2018 figures reflect the subsequent five for one share split.

1 Includes 25,000 shares held by Mrs Copple.
2 Held jointly by Mr and Mrs Robinson.
3 Due to the sub-division of shares of 19 July 2018, all Directors received five shares for each share previously held.

There have been no changes to the above holdings between 31 March 2019 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 2019 and the preceding financial year:

a) the remuneration paid to the Directors; and

b) the distributions made to shareholders by way of dividends.

| | **Year ended 31 March 2019 £** | Year ended 31 March 2018 £ | Change % |
|---|---|---|---|
| Total remuneration | **102,826** | 100,966 | 1.8 |
| Dividend paid | **8,034,230** | 3,514,976 | 129.0 |

## Approval

The Directors' Remuneration Report was approved by the Board on 17 June 2019.

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
17 June 2019

# 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 2019 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 19, 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 2019 and of its loss 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 38 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on 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, including classification of special dividends as revenue or capital items in the income statement.<br>• Incorrect valuation of, or defective title to, the investment portfolio. |
| Materiality | • Overall materiality of £2.2m 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 |
|---|---|---|
| **Inaccurate revenue recognition, £5.1m (2018: £5.1m)**<br><br>As described in Accounting policies (page 38); and Note 2 (page 39) to the financial statements.<br><br>The Company has reported investment income of £5.1m (2018: £5.1m). Special dividend income for the year amounted to £237k (2018: £266k), which was treated as revenue.<br><br>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.<br><br>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.<br><br>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:**<br><br>• 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.<br>• We agreed a sample of dividends received from the underlying financial records to an independent data vendor, recalculated the dividend amount received and agreed that the cash received as shown on bank statements was consistent with the recalculated amount.<br>• 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.<br>• We reviewed the income reports and the investment transactions report to identify special dividends, above our testing threshold, received in the year.<br>• For all special dividends received during the year, we reviewed the circumstances surrounding the distributions to ensure they were appropriately allocated between revenue and capital within the Income Statement.<br>• 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.<br><br>We concurred with the accounting allocation adopted for all special dividends.<br><br>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**<br><br>As described in Accounting policies (page 38); and Note 9 (pages 42 and 43) to the financial statements.<br><br>The Company holds a portfolio of investments quoted and traded in the UK.<br><br>Quoted and traded investments held as at year-end were valued at £229.5m (2018: £233.5m).<br><br>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:**<br><br>• 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 covering the recording and valuation of the quoted investments.<br>• We obtained confirmation of 100% of the investment portfolio to the Custodian and Depositary confirmations.<br>• 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.<br>• We compared the prices of 100% of the investment portfolio to an independent pricing source. | The results of our procedures on existence of investments identified no material errors in the reconciliation.<br><br>The results of our procedures on the valuation of the total investment portfolio identified no errors.<br><br>Based on the work performed, we have no further observations to communicate. |

In the prior year, the key audit matter discussed included incomplete or inaccurate revenue recognition. In the current year, that key audit matter has been updated to include the classification of special dividends as revenue or capital items in the income statement in order to reflect the focus in this area.

## 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 at the Manager 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 £2.2m (2018: £2.3m), which is 1% (2018: 1%) of shareholders' funds. We have derived our materiality calculation based on a proportion of shareholders' funds 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 found no reason to alter the basis of calculation used at year end.

### 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% (2018: 75%) of our planning materiality, namely £1.7m (2018: £1.7m). 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.

# Independent Auditor's Report continued

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

Given the importance of the distinction between revenue and capital for the Company we have also applied a separate testing threshold of £206k (2018: £206k) for the revenue column of the Income Statement, being higher of 5% of the revenue net return before taxation and our reporting threshold as described below.

### 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 £110k (2018: £114k), 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 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 committee reporting** set out on page 24 – 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 19 – 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 Corporation Tax Act 2010 (CTA 2010), the London Stock Exchange Listing Rules, Disclosure and Transparency Rules, UK Corporate Governance Code 2016 and the Alternative Investment Fund Managers Directive (AIFMD).
- 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 assessed whether 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 between revenue and capital, which we further discussed in the 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 ending 31 March 2017 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 31 March 2017 to 31 March 2019.
- 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
17 June 2019

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 2019

| | Notes | Year to 31 March 2019 Revenue £'000 | Capital £'000 | Total £'000 | Year to 31 March 2018 Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| (Losses)/gains on investments at fair value through profit or loss | 9 | **–** | **(5,762)** | **(5,762)** | – | 16,728 | 16,728 |
| Dividends and interest | 2 | **5,109** | **–** | **5,109** | 5,087 | – | 5,087 |
| Management fee | 3 | **(320)** | **(959)** | **(1,279)** | (329) | (987) | (1,316) |
| Other expenses | 4 | **(516)** | **–** | **(516)** | (491) | – | (491) |
| **Net (loss)/return before finance costs and taxation** | | **4,273** | **(6,721)** | **(2,448)** | 4,267 | 15,741 | 20,008 |
| Interest payable and similar charges | 5 | **(148)** | **(441)** | **(589)** | (148) | (443) | (591) |
| **Net (loss)/return before taxation** | | **4,125** | **(7,162)** | **(3,037)** | 4,119 | 15,298 | 19,417 |
| Taxation | 6 | **(7)** | **–** | **(7)** | (7) | – | (7) |
| **Net (loss)/return after taxation** | | **4,118** | **(7,162)** | **(3,044)** | 4,112 | 15,298 | 19,410 |
| **(Loss)/return per Ordinary share: Basic and Diluted** | 8 | **2.46p** | **(4.28p)** | **(1.82p)** | 2.46p* | 9.14p* | 11.60p* |

* 2018 figures restated to reflect share split.

The total column of this statement is the Statement of Total Comprehensive Income of the Company prepared in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”. The supplementary revenue return and capital return columns are prepared in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies (“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 loss after taxation is both the profit/loss 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 2019

| **Year to 31 March 2019** | 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 2018 | | **3,348** | **19,307** | **1,362** | **4,642** | **191,463** | **7,213** | **227,335** |
| Total comprehensive income: | | | | | | | | |
| Fair value movement of investments | 9 | **–** | **–** | **–** | **–** | **(5,762)** | **–** | **(5,762)** |
| Costs allocated to capital | | **–** | **–** | **–** | **–** | **(1,400)** | **–** | **(1,400)** |
| Net revenue for the year | | **–** | **–** | **–** | **–** | **–** | **4,118** | **4,118** |
| | | **–** | **–** | **–** | **–** | **(7,162)** | **4,118** | **(3,044)** |
| Costs in relation to share split | | **–** | **–** | **–** | **–** | **(34)** | **–** | **(34)** |
| Dividends paid in the year | 7 | **–** | **–** | **–** | **–** | **–** | **(8,035)** | **(8,035)** |
| **As at 31 March 2019** | | **3,348** | **19,307** | **1,362** | **4,642** | **184,267** | **3,296** | **216,222** |

| 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 |

* 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 2019

| | Notes | **31 March 2019** **£'000** | **£'000** | 31 March 2018 £'000 | £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments at fair value | 9 | | **229,476** | | 233,470 |
| **Current assets** | | | | | |
| Debtors | 10 | **403** | | 720 | |
| Cash at bank | | **6,663** | | 13,487 | |
| | | **7,066** | | 14,207 | |
| **Creditors: amounts falling due within one year** | | | | | |
| Other creditors | 11 | **(320)** | | (342) | |
| | | **(320)** | | (342) | |
| **Net current assets** | | | **6,746** | | 13,865 |
| **Total assets less current liabilities** | | | **236,222** | | 247,335 |
| **Creditors: amounts falling due after more than one year** | | | | | |
| Fixed rate term loan | 12 | | **(20,000)** | | (20,000) |
| **Net assets** | | | **216,222** | | 227,335 |
| **Share capital and reserves** | | | | | |
| Called-up share capital | 13 | | **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 | | | **184,267** | | 191,463 |
| Distributable revenue reserve | | | **3,296** | | 7,213 |
| **Total equity shareholders' funds** | | | **216,222** | | 227,335 |
| **Net asset value per Ordinary share: Basic and Diluted** | | | **129.18p** | | 135.82p* |

* 2018 figures restated to reflect the subsequent five for one share split.

These financial statements were approved and authorised for issue by the Board of Directors on 17 June 2019.

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 2019

## 1 Accounting Policies

Montanaro UK Smaller Companies Investment Trust plc (MUSCIT) is a company incorporated and registered in England and Wales. The principal activity of the Company is that of an investment trust company within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010. The registered office of the Company is Hamilton Centre, Rodney Way, Chelmsford, CM1 3BY.

### 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.

### GOING CONCERN

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

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future, being a period of at least 12 months from the date these financial statements were approved. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern, having taken into account the liquidity of the Company's investment portfolio and the Company's financial position in respect of its cash flows, borrowing facilities and investment commitments (of which there are none of significance). Therefore, the financial statements have been prepared on the going concern basis.

### SEGMENTAL REPORTING

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

### INCOME RECOGNITION

Dividends receivable on quoted equity shares are taken to revenue on an ex-dividend basis. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity shares are recognised on a time-apportioned basis.

Dividends from overseas companies are shown gross of any non-recoverable withholding taxes, which are presented separately in the Income Statement.

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

When the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend forgone is recognised as income. Any excess in the value of the cash dividend is recognised in the capital column.

### EXPENSES AND FINANCE COSTS

All expenses and finance costs are accounted for on an accruals basis. On the basis of the Board's expected long-term split of total returns, the Company charges 75% of its management fee and finance costs to capital.

Expenses directly incurred in relation to arranging debt and loan facilities have been capitalised and amortised over the term of the finance. Expenses incurred directly in relation to issue or redemption of shares are deducted from equity and charged to the share premium account. All other expenses are allocated in full to the revenue account.

### INVESTMENTS

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's Board of Directors. The Company has fully adopted sections 11 and 12 of FRS 102.

All investments are classified upon initial recognition as other financial instruments, and are measured at subsequent reporting dates at fair value, which is the bid price or the closing price for the Stock Exchange Electronic Trading Service – quotes and crosses ('SETSqx'). The Company derecognises a financial asset either when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of consideration received and receivable and the cumulative gain or loss that had been accumulated is recognised in profit or loss.

All investments for which fair value is measured in the financial statements are categorised within the fair value hierarchy in note 9.

### TAXATION

The charge for taxation is based on the net return 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 recognised to the extent that they are regarded as recoverable.

### DIVIDENDS PAYABLE TO SHAREHOLDERS

Final dividends are recognised in the year in which they have been approved by shareholders in a general meeting. Interim dividends are recognised in the period in which they have been declared and paid.

### BANK LOANS AND BORROWINGS

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

### RESERVES

*Share premium*

The account represents the accumulated premium paid for shares issued in previous periods above their nominal value less expenses of issuance.

*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.

*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.

*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;
- expenses, together with related taxation effect, charged to this account in accordance with the above policies.

## 2 Income

| | **Year to 31 March 2019 £'000** | Year to 31 March 2018 £'000 |
|---|---|---|
| **Income from investments** | **5,109** | 5,079 |
| UK dividend income | **4,908** | 4,900 |
| Overseas dividend income | **201** | 179 |
| | | |
| **Other income** | | |
| Bank interest | **–** | 8 |
| **Total income** | **5,109** | 5,087 |
| | | |
| **Total income comprises** | | |
| Dividends from financial assets designated at fair value through profit or loss | **5,109** | 5,079 |
| Interest from financial assets designated at fair value through profit or loss | **–** | 8 |
| Dividends and interest | **5,109** | 5,087 |

# Notes to the Financial Statements continued
at 31 March 2019

## 3 Management fee

| | Year to 31 March 2019 | | | Year to 31 March 2018 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Management fee | **307** | **922** | **1,229** | 316 | 950 | 1,266 |
| AIFMD fee | **13** | **37** | **50** | 13 | 37 | 50 |
| | **320** | **959** | **1,279** | 329 | 987 | 1,316 |

The Manager received a monthly management fee equivalent to 1/12 of 0.50% (2018: 0.50%) of the gross assets of the Company valued at the close of business on the last business day of each month.

At 31 March 2019, £99,000 (2018: £113,000) was due for payment to the Manager.

## 4 Other Expenses

| | **Year to 31 March 2019 £'000** | Year to 31 March 2018 £'000 |
|---|---|---|
| Administration | **72** | 72 |
| Company secretarial fees (Maitland) | **36** | 36 |
| Directors' fees† | **103** | 101 |
| Depositary fee | **75** | 76 |
| Registrar fee | **39** | 35 |
| Auditor's remuneration for: | | |
| – audit | **23** | 23 |
| Custody and other bank charges | **21** | 21 |
| Legal fees | **6** | 5 |
| Other expenses (including VAT) | **141** | 122 |
| | **516** | 491 |

† 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 2019 | | | Year to 31 March 2018 | | |
|---|---|---|---|---|---|---|
| **Financial liabilities** | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Interest payable on loan | **134** | **402** | **536** | 134 | 402 | 536 |
| Loan commitment fee | **14** | **41** | **55** | 14 | 41 | 55 |
| | **148** | **443** | **591** | 148 | 443 | 591 |

## 6 Taxation

**Analysis of charge in year**

| | Year to 31 March 2019 | | | Year to 31 March 2018 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Current tax: | | | | | | |
| Overseas tax suffered | **7** | **–** | **7** | 7 | – | 7 |
| | **7** | **–** | **7** | 7 | – | 7 |

## 6 Taxation continued

The taxation charge for the year is different from the standard rate of Corporation Tax in the UK of 19% (2018: 19%). The differences are explained below.

| | Year to 31 March 2019 | | | Year to 31 March 2018 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Net (loss)/return before taxation | **4,125** | **(7,162)** | **(3,037)** | 4,119 | 15,298 | 19,417 |
| Theoretical tax at UK corporation tax rate of 19% (2018: 19%) | **784** | **(1,367)** | **(583)** | 783 | 2,907 | 3,690 |
| Effects of: | | | | | | |
| – UK dividends that are not taxable | **(878)** | **–** | **(878)** | (883) | – | (883) |
| – Foreign dividends that are not taxable | **(38)** | **–** | **(38)** | (34) | – | (34) |
| – Non-taxable investment losses/(gains) | **–** | **1,095** | **1,095** | – | (3,178) | (3,178) |
| – Irrecoverable overseas tax | **7** | **–** | **7** | 7 | – | 7 |
| – Disallowed expenses | **–** | **6** | **6** | – | – | – |
| – Unrelieved excess expenses | **132** | **266** | **398** | 134 | 271 | 405 |
| **Taxation charge for the year** | **7** | **–** | **7** | 7 | – | 7 |

### Factors that may affect future tax charges

Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Company meets (and intends to continue for the foreseeable future to meet) the conditions for approval as an Investment Trust company. At 31 March 2019, based on current estimates and including the accumulation of net allowable losses, the Company had unrelieved losses of £45,562,000 (2018: £43,465,000) that are available to offset future taxable revenue. A deferred tax asset of £7,745,000 (2018: £7,389,000) 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 2019 £'000** | Year to 31 March 2018 £'000 |
|---|---|---|
| **In respect of the previous period:** | | |
| Paid | | |
| 2018 Final dividend of 2.2p* (2017: 2.1p*) per Ordinary share | **3,682** | 3,515 |
| **In respect of the year under review:** | | |
| Paid | | |
| 2019 Second quarter dividend of 1.43p per Ordinary share | **2,394** | – |
| Paid | | |
| 2019 Third quarter dividend of 1.17p per Ordinary share | **1,958** | – |
| **Dividends distributed during the year** | **8,034** | 3,515 |
| **Declared:** | | |
| 2019 Fourth quarter dividend of 1.29p (2018: final dividend of 2.2p*) per Ordinary share | **2,159** | 3,682 |

* 2017 and 2018 figures restated to reflect the subsequent five for one share split.

On 25 July 2018 the Board of MUSCIT announced a revised dividend policy and, effective from the quarter ended 30 September 2018, its intention is to pay regular quarterly dividends. In accordance with the revised policy quarterly dividends will:

- be equivalent to 1% of the Company's NAV on the last business day of the preceding financial quarter, being the end of March, June, September and December;
- be paid in May, August, November and February each year; and
- be funded out of capital reserves to the extent that current year revenue and revenue reserves are insufficient.

# Notes to the Financial Statements continued
at 31 March 2019

### 7 Dividends continued

The first dividend distribution paid under the revised dividend policy, and following the five for one share split, of 1.43 pence per share was declared on 19 October 2018, and paid on 23 November 2018. The record date was 2 November 2018.

The second dividend distribution of 1.17 pence per ordinary share in respect of the third quarter of the financial year ended 31 March 2019 was paid on 22 February 2019 to shareholders on the register at the close of business on 1 February 2019.

The third dividend distribution of 1.29 pence per ordinary share in respect of the fourth quarter of the financial year ended 31 March 2019 was paid on 24 May 2019 to shareholders on the register at the close of business on 26 April 2019.

### 8 (Loss)/return per Ordinary Share

| | **Year to 31 March 2019** | | | Year to 31 March 2018* | | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Capital** | **Total** | Revenue | Capital | Total |
| Ordinary share | **2.46p** | **(4.28p)** | **(1.82p)** | 2.46p | 9.14p | 11.60p |

Revenue return per Ordinary share is based on the net revenue after taxation of £4,118,000 (2018: £4,112,000) and 167,379,790 (2018: 167,379,790)* Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in treasury.

Capital (loss)/return per Ordinary share is based on net capital (losses)/gains for the year of £(7,164,000) (2018: £15,298,000), and on 167,379,790 (2018: 167,379,790)* Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in treasury.

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

* 2018 figures restated to reflect the subsequent five for one share split.

### 9 Investments

| | **Year to 31 March 2019 £'000** | Year to 31 March 2018 £'000 |
|---|---|---|
| Total investments at fair value | **229,476** | 233,470 |

The investment portfolio comprises 51 (2018: 55) traded and listed UK equity holdings.

| | **Year to 31 March 2019 £'000** | Year to 31 March 2018 £'000 |
|---|---|---|
| Opening book cost | **172,541** | 157,446 |
| Opening investment holding gains | **60,929** | 60,029 |
| Opening valuation | **233,470** | 217,475 |
| **Movements in the year** | | |
| Purchases at cost | **47,809** | 63,925 |
| Sales – proceeds | **(46,041)** | (64,658) |
| – realised gains on sales | **14,720** | 15,828 |
| (Decrease)/increase in investment holding gains | **(20,482)** | 900 |
| **Closing valuation** | **229,476** | 233,470 |
| **Closing book cost** | **189,029** | 172,541 |
| **Closing investment holding gains** | **40,447** | 60,929 |
| | **229,476** | 233,470 |

## 9 Investments continued

### FAIR VALUE HIERARCHY

Financial assets of the Company are carried in the Balance Sheet at their fair value or approximation of fair value. The fair value is the amount at which the asset could be sold in an ordinary transaction between market participants, at the measurement date, other than a forced or liquidation sale. The Company measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements.

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

- Level 1 – Valued using quoted prices, unadjusted in active markets for identical assets and liabilities.
- Level 2 – Valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included in level 1.
- Level 3 – Valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

The table below sets out the fair value measurement of financial assets and liabilities in accordance with the fair value hierarchy.

| | **31 March 2019** | | | 31 March 2018 | | |
|---|---|---|---|---|---|---|
| | **Level 1 £'000** | **Level 2 £'000** | **Total £'000** | Level 1 £'000 | Level 2 £'000 | Total £'000 |
| Equity investments | **229,476** | **–** | **229,476** | 233,470 | – | 233,470 |
| | **229,476** | **–** | **229,476** | 233,470 | – | 233,470 |

There were no level 2 or 3 investments.

### TRANSACTION COSTS

During the year, the Company incurred transaction costs of £142,000 (2018: £179,000) and £27,000 (2018: £51,000) 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 2019 £'000** | Year to 31 March 2018 £'000 |
|---|---|---|
| Net gains on investments at fair value | | |
| Gains on sales | **14,720** | 15,828 |
| Changes in fair value | **(20,482)** | 900 |
| | **(5,762)** | 16,728 |

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 Debtors

| | **Year to 31 March 2019 £'000** | Year to 31 March 2018 £'000 |
|---|---|---|
| Prepayments and accrued income | **55** | 67 |
| Dividends receivable | **348** | 653 |
| | **403** | 720 |

# Notes to the Financial Statements continued
at 31 March 2019

### 11 Other Creditors

| | Year to 31 March 2019 £'000 | Year to 31 March 2018 £'000 |
|---|---|---|
| Accruals | **320** | 342 |
| | **320** | 342 |

### 12 Fixed Rate Term and Floating Rate Revolving Credit Facilities

| | Year to 31 March 2019 £'000 | Year to 31 March 2018 £'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 2019 and 31 March 2018. 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 2019 and 31 March 2018. When drawn down, 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.

### 13 Share Capital

| | 31 March 2019 £'000 | 31 March 2018 £'000 |
|---|---|---|
| Allotted, called-up and fully paid: | | |
| 167,379,790 (2018: 33,475,958)* Ordinary shares of 2p each (2018: Ordinary shares of 10p each) | **3,348** | 3,348 |

* 2018 figure stated prior to the five for one share split.

At the Annual General Meeting of the Company held on 18 July 2018, shareholders approved a resolution for a five for one share split such that each shareholder would receive five shares with a nominal value of 2 pence each for every one share held. These new shares were listed on 20 July 2018. Expenses associated with the share split amount to £34,000 and have been taken to the capital reserve and shown in the Statement of Changes in Equity.

#### Treasury shares

At the AGM on 18 July 2018, the Company was granted the authority to purchase 25,090,230 Ordinary shares. This authority is due to expire at the conclusion of the next AGM.

During the year, no shares were purchased.

There were no shares held in treasury at any time during the year (2018: nil) and no shares purchased during the year (2018: nil).

### 14 Net Asset Value per Ordinary Share

Net asset value per Ordinary share is based on net assets of £216,222,000 (2018: £227,335,000) and on 167,379,790 (2018: 167,379,790)* Ordinary shares, being the number of Ordinary shares in issue at the year-end.

* 2018 figures restated to reflect the subsequent five for one share split.

## 15 Analysis of Financial Assets and Liabilities

### Investment Objective and Policy

The Company's investment objective and policy are detailed on page 10.

The Company's investing activities in pursuit of its investment objective involve certain inherent risks. The Company's financial instruments can comprise:

- shares and debt securities held in accordance with the Company's investment objective and policies;
- derivative instruments for efficient portfolio management, gearing and investment purposes; and
- cash, liquid resources and short-term debtors and creditors that arise from its operations.

The risks identified arising from the Company's financial instruments are market risk (which comprises market price risk, interest rate risk and foreign currency exposure risk), liquidity risk and credit and counterparty risk. The Company may enter into derivative contracts to manage risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below.

These policies have remained unchanged since the beginning of the accounting period.

### Market risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions by way of price movements, interest rate movements and exchange rate movements. The Manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the Manager on a regular basis and the Board at quarterly meetings with the Manager.

### Market price risk

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

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

The maximum exposure to market price risk is the fair value of investments of £229,476,000 (2018: £233,470,000).

If the investment portfolio valuation fell by 1% from the amount detailed in the financial statements as at 31 March 2019, it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £2,295,000 (2018: £2,335,000). An increase of 1% in the investment portfolio valuation would have an equal and opposite effect on the net capital return before taxation. The analysis is based on closing balances only and is not representative of the year as a whole.

### Foreign currency risk

Although the Company's performance is measured in Sterling, a proportion of the Company's assets may be either denominated in other currencies or in investments with currency exposure. Any income denominated in a foreign currency is converted into Sterling upon receipt. At the Balance Sheet date, all the Company's assets were denominated in Sterling and accordingly the only currency exposure the Company currently has is through the trading activities of its investee companies.

### 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 12) 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 no interest on cash deposits in the year (2018: £8,000).

If interest rates had reduced by 1% from those paid as at 31 March 2019, 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 (2018: £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 (2018: £nil).

# Notes to the Financial Statements continued
at 31 March 2019

## 15 Analysis of Financial Assets and Liabilities continued

**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. The investments consist of UK smaller companies which, whilst less liquid than quoted large companies, are quoted and tradeable on a recognised stock exchange.

The Company's liquidity risk is managed on a daily basis by the Manager in accordance with established policies and procedures in place. The Manager reviews daily forward-looking cash reports which project cash obligations. These reports allow it to manage its obligations as they fall due. A maturity analysis is not presented as the Manager does not consider this to be a material risk.

**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 The Bank of New York Mellon, 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 report.

Investment transactions are carried out with a 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 maximum exposure to credit risk at 31 March 2019 was:

| | **31 March 2019 £'000** | 31 March 2018 £'000 |
|---|---|---|
| Cash at bank (held at Bank of New York Mellon) | **6,663** | 13,487 |
| Debtors and prepayments | **403** | 720 |
| | **7,066** | 14,207 |

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

**Gearing**
Gearing can have amplified effects on the net asset value of the Company. It can have a positive or negative effect depending on portfolio performance. 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 5. 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 2019 (31 March 2018: £Nil) or at any time during the year. All financial assets are in Sterling.

## 15 Analysis of Financial Assets and Liabilities continued

### FINANCIAL LIABILITIES

The Company finances its operations through equity, retained profits and bank borrowings (see note 12).

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2019 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** | **2.7** |
| Amounts drawn down under Floating Rate Revolving Credit Facility | **–** | **–** | **–** |
| Financial liabilities upon which no interest is paid | **320** | **–** | **–** |

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

| | **31 March 2019 £'000** | 31 March 2018 £'000 |
|---|---|---|
| In three months or less | **418** | 427 |
| In more than three months but not more than one year | **437** | 450 |
| In more than one year but not more than three years | **20,919** | 1,072 |
| In more than three years but not more than five years | **–** | 20,386 |
| | **21,774** | 22,335 |

## 16 Capital Management Policies

The structure of the Company's capital is noted in the Statement of Changes in Equity and managed in accordance with the Investment Policies and Objectives.

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern;
- to achieve capital growth through a focused portfolio of investments, particularly in UK smaller companies;
- to maximise the return to shareholders while maintaining a capital base to allow the Company to operate effectively and meet obligations as they fall due.

The Board and the AIFM regularly monitor and review the capital on an ongoing basis. These reviews include:

- the level of gearing, which takes account of the Company's position and the Manager's views on the market; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from last year.

# Notes to the Financial Statements continued
at 31 March 2019

### 16 Capital Management Policies continued
The Company is subject to externally imposed capital requirements:

As a public company the Company is required to have a minimum share capital of £50,000; and

In accordance with the provisions of Sections 832 and 833 of the Companies Act 2006, the Company as an investment company:

- is only able to make a dividend distribution to the extent that the assets of the Company are equal to at least one and a half times its liabilities after the dividend payment has been made; and
- is required to make a dividend distribution each year such that it does not retain more than 15% of the income that it derives from shares ad securities.

These requirements are unchanged since last year and the Company has complied with them at all times.

### 17 Commitments and Contingent Liabilities
At 31 March 2019, there were no capital commitments or contingent liabilities (2018: nil).

### 18 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 25 to 27.

### 19 Post Balance Sheet Event
On 25 April 2019, £10 million was drawn down under the Floating Rate Revolving Credit Facility of which £7.5 million was subsequently repaid on 29 May 2019. Total borrowing as at 14 June 2019 was £22.5 million.

# 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 2019 are shown below:

### Leverage exposure

| | Gross method | Commitment method |
|---|---|---|
| Maximum limit | 200% | 200% |
| Actual | 106.1% | 109.2% |

For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Company's 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 32 and note 15 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 4 to 9; 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

The timing of the announcement and publication of the Company's results would normally be expected in the following months:

| | |
|---|---|
| June | Annual results for the year ended 31 March announced and the annual report and financial statements published |
| July | Annual General Meeting |
| November | Half-yearly results to 30 September announced and published on the Company's website |

### Quarterly Dividends

| Period ending | Declared | Payment date |
|---|---|---|
| 30 June | July | August |
| 30 September | October | November |
| 31 December | January | February |
| 31 March | April | May |

### NMPI Status

The Company currently conducts its affairs so that the shares it issues can be recommended by financial advisers to 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 call 0871 664 0300; calls cost 12p per minute plus your phone company's access charge. From overseas call +44 371 664 0300; calls outside the UK will be charged at the applicable international rate, or alternatively at enquiries@linkgroup.co.uk.

Changes of name 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. A change of address can be updated online via www.signalshares.com.

### 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 to 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 the Company 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

**Alternative Performance Measure ("APM")**
An APM is a numerical measure of the Company's current, historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial framework.

**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, this situation is called a premium.

The discount is calculated in accordance with guidelines issued by the AIC. The discount is calculated using the NAVs per share inclusive of accrued income.

**Gearing**
Gearing refers to the ratio of the Company's debt to its equity capital. The Company may borrow money to invest in additional investments for its portfolio. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same.

If the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

**Gross Assets**
Gross assets are calculated as total assets less current liabilities.

**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**
The NAV is the shareholders' funds. Shareholders' funds are the total value of all of the Company's assets, at their current market value, having deducted all liabilities and prior charges at their par value, or at their asset value as appropriate. The NAV per share is calculated by dividing the shareholders' funds by the number of Ordinary shares in issue excluding treasury shares.

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

**NAV Total return**
NAV total return is the closing NAV per share including cumulative dividends reinvested as a percentage of 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**
As recommended by the AIC in its guidance, ongoing charges are the Company's annualised revenue and capital expenses (excluding finance costs and certain non-recurring items) expressed as a percentage of the average monthly net assets of the Company during the year.

**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-fourth Annual General Meeting of the Company will be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on Thursday, 25 July 2019 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 2019.

### RESOLUTION 2 – DIRECTORS' REMUNERATION REPORT

To receive and approve the Directors' Remuneration Report for the year ended 31 March 2019.

### RESOLUTION 3 – DIRECTORS' REMUNERATION POLICY

To approve the Directors' Remuneration Policy as set out in the Directors' Remuneration Report on pages 25 and 26.

### RESOLUTION 4 – DIVIDENDS

To approve the Company's dividend policy to continue to pay four quarterly interim dividends.

### RESOLUTION 5 – RE-ELECTION OF DIRECTOR

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

### RESOLUTION 6 – RE-ELECTION OF DIRECTOR

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

### RESOLUTION 7 – RE-ELECTION OF DIRECTOR

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

### RESOLUTION 8 – 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 9 – AUDITOR'S REMUNERATION

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

## SPECIAL BUSINESS

### RESOLUTION 10 – 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 14 June 2019) 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.

## SPECIAL RESOLUTIONS

### RESOLUTION 11 – DISAPPLICATION OF PRE-EMPTION RIGHTS

THAT, subject to the passing of Resolution 10 (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 and to sell equity securities held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority conferred by Resolution 10 as if Section 561 of the Act did not apply to any such allotment and of sales of equity securities, provided that this power:

(a) 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;

# Notice of Annual General Meeting continued

## SPECIAL RESOLUTIONS

(b) shall be limited to the allotment of equity securities and/or sale of equity securities held in treasury for cash up to an aggregate nominal amount of £334,759 (being approximately 10% of the issued share capital (excluding treasury shares) as at 14 June 2019); and

(c) 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 12 – 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, or if less, that number of ordinary shares which is equal to 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 2020 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
17 June 2019

Registered Office:
Hamilton Centre
Rodney Way
Chelmsford
CM1 3BY

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf.

1. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on 23 July 2019. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
2. Shareholders, or their proxies, intending to attend the Meeting in person are requested, if possible, to arrive at the Meeting venue at least 20 minutes prior to the commencement of the Meeting at 12 noon (UK time) on Thursday, 25 July 2019 so that their shareholding may be checked against the Company's Register of Members and attendances recorded.
3. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
6. You can vote either:
   (i) by logging on to www.signalshares.com and following the instructions;
   (ii) You may request a hard copy form of proxy directly from the registrars, Link Asset Services (previously called Capita), on Tel: 0371 664 0300. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.
   (iii) in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4ZF by 12 noon on 23 July 2019.

7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
8. The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in note 11 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
9. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

# Notice of Annual General Meeting continued

10. 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. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by noon on 23 July 2019. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer'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.
11. 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 message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
12. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.
13. As at 14 June 2019 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 167,379,790 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 14 June 2019 are 167,379,790.
14. Under Section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the Auditor's Report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with Section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant meeting. The Company may not require the shareholders 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 Meeting for the relevant financial year includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.
15. Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or 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.
16. The following documents are available for inspection during normal business hours at the registered office of the Company on any business day from the date of this Notice until the time of the Meeting and may also be inspected at the Meeting venue, as specified in this Notice, from 11.45 am on the day of the Meeting until the conclusion of the Meeting:
    copies of the Directors' letters of appointment.
17. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website at www.montanaro.co.uk/our-trusts/uk-smaller-companies-investment-trust/overview.

# 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
Hamilton Centre
Rodney Way
Chelmsford CM1 3BY
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**
THE BANK OF NEW YORK MELLON
(INTERNATIONAL) LIMITED
One Canada Square
London E14 5AL

**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