

Montanaro UK Smaller Companies Investment Trust PLC ("MUSCIT")

Half-yearly Report for the six months ended 30 September 2012

MUSCIT was launched in March 1995 and is listed on the London Stock Exchange.

Investment Objective

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

Investment Policy

The Company seeks to achieve its objective and to diversify risk by investing in a portfolio of quoted UK smaller companies. At the time of initial investment, a potential investee company must be profitable and smaller than the largest constituent of the Numis Smaller Companies Index ("NSCI"), which represents the smallest 10% of the UK Stock Market by value. At the end of September 2012, the largest company in the NSCI had a market capitalisation of over £2.4 billion in size. The Manager focuses on the smaller end of this Index.

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

The Manager is focused on identifying high quality niche companies operating in growth markets. This typically leads to investment in companies that enjoy high barriers to entry, pricing power, a sustainable competitive advantage and strong management teams. The portfolio is therefore constructed on a "bottom up" basis and there are no sectoral constraints placed on the Manager.

The Board, in consultation with the Manager, is responsible for determining the gearing strategy of the Company. Gearing is used to enhance returns when the timing is considered appropriate. The Board has agreed to limit borrowings to 25% of shareholders' funds.

Highlights

for the six months to 30 September 2012

Results

- > Net Asset Value ("NAV") including current period revenue (adjusted for dividend of 6.76p paid in the period): 7.1% (£154 million)
- > Gross Assets: 4.6% (£170 million)
- > Share price: 6.0%
- > Gross Gearing: 9.7%
- > Net Gearing: 6.3%
- > FTSE SmallCap Total Return Index: 6.5%

	As at 30 September 2012	As at 31 March 2012
NAV per Ordinary share (including current period revenue)	460.65p	436.57p
Ordinary share price	369.00p	348.00p

NAV Performance vs SmallCap (to 30 September 2012)

	6 months	3 years	5 years	Since inception March 1995
	%	%	%	%
NAV (excluding current period revenue)	6.3	66.3	32.5	362.8
FTSE SmallCap Index	4.5	5.0	(24.7)	57.0
Outperformance	1.8	61.3	57.2	305.8

Capital Structure

As at 30 September 2012 the Company had 33,475,958 Ordinary shares of 10p each in issue (none of which were held in Treasury).

Benchmark

The Board has undertaken a review to assess the most appropriate benchmark against which its performance should be measured. It has been agreed that from 1 April 2013 the Company will adopt The Numis Smaller Companies Index (excluding investment companies) ("NSCI") as its Benchmark. However, there will be no change in the investment approach or objectives.

Manager's Review

During the first financial quarter to the end of June 2012, the UK stock market gave up some of its earlier gains as the economic outlook deteriorated and speculation continued over the future of the Euro Zone. Cyclical businesses with exposure to Europe and China suffered after a solid start to the year which saw several companies' share prices reach new highs. The Trust was well positioned to weather the correction, with gearing having been reduced to 1% by the end of March from 11% three months earlier.

The market correction proved to be short-lived and by early June equity markets were already recovering. Gearing was raised to just under 4% by the end of the month.

SmallCap has a habit of outperforming when the market expects it the least and the second financial quarter was no exception. Buoyed by global central bank actions and repeated proclamations by the ECB of its commitment to the Euro, the FTSE SmallCap ex-IT index rallied through the summer to post a second financial quarter gain of 10%, just as global leading indicators were showing signs of bottoming out. Over the first 6 months of the financial year the NAV of the Trust gained 6% in Sterling terms, compared to 5% for the FTSE SmallCap ex-IT benchmark. The All Share was broadly flat.

During the period the portfolio benefitted from two takeovers, namely Kewill, a logistics software maker, and WSP, a consultant engineer, which were acquired at a premium of 45% and 67% respectively. The other main positive contributions came from Dechra, a veterinary products business and Dialight, a LED lighting manufacturer which both rose by 31% and Domino's Pizza, the pizza delivery company, which gained 23% over the interim period.

The Board has observed the changes to the taxation rules and the Companies Act that now permit the distribution of realised capital reserves as dividends. At this year's Annual General Meeting a Special Resolution was passed to amend the Company's Articles to reflect these changes. It is not the Board's intention to change the Company's current dividend policy but the amendments could provide flexibility for dividends in the future.

Outlook

Despite a challenging macroeconomic environment our investee companies have continued to express a confident, albeit prudent, view on the future. During the second financial quarter, a large majority of the UK companies on our Approved List reported better sales numbers than consensus, unchanged from the previous quarter. Median sales growth remained stable at c.10% year-on-year and the average weighted net debt-to-equity in the Trust was stable at 8%. Evidence remains that cheap financing is readily available for quality borrowers in the UK and across Europe. However, we remain vigilant as sluggish economic growth could, in the short-term, affect the third quarter reporting season.

As 2012 draws to an end, we believe that investors will increasingly take comfort in the modest global recovery expected to occur next year. In anticipation of this we have started to raise the level of gearing and to re-allocate funds towards high quality cyclicals.

Montanaro Asset Management
27 November 2012.

Thirty Largest Holdings

as at 30 September 2012

Holding	Sector	Value £'000	% of portfolio	Market cap £m
Genus	Pharmaceuticals and Biotechnology	6,048	3.7	913
Devro	Food Producers	5,740	3.5	543
Brammer	Support Services	5,439	3.3	334
Dialight	Electronic and Electrical Equipment	5,409	3.3	386
James Fisher	Industrial Transportation	5,337	3.2	381
Domino's Pizza	Travel and Leisure	5,310	3.2	868
Victrex	Chemicals	5,288	3.2	1,117
Dignity	General Retailers	5,247	3.2	500
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	5,242	3.2	506
Domino Printing Sciences	Electronic and Electrical Equipment	5,120	3.1	617
Ten Largest Holdings		54,180	32.9	
RPS Group	Support Services	4,980	3.0	546
NCC Group	Software and Computer Services	4,790	2.9	320
EnQuest	Oil and Gas Producers	4,764	2.9	921
Shaftesbury	Real Estate/ Real Estate Investment Trusts	4,752	2.9	1,328
Consort Medical	Health Care Equipment and Services	4,719	2.9	207
AG Barr	Beverages	4,694	2.9	522
Fenner	Industrial Engineering	4,632	2.8	747
Croda International	Chemicals	4,608	2.8	3,281
Renishaw	Electronic and Electrical Equipment	4,546	2.8	1,203
Aveva Group	Software and Computer Services	4,524	2.7	1,339
Twenty Largest Holdings		101,189	61.5	
Fidessa Group	Software and Computer Services	4,413	2.7	546
Senior	Aerospace and Defence	4,352	2.7	845
SDL	Software and Computer Services	3,990	2.4	533
Oxford Instruments	Electronic and Electrical Equipment	3,781	2.3	773
Ricardo	Support Services	3,681	2.2	200
Carclo	Chemicals	3,657	2.2	279
Latchways	Support Services	3,570	2.2	114
Mears Group	Support Services	3,538	2.2	250
M.P.Evans Group	Food Producers	3,498	2.1	290
Brewin Dolphin	General Financials	3,360	2.0	419
Thirty Largest Holdings		139,029	84.5	

Analysis of Investment Portfolio by FTSE Classification

as at 30 September 2012

Classification	% of portfolio
UK FTSE 250	60.9
UK FTSE SmallCap	25.4
UK AIM/PLUS	5.9
UK other equities	7.8

Interim Management Report and Responsibility Statement

Interim Management Report

The important events that have occurred during the period under review and the key factors influencing the financial statements are set out in the Manager's Review.

The principal risks and uncertainties for the remaining six months of the financial year are reviewed in the Outlook section of the Manager's Review. The Company actively monitors its counterparty exposures and has been particularly vigilant during the period.

The principal risks facing the Company are substantially unchanged since the date of the Annual Report for the year ended 31 March 2012 and continue to be as set out in that report on pages 14 to 16 and pages 36 to 38.

Risks faced by the Company include, but are not limited to, Investment Manager, investment and strategy, discount volatility, credit risk, market price risk, interest rate risk, liquidity risk, gearing, regulatory risk, operational risk and financial risk, banking, reputational and Company viability.

Under the Listing Rules the Manager is regarded as a related party of the Company. The amounts paid to the Manager during the period were £1,075,000 (30 September 2011: £798,000; year to 31 March 2012: £2,375,000). At 30 September 2012, the amount due to Montanaro Asset Management Limited, included in creditors, was £435,000.

However, the existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies. Therefore in terms of FRS 8 "Related Party Transactions" the Manager is not considered a related party.

Responsibility Statement

The Directors confirm that to the best of their knowledge:

- The condensed set of financial statements has been prepared in accordance with the Statement on Half-yearly Financial Reports issued by the UK Accounting Standards Board and gives a true and fair view of the assets, liabilities and financial position of the Company;
- The Manager's Review (constituting the interim management report) includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements;
- The Statement of Principal Risks and Uncertainties above is a fair review of the information required by DTR 4.2.7R; and
- The financial statements include a fair review of the information required by DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period, and any changes in the related party transactions described in the last Annual Report that could do so.

This Half-yearly Report was approved by the Board of Directors on 27 November 2012 and the above responsibility statement was signed on its behalf by David Gamble, Chairman.

Income Statement (unaudited)

for the six months to 30 September 2012

	6 months to 30 September 2012			6 months to 30 September 2011			Year to 31 March 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains /(losses) on investments designated at fair value through profit or loss	-	10,106	10,106	-	(9,106)	(9,106)	-	6,607	6,607
Dividends and interest	2,209	-	2,209	1,915	-	1,915	3,667	-	3,667
Management fee	(409)	(409)	(818)	(399)	(399)	(798)	(781)	(782)	(1,563)
Management performance fee	-	(256)	(256)	-	-	-	-	(812)	(812)
Other expenses	(173)	-	(173)	(142)	-	(142)	(246)	-	(246)
Movement in fair value of derivative financial instruments	-	(423)	(423)	-	-	-	-	(75)	(75)
Net return before finance costs and taxation	1,627	9,018	10,645	1,374	(9,505)	(8,131)	2,640	4,938	7,578
Interest payable and similar charges	(161)	(162)	(323)	(48)	(48)	(96)	(160)	(160)	(320)
Net return before taxation	1,466	8,856	10,322	1,326	(9,553)	(8,227)	2,480	4,778	7,258
Taxation (Note 2)	-	-	-	-	-	-	-	-	-
Net return after taxation	1,466	8,856	10,322	1,326	(9,553)	(8,227)	2,480	4,778	7,258
Return per Ordinary share	4.38p	26.45p	30.83p	3.96p	(28.54)p	(24.58)p	7.41p	14.27p	21.68p

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital columns are presented under guidance issued by the Association of Investment Companies ("AIC").

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

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

Reconciliation of Movements in Shareholders' Funds (unaudited)
for the six months to 30 September 2012

	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
6 months to 30 September 2012							
As at 1 April 2012	3,348	19,307	1,362	4,642	113,343	4,146	146,148
Fair value movement of investments	-	-	-	-	10,106	-	10,106
Costs allocated to capital	-	-	-	-	(827)	-	(827)
Net revenue for the period	-	-	-	-	-	1,466	1,466
Movement in fair value of derivative financial instruments	-	-	-	-	(423)	-	(423)
Dividends paid in period	-	-	-	-	-	(2,263)	(2,263)
As at 30 September 2012	3,348	19,307	1,362	4,642	122,199	3,349	154,207
6 months to 30 September 2011							
As at 1 April 2011	3,348	19,307	1,362	4,642	108,565	3,929	141,153
Fair value movement of investments	-	-	-	-	(9,106)	-	(9,106)
Costs allocated to capital	-	-	-	-	(447)	-	(447)
Net revenue for the period	-	-	-	-	-	1,326	1,326
Dividends paid in period	-	-	-	-	-	(2,263)	(2,263)
As at 30 September 2011	3,348	19,307	1,362	4,642	99,012	2,992	130,663
Year to 31 March 2012							
As at 1 April 2011	3,348	19,307	1,362	4,642	108,565	3,929	141,153
Fair value movement of investments	-	-	-	-	6,607	-	6,607
Costs allocated to capital	-	-	-	-	(1,754)	-	(1,754)
Net revenue for the year	-	-	-	-	-	2,480	2,480
Movement in fair value of derivative financial instruments	-	-	-	-	(75)	-	(75)
Dividends paid in the year	-	-	-	-	-	(2,263)	(2,263)
As at 31 March 2012	3,348	19,307	1,362	4,642	113,343	4,146	146,148

Balance Sheet (unaudited)
as at 30 September 2012

	As at 30 September 2012 £'000	As at 30 September 2011 £'000	As at 31 March 2012 £'000
Fixed assets			
Investments designated at fair value through profit and loss	164,603	142,732	148,373
Current assets			
Debtors	553	2,937	566
Cash at bank	5,241	922	13,966
	5,794	3,859	14,532
Creditors: amounts falling due within one year			
Other creditors	(692)	(928)	(1,682)
Revolving credit facility	(15,000)	(15,000)	(15,000)
	(15,692)	(15,928)	(16,682)
Net current liabilities	(9,898)	(12,069)	(2,150)
Total assets less current liabilities	154,705	130,663	146,223
Creditors: amounts falling due after more than one year			
Interest rate swap	(498)	-	(75)
Net assets	154,207	130,663	146,148
Share capital and reserves			
Called-up share capital	3,348	3,348	3,348
Share premium account	19,307	19,307	19,307
Capital redemption reserve	1,362	1,362	1,362
Special reserve	4,642	4,642	4,642
Capital reserve	122,199	99,012	113,343
Distributable revenue reserve	3,349	2,992	4,146
Total equity shareholders' funds	154,207	130,663	146,148
Net asset value per Ordinary share	460.65p	390.32p	436.57p

Summarised Statement of Cash Flows (unaudited)

as at 30 September 2012

	Note	As at 30 September 2012 £'000	As at 30 September 2011 £'000	As at 31 March 2012 £'000
Net cash inflow from operating activities	3	456	397	962
Servicing of finance				
- Interest and similar charges paid		(323)	(98)	(148)
Net cash outflow from servicing of finance		(323)	(98)	(148)
Capital expenditure and financial investment				
- Purchases of investments		(18,255)	(13,340)	(26,508)
- Sales of investments		11,660	15,820	41,517
Net cash (outflow)/ inflow from capital expenditure and financial investment		(6,595)	2,480	15,009
Equity dividends paid		(2,263)	(2,263)	(2,263)
(Decrease)/ increase in cash	4	(8,725)	516	13,560

Notes to the Financial Statements

as at 30 September 2012

1 Financial information

The financial information contained in this report does not constitute full statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the six months to 30 September 2012 and 30 September 2011 has not been audited or reviewed by the Company's Auditor pursuant to the Auditing Practices Board guidance on such reviews.

The information for the year ended 31 March 2012 has been extracted from the latest published audited financial statements, which have been filed with the Registrar of Companies. The Report of the Auditors on those financial statements was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The financial statements are prepared on the basis of the accounting policies set out in note 1 on page 29 and 30 of the annual report and accounts for the year ended 31 March 2012.

2 Tax credit/charge on ordinary activities

The tax charge for the half-year is nil (30 September 2011: nil; year to 31 March 2012: nil) based on an estimated effective tax rate of 0% for the year ending 31 March 2013. The estimated effective tax rate is 0% as investment gains are exempt from tax owing to the Company's status as an investment trust and there is expected to be an excess of management expenses over taxable income.

3 Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities

	6 months to 30 September 2012 £'000	6 months to 30 September 2011 £'000	Year to 31 March 2012 £'000
Net return before finance costs and taxation	10,645	(8,131)	7,578
(Gains) /losses on investments designated at fair value through profit or loss	(10,106)	9,106	(6,607)
Movement in fair value of derivative financial instruments	423	-	75
(Decrease)/increase in creditors	(519)	(638)	49
Decrease/(increase) in prepayments and accrued income	13	60	(133)
Net cash inflow from operating activities	456	397	962

4 Reconciliation of net cash flows to movements in net debt

	6 months to 30 September 2012 £'000	6 months to 30 September 2011 £'000	Year to 31 March 2012 £'000
(Decrease)/increase in cash in the period	(8,725)	516	13,560
Movement in net debt	(8,725)	516	13,560
Net debt at beginning of period	(1,034)	(14,594)	(14,594)
Net debt at end of period	(9,759)	(14,078)	(1,034)

5 Analysis of net debt

	As at 1 April 2012 £'000	Cash flows £'000	As at 30 September 2012 £'000
Cash at bank	13,966	(8,725)	5,241
Debt due in less than one year	(15,000)	-	(15,000)
	(1,034)	(8,725)	(9,759)

6 Going Concern

The Company has adequate financial resources to meet its investment commitments and as a consequence, the Directors believe that the Company is well placed to manage its business risks. After making appropriate enquiries and due consideration of the Company's cash balances, the liquidity of the Company's investment portfolio and the cost base of the Company, the Directors have a reasonable expectation that the Company has adequate available financial resources to continue in operational existence for the foreseeable future and accordingly have concluded that it is appropriate to continue to adopt the going concern basis in preparing the Half-yearly Report, consistent with previous years.

Directors

David Gamble (Chairman)
Roger Cuming
Kathryn Matthews
Michael Moule

Principal Advisers

Manager

Montanaro Asset Management Limited
53 Threadneedle Street
London EC2R 8AR
Tel: 020 7448 8600
Fax: 020 7448 8601
www.montanarouksmaller.co.uk
info@montanaro.co.uk

Bankers

HSBC International
PO Box 181
27-32 Poultry
London EC2P 2BX

ING Bank N.V.
London Branch
60 London Wall
London EC2M 5TQ

Company Secretary, Administrator and Registered Office

Capita Sinclair Henderson Limited
Beaufort House
51 New North Road
Exeter EX4 4EP
Tel: 01392 412 122
Fax: 01392 253 282

Auditor

KPMG Audit Plc
100 Temple Street
Bristol BS1 6AG

Solicitors

Norton Rose LLP
3 More London Riverside
London SE1 2AQ

Registrars

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

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

Sources of further information

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

Information on the Company is also available on the Manager's website:

www.montanarouksmaller.co.uk

Key Dates

March 2013	Company Year End
June 2013	Annual Results
July 2013	Annual General Meeting
November 2013	Interim Results

Frequency of NAV Publication

The Company's NAV is released to the London Stock Exchange on a daily basis.

ISA Status

The Company is fully eligible for inclusion in ISAs.

AIC

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

National Storage Mechanism

A copy of the Half-yearly Report 2012 will be submitted shortly to the National Storage Mechanism ("NSM") and will be available for inspection at the NSM, which is situated at:
www.morningstar.co.uk/uk/NSM

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on this announcement (or any other website) is incorporated into, or forms part of, this announcement.

END