

Montanaro UK Smaller Companies Investment Trust PLC **(“MUSCIT” or the “Company”)**

Half-yearly Report for the six months ended 30 September 2014

MUSCIT was launched in March 1995 and is listed with the UKLA and its shares are traded 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 Numis Smaller Companies Index (excluding Investment Companies) (“NSCI”).

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 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 2014, this was any company below £1.7 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 above 25%.

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

The AIFM, in consultation with the Board, is responsible for determining the gearing levels of the Company and has determined that the Company’s borrowings should be limited to 25% of shareholders’ funds. Gearing is used to enhance returns when the timing is considered appropriate. The Company currently has credit facilities of £25 million with ING Bank of which £18 million was drawn down as at 30 September 2014, at which date, net gearing amounted to 10.2% of shareholders’ funds.

Alternative Investment Fund Managers’ Directive

The Alternative Investment Fund Managers’ Directive (“AIFMD”) is a European Directive that creates a European-wide framework for regulating managers of alternative investment funds. Closed-ended investment companies fall within the remit of these regulations, which came fully into force on 22 July 2014.

The Board has reviewed the impact of the AIFMD on the Company’s operations and, with effect from 22 July 2014, appointed Montanaro Asset Management Limited (“Montanaro”) as the Company’s Alternative Investment Fund Manager and Bank of New York Mellon as Depositary and Custodian.

Change in Investment Manager's fee

As reported in the Annual Report, with effect from 1 April 2014, the investment management fee decreased from 1% p.a. to 0.85% p.a. of gross assets. In addition, the performance fee was removed.

Highlights

for the six months to 30 September 2014

Total Return

Net Asset Value ("NAV")	-10.0%	(£175m)
Gross assets	-9.1%	(£193m)
Share price	-10.5%	(£149m*)
Numis Smaller Companies Index**	-6.7%	

* Market capitalisation

** Excluding Investment Companies

Capital Return

	As at 30 September 2014	As at 31 March 2014	% Change
NAV per Ordinary share (excluding current period revenue)	515.22p	580.38p	(11.2)
Ordinary share price	445.00p	505.50p	(12.0)
Benchmark (NSCI Capital Return)	6,241.47	6,799.82	(8.2)

NAV Performance vs Benchmark***

(to 30 September 2014)

	6 months	3 years	5 years	Since inception March 1995
	%	%	%	%
NAV (excluding current period revenue)	(11.2)	33.4	87.8	422.6
Benchmark***	(8.2)	35.7	30.4	99.4
(Underperformance)/outperformance	(3.0)	(2.3)	57.4	323.2

*** Previous benchmark of FTSE SmallCap (excluding Investment Companies) to 31 March 2013 and Numis Smaller Companies Index (excluding Investment Companies) from 1 April 2013.

Capital Structure

As at 30 September 2014, the Company had 33,475,958 Ordinary shares of 10p each in issue (none of which were held in Treasury). Holders of Ordinary shares have unrestricted voting rights of one vote per share at all general meetings of the Company.

Manager's Review

We have witnessed a marked change in investor sentiment since 31 March 2014, with appetite for SmallCap waning as investors sought refuge in LargeCap. A period that began with investor enthusiasm for equities and extremely low volatility closed with increasing geopolitical risks and slowing global economic growth. Having broken through 2007 peaks earlier in the year, the NSCI fell by over 7% during the last six months, underperforming LargeCap (as represented by the FTSE 100 Index) by a total of 7.5% over two consecutive quarters. Meanwhile, the Company's NAV declined by 11.2% compared with the fall in the benchmark of 8.2%.

In the UK, concern over the march of "Islamic State" was temporarily replaced by a more pressing local issue, namely the Scottish Referendum. The push for independence by the Scottish National Party, an attempt to end the 300-year old union between Scotland and England, ultimately ended in failure to the dismay of other European regions with similar separatist aspirations.

The health of the UK economy was repeatedly expressed (according to politicians at least) as "robust". Rating agency Standard & Poor's upgraded its outlook for the UK's credit rating in June and the manufacturing PMI index rose to its second highest level in 3 years, while unemployment fell to 6%, the lowest level since 2008. However, this rosy picture was contrasted by poor labour productivity data and stagnant wage growth.

Throughout this period, financial market participants obsessively focused on the words and deeds of Central Bankers. Rhetoric in the UK and US introduced the prospect of imminent interest rate rises, while in the Eurozone pressure grew on policy makers to loosen the monetary belt further. The European Central Bank, however, seemed satisfied with pro-devaluation policies, which was less positive for British exporters into Europe. Indeed, Sterling gained 6% against the single currency during the period under review, offset somewhat by Sterling's 3% decline against the US dollar.

Outlook

Investors have become decidedly more cautious over the last six months. Fund flow data published by the Investment Management Association shows that investors began rotating out of SmallCap and into LargeCap during the summer. At just under 14x 12-month forward earnings, SmallCap valuations are neither cheap nor expensive, but may need to offer more compelling valuations before investors are tempted back.

We expect investors to be offered an attractive entry point into SmallCap in early 2015 if the prevailing correction continues. In the meantime, we believe that investors have come to realise that this is not the time to take on high risk: in our view, a low beta and quality focused strategy makes sense. There have been several periods of uncertainty since the Company's inception in 1995. MUSCIT's focus on the highest quality companies has generally meant that it performs relatively well during such times.

Montanaro Asset Management Limited
26 November 2014

Investment Portfolio
as at 30 September 2014

Holding	Sector	Value £'000	Market cap £m	% of portfolio 30 September 2014	% of portfolio 31 March 2014
Consort Medical	Health Care, Equipment and Services	6,305	284	3.3	2.7
NCC Group	Software and Computer Services	6,100	409	3.2	2.5
Cineworld Group	Travel and Leisure	5,868	860	3.0	2.1
Dignity	General Retailers	5,477	786	2.8	1.0
Clarkson	Industrial Transportation	5,428	446	2.8	2.1
Big Yellow Group	Real Estate/Real Estate Investment Trusts	5,200	739	2.7	2.6
Restaurant Group	Travel and Leisure	5,024	1,309	2.6	1.7
Marshalls	Construction and Materials	5,019	400	2.6	2.1
Hilton Food Group	Food Producers	4,736	301	2.5	2.7
Shaftesbury	Real Estate/Real Estate Investment Trusts	4,734	1,894	2.5	1.2
Mears Group	Support Services	4,723	440	2.5	2.8
James Fisher	Industrial Transportation	4,641	664	2.4	2.4
Rathbone Brothers	Financial Services	4,591	911	2.4	1.3
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	4,548	666	2.4	1.9
AG Barr	Beverages	4,504	720	2.3	2.1
Helical Bar	Real Estate/Real Estate Investment Trusts	4,375	414	2.3	2.2
Jupiter Fund Management	Financial Services	4,338	1,628	2.3	2.3
RPS Group	Support Services	4,176	577	2.2	2.4
Innovation Group	Software and Computer Services	4,160	344	2.2	2.5
Ted Baker	Personal Goods	4,099	814	2.1	1.9
Twenty Largest Holdings		98,046		51.1	
Dialight	Electronic and Electrical Equipment	4,055	293	2.1	2.0
Victrex	Chemicals	4,015	1,368	2.1	2.4
Entertainment One	Media	4,008	930	2.1	1.9
SuperGroup	Personal Goods	3,966	917	2.1	2.5
Cranswick	Food Producers	3,821	652	2.0	2.0
Bovis Homes Group	Household Goods and Home Construction	3,739	1,045	1.9	2.1
Senior	Aerospace and Defence	3,634	1,121	1.9	2.0
Berendsen	Support Services	3,626	1,691	1.9	2.9
KCOM Group	Fixed Line Telecommunication	3,591	488	1.9	1.8
AVEVA Group	Software and Computer Services	3,564	984	1.9	1.8
Hellermannntyton Group	Electronic and Electrical Equipment	3,563	667	1.9	1.2
Diploma	Support Services	3,447	781	1.8	1.7
Brammer	Support Services	3,403	487	1.8	2.2
Brewin Dolphin Holdings	Financial Services	3,400	748	1.8	2.4
Dairy Crest Group	Food Producers	3,339	525	1.7	1.6
Hunting	Oil Equipment, Services and Distribution	3,146	1,325	1.6	1.5
Dunelm Group	General Retailers	3,069	1,666	1.6	1.5
Telecom Plus	Fixed Line Telecommunication	3,006	1,069	1.6	2.0
EnQuest	Oil and Gas Producers	2,904	880	1.5	1.6
Halma	Electronic and Electrical Equipment	2,876	2,318	1.5	1.6
Renishaw	Electronic and Electrical Equipment	2,771	1,186	1.4	1.6
Paypoint	Support Services	2,705	669	1.4	1.5
Domino Printing Sciences	Electronic and Electrical Equipment	2,402	688	1.2	2.2
Wilmington Group	Media	2,260	184	1.2	1.2
Euromoney Institutional Investor	Media	2,248	1,301	1.2	1.3

Galliford Try	Construction and Materials	2,215	1,042	1.1	1.1
Latchways	Support Services	2,050	115	1.1	1.1
Ocean Wilson Holdings	Industrial Transportation	2,025	391	1.1	1.0
Elementis	Chemicals	1,698	1,179	0.9	-
Xaar	Electronic and Electrical Equipment	1,617	287	0.8	1.9
ITE Group	Media	1,610	423	0.8	0.9
Total Holdings		191,819		100.0	

Analysis of Investment Portfolio by FTSE Classification

Classification	% of portfolio as at 30 September 2014	% of portfolio as at 31 March 2014
	FTSE 100	-
FTSE 250*	13	13
Numis Smaller Companies	87	87
AIM	-	-

* represents those holdings that are in the FTSE 250 and are above the threshold for Numis Smaller Companies holdings.

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.

The principal risks facing the Company are substantially unchanged since the date of the Annual Report for the year ended 31 March 2014 and continue to be as set out in that report on pages 9 to 11 and pages 41 to 43.

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

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 £890,000 (six months to 30 September 2013: £956,000; year to 31 March 2014: £1,998,000). At 30 September 2014, the amount due to Montanaro, included in creditors, was £172,000.

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 'Half-Yearly Financial Reports' issued by the UK Accounting Standards Board and gives a true and fair view of the assets, liabilities, financial position and profit 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 for the remaining six months of the financial year set out 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 26 November 2014 and the above Responsibility Statement was signed on its behalf by Kathryn Matthews, Chairman.

Income Statement (unaudited)

for the six months to 30 September 2014

	6 months to 30 September 2014			6 months to 30 September 2013			Year to 31 March 2014		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments designated at fair value through profit or loss	-	(21,326)	(21,326)	-	5,604	5,604	-	20,352	20,352
Dividends and interest	3,087	-	3,087	2,760	-	2,760	4,371	-	4,371
Management fee	(445)	(445)	(890)	(478)	(478)	(956)	(999)	(999)	(1,998)
Other expenses	(210)	-	(210)	(208)	-	(208)	(422)	-	(422)
Movement in fair value of derivative financial instruments	-	26	26	-	276	276	-	371	371
Net return before finance costs and taxation	2,432	(21,745)	(19,313)	2,074	5,402	7,476	2,950	19,724	22,674
Interest payable and similar charges	(181)	(181)	(362)	(162)	(162)	(324)	(325)	(325)	(650)
Net return before taxation	2,251	(21,926)	(19,675)	1,912	5,240	7,152	2,625	19,399	22,024
Taxation (Note 2)	(2)	-	(2)	-	-	-	-	-	-
Net return after taxation	2,249	(21,926)	(19,677)	1,912	5,240	7,152	2,625	19,399	22,024
Return per Ordinary share	6.72p	(65.50)p	(58.78)p	5.71p	15.65p	21.36p	7.84p	57.95p	65.79p

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.

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 2014

	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 2014							
As at 1 April 2014	3,348	19,307	1,362	4,642	163,658	4,595	196,912
Fair value movement of investments	-	-	-	-	(21,326)	-	(21,326)
Costs allocated to capital	-	-	-	-	(626)	-	(626)
Net revenue for the period	-	-	-	-	-	2,249	2,249
Movement in fair value of derivative financial instruments	-	-	-	-	26	-	26
Dividends paid in the period	-	-	-	-	-	(2,511)	(2,511)
As at 30 September 2014	3,348	19,307	1,362	4,642	141,732	4,333	174,724
6 months to 30 September 2013							
As at 1 April 2013	3,348	19,307	1,362	4,642	144,259	4,233	177,151
Fair value movement of investments	-	-	-	-	5,604	-	5,604
Costs allocated to capital	-	-	-	-	(640)	-	(640)
Net revenue for the period	-	-	-	-	-	1,912	1,912
Movement in fair value of derivative financial instruments	-	-	-	-	276	-	276
Dividends paid in the period	-	-	-	-	-	(2,263)	(2,263)
As at 30 September 2013	3,348	19,307	1,362	4,642	149,499	3,882	182,040
Year to 31 March 2014							
As at 1 April 2013	3,348	19,307	1,362	4,642	144,259	4,233	177,151
Fair value movement of investments	-	-	-	-	20,352	-	20,352
Costs allocated to capital	-	-	-	-	(1,324)	-	(1,324)
Net revenue for the year	-	-	-	-	-	2,625	2,625
Movement in fair value of derivative financial instruments	-	-	-	-	371	-	371
Dividends paid in the year	-	-	-	-	-	(2,263)	(2,263)
As at 31 March 2014	3,348	19,307	1,362	4,642	163,658	4,595	196,912

Balance Sheet (unaudited)
as at 30 September 2014

	As at 30 September 2014 £'000	As at 30 September 2013 £'000	As at 31 March 2014 £'000
Fixed assets			
Investments designated at fair value through profit and loss	191,819	184,137	209,411
Current assets			
Debtors	1,283	1,132	1,070
Cash at bank	244	12,523	2,137
	1,527	13,655	3,207
Creditors: amounts falling due within one year			
Revolving credit facility	(18,000)	(15,000)	(15,000)
Other creditors	(465)	(474)	(523)
	(18,465)	(15,474)	(15,523)
Net current liabilities	(16,938)	(1,819)	(12,316)
Total assets less current liabilities	174,881	182,318	197,095
Creditors: amounts falling due after more than one year			
Interest rate swap	(157)	(278)	(183)
Net assets	174,724	182,040	196,912
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	141,732	149,499	163,658
Distributable revenue reserve	4,333	3,882	4,595
Total equity shareholders' funds	174,724	182,040	196,912
Net asset value per Ordinary share	521.94p	543.79p	588.22p

Statement of Cash Flows (unaudited)
as at 30 September 2014

	Note	As at 30 September 2014 £'000	As at 30 September 2013 £'000	As at 31 March 2014 £'000
Net cash inflow from operating activities	3	1,769	1,813	2,284
Servicing of finance				
Interest and similar charges paid		(338)	(322)	(645)
Net cash outflow from servicing of finance		(338)	(322)	(645)
Taxation				
Irrecoverable tax paid		(2)	-	-
Recoverable tax paid		(2)	-	-
Total taxation paid		(4)	-	-
Capital expenditure and financial investment				
Purchases of investments		(23,248)	(66,135)	(108,868)
Sales of investments		19,439	66,469	98,668
Net cash (outflow)/inflow from capital expenditure and financial investment		(3,809)	334	(10,200)
Equity dividends paid		(2,511)	(2,263)	(2,263)
Net cash outflow before financing		(4,893)	(438)	(10,824)
Financing				
Proceeds of loan drawn down		3,000	-	-
Net cash inflow from financing		3,000	-	-
Decrease in cash	4	(1,893)	(438)	(10,824)

Notes to the Financial Statements
as at 30 September 2014

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 2014 and 30 September 2013 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 2014 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 the Annual Report and Accounts for the year ended 31 March 2014.

2 Tax credit/charge on ordinary activities

The tax charge for the six months to 30 September 2014 is £2,000 (six months to 30 September 2013: £nil; year to 31 March 2014: £nil). The tax charge comprises a corporation tax charge for the six months to 30 September 2014 of £nil (six months to 30 September 2013: £nil; year to 31 March 2014: £nil) and irrecoverable withholding tax suffered of £2,000 (six months to 30 September 2013: £nil; year to 31 March 2014: £nil).

The corporation tax charge is based on an estimated effective tax rate of 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 2014 £'000	6 months to 30 September 2013 £'000	Year to 31 March 2014 £'000
Net return before finance costs and taxation	2,432	2,074	2,950
Management fee charged to capital	(445)	(478)	(999)
(Decrease)/increase in creditors	(83)	59	105
(Increase)/decrease in prepayments and accrued income	(135)	158	228
Net cash inflow from operating activities	1,769	1,813	2,284

4 Reconciliation of net cash flows to movements in net debt

	6 months to 30 September 2014 £'000	6 months to 30 September 2013 £'000	Year to 31 March 2014 £'000
Decrease in cash in the period	(1,893)	(438)	(10,824)
Increase in debt/loan proceeds	(3,000)	-	-
Movement in net debt	(4,893)	(438)	(10,824)
Net debt at beginning of period	(12,863)	(2,039)	(2,039)
Net debt at end of period	(17,756)	(2,477)	(12,863)

5 Analysis of net debt

	As at 1 April 2014 £'000	Cash flows £'000	As at 30 September 2014 £'000
Cash at bank	2,137	(1,893)	244
Debt due in less than one year	(15,000)	(3,000)	(18,000)
	(12,863)	(4,893)	(17,756)

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

Kathryn Matthews (Chairman)
Kate Bolsover (appointed 17 October 2014)
Roger Cuming
Michael Moule
James Robinson

Principal Advisers

Alternative Investment Fund Manager

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

Company Secretary, Administrator and Registered Office

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

Registrar

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

Depository

BNY Mellon Trust & Depository (UK)
Limited
BNY Mellon Centre
160 Queen Victoria Street
London EC4A

Custodian

Bank of New York Mellon
(International) Limited
One Canada Square London E14 5AL

Bankers

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

Financial Adviser

Cantor Fitzgerald Europe
17 Crosswall
London EC3N 2LB

Auditor

KPMG LLP
100 Temple Street
Bristol BS1 6AG

Montanaro UK Smaller Companies Investment Trust PLC

Registered in England and Wales No. 3004101
An investment company as defined under
Section 833 of the Companies Act 2006

Sources of further information

Information on the Company, including this Half-yearly Report is available on the Manager's website: www.montanaro.co.uk and the Company's website: www.montanarouksmaller.co.uk

Key Dates

March	Company Year End
June	Annual Results
July	Annual General Meeting
November	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.

Association of Investment Companies ("AIC")

The Company is a member of the AIC.

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.