

Montanaro UK Smaller Companies Investment Trust PLC ("MUSCIT" or the "Company")

Half-Yearly Report for the six months to 30 September 2016

MUSCIT was launched in March 1995 and is a closed-ended investment trust with shares premium listed on the London Stock Exchange ("LSE").

Investment Objective

MUSCIT's investment objective is capital appreciation through investing in small quoted companies listed on the LSE 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 manage risk by investing in a diversified portfolio of quoted UK small companies. At the time of initial investment, the Manager focuses on the smaller end of the NSCI; 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 2016, this was any company below £1.3 billion in size.

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 30% of total investments, with Board approval required for exposure above 25%. The Company currently has a small exposure to investments in companies traded on AIM.

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

The 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 of £30 million with ING Bank, of which £25 million was drawn down as at 30 September 2016 (amounting to net gearing of 10.5%).

Highlights

for the six months to 30 September 2016

Results

| | As at 30 September 2016 | As at 31 March 2016 | % Change |
|--|--|---------------------------|----------|
| Ordinary share price | 466.5p | 461.0p | 1.2 |
| Net asset value ("NAV") per Ordinary share NAV (excluding current period revenue) per Ordinary share | 598.0p | 570.6p | 4.8 |
| Discount to NAV (excluding current period revenue) | 21.1% | 17.4% | 5.9 |
| NSCI* | 7,039.1 | 6,674.2 | 5.5 |

* Capital only.

| | As at 30 September 2016 | As at 31 March 2016 | % Change |
|-----------------------|--|---------------------------|----------|
| Gross assets | £225.6m | £219.6m | 2.7 |
| Net assets | £200.2m | £191.0m | 4.8 |
| Market capitalisation | £156.2m | £154.3m | 1.2 |
| Net gearing employed* | 10.5% | 9.9% | |
| Ongoing charges | 1.3% | 1.2% | |
| Portfolio turnover** | 19.5% | 16.5% | |

* Borrowing net of cash.

** Calculated using average transactions as a percentage of the average total investments at fair value during the period.

Performance

| Capital Return Percentage | 6 months | 1 year | 3 year | 5 year | 10 year | Since launch |
|---|-----------------|---------------|---------------|---------------|----------------|---------------------|
| Share Price | 1.2 | -7.1 | -4.0 | 43.1 | 81.2 | 391.1 |
| NAV (excluding current period revenue) | 5.9 | 3.4 | 9.9 | 53.0 | 97.5 | 499.7 |
| Benchmark* | 5.5 | 5.7 | 14.9 | 77.7 | 16.6 | 137.3 |

| Total Return Percentage | 6 months | 1 year | 3 year | 5 year | 10 year | Since launch |
|--------------------------------|-----------------|-------------------|-------------------|-------------------|--------------------|---------------------|
| Share Price** | 3.4 | -4.8 [†] | 1.6 [†] | 57.0 [†] | 120.2 [†] | 475.4 |
| NAV** | 6.6 | 5.3 [†] | 15.3 [†] | 65.4 [†] | 130.9 [†] | 587.8 |
| Benchmark* | 7.3 | 8.6 | 25.0 | 105.1 | 57.8 | 345.0 |

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

** Returns have been adjusted for dividends paid.

† Source: The Association of Investment Companies ("AIC").

Capital Structure

As at 30 September 2016 and the date of this report, 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.

Change of Broker

On 17 October 2016, the Company appointed Cenkos Securities plc as its corporate broker and financial adviser.

Manager's Review

The last six months will undoubtedly be defined by the United Kingdom's historic decision to leave the European Union. The immediate impact on financial markets was dramatic: sterling fell to a 31 year low against the US dollar; UK Government bond yields established record lows; and in June, the NSCI recorded its worst monthly performance relative to the FTSE All-Share Index in more than 26 years. Not even the aftermath of 9/11 or Lehman Brothers was as bad. It was a truly remarkable period.

So what happened? The primary reason for these market moves was an aggressive rotation by investors wanting to capitalise on a weaker pound by shifting into the most globally exposed companies. This came at the expense of those businesses more reliant on the UK domestic economy. It was no surprise, therefore, that the NSCI's 5.5% return for the period under review was significantly lower than that of the FTSE All-Share Index, which returned 10.6%.

Over the same period, the Company's NAV (excluding current period revenue) increased by 5.9%, slightly ahead of the benchmark index.

These positive returns demonstrate the resilience of markets post the Brexit shock – the "Brexit Blues" were cast aside with a surprising swiftness. This caught many investors off guard, particularly those who had fled the SmallCap market altogether.

With politics stealing the headlines, the summer period was even quieter than usual in the City of London. Mixed macroeconomic data – the largest slide in UK consumer confidence for more than 26 years was offset by August's manufacturing activity, which recorded the largest month-on-month increase in 25 years – provided few clues to the long-term trajectory of the UK economy. We gleaned more from meeting company management teams who, by and large, saw no change in the business environment. In particular, our recent meetings with the house builders within the portfolio have been reassuring; after the initial post-Brexit lull, business has returned to normal.

Outlook

A fundamental shift appears to be taking place across the globe. With unorthodox monetary policies across the developed world under increased scrutiny, the spotlight is slowly shifting towards reinvigorated fiscal policies. Japan has led the way, with Prime Minister Shinzo Abe launching a \$45 billion stimulus package to "*invest in the future*". Other countries are following suit. The UK is looking at ways to boost investment post-Brexit, while a fiscal response may be the antidote to rising Euroscepticism on the continent. The post Credit Crunch "Age of Austerity" – so championed by Messrs Cameron and Osborne – has seemingly been replaced by the fiscal pragmatism of Prime Minister May and Chancellor Hammond. This may be good news for domestically-focused UK SmallCap.

A further positive for the asset class is that UK SmallCap now trades on its widest discount to UK LargeCap since 2002. This suggests that the asset class has room to continue to perform well. A key indicator of how the market may fare over the near term will be the upcoming earnings season. If companies deliver reasonable earnings growth, then the last three months of the year could prove fruitful for investors. After all, UK SmallCap traditionally does well in the run-up to Christmas.

Montanaro Asset Management Limited
23 November 2016

Investment Portfolio

as at 30 September 2016

| Holding | Sector | Value £'000 | Market cap £m | % of portfolio 30 September 2016 | % of portfolio 31 March 2016 |
|--------------------------------|---|----------------|------------------|---|---------------------------------------|
| NCC Group | Software and Computer Services | 9,466 | 968 | 4.3 | 3.7 |
| Dechra Pharmaceuticals | Pharmaceuticals and Biotechnology | 8,358 | 1,292 | 3.8 | 3.7 |
| Dignity | General Retailers | 7,708 | 1,391 | 3.5 | 3.6 |
| Hilton Food Group | Food Producers | 7,095 | 451 | 3.2 | 2.7 |
| Domino's Pizza Group | Travel and Leisure | 6,723 | 1,844 | 3.0 | 3.3 |
| Big Yellow Group | Real Estate/Real Estate Investment Trusts | 6,630 | 1,231 | 3.0 | 3.7 |
| Consort Medical | Health Care, Equipment and Services | 6,498 | 532 | 2.9 | 4.2 |
| Marshalls | Construction and Materials | 6,132 | 569 | 2.8 | 3.8 |
| Cranswick | Food Producers | 5,845 | 1,176 | 2.6 | 2.9 |
| Shaftesbury | Real Estate/Real Estate Investment Trusts | 5,820 | 2,702 | 2.6 | 3.0 |
| Cineworld Group | Travel and Leisure | 5,800 | 1,541 | 2.6 | 3.5 |
| James Fisher and Sons | Industrial Transportation | 5,702 | 817 | 2.6 | 2.2 |
| Ricardo | Support Services | 5,305 | 510 | 2.4 | 1.9 |
| Mears Group | Support Services | 5,278 | 471 | 2.4 | 2.0 |
| Diploma | Support Services | 5,274 | 995 | 2.4 | 2.2 |
| Renishaw | Electronic and Electrical Equipment | 5,274 | 1,919 | 2.4 | 1.8 |
| Bovis Homes Group | Household Goods and Home Construction | 5,250 | 1,177 | 2.4 | 3.0 |
| Jupiter Fund Management | Financial Services | 4,892 | 1,947 | 2.2 | 2.4 |
| Restaurant Group | Travel and Leisure | 4,804 | 773 | 2.2 | 1.8 |
| Ascential | Media | 4,777 | 1,126 | 2.2 | 1.4 |
| Twenty Largest Holdings | | 122,631 | | 55.5 | |
| Arrow Global Group | Financial Services | 4,712 | 514 | 2.1 | 1.9 |
| Rathbone Brothers | Financial Services | 4,575 | 885 | 2.1 | 2.8 |
| 4Imprint Group | Media | 4,555 | 492 | 2.1 | - |
| Entertainment One | Media | 4,528 | 972 | 2.0 | 2.1 |
| Halma | Electronic and Electrical Equipment | 4,196 | 3,978 | 1.9 | 2.1 |

| | | | | | |
|-------------------------|---|----------------|-------|--------------|-----|
| Clarkson | Industrial Transportation | 4,192 | 634 | 1.9 | 2.3 |
| McCarthy and Stone | Household Goods and Home Construction | 4,173 | 897 | 1.9 | 2.8 |
| Victrex | Chemicals | 3,920 | 1,341 | 1.8 | 2.9 |
| St. Modwen Properties | Real Estate/Real Estate Investment Trusts | 3,749 | 652 | 1.7 | 1.8 |
| AG Barr | Beverages | 3,591 | 599 | 1.6 | 1.9 |
| Polypipe Group | Construction and Materials | 3,510 | 557 | 1.6 | - |
| Ted Baker | Personal Goods | 3,080 | 1,085 | 1.4 | 1.9 |
| Galliford Try | Household Goods and Home Construction | 2,957 | 1,099 | 1.3 | 1.5 |
| Eco Animal Health | Pharmaceuticals and Biotechnology | 2,909 | 307 | 1.3 | - |
| Sanne Group | Support Services | 2,855 | 529 | 1.3 | - |
| Dialight | Electronic and Electrical Equipment | 2,796 | 227 | 1.3 | 1.2 |
| Savills | Real Estate/Real Estate Investment Trusts | 2,685 | 1,001 | 1.2 | - |
| Restore | Support Services | 2,588 | 387 | 1.2 | - |
| Dunelm Group | General Retailers | 2,556 | 1,717 | 1.1 | 1.1 |
| AVEVA Group | Software and Computer Services | 2,495 | 1,277 | 1.1 | 1.7 |
| Helical Bar | Real Estate/Real Estate Investment Trusts | 2,434 | 320 | 1.1 | 1.9 |
| RPS Group | Support Services | 2,422 | 386 | 1.1 | 1.6 |
| Brewin Dolphin Holdings | Financial Services | 2,374 | 747 | 1.1 | 0.9 |
| Senior | Aerospace and Defence | 2,291 | 961 | 1.0 | 1.0 |
| CVS Group | General Retailers | 2,212 | 531 | 1.0 | - |
| FDM Group | Software and Computer Services | 2,142 | 658 | 1.0 | - |
| Workspace Group | Real Estate/Real Estate Investment Trusts | 2,094 | 1,139 | 0.9 | 1.8 |
| ADV Medical Solutions | Health Care, Equipment and Services | 2,052 | 480 | 0.9 | - |
| GB Group | Software and Computer Services | 1,682 | 452 | 0.8 | - |
| EMIS Group | Software and Computer Services | 1,503 | 595 | 0.7 | - |
| Accesso Technology | Software and Computer Services | 1,450 | 322 | 0.7 | - |
| BCA Marketplace | Support Services | 1,440 | 1,404 | 0.7 | - |
| Tracsis | Software and Computer Services | 1,288 | 143 | 0.6 | - |
| Fevertree Drinks | Beverages | 1,213 | 1,118 | 0.5 | - |
| Abcam | Pharmaceuticals and Biotechnology | 1,134 | 1,704 | 0.5 | - |
| Total Portfolio | | 220,984 | | 100.0 | |

Breakdown by Index (Ex Cash)

| Classification | % of portfolio as at 30 September 2016 | % of portfolio as at 31 March 2016 |
|----------------|--|--|
| | FTSE 100 | - |
| FTSE 250* | 28% | 33% |
| NSCI | 64% | 67% |
| AIM | 8% | - |

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

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 facing the Company are unchanged since the date of the Annual Report and Accounts for the year ended 31 March 2016 and continue to be as set out in that report on page 11 and pages 41 to 43. These include, but are not limited to, liquidity and discount management, corporate ownership and management structure of Montanaro, poor investment performance, risk oversight, key man risk, operational risk and breach of regulation. The principal financial risks include, but are not limited to, credit risk, market price risk, interest rate risk, liquidity risk, gearing and use of derivatives.

Responsibility Statement

The Directors confirm that to the best of their knowledge:

- The condensed set of financial statements, which has been neither reviewed nor audited by the external Auditor, has been prepared in accordance with Financial Reporting Standard ("FRS") 104 'Interim Financial Reporting' and gives a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- This Half-Yearly Report includes a fair review of the information required by:
 - DTR 4.2.7R of the Disclosure Guidance 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, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
 - DTR 4.2.8R of the Disclosure Guidance 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 23 November 2016 and the above Responsibility Statement was signed on its behalf by Roger Cuming, Chairman.

Income Statement (unaudited)

for the six months to 30 September 2016

| | 6 months to 30 September 2016 | | | 6 months to 30 September 2015 | | | Year to 31 March 2016 | | |
|---|-------------------------------|------------------|----------------|-------------------------------|------------------|----------------|-----------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Gains on investments at fair value | - | 11,219 | 11,219 | - | 6,358 | 6,358 | - | 2,779 | 2,779 |
| Dividends and interest | 2,858 | - | 2,858 | 2,849 | - | 2,849 | 5,249 | - | 5,249 |
| Management fee | (237) | (711) | (948) | (238) | (715) | (953) | (480) | (1,439) | (1,919) |
| Other expenses | (250) | - | (250) | (252) | - | (252) | (515) | - | (515) |
| Movement in fair value of derivative financial instruments | - | 69 | 69 | - | 63 | 63 | - | 123 | 123 |
| Return on ordinary activities before finance costs and taxation | 2,371 | 10,577 | 12,948 | 2,359 | 5,706 | 8,065 | 4,254 | 1,463 | 5,717 |
| Interest payable and similar charges | (106) | (318) | (424) | (86) | (257) | (343) | (187) | (562) | (749) |
| Return on ordinary activities before taxation | 2,265 | 10,259 | 12,524 | 2,273 | 5,449 | 7,722 | 4,067 | 901 | 4,968 |
| Taxation (Note 3) | (4) | - | (4) | (3) | - | (3) | (3) | - | (3) |
| Return for the period, being total comprehensive income for the period | 2,261 | 10,259 | 12,520 | 2,270 | 5,449 | 7,719 | 4,064 | 901 | 4,965 |
| Return per Ordinary share | 6.8p | 30.6p | 37.4p | 6.8p | 16.3p | 23.1p | 12.1p | 2.7p | 14.8p |

The total column of this statement is the Statement of Total Comprehensive Income of the Company prepared in accordance with FRS 102 and 104. The supplementary revenue return and capital return columns are prepared in accordance with the Statement of Recommended Practice issued in November 2014 by the AIC ("AIC SORP").

All items in the above statement derive from continuing operations.

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

No operations were acquired or discontinued in the period.

Statement of Changes in Equity (unaudited)

for the six months to 30 September 2016

| | Called-up share capital | Share premium account | Capital redemption reserve | Special reserve* | Capital reserve* | Distributable revenue reserve* | Total equity shareholders' funds |
|---|-------------------------------|-----------------------------|----------------------------------|---------------------|---------------------|--------------------------------------|---|
| 6 months to 30 September 2016 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| As at 1 April 2016 | 3,348 | 19,307 | 1,362 | 4,642 | 155,743 | 6,607 | 191,009 |
| Fair value movement of investments | - | - | - | - | 11,219 | - | 11,219 |
| Costs allocated to capital | - | - | - | - | (1,029) | - | (1,029) |
| Dividends paid in the period (note 4) | - | - | - | - | - | (3,348) | (3,348) |
| Movement in fair value of derivative financial instruments | - | - | - | - | 69 | - | 69 |
| Net revenue for the period | - | - | - | - | - | 2,261 | 2,261 |
| As at 30 September 2016 | 3,348 | 19,307 | 1,362 | 4,642 | 166,002 | 5,520 | 200,181 |
| 6 months to 30 September 2015 | | | | | | | |
| As at 1 April 2015 | 3,348 | 19,307 | 1,362 | 4,642 | 154,842 | 5,522 | 189,023 |
| Fair value movement of investments | - | - | - | - | 6,358 | - | 6,358 |
| Costs allocated to capital | - | - | - | - | (972) | - | (972) |
| Dividends paid in the period | - | - | - | - | - | (2,979) | (2,979) |
| Movement in fair value of derivative financial instruments | - | - | - | - | 63 | - | 63 |
| Net revenue for the period | - | - | - | - | - | 2,270 | 2,270 |
| As at 30 September 2015 | 3,348 | 19,307 | 1,362 | 4,642 | 160,291 | 4,813 | 193,763 |
| Year to 31 March 2016 | | | | | | | |
| As at 1 April 2015 | 3,348 | 19,307 | 1,362 | 4,642 | 154,842 | 5,522 | 189,023 |
| Fair value movement of investments | - | - | - | - | 2,779 | - | 2,779 |
| Costs allocated to capital | - | - | - | - | (2,001) | - | (2,001) |
| Dividends paid in the year (note 4) | - | - | - | - | - | (2,979) | (2,979) |
| Movement in fair value of derivative financial instruments | - | - | - | - | 123 | - | 123 |
| Net revenue for the year | - | - | - | - | - | 4,064 | 4,064 |
| As at 31 March 2016 | 3,348 | 19,307 | 1,362 | 4,642 | 155,743 | 6,607 | 191,009 |

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

Balance Sheet (unaudited)
as at 30 September 2016

| | As at 30 September 2016 £'000 | As at 30 September 2015 £'000 | As at 31 March 2016 £'000 |
|--|--|--|------------------------------------|
| Fixed assets | | | |
| Investments at fair value (note 5) | 220,984 | 207,527 | 209,502 |
| Current assets | | | |
| Debtors | 650 | 1,635 | 988 |
| Cash at bank | 4,009 | 5,145 | 9,061 |
| | 4,659 | 6,780 | 10,049 |
| Creditors: amounts falling due within one year | | | |
| Other creditors | (390) | (343) | (401) |
| Revolving credit facility (note 5) | (25,000) | (20,000) | (28,000) |
| Interest rate swap (note 5) | (72) | - | (141) |
| | (25,462) | (20,343) | (28,542) |
| Net current liabilities | (20,803) | (13,563) | (18,493) |
| Total assets less current liabilities | 200,181 | 193,964 | 191,009 |
| Creditors: amounts falling due after more than one year | | | |
| Interest rate swap | - | (201) | - |
| Net assets | 200,181 | 193,763 | 191,009 |
| 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 | 166,002 | 160,291 | 155,743 |
| Distributable revenue reserve | 5,520 | 4,813 | 6,607 |
| Total equity shareholders' funds | 200,181 | 193,763 | 191,009 |
| Net asset value per Ordinary share | 598.0p | 578.8p | 570.6p |
| Number of Ordinary shares in issue | 33,475,958 | 33,475,958 | 33,475,958 |

Notes to the Financial Statements

as at 30 September 2016

1 Financial Information

The condensed financial statements for the six months ended 30 September 2016 comprise the statements together with the related notes. The Company applies FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' in its annual financial statements and the AIC SORP issued in November 2014. The condensed financial statements for the six months to 30 September 2016 have been prepared in accordance with FRS 104. The financial statements have been prepared on the basis of the same accounting policies as set out in the Company's Annual Report and Accounts for the year ended 31 March 2016.

The Company has elected to remove its cash flow statement, as permitted by FRS 102 paragraph 7.1.A. As stated in the Annual Report, the Company has early adopted the amendments made to FRS 102 paragraph 34.22.

The financial information contained in this Half-Yearly 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 2016 and 30 September 2015 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 2016 has been extracted from the latest published Annual Report and Accounts, 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.

2 Management Expenses and Finance Costs

Management fees and finance costs are allocated 75% to the capital reserve and 25% to the revenue account. Costs arising on early settlement of debt are allocated 100% to capital, in accordance with the requirements of the AIC SORP. All other expenses are allocated in full to the revenue account.

3 Tax Credit/Charge on Ordinary Activities

The tax charge for the six months to 30 September 2016 is £4,000 (six months to 30 September 2015: £3,000; year to 31 March 2016: £3,000). The tax charge comprises a corporation tax charge for the six months to 30 September 2016 of £nil (six months to 30 September 2015: £nil; year to 31 March 2016: £nil) and irrecoverable withholding tax suffered of £4,000 (six months to 30 September 2015: £3,000; year to 31 March 2016: £3,000).

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.

4 Dividends

| | 6 months to 30 September 2016 £'000 | Year to 31 March 2016 £'000 |
|--|--|--------------------------------------|
| Paid | | |
| 2016 Final dividend of 10.00p (2015: 8.90p) per Ordinary share | 3,348 | 2,979 |

5 Fair Value Hierarchy

In accordance with FRS 104, the Company must disclose the fair value hierarchy of financial instruments.

The fair value hierarchy consists of the following three levels:

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

- level 3 - prices) or indirectly (i.e. derived from prices); and Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

For financial instruments (within the scope of FRS 102), which are measured at fair value in the Balance Sheet, an entity shall disclose the following for each class of financial instruments:

- the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety;
- any significant transfers between level 1 and level 2 of the fair value hierarchy and the reasons for those transfers; and
- for fair value measurements in level 3 of the hierarchy, transfers into or out of level 3 and the reasons for those transfers.

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

| | 30 September 2016 | | | 31 March 2016 | | |
|--------------------|-------------------|---------|---------|---------------|---------|---------|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Equity investments | 220,984 | - | 220,984 | 209,502 | - | 209,502 |
| | 220,984 | - | 220,984 | 209,502 | - | 209,502 |

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

| | 30 September 2016 | | | 31 March 2016 | | |
|----------------------------------|-------------------|---------|--------|---------------|---------|--------|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Revolving Credit Loan Facility | - | 25,000 | 25,000 | - | 28,000 | 28,000 |
| Derivative financial instruments | - | 72 | 72 | - | 141 | 141 |
| | - | 25,072 | 25,072 | - | 28,141 | 28,141 |

There were no level 3 investments.

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.

7 Segmental Reporting

The Company has one reportable segment, investing in UK businesses.

8 Related Party Transactions

Under the Listing Rules, the Manager is regarded as a related party of the Company. However, the existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies and therefore, in terms of FRS 102, the Manager is not considered a related party. The relationship between the Company, its Directors and the Manager is disclosed in the Directors' Report in the Annual Report and Accounts for the year ended 31 March 2016.

The amounts charged by the Manager during the period were £948,000 (six months to 30 September 2015: £953,000; year to 31 March 2016: £1,919,000). At 30 September 2016, the amount due to the Manager, included in creditors, was £164,000.

Directors

Roger Cuming (Chairman)
Kate Bolsover
Kathryn Matthews
James Robinson

Principal Advisers

AIFM and Manager

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Company Secretary, Administrator and Registered Office

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Fax: 01392 253 282

Registrar

Capita Asset Services
Shareholder Services Department
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0871 664 0300
(calls will cost 12p per minute plus network charges)
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Depositary

BNY Mellon Trust & Depositary (UK) Limited
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

Custodian

Bank of New York Mellon SA/NV
London Branch
One Canada Square
London E14 5AL

Banker

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

Broker

Cenkos Securities plc
6-8 Tokenhouse Yard
London EC2R 7AS

Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
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

Sources of Further Information

Information on the Company, including this Half-Yearly Report is available on the Company's website:
www.montanaro.co.uk/muscit.

Key Dates

| | |
|----------|------------------------|
| March | Company year end |
| June | Annual results |
| July | Annual General Meeting |
| August | Dividend payable |
| November | Half-yearly results |

Frequency of NAV Publication

The Company's NAV is released to the LSE on a daily basis.

ISA Status

The Company is fully eligible for inclusion in ISAs.

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.