

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

Half-Yearly Report for the six months to 30 September 2017

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 outperform 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, 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 2017, this was any company below £1.43 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 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 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 £20 million was utilised via the Fixed Rate Term Loan as at 30 September 2017. Net gearing at that date amounted to 2.7%.

Highlights

for the six months to 30 September 2017

Results

	As at 30 September 2017	As at 31 March 2017	% Change
Ordinary share price	560.0p	510.0p	9.8
Net asset value ("NAV") per Ordinary share	701.9p	631.6p	11.1
Discount to NAV	20.2%	19.3%	
NSCI*	8,214.9	7,701.3	6.7

* Capital only.

	As at 30 September 2017	As at 31 March 2017	% Change
Gross assets	£258.5m	£232.2m	11.3
Net assets	£235.0m	£211.4m	11.1
Market capitalisation	£187.5m	£170.7m	9.8
Net gearing employed*	2.7%	2.7%	
Ongoing charges	0.8%	1.2%	
Portfolio turnover**	10.5%	31.5%	

* Borrowing net of cash.

** Calculated using average purchases and sales 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	9.8	20.0	25.8	51.8	89.2	489.5
NAV (excluding current period revenue)	11.6	17.4	34.7	52.1	101.6	603.8
Benchmark*	6.7	16.7	31.6	76.3	32.9	176.9

Total Return Percentage	6 months	1 year	3 year	5 year	10 year	Since launch
Share Price**	11.9	22.4†	33.5†	66.4†	132.4†	584.8
NAV**	12.8	19.2†	41.2†	64.5†	139.1†	703.8
Benchmark*	8.5	20.2	43.5	103.0	80.9	434.8

* 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 2017 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.

Manager's Review

Once again, the last six months has been a period dominated by politics. The most significant event was the decision by the British government to call a snap General Election, adding to the numerous European elections that were already diarised for 2017. Investors reacted to this announcement positively. A large majority government was predicted, one that would wash away Brexit uncertainty before negotiations with the European Union got underway. As this coincided with improving economic data, it was understandable that in April UK SmallCap enjoyed its best month of outperformance versus the All-Share since January 2014. Indeed, at this stage investors were so optimistic that net inflows were finally seen into UK Funds.

Alas, the subsequent hung Parliament in June put an end to this optimism. As other markets pushed through all-time highs, UK SmallCap continued to trade at its greatest P/E discount to LargeCap since 2001 - a remarkable 41%. Therefore, it was unsurprising that the SmallCap Effect returned with such a bang: the asset class outperformed its LargeCap peer by some 7% during the period under review.

During the six months ending 30 September 2017, the Company's NAV increased by 11%, an outperformance of 4% compared to the NSCI benchmark.

This strong performance was driven by a combination of factors. Firstly, the style headwinds which had been so prevalent during the latter half of 2016 began to dissipate. The final quarter of last year was a particularly torrid time for Quality investors as Low Quality and Value stocks soared, boosted by Donald Trump's election and a rising oil price. Thankfully, this momentum proved short-lived and High Quality has outperformed Low Quality over the last six months.

Stock selection has also aided performance, with few disappointments in the Portfolio and strong earnings momentum visible in many company results. Pleasingly, the changes made to the Portfolio in the Summer of 2016 appear to be bearing fruit. In particular, the reallocation to AIM companies has proven beneficial.

Outlook

Brexit and the accompanying uncertainty is a dampener to investment sentiment, both at the stock market and corporate levels. Uncertainty is never welcome. Investors should be more discerning than ever about the types of businesses they own. Indeed, while the second quarter of 2017 saw a good earnings season, things have not been as rosy since then: profit warnings in the UK are on the rise. In such an environment, the case for active management should strengthen. Quality companies with strong fundamentals, the like of which we hold in the Trust, should be well-rewarded if they can deliver on realistic expectations.

Although Sterling has strengthened during the period, the currency remains at historically low levels. Indeed, against a basket of currencies, Sterling is close to the bottoms of February 1993, December 1995 and January 2009. Some historical basis therefore exists for believing that Sterling could continue to rise from here. Clearly, this would benefit domestically focused companies at the expense of the large multinationals that are over-represented in the FTSE 100 index. This would support the case for continued outperformance by UK SmallCap.

Twenty Largest Holdings
as at 30 September 2017

Holding	Sector	Value £'000	Market cap £m	% of portfolio 30 September 2017	% of portfolio 31 March 2017
Marshalls	Construction and Materials	7,194	869	3.0	3.5
4imprint Group	Media	6,866	514	2.8	2.7
Cineworld Group	Travel and Leisure	6,775	1,856	2.8	3.0
Cranswick	Food Producers	6,642	1,503	2.7	2.9
Consort Medical	Health Care, Equipment and Services	6,522	535	2.7	2.9
Restore	Support Services	6,500	587	2.7	1.8
NCC Group	Software and Computer Services	6,495	599	2.7	1.8
Rathbone Brothers	Financial Services	6,485	1,329	2.7	2.8
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	6,324	1,901	2.6	3.3
Polypipe Group	Construction and Materials	6,324	836	2.6	2.3
Big Yellow Group	Real Estate/Real Estate Investment Trusts	6,245	1,200	2.6	3.0
Hilton Food Group	Food Producers	5,990	537	2.5	2.5
Renishaw	Electronic and Electrical Equipment	5,954	3,467	2.4	2.1
Clarkson	Industrial Transportation	5,722	865	2.3	2.4
Mears Group	Support Services	5,592	503	2.3	2.7
Shaftesbury	Real Estate/Real Estate Investment Trusts	5,588	2,835	2.3	2.7
Brewin Dolphin	Financial Services	5,586	989	2.3	1.8
Smart Metering Systems	Support Services	5,560	626	2.3	2.1
Diploma	Support Services	5,320	1,205	2.2	2.2
Dignity	General Retailers	5,189	1,151	2.1	2.5
Twenty Largest Holdings		122,873		50.6	

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

Breakdown by Index (Ex Cash)

Classification	% of portfolio	% of portfolio
	as at 30 September 2017	as at 31 March 2017
FTSE 250*	9%	12%
NSCI	66%	71%
UK AIM	23%	15%
Other	2%	2%

* 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 2017 and continue to be as set out in that report on pages 10 and 11 and pages 43 to 45. 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 and gearing.

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 24 November 2017 and the above Responsibility Statement was signed on its behalf by Roger Cuming, Chairman.

Condensed Income Statement (unaudited)

for the six months to 30 September 2017

	6 months to 30 September 2017			6 months to 30 September 2016			Year to 31 March 2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments at fair value through profit or loss	-	25,078	25,078	-	11,219	11,219	-	22,299	22,299
Income	3,146	-	3,146	2,858	-	2,858	4,535	-	4,535
Management fee	(162)	(485)	(647)	(237)	(711)	(948)	(480)	(1,439)	(1,919)
Other expenses	(247)	-	(247)	(250)	-	(250)	(495)	-	(495)
Movement in fair value of derivative financial instruments	-	-	-	-	69	69	-	141	141
Net return before finance costs and taxation	2,737	24,593	27,330	2,371	10,577	12,948	3,560	21,001	24,561
Interest payable and similar charges	(74)	(223)	(297)	(106)	(318)	(424)	(193)	(579)	(772)
Net return before taxation	2,663	24,370	27,033	2,265	10,259	12,524	3,367	20,422	23,789
Taxation (Note 3)	(6)	-	(6)	(4)	-	(4)	(10)	-	(10)
Net return after taxation	2,657	24,370	27,027	2,261	10,259	12,520	3,357	20,422	23,779
Return per Ordinary share: Basic and diluted	7.9p	72.8p	80.7p	6.8p	30.6p	37.4p	10.0p	61.0p	71.0p

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

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

There are no items of other comprehensive income and therefore the net return after taxation is also the total comprehensive income for the period.

No operations were acquired or discontinued in the period.

Condensed Statement of Changes in Equity (unaudited)

for the six months to 30 September 2017

	Called-up share capital	Share premium account	Capital redemption reserve	Special reserve*	Capital reserve*	Distributable revenue reserve*	Total equity shareholders' funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
6 months to 30 September 2017							
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	-	-	-	-	25,078	-	25,078
Costs allocated to capital	-	-	-	-	(708)	-	(708)
Net revenue for the period	-	-	-	-	-	2,657	2,657
	-	-	-	-	24,370	2,657	27,027
Dividends paid in the period (note 4)	-	-	-	-	-	(3,515)	(3,515)
As at 30 September 2017	3,348	19,307	1,362	4,642	200,535	5,758	234,952
6 months to 30 September 2016							
As at 31 March 2016	3,348	19,307	1,362	4,642	155,743	6,607	191,009
Total comprehensive income:							
Fair value movement of investments	-	-	-	-	11,219	-	11,219
Costs allocated to capital	-	-	-	-	(1,029)	-	(1,029)
Movement in fair value of derivative financial instruments	-	-	-	-	69	-	69
Net revenue for the period	-	-	-	-	-	2,261	2,261
	-	-	-	-	10,259	2,261	12,520
Dividends paid in the period	-	-	-	-	-	(3,348)	(3,348)
As at 30 September 2016	3,348	19,307	1,362	4,642	166,002	5,520	200,181
Year to 31 March 2017							
As at 31 March 2016	3,348	19,307	1,362	4,642	155,743	6,607	191,009
Total comprehensive income:							
Fair value movement of investments	-	-	-	-	22,299	-	22,299
Costs allocated to capital	-	-	-	-	(2,018)	-	(2,018)
Movement in fair value of derivative financial instruments	-	-	-	-	141	-	141
Net revenue for the year	-	-	-	-	-	3,357	3,357
	-	-	-	-	20,422	3,357	23,779
Dividends paid in the year (note 4)	-	-	-	-	-	(3,348)	(3,348)
As at 31 March 2017	3,348	19,307	1,362	4,642	176,165	6,616	211,440

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

Condensed Balance Sheet (unaudited)
as at 30 September 2017

	As at 30 September 2017 £'000	As at 30 September 2016 £'000	As at 31 March 2017 £'000
Fixed assets			
Investments at fair value (note 5)	242,685	220,984	217,475
Current assets			
Debtors	2,082	650	479
Cash at bank	13,688	4,009	14,261
	15,770	4,659	14,740
Creditors: amounts falling due within one year			
Other creditors	(3,503)	(390)	(775)
Revolving credit facility	-	(25,000)	-
Interest rate swap	-	(72)	-
	(3,503)	(25,462)	(775)
Net current assets/(liabilities)	12,267	(20,803)	13,965
Total assets less current liabilities	254,952	200,181	231,440
Creditors: amounts falling due after more than one year			
Fixed rate credit facility	(20,000)	-	(20,000)
Net assets	234,952	200,181	211,440
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	200,535	166,002	176,165
Distributable revenue reserve	5,758	5,520	6,616
Total equity shareholders' funds	234,952	200,181	211,440
Net asset value per Ordinary share	701.9p	598.0p	631.6p
Number of Ordinary shares in issue	33,475,958	33,475,958	33,475,958

Notes to the Financial Statements

as at 30 September 2017

1 Financial Information

The condensed financial statements for the six months ended 30 September 2017 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 and updated in January 2017. The condensed financial statements for the six months to 30 September 2017 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 2017.

Following the adoption of FRS 102, the Company elected not to present the statement of cash flows per paragraph 7.1.A.

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 2017 and 30 September 2016 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 2017 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 2017 is £6,000 (six months to 30 September 2016: £4,000; year to 31 March 2017: £10,000). The tax charge comprises a corporation tax charge for the six months to 30 September 2017 of £nil (six months to 30 September 2016: £nil; year to 31 March 2017: £nil) and irrecoverable withholding tax suffered of £6,000 (six months to 30 September 2016: £4,000; year to 31 March 2017: £10,000).

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

5 Fair Value Hierarchy

For investments actively traded in organised financial markets, fair value is generally determined by reference to quoted market bid prices or closing prices for SETS (London Stock Exchange's electronic trading service) stocks sourced from the London Stock Exchange on the Balance Sheet date, without adjustment for transaction costs necessary to realise the asset.

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

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

	30 September 2017			31 March 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Equity investments	242,685	-	242,685	217,475	-	217,475
	242,685	-	242,685	217,475	-	217,475

There are no financial liabilities measured a fair value for the period ended 30 September 2017 (31 March 2017: none).

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, being investing primarily in a portfolio of quoted UK small companies.

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 2017.

The amounts charged by the Manager during the period were £647,000 (six months to 30 September 2016: £948,000; year to 31 March 2017: £1,919,000). At 30 September 2017, the amount due to the Manager, included in creditors, was £129,000. From 1 April 2017, the management fee reduced from 0.85% to 0.50% per annum of the gross assets of the Company.

Directors

Roger Cuming (Chairman)
Kate Bolsover
Arthur Copple
James Robinson

Principal Advisers

AIFM and Manager

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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

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.