

MONTANARO

European Smaller Companies Trust plc

Interim Report 2019

The investment objective of **Montanaro European Smaller Companies Trust plc** ('the Company') is to achieve capital growth by investing principally in Continental European quoted smaller companies.

The Company's benchmark index is the MSCI Europe SmallCap (ex UK) Index (in sterling terms).

The Company was launched in May 1981. Its current objective and investment policy were adopted in September 2006. Its Ordinary Shares are listed on the Main Market of the London Stock Exchange.

Highlights	1
Chairman's Statement	2
Portfolio Summary	3
Statement of Principal Risks and Uncertainties	4
Directors' Responsibility Statement	4
Condensed Statement of Comprehensive Income (unaudited)	5
Condensed Balance Sheet (unaudited)	6
Condensed Statement of Changes in Equity (unaudited)	7
Condensed Statement of Cash Flows (unaudited)	8
Notes to the Accounts (unaudited)	9
Alternative Performance Measures	14
Shareholder Information	16
Directors and Advisers	17
Glossary of terms	18

Highlights (unaudited)

for the six months ended 30 September 2019

Performance

Capital Returns% ⁽²⁾	6 Month	1 year	3 year	5 year	10 year	MAM*
Ordinary share price	14.9	6.0	64.2	115.8	210.8	217.5
Net Asset Value ('NAV')**	8.2	3.4	43.8	109.2	194.4	218.0
Benchmark (Composite) ^{(1)**}	4.7	-5.0	18.8	64.4	119.2	125.3

Total Returns% ⁽²⁾	6 Month	1 year	3 year	5 year	10 year	MAM*
Ordinary share price	15.7	6.9	69.2	128.7	252.3	281.8
NAV**	8.3	4.0	47.3	119.8	228.9	269.4
Benchmark (Composite) ^{(1)**}	6.5	-3.1	25.7	80.1	164.1	190.0

Sources: Morningstar Direct, Association of Investment Companies ('AIC'), MAM.

	As at 30 September 2019	As at 30 September 2018	12 month % change	As at 31 March 2019 (Audited)	6 month % change
Ordinary share price	1,022.5p	965.0p	6.0	890.0p	14.9
NAV per Ordinary share**	1,094.1p	1,058.6p	3.4	1,010.8p	8.2
Discount to NAV ⁽²⁾	6.5%	8.8%		12.0%	
Gross assets** (£'000s)	191,889	186,026	3.2	177,713	8.0
Net assets** (£'000s)	183,079	177,139	3.4	169,141	8.2
Market capitalisation** (£'000s)	171,098	161,476	6.0	148,926	14.9
Net gearing employed ⁽²⁾	0.7%	0.3%		0.7%	

	6 months ended 30 September 2019	6 months ended 30 September 2018	12 month % change	12 months ended 31 March 2019 (Audited)	6 month % change
Revenue return per Ordinary share	11.7p	9.1p	28.6	9.6p	21.9
Dividend per Ordinary share	2.0p	1.75p		9.0p	
Ongoing charges (annualised) ⁽²⁾	1.2%	1.2%		1.2%	
Portfolio turnover (rolling twelve months)**	16%	15%		10%	

* From 5 September 2006, when Montanaro Asset Management ('MAM') were appointed as Investment Manager.

** Details provided in the glossary on pages 18-20.

(1) From 5 September 2006, the benchmark was the MSCI Europe SmallCap Index. The benchmark was changed on 1 June 2009 to the MSCI Europe SmallCap (ex UK) Index (in sterling terms).

(2) Refer to Alternative Performance Measures on pages 14-15.

Chairman's Statement

Performance

In the first six months of the fiscal year the net asset value of your company rose by 8.2% to 1,094.1p per share thus outperforming the Benchmark (MSCI Europe SmallCap (ex UK)) which rose by 4.7%. Shareholders also benefited from a narrowing of the discount from 12% to 6.5%. As a result, the share price of the Company rose by 14.9% during the period, providing a total return of 15.7%.

You will notice that we have changed the preceding "Highlights" page to provide shareholders with a quick and easy summary of the performance (both capital and total return) and key metrics of your Company on a consistent basis, which we hope you will find useful.

Earnings and Dividends

Revenue earnings per share for the period were 11.7p (2018: 9.1p). The Board has declared an interim dividend of 2.0p per Ordinary Share payable on 3 January 2020 to shareholders on the register on 6 December 2019.

Borrowings

At the end of the period, the Company had gearing, net of cash, of 0.7% compared to 0.7% at 31 March 2019.

Outlook

The last six months have seen a further deterioration of global economic growth indicators alongside rising geopolitical tensions. No-one knows if this will continue and how Central Banks and Governments will react should it do so. Brexit remains a source of ongoing uncertainty.

However, we are confident that your portfolio consists of some of the highest quality, growing companies in Europe. They continue to produce high returns on capital with solid balance sheets and good cash generation. The combination of resilient structural growth drivers and experienced management teams gives us confidence for the future. It is worth highlighting that, by focusing on such companies, Shareholders have received strong absolute and relative returns over several years despite typically lackluster global economic conditions.

It is particularly pleasing to note that as well as being 5 star rated by Morningstar your Company won the Citywire European Equities Investment Trust Award in October 2019. Congratulations go to the whole team at Montanaro.

R M CURLING

Chairman

20 November 2019

Portfolio Summary

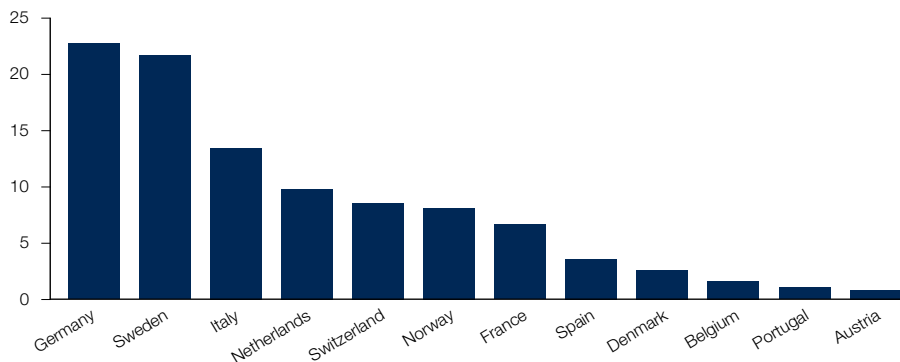
Twenty Largest Holdings
as at 30 September 2019

Holding	Country	Value £'000	% of investment portfolio	% of net assets
MTU Aero Engines	Germany	7,554	4.1	4.1
Fortnox	Sweden	7,499	4.1	4.1
CTS Eventim	Germany	7,064	3.8	3.9
IMCD	Netherlands	6,000	3.3	3.3
Sartorius Stedim	France	5,101	2.8	2.8
Nemetschek	Germany	4,951	2.7	2.7
VZ Holding	Switzerland	4,843	2.6	2.6
Rational	Germany	4,658	2.5	2.5
SimCorp	Denmark	4,618	2.5	2.5
MIPS	Sweden	4,574	2.5	2.5
Merlin Properties	Spain	4,531	2.5	2.5
Belimo Holding	Switzerland	4,461	2.4	2.4
Euronext	France	4,306	2.3	2.4
Loomis	Sweden	4,283	2.3	2.3
Elektro	Sweden	4,269	2.3	2.3
Industria Macchine Automatiche	Italy	4,261	2.3	2.3
Recordati	Italy	4,180	2.3	2.3
Intertrust	Netherlands	3,958	2.2	2.2
Marr	Italy	3,904	2.1	2.1
Marel	Netherlands	3,717	2.0	2.0
Twenty Largest Holdings		98,732	53.6%	53.8%

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

Geographical Analysis as at 30 September 2019

% of investment portfolio



Source: Bloomberg.

Statement of Principal Risks and Uncertainties

Most of the principal risks that could threaten the Company's objective, strategy, future returns and solvency are market related and comparable to those of other investment trusts investing primarily in quoted securities. The principal risks faced by the Company are investment and strategic, gearing, financial, discount volatility, regulatory, operational and manager risks. These risks, and the way in which they are mitigated, are described in more detail under the heading Principal Risks and Uncertainties and Risk Mitigation within the Business Model and Strategy in the Company's Annual Report for the year ended 31 March 2019. The Company's principal risks and uncertainties have not changed materially since the date of that report and are not expected to change materially for the remaining six months of the Company's Financial year.

Directors' Responsibility Statement

in respect of the Interim Report

We confirm that to the best of our knowledge:

- the condensed set of Financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Chairman's Statement (constituting the Interim Management Report) includes a fair review of the information required by the Disclosure Guidance and Transparency Rules ('DTR') 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the financial statements;
- the Statement of Principal Risks and Uncertainties shown above is a fair review of the information required by DTR 4.2.7R; and
- the Chairman's Statement together with the condensed set of financial statements include a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Company during the period, and any changes in the related party transactions described in the last Annual Report that could do so.

The Interim Report and Accounts were approved by the Board and the above responsibility statement was signed on its behalf by:

R M CURLING

Chairman

20 November 2019

Condensed Statement of Comprehensive Income (unaudited)

for the six months ended 30 September 2019

Notes	Six months to 30 September 2019			Six months to 30 September 2018			Year to 31 March 2019 (Audited)			
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	
Gains on investments held at fair value	-	13,742	13,742	-	26,539	26,539	-	19,215	19,215	
Exchange gains	-	15	15	-	34	34	-	67	67	
	-	13,757	13,757	-	26,573	26,573	-	19,282	19,282	
Revenue										
Investment income	3	2,799	-	2,799	2,363	-	2,363	3,082	-	3,082
Total income		2,799	13,757	16,556	2,363	26,573	28,936	3,082	19,282	22,364
Expenditure										
Management expenses	4	(279)	(518)	(797)	(245)	(454)	(699)	(481)	(892)	(1,373)
Other expenses		(308)	-	(308)	(336)	-	(336)	(676)	-	(676)
Total expenditure		(587)	(518)	(1,105)	(581)	(454)	(1,035)	(1,157)	(892)	(2,049)
Profit before finance costs and tax		2,212	13,239	15,451	1,782	26,119	27,901	1,925	18,390	20,315
Finance costs		(23)	(43)	(66)	(84)	(155)	(239)	(105)	(196)	(301)
Profit before tax		2,189	13,196	15,385	1,698	25,964	27,662	1,820	18,194	20,014
Tax		(234)	-	(234)	(170)	-	(170)	(227)	-	(227)
Total comprehensive income		1,955	13,196	15,151	1,528	25,964	27,492	1,593	18,194	19,787
Return per share	5	11.7p	78.9p	90.5p	9.1p	155.2p	164.3p	9.6p	108.7p	118.2p

The total column of this statement represents the Company's Income Statement and Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards.

The supplementary revenue return and capital return columns are both prepared under guidance published by the AIC.

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

No operations were acquired or discontinued during the period.

Condensed Balance Sheet (unaudited)

as at 30 September 2019

	Notes	As at 30 September 2019 £'000	As at 30 September 2018 £'000	As at 31 March 2019 (Audited) £'000
Non-current assets				
Investments held at fair value through profit and loss	7	183,843	177,338	169,828
Current assets				
Trade and other receivables		841	638	646
Cash and cash equivalents		7,596	8,391	7,443
		8,437	9,029	8,089
Total assets		192,280	186,367	177,917
Current liabilities				
Trade and other payables		(391)	(341)	(204)
Interest-bearing bank loans	8	-	-	-
		(391)	(341)	(204)
Non-current liabilities				
Interest-bearing bank loans	8	(8,810)	(8,887)	(8,572)
Total liabilities		(9,201)	(9,228)	(8,776)
Net assets		183,079	177,139	169,141
Capital and reserves				
Called-up share capital		8,724	8,724	8,724
Share premium account		5,283	5,283	5,283
Capital redemption reserve		2,212	2,212	2,212
Capital reserve		162,306	156,880	149,110
Revenue reserve		4,554	4,040	3,812
Shareholders' funds		183,079	177,139	169,141
NAV per share	9	1,094.1p	1,058.6p	1,010.8p

Condensed Statement of Changes in Equity (unaudited)

for the six months ended 30 September 2019

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 April 2019	8,724	5,283	2,212	149,110	3,812	169,141
Total comprehensive income	–	–	–	13,196	1,955	15,151
Dividends paid	–	–	–	–	(1,213)	(1,213)
Balance at 30 September 2019	8,724	5,283	2,212	162,306	4,554	183,079

for the six months ended 30 September 2018 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 April 2018	8,724	5,283	2,212	130,916	3,641	150,776
Total comprehensive income	–	–	–	25,964	1,528	27,492
Dividends paid	–	–	–	–	(1,129)	(1,129)
Balance at 30 September 2018	8,724	5,283	2,212	156,880	4,040	177,139

for the year ended 31 March 2019 (Audited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 April 2018	8,724	5,283	2,212	130,916	3,641	150,776
Total comprehensive income	–	–	–	18,194	1,593	19,787
Dividends paid	–	–	–	–	(1,422)	(1,422)
Balance at 31 March 2019	8,724	5,283	2,212	149,110	3,812	169,141

Condensed Statement of Cash Flows (unaudited)

for the six months ended 30 September 2019

	Six months to 30 September 2019 £'000	Six months to 30 September 2018 £'000	Year to 31 March 2019 (Audited) £'000
Net cash inflow from operating activities	1,148	2,185	1,877
Cash outflow from financing activities	(1,264)	(14,784)	(15,166)
	(116)	(12,599)	(13,289)
Exchange gains	269	416	158
Increase/(decrease) in cash and cash equivalents	153	(12,183)	(13,131)

Reconciliation of profit before finance costs and tax to net cash inflow from operating activities

Profit before finance costs and tax	15,451	27,901	20,315
Gains on investments held at fair value	(13,742)	(26,539)	(19,215)
Exchange (gains)	(15)	(34)	(67)
Withholding tax	(297)	(232)	(204)
Purchases of investments	(13,901)	(22,550)	(35,690)
Sales of investments	13,575	23,479	36,805
Changes in working capital and other non-cash items	77	160	(67)
Net cash inflow from operating activities	1,148	2,185	1,877

Notes to the Accounts (unaudited)

- The condensed unaudited financial statements have been prepared in accordance with International Financial Reporting Standard ('IFRS') IAS 34 'Interim Financial Reporting' and the accounting policies set out in the statutory accounts of the Company for the year ended 31 March 2019. The condensed financial statements do not include all of the information required for a complete set of IFRS financial statements and should be read in conjunction with the financial statements of the Company for the year ended 31 March 2019, which were prepared under full IFRS requirements, to the extent that they have been adopted by the European Union.
- Earnings for the first six months should not be taken as a guide to the results for the full year.
- Income for the period is derived from:

	Six months to 30 September 2019 £'000	Six months to 30 September 2018 £'000	Year ended 31 March 2019 (Audited) £'000
Overseas dividend income	2,799	2,363	3,082

- Management expenses:

	Six months to 30 September 2019			Six months to 30 September 2018			Year to 31 March 2019 (Audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	270	502	772	236	438	674	463	860	1,323
AIFM fee	9	16	25	9	16	25	18	32	50
	279	518	797	245	454	699	481	892	1,373

MAM receives an investment management fee of 0.9% per annum of the Company's market capitalisation (payable monthly in arrears).

MAM is also entitled to a fee of £50,000 per annum for acting as the Company's Alternative Investment Fund Manager ('AIFM').

- Earnings per Ordinary Share is based on a weighted average of 16,733,260 Ordinary Shares in issue during the period (year ended 31 March 2019: 16,733,260 and six months ended 30 September 2018: 16,733,260), excluding those shares bought back and held in treasury.

Notes to the Accounts (unaudited) continued

6. The interim dividend relating to the year ending 31 March 2020 of 2.0p per Ordinary Share will be paid on 3 January 2020 to shareholders on the register on 6 December 2019. In accordance with IFRS, this dividend has not been recognised in these financial statements. The ex-dividend date for this payment is 5 December 2019.

A final dividend relating to the year ended 31 March 2019 of 7.25p per Ordinary Share was paid during the six months to 30 September 2019 and amounted to £1,213,161.

7. Investments at Fair Value Through Profit and Loss:

	30 September 2019 £'000	30 September 2018 £'000	31 March 2019 £'000 (Audited)
Opening book cost	107,172	93,523	93,523
Holding gains	62,656	58,205	58,205
Opening fair value	169,828	151,728	151,728
Purchases at cost	14,060	22,550	35,690
Sales – proceeds	(13,787)	(23,479)	(36,805)
– gains on sales	4,789	9,683	14,764
Holding gains	8,953	16,856	4,451
Closing fair value	183,843	177,338	169,828
Closing book cost	112,234	102,277	107,172
Holding gains	71,609	75,061	62,656
Closing valuation	183,843	177,338	169,828

8. Interest-Bearing Bank Loans:

	30 September 2019 £'000	30 September 2018 £'000	31 March 2019 £'000 (Audited)
Opening balance	8,572	21,903	21,903
Loan repaid during the period	–	(13,413)	(13,393)
Amortisation of set-up costs	5	15	45
Non-cash foreign currency movements	233	382	17
	8,810	8,887	8,572

The Company's fixed rate loan facilities totalling €25 million matured on 13 September 2018. The Company refinanced €10 million by entering into a five year secured loan at a fixed rate of 1.33% per annum with ING Bank N.V. ('ING'). This loan will mature on 13 September 2023. The Company's other fixed rate loan totalling €15 million was repaid. The Company has also entered into a five year secured revolving loan facility with ING, for €15 million which will also mature on 13 September 2023.

Notes to the Accounts (unaudited) continued

8. Interest-Bearing Bank Loans (continued)
As at 30 September 2019, no amounts were drawn down under this facility.

Under the bank covenants relating to these facilities, the Company is to ensure that at all times the total borrowings of the Company do not exceed 40% of the Adjusted NAV (as defined in the facility agreements) and that the Adjusted NAV does not fall below £45 million. The Company met all covenant conditions during the period.

The fair value of the fixed rate loans is show in note 10.

9. The NAV per Ordinary Share is based on 16,733,260 Ordinary Shares in issue at the end of the period (31 March 2019: 16,733,260 and 30 September 2018: 16,733,260), excluding those shares bought back and held in treasury. As at 30 September 2019 there were 715,000 Ordinary Shares held in treasury (31 March 2019: 715,000 and 30 September 2018: 715,000).
10. The Company held the following categories of financial instruments at the period end:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
30 September 2019				
Investments	183,843	–	–	183,843
Loans	–	(8,831)	–	(8,831)
30 September 2018				
Investments	177,338	–	–	177,338
Loans	–	(8,883)	–	(8,883)
31 March 2019 (Audited)				
Investments	169,828	–	–	169,828
Loans	–	(8,596)	–	(8,596)

The table above provides an analysis of financial instruments based on the fair value hierarchy described below and which reflects the reliability and significance of the information used to measure their fair value. The levels are determined by the lowest significant applicable input:

Level 1 reflects financial instruments quoted in an active market.

Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only observable market data.

Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data.

Notes to the Accounts (unaudited) continued

10. (continued)

There were no transfers between levels during the period ended 30 September 2019 (year ended 31 March 2019 and period ended 30 September 2018: None).

Listed investments held (see note 7) are valued at fair value through profit or loss. For listed securities this is either bid price or the last traded price depending on the convention of the exchange on which the investment is listed. The fair value of the loans is calculated using a discounted cash flow technique based on relevant current interest rates compared to their value as stated on the Balance Sheet at amortised cost of £8,810,000 (31 March 2019: £8,572,000 and 30 September 2018: £8,887,000). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 6.

Other aspects of the Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 March 2019.

11. Rates of exchange (to Sterling):

	30 September 2019 £'000	30 September 2018 £'000	31 March 2019 £'000 (Audited)
Danish Krone	8.44	8.37	8.66
Euro	1.13	1.12	1.16
Norwegian Krone	11.19	10.62	11.22
Swedish Krona	12.12	11.60	12.09
Swiss Franc	1.23	1.27	1.30

12. The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the view that the Company is engaged in a single segment of business, of investing in European quoted smaller companies, and that therefore the Company has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Company. The key measure of performance used by the Board to assess the Company's performance is the total return on the Company's net asset value, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

Notes to the Accounts (unaudited) continued

13. Going Concern:

In assessing the going concern basis of accounting, the Directors have had regard to the guidance issued by the Financial Reporting Council and have undertaken a rigorous review of the Company's ability to continue as a going concern. They have considered the current cash position of the Company, the availability of the borrowing facilities to 13 September 2023, compliance with their covenants, the Company's other liabilities and forecast revenues. The Directors have also taken into account the Company's investment policy, which is subject to regular Board monitoring processes and is designed to ensure that the Company is invested mainly in liquid, listed securities. The Company retains title to all assets held by its custodian and has financial covenants, relating to its bank borrowings with which it complied during the period.

The Directors believe, in light of the controls and review processes noted above and bearing in mind the nature of the Company's business and assets and liabilities, that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the accounts. For this reason, they continue to adopt the going concern basis in preparing the accounts.

14. These are not statutory accounts in terms of Section 434 of the Companies Act 2006 and have not been audited or reviewed by the Company's Auditor. The information for the year ended 31 March 2019 has been extracted from the latest published financial statements and which have been filed with the Registrar of Companies. The Auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006. No statutory accounts in respect of any period after 31 March 2019 have been reported on by the Company's Auditor or delivered to the Registrar of Companies.

Alternative Performance Measures (“APMs”)

The Company uses the following APMs:

Capital Return – NAV and Share Price Returns

Capital returns measure the effect of any rise or fall in the share price or NAV, excluding any dividends paid. As at 30 September 2019, the 6 month NAV Capital Return was +8.2%, and the 6 month Ordinary share price Capital Return was +14.9%, as shown in the highlights on page 1.

Total Return – NAV and Share Price Returns

Total returns measure the effect of any rise or fall in the share price or NAV, plus dividends paid which are reinvested at the prevailing NAV or share price on the ex-dividend date. As at 30 September 2019, the 6 month NAV Total Return was +8.3%, and the 6 month Ordinary share price Total Return was +15.7%, as shown in the highlights on page 1.

Discount or Premium to NAV

If the share price of an Investment Trust is less than its NAV per share, the shares are trading at a discount. If the share price is greater than the Net Asset Value per share, the shares are trading at a premium.

As at 30 September 2019, the NAV per share was 1,094.1p and the share price was 1,022.5p. The discount is therefore calculated at 6.5% as shown in the highlights on page 1.

Net gearing employed

Unlike open-ended investment companies, Investment Trusts have the ability to borrow to invest. This term is used to describe the level of borrowings that an Investment Trust has undertaken, and is stated as a percentage of shareholders' funds. The higher the level of borrowings, the higher the gearing ratio.

Net gearing is calculated as total debt, net of cash and cash equivalents, as a percentage of the total shareholders' funds. This is a change from the previous calculation basis and as such the comparative figures for September 2018 and March 2019 have been re-presented in the highlights on page 1.

As at 30 September 2019, interest bearing bank loans were (£8,810,000), cash and cash equivalents were £7,596,000 and net assets were £183,079,000. As at 30 September 2019, Gearing is therefore equal to 0.7% as shown in the highlights on page 1.

Alternative Performance Measures (“APMs”) continued

Ongoing charges (expressed as a percentage)

Ongoing charges are the Company's revenue and capital expenses (excluding finance costs and certain non-recurring items) expressed as a percentage of the average daily net assets of the Company during the period.

Ongoing charges calculation

	Six months to 30 September 2019 £'000	Six months to 30 September 2018 £'000	31 March 2019 £'000 (Audited)
Total expenditure	1,105	1,035	2,049
Less negative interest	(26)	–	(103)
Less non-recurring costs	–	–	–
Total	(a) 1,079	1,035	1,946
Average daily net assets	(b) 184,753	166,944	164,541
Ongoing charges (c = a/b)*	(c) 1.2%	1.2%	1.2%

* 30 September 2019 and 30 September 2018 figures annualised for comparison (c = (a/b) x 2).

Shareholder Information

Dividends

Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Mandates can be obtained from Equiniti Limited on request at the address shown on page 17.

Change of Address

Communications with shareholders are mailed to the address shown on the share register. In the event of a change of address or other amendment this should be notified to Equiniti Limited under the signature of the registered holder.

Frequency of NAV Publication

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

ISA Status

The Company's shares are fully eligible for inclusion in ISAs.

Sources of Further Information

The Company's share price is listed in the Financial Times under Investment Companies, and in other newspapers. Information on the Company is also available on the Manager's website: www.montanaro.co.uk

Warning to Shareholders – Beware of Share Fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

If you receive unsolicited investment advice or requests:

- Check the Financial Services Register at www.fca.org.uk to see if the person or firm contacting you is authorised by the Financial Conduct Authority ('FCA').
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice.

If you are approached by fraudsters please tell the FCA by using the share fraud reporting form at www.fca.org.uk/scams where you can find out more about investment scams. You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

Directors and Advisers

Montanaro European Smaller Companies Trust plc

Registered in Scotland No. SC074677

An investment company as defined under Section 833 of the Companies Act 2006.

Directors

R M Curling (Chairman)

C A Roxburgh

M R Somerset Webb

Investment Manager and Alternative Investment Fund Manager ('AIFM')

MONTANARO ASSET MANAGEMENT LIMITED

53 Threadneedle Street

London EC2R 8AR

Tel: 020 7448 8600

Fax: 020 7448 8601

Email: enquiries@montanaro.co.uk

www.montanaro.co.uk

Administrator

LINK ALTERNATIVE FUND

ADMINISTRATORS LIMITED

Beaufort House

51 New North Road

Exeter EX4 4EP

Company Secretary

LINK COMPANY MATTERS LIMITED

65 Gresham Street

London EC2V 7NQ

Tel: 020 7954 9547

Email: mesct@linkgroup.co.uk

Registered Office

16 Charlotte Square

Edinburgh EH2 4DF

Registrar

EQUINITI LIMITED

Aspect House

Spencer Road

Lancing

West Sussex BN99 6DA

Registrar's Shareholder Helpline

Tel: 0371 384 20300**

Registrar's Broker Helpline

Tel: 0906 559 6025

** Lines are open 8.30am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

Stockbroker

CENKOS SECURITIES PLC

6.7.8 Tokenhouse Yard

London EC2R 7AS

Depositary

THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED

One Canada Square

London E14 5AL

Custodian

BANK OF NEW YORK MELLON SA/NV

One Canada Square

London E14 5AL

Banker

ING BANK N.V. (LONDON BRANCH)

60 London Wall

London EC2M 5TQ

Auditor

ERNST & YOUNG LLP

Atria One

144 Morrison Street

Edinburgh EH3 8EX

Solicitor

DICKSON MINTO W.S.

16 Charlotte Square

Edinburgh EH2 4DF

Glossary of terms

AIFMD

Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires that all investment vehicles in the European Union, including Investment Trusts, must, with effect from 22 July 2014, appoint a Depositary and an AIFM. The Board of Directors of an Investment Trust, nevertheless, remains fully responsible for all aspects of the Company's strategy, operations and compliance with regulations.

AIC

The Association of Investment Companies is the trade body for Closed-end Investment Companies (www.theaic.co.uk).

Benchmark

This is a measure against which an Investment Trust's performance is compared. The benchmark of the Company is the MSCI Europe SmallCap (ex UK) Index (capital return in Sterling terms). The index averages the performance of a defined selection of companies listed in European smaller company stock markets and gives an indication of how those markets have performed in any period.

Closed-end Investment Company

A company, including an Investment Trust, with a fixed issued ordinary share capital which is traded on an exchange at a price not necessarily related to the NAV of the company and where shares can only be issued or bought back by the company in certain circumstances. This contrasts with an open-ended investment company, which has units not traded on an exchange but issued or bought back from investors at a price directly related to the NAV.

Custodian

A specialised Financial institution responsible for safeguarding, worldwide, the listed securities and certain cash assets of the Company, as well as the income arising therefrom, through provision of custodial, settlement and associated services. The Company's Custodian is The Bank of New York Mellon (International) Limited.

Depositary

Under AIFMD rules applying from 22 July 2014, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. The Depositary has strict liability for loss of any investments or other assets where it has safekeeping duties. The Depositary's oversight duties include, but are not limited to, oversight of share buybacks, dividend payments and adherence to investment limits. The Company's Depositary is The Bank of New York Mellon (International) Limited.

Glossary of terms continued

Dividend

The income from an investment. Some Investment Trusts pay dividends on a quarterly or monthly basis. Montanaro European Smaller Companies Trust plc currently pays dividends twice a year.

Gearing

Gearing is calculated as total liabilities less current assets divided by net assets.

Gross assets

Gross assets are calculated as total assets less current liabilities.

IFRS

International Financial Reporting Standards as adopted by the European Union.

Investment Manager

The Company's investment manager is Montanaro Asset Management Limited.

Investment Trust

A Closed-end Investment Company which satisfies the requirements of Section 1158 of the Corporation Tax Act 2010. Companies which meet these criteria are exempt from having to pay tax on the capital gains they realise from sales of the investments within their portfolios.

Leverage

As defined under the AIFMD rules, Leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to Gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowings). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash and cash equivalents, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash and cash equivalents and after certain hedging and netting positions are offset against each other.

Marked to Market

Accounting for the fair value of an asset or liability that can change over time and reflects its current market value rather than its book cost.

Market Capitalisation

The stock market value of a company as determined by multiplying the number of shares in issue, excluding those shares held in treasury, by the market price of the shares.

Glossary of terms continued

NAV per Ordinary Share

This is calculated as the net assets of an Investment Trust divided by the number of shares in issue, excluding those shares held in treasury.

Net Assets (or Shareholders' Funds)

This is calculated as the value of the investments and other assets of an Investment Trust, plus cash and debtors, less borrowings and any other creditors. It represents the underlying value of an Investment Trust at a point in time.

Net Gearing

Net gearing is calculated as total debt, net of cash and cash equivalents, as a percentage of the total shareholders' funds.

Ordinary Shares

The main type of equity capital issued by conventional Investment Trusts. Shareholders are entitled to their share of both income, in the form of dividends paid by the Investment Trust, and any capital growth. Montanaro European Smaller Companies Trust plc has only Ordinary Shares in issue.

Portfolio Turnover

Calculated using the total purchases plus the sales proceeds divided by two as a percentage of the average total investments at fair value during the year.

Share Price

The value of a share at a point in time as quoted on a stock exchange. The shares of Montanaro European Smaller Companies Trust plc are quoted on the Main Market of the London Stock Exchange.

SORP

Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the AIC.

Total Assets

This is calculated as the value of the investments and other assets of an Investment Trust, plus cash and debtors.

Montanaro European Smaller Companies Trust plc
16 Charlotte Square
Edinburgh
Scotland EH2 4DF

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Fax: 020 7448 8601
E-mail: enquiries@montanaro.co.uk
Website: www.montanaro.co.uk