MONTANARO

European Smaller Companies Trust plc

Before you invest in a
Smaller Company you need to
understand their hopes and fears

Annual Report and Accounts 2022

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

The Company's benchmark index is the MSCI Europe ex-UK SmallCap 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.

The Company conducts its affairs so that its Ordinary Shares can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules relating to non-mainstream investment products and intends to continue to do so.

Contents

This document is important and refers to certain matters on which voting action is required. Shareholders who are in any doubt as to what action to take should consult an appropriate independent adviser immediately.

If any shareholder has sold or transferred all their shares in the Company, he or she should pass this document to the purchaser or transferee or to the person through whom the transfer or sale was effected for onward transmission to the transferee or purchaser.

Highlights
for the year ended 31 March 2022

Performance

Capital Returns%(1)	1 year	3 year	5 year	10 year	MAM*
Ordinary share price	4.3%	88.8%	141.7%	314.8%	426.3%
Net Asset Value ('NAV') per Ordinary share**	7.9%	69.7%	110.9%	263.9%	401.8%
Benchmark (Composite)(2)**	2.2%	35.1%	39.2%	180.7%	194.1%

Total Returns%(1)	1 year	3 year	5 year	10 year	MAM*
Ordinary share price	4.8%	92.6%	151.6%	363.1%	536.1%
NAV per Ordinary share**	8.4%	73.1%	119.0%	301.7%	494.6%
Benchmark (Composite)(2)**	3.8%	42.1%	51.7%	236.1%	291.2%

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

	As at 31 March 2022	As at 31 March 2021	12 month % change
Ordinary share price	**168.0p**	161.0p^	4.3
NAV per Ordinary share**	**171.5p**	158.9p^	7.9
(Discount)/premium to NAV(1)	**(2.0%)**	1.3%	
Gross assets** (£'000s)	**333,339**	284,560	17.1
Net assets** (£'000s)	**324,905**	276,065	17.7
Market capitalisation** (£'000s)	**318,238**	279,709	13.8
Net gearing employed(1)	**4.6%**	2.4%	

	Year ended 31 March 2022	Year ended 31 March 2021	12 month % change
Revenue return per Ordinary share	**0.96p**	0.31p^	209.7
Dividend per Ordinary share	**0.925p**	0.925p^	0.0
Ongoing charges(1)	**1.1%**	1.2%	
Portfolio turnover**	**11%**	22%	

* From 5 September 2006, when Montanaro Asset Management Limited ('MAM') was appointed as Investment Manager.
** Details provided in the Glossary on pages 68 and 69.
^ 31 March 2021 restated to reflect the subsequent 10 for 1 share split.
(1) Refer to Alternative Performance Measures on pages 66 and 67.
(2) From 5 September 2006, the benchmark was the MSCI Europe SmallCap Index. The benchmark was changed on 1 June 2009 to the MSCI Europe ex-UK SmallCap Index (in sterling terms).

Chairman's Statement
for the year ended 31 March 2022

Results

Please note that throughout this report, previous year numbers have been adjusted to account for the share split (detailed below) for comparative purposes.

As vaccines for COVID-19 rolled out across the world, some of the aftershocks of the pandemic became evident in the form of supply chain stresses and inflationary pressures. These were exacerbated by the appalling Russian invasion of Ukraine. The MSCI Europe (ex-UK) Small Cap Index (in Sterling terms) nevertheless rose by 2.2% during the financial year ended 31 March 2022. In comparison, the Net Asset Value ("NAV") of your Trust rose by 7.9% to 171.5p per share. Over this period, the share price moved from a premium to NAV of over 1% to a discount of 2%. As a result, the share price total return of the Trust was 4.8%.

These headline numbers might appear unremarkable but they disguise significant volatility during the year. The first nine months of the fiscal year were exceptionally strong with the NAV rising by 34.7%, outperforming the benchmark by 23.4%, as high quality, growth companies were particularly in favour with investors. In the final three months of the fiscal year, these trends sharply reversed as inflationary pressures caused bond yields to rise, stock markets to fall and high quality and growth companies to be shunned. Indeed, globally the dramatic rotation into Value companies in January was the second largest monthly shift in 50 years.

Nonetheless, we continue to believe that companies capable of generating high returns on capital employed – and that can continue to grow while maintaining or expanding those returns – will be the ones that fundamentally increase most in value over the long term. It is these types of companies that are at the heart of our investment philosophy. Despite the setback in the last quarter of the Company's financial year, MESCT has delivered, over 3 and 5 years respectively to 31 March 2022 a NAV total return of 20.1% and 17.0% p.a. outperforming the benchmark by 7.6% and 8.3% p.a. This makes it the best performing European investment trust over these time periods.

Earnings and Dividends

Revenue earnings per share rose significantly in the period to 0.96p (2021: 0.31p) as many companies returned to paying dividends on the back of strong earnings and better visibility than in the previous year, which coincided with the onset of the pandemic.

We remain confident about the long-term prospects of your investee companies. The Trust holds substantial revenue reserves which are available for distribution to smooth any short-term income volatility.

An interim dividend of 0.2p per share was paid on 4 January 2022. The Board recommends the payment of a final dividend of 0.725p per share payable on 16 September 2022 to shareholders on the register on 12 August 2022 (this is unchanged from the prior year). Subject to shareholder approval, this would bring the total dividends for the year to 0.925p per share.

ESG

Montanaro believes there is a correlation between how well a business fares on Environmental, Social and Corporate Governance grounds and the value it creates for its shareholders. This is why ESG considerations have formed an integral part of their assessment of a company's "Quality" and have been fully integrated into the investment process for many years.

The depth of Montanaro's commitment is perhaps best exemplified by the fact that they are one of the few UK asset managers to be a certified B Corporation – a certification Montanaro have held since 2019. Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose.

An expanded ESG Report is included on pages 8 and 9 of this Annual Report.

Share Split

Following shareholder approval at the last AGM, shareholders received 10 New Ordinary Shares in exchange for each Existing Ordinary Share held at 5pm on the Record Date of 13 September 2021. The New Ordinary Shares were admitted to trading on the premium segment of the Main Market of the London Stock Exchange on 14 September 2021. Following the completion of the share split, as at 14 September 2021, the Trust had 179,682,600 New Ordinary Shares in issue.

Subsequent to the share split, the Trust made an application to the FCA and the London Stock Exchange to increase its block listing facility commensurate with the share split. Application was made for 11,533,260 Ordinary Shares of 5 pence each (the "Shares") to be admitted to the Official List and to trading on the premium segment of the Main Market of the London Stock Exchange. The admission was effective 16 September 2021.

Borrowings

The Board, in discussion with the Manager, regularly reviews the gearing strategy of the Trust and approves the arrangement of any gearing facility. Gearing increases (or decreases) the returns from underlying profits or losses generated by the investment portfolio.

The Board has set a maximum limit on borrowing (net of cash) of 30% of shareholders' funds at the time of borrowing. At the end of the fiscal year, the Trust had borrowings (net of cash) of 4.6% compared to 2.4% at the beginning of the year and nil at the end of December 2021. The Trust currently has borrowings in the form of a €10 million fixed rate loan and a €15 million revolving credit facility, both of which are due to mature on 13 September 2023.

Issue of Shares

During the year, the Trust issued 750,000 shares from treasury (adjusted for the share split) at a weighted average premium of 1.5%. A further 14,945,000 new shares have been issued at a weighted average premium of 2%.

The Board believes that issuing new shares in the Trust is in the interests of both new and existing shareholders as it improves the liquidity of the shares and provides a larger base over which fixed costs can be spread. The value of inflows to the Company from the issue of shares in the year was £31 million (excluding costs).

The Board's stated treasury shares policy is included in the Annual Report and Accounts. The Board will seek to renew the Trust's share buyback and share issuance authorities at the forthcoming Annual General Meeting.

Communication with Shareholders

Over the past few years the composition of our shareholder base has changed significantly with an increasing number of individual investors coming onto the register via investment platforms. As a consequence we continue to explore how best to communicate with our shareholders irrespective of how they access us and are keen to find ways to encourage an open dialogue and keep all shareholders up to date with key developments. We have upgraded our website – www.montanaro.co.uk/trust/mesct – and it is continually updated with factsheets, reports, presentations, webinar recordings and commentaries as well as more details about the Manager, investment philosophy and process. We encourage shareholders to visit regularly.

Annual General Meeting

Following the removal of all COVID related restrictions it is the Company's intention to resume AGM meetings in person. Accordingly, the AGM will be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR, on 8 September 2022 at 11.00 a.m. Shareholders are encouraged to attend the Meeting where there will be an opportunity to meet and ask questions of the Board and the Manager.

Outlook

The economic backdrop remains extraordinarily volatile. In April 2020, WTI Crude Oil Futures briefly traded for a negative price but have exceeded $100 just two years later; Euro area Consumer Price Inflation, which had been negative at the end of 2020, reached 7.5% in March 2022; and the US 10 year bond yield, well below 1% for most of 2020, was well above 2% by March this year and is expected to rise further. For the first time in over a decade, significant monetary tightening by the world's most important Central Banks looks likely.

The underlying causes of these shifts were as unprecedented as they were unpredictable. But as stated last year, the Montanaro team avoids trying to forecast macroeconomic developments, preferring instead to focus on the fundamentals of your individual investee companies. For example, high quality companies with pricing power are best placed to offset inflationary pressures.

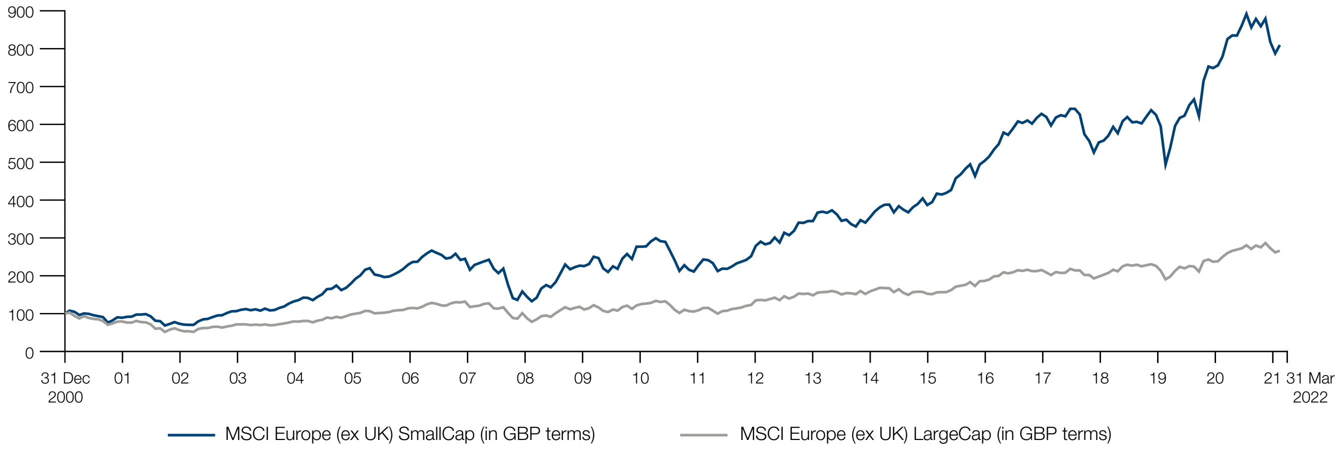
While we cannot predict what inflation, GDP or interest rates will be a year from now, we can say with some confidence that if we invest in companies that can deliver structural growth and high returns on capital employed at reasonable valuations, then investors should enjoy attractive long-term returns. Previous periods of significant underperformance from such quality growth companies have presented good buying opportunities for those with a long-term investment horizon. It is notable that the gearing of the Trust has risen from the very low levels seen in December 2021, reflecting what Montanaro believe is a higher number of attractive investment opportunities following some of the share price falls we have seen.

The disciplined investment process, experienced team, and strong absolute and relative returns since Montanaro were appointed in 2006 enable us to look forward to the future with confidence.

R M CURLING
Chairman
23 June 2022

Manager's Report

Continental European Small v. LargeCap
(MSCI Europe ex UK SmallCap v. LargeCap indices, Net TR)
(rebased to 100 from 31 December 2000)



The Attractions of Quoted European Smaller Companies ('SmallCap')

The key attraction of investing in smaller companies is their long-term record of delivering higher returns to investors than large companies. In the UK, over the last 67 years, this has amounted to an average of 3.6% per annum ("the SmallCap Effect"). £1 invested in UK large companies in 1954 would now be worth £1,210, whereas the same £1 invested in smaller companies would now be worth over £10,139 – almost nine times more.

There is less comprehensive data on Europe – it only goes back to 2000. However, this suggests that the SmallCap Effect is even more pronounced on the Continent: as the chart above illustrates, European "small" companies have outperformed by over 5.8% per annum.

Moreover, while European LargeCaps have underperformed their US counterparts, the same is not true in SmallCap. Since 2000, the MSCI Europe (ex-UK) Small Cap Index has delivered gross USD returns of just over 10% per annum – *ahead* of the MSCI USA Small Cap Index.

The market for European smaller companies is inefficient. While some large companies are analysed by more than 50 brokers, many smaller companies in Europe have little or no coverage at all. This makes it easier for those with a high level of internal resources to identify attractive, undervalued investment opportunities that are undiscovered by the wider investing community. This in turn makes it possible to deliver long-term performance over and above that of the benchmark.

Montanaro

Montanaro was established in 1991. We have one of the largest and most experienced specialist teams in the UK dedicated exclusively to researching and investing in quoted small companies. Our team of 36 includes ten nationalities, which gives us the breadth of resources to conduct thorough in-house research.

At 31 March 2022, we were looking after more than £4 billion of client assets.

Investment Philosophy and Approach

We specialise in researching and investing in quoted small companies and have a disciplined, two-stage investment process.

In the first stage, we identify "good businesses" within our investable universe. We look for high quality companies in markets that are growing. They must be profitable; have good and experienced management; deliver sustainably high returns on capital employed; enjoy high and ideally growing profit margins reflecting pricing power and a strong market position; and provide goods and services that are in demand and likely to remain so. We prefer companies that can deliver self-funded organic growth and remain focused on their core areas of expertise, rather than businesses that spend a lot of time on acquisitions.

Conversely, we avoid those with stretched balance sheets; poor free cash flow generation; incomprehensible or heavily adjusted accounts; unproven or unreliable management; or that face structurally challenged business models with stiff competition.

A company must also pass our stringent quality and ESG checklists. ESG has been integrated into our disciplined investment process for almost two decades.

When we have found a company that we believe is high quality, has structural growth and is well managed from a business and ESG perspective, it must be approved by the Investment Committee before it can be added to the "Approved List".

In the second stage, we determine the intrinsic value of each company on the Approved List to ensure they will make a "good investment" ("good businesses" and "good investments" are not always the same). Companies that are on the Approved List and which we believe are attractively valued are considered for inclusion in your portfolio.

We have an in-house team of eleven analysts who are sector specialists. Utilising their industry knowledge and a range of proprietary screens, they are continually searching for new ideas. With around 4,000 companies to choose from, we are spoiled for choice.

We believe that a deep understanding of a company's business model and the way it is managed are essential. In normal circumstances, we visit our investee companies on a regular basis, although this was not possible during the pandemic. We are pleased to say these visits have started to resume, with our first site visit on the Continent since the pandemic taking place in December. We are now combining site visits, face to face and virtual meetings.

We examine management's past track record in detail as we seek to understand their goals and aspirations. In smaller companies, the decisions of the entrepreneurial management can make or break a company (which is why meeting them is so important). We look closely at the board structure; the level of insider ownership; and examine remuneration and corporate governance policies.

Once a company has been added to the portfolio, our team conducts ongoing analysis. We will sell a holding if we believe that the company's underlying quality is deteriorating or if there has been a fundamental change to the investment case or management.

In summary, we invest in well managed, high quality, growing companies bought at sensible valuations. We keep turnover and transaction costs low and follow our companies closely over many years. We would rather pay more for a higher quality, more predictable company that can be valued with greater certainty. Finally, we align our interests with our investors by investing meaningful amounts of our own money alongside yours. We are significant shareholders in the Trust.

The Portfolio

At 31 March 2022, the portfolio consisted of 55 companies of which the top ten holdings represented 36%. Sector and country distribution within the portfolio is driven by stock selection. Although weightings relative to the market are monitored, overweight and underweight positions are held based on where the greatest value and upside are perceived to be.

Performance Attribution

The year to 31 March 2022 saw some strong performances from our largest investments.

NCAB is a global market leader in the supply of Printed Circuit Boards (PCBs). In 2021, the company delivered high organic revenue growth; made some attractive bolt-on acquisitions; saw its order intake (in USD) almost double; and significantly expanded its operating margins. The stock also began being covered by a second sell-side institution during the period.

Fortnox provides cloud-based accounting systems to companies in Sweden. The stock was our largest contributor in the previous year and continued to grow revenues and earnings at strong double-digit rates in 2021. In March 2022, the company announced price increases for their subscription-based products, news that was received well by the market.

MIPS sells a patented insert for helmets which protects the brain against rotational motion. Like Fortnox (above), this company also featured in our top three contributors last year. The company continued to persuade more manufacturers to include MIPS in their helmets, while existing customers expanded the inclusion of MIPS into a wider range of models. Perhaps most notably, the expansion into safety helmets in the commercial market has got off to a strong start. Operating profit for the company almost doubled in 2021.

The year was not without some stock price falls as well. Our three largest detractors are detailed below.

Manager's Report continued

Orpea is a leading provider of nursing homes, post-acute and rehabilitation facilities and psychiatric care clinics. The company was affected by allegations of mistreatment of residents in a book called "The Gravediggers", which led to the ousting of the CEO and negative press in France. With concerns over the quality of the business as a result we sold the position.

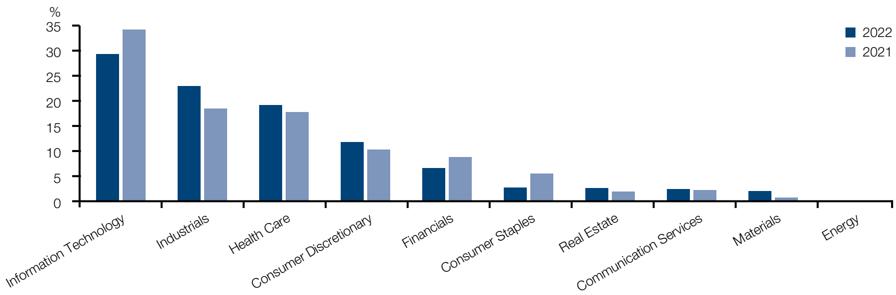
Sinch is a Swedish developer of cloud communications and mobile customer engagement offerings. During the year the company came under pressure as telecom providers raised their tariffs. Sinch was unable to completely pass this rising cost on to its own customers, implying commoditisation of the core product. Furthermore, the company has made multiple large acquisitions which appear to be more difficult to integrate than they expected. As a result, the company's level of debt increased significantly. Sensing a deterioration in the core quality of the business, we therefore exited our position.

Gruppo MutuiOnline owns and operates a leading range of online comparison and intermediation brands in Italy and provides Business Process Outsourcing services for financial services in the country. While Orpea and Sinch were examples of mercifully small portfolio positions that performed poorly, Gruppo MutuiOnline was a larger position which saw profit taking after a very strong year last year. The business continued to grow in 2021 and we continue to hold the investment.

Market Capitalisation of Holdings by Value (31 March 2022)

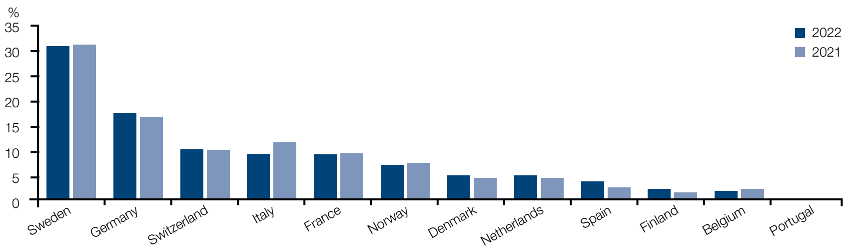
	2022	2021
£0–£500m	8.9%	6.8%
£500m–£1bn	9.5%	15.1%
£1bn–£3bn	46.3%	34.1%
£3bn–£5bn	21.8%	28.2%
>£5bn	13.5%	15.8%

Sector Distribution (31 March 2022)



Source: Montanaro Asset Management Limited

Geographical Analysis (31 March 2022)



Source: Montanaro Asset Management Limited

Portfolio Changes

We try to keep portfolio turnover as low as possible. Nevertheless, we typically make a few changes each year as we identify new ideas that we consider will provide stronger long-term returns than existing holdings. Companies that become too large, are acquired or where the investment case deteriorates are also replaced with new ideas from our Approved List.

In the year to 31 March 2022, we exited positions in companies including **Elekta**, the developer of radiation therapy equipment and software, as we grew concerned about an even more intense competitive threat from its main peer Varian, which has been acquired by Siemens Healthineers. **Recordati**, which sells pharmaceuticals, was sold as we believe there are more compelling investments elsewhere in the European healthcare landscape. **Sinch**, as explained above, was sold on fundamental concerns about its business.

New additions to the portfolio included **hGears**, which develops components for gearboxes used on e-bikes and electric vehicles and **Sectra**, which develops Picture Archiving and Communication Systems (PACS) for medical use.

Gearing

The Alternative Investment Fund Manager ("AIFM"), in consultation with the Board, is responsible for determining the net gearing level of the Trust. The Trust ended the fiscal year with gearing of 4.6% (31 March 2021: 2.4%).

How to invest

We have invested a great deal of time to make the Trust readily available to all investors. We have continued to grow our presence across the UK's investment platforms and are delighted to see a steady increase, year after year, in the Trust's retail following. Together with the Board, we have appointed Marten & Co to provide sponsored research – you can find the initiation report published in March 2019 here: https://www.montanaro.co.uk/mesct-quality-business/ and an update report published in March 2022 here: https://quoteddata.com/research/montanaro-european-smaller-companies-unfazed-by-market-turmoil-mc/

For further details about how to invest, please refer to the website: www.montanaro.co.uk/trust/mesct

MONTANARO ASSET MANAGEMENT LIMITED
23 June 2022

ESG Report

In March 2022, Montanaro won the Best Small & Mid-Cap Sustainable Investment Boutique award from Ethical Finance. This recognised Montanaro's continuing commitment to sustainable investing within its own business, across the investment industry and in our investment process.

Montanaro became a certified B Corporation in 2019, placing sustainability at its core. This was achieved by meeting verified standards of social and environmental performance, transparency and accountability. It is regarded as one of the toughest sustainability standards to achieve globally. Montanaro will recertify for "B Corp" status once again in 2022 and we expect to improve our score.

Montanaro continued to achieve industry leading standards over the last year, notably becoming a first-wave signatory to the revised UK Stewardship Code. The standards for the new code were significantly higher than for the previous iteration and one-third of asset managers failed to have their reports approved by the Financial Reporting Council. We have a long history of meeting the toughest of industry standards:

Signatory date	Initiative
2009	The UN Principles for Responsible Investment (PRI): 2009
2010	The UK Stewardship Code
2015	The Carbon Disclosure Project (CDP)
2016	The UK Stewardship Code (Tier 1 rating)
2017	The LGPS Code of Transparency
2018	Task Force on Climate-Related Financial Disclosures (TCFD)
2018	The Montreal Pledge
2019	Certified B Corporation
2019	Farm Animal Investment Risk and Return (FAIRR)
2019	Net Zero Carbon (NZC)
2020	Investor Statement on Coronavirus Response
2021	Access to Medicine Investor Statement
2021	Net Zero Asset Managers Initiative
2021	Global Investor Statement to Governments on the Climate Crisis
2021	The revised 2020 UK Stewardship Code

In addition, during the year Montanaro played an active role in the development of sustainable investing in the wider investment industry. Having become a signatory to the Net Zero Asset Managers initiative, Montanaro was the only UK investment boutique to be invited to join the Glasgow Financial Alliance for Net Zero ("GFANZ") taskforce, chaired by former Bank of England Governor, Mark Carney. Our Head of Sustainable Investment sits on the Real Economy Transition Workstream, which is working to improve the guidance given to corporations on how the financial sector expects companies to report on the transition to net zero.

We were also invited to co-chair the B Corporation Investment & Working Group, a group of certified B Corporations in our industry working together on best practice initiatives. As part of this, we led a group of investment boutiques to the UN Climate Change Summit COP26, in Glasgow, to discuss the benefits of being a B Corporation in the financial sector.

These industry standards and our participation in collaborative initiatives allows us to stay abreast of an area of the investment world that is rapidly changing and ensure that our investment process evolves accordingly.

Montanaro has a long track record of sustainable investing, which has always been represented in the way the Portfolio has been managed. Ethical restrictions mean that we do not invest in companies that generate a significant proportion of sales from products with negative societal impact such as tobacco, gambling, armaments, alcohol, high-interest-rate lending and fossil fuels. Similarly, we do not invest in companies that conduct animal testing, unless it is required by law for healthcare or regulatory purposes.

The analysis of Environmental, Social and Governance (ESG) factors has long formed part of our definition of a company's "Quality". Over the last year, our Investment Team continued to develop our approach to ESG analysis by redeveloping our bespoke ESG Checklist, incorporating further data points that are provided to us by MSCI. The analysis of such information allows us to better understand the risks – and opportunities – that our companies may be exposed to, from factors such as climate change, supply chain risks and the structure of company boards.

Where weaknesses are identified, we will always seek to use our influence to improve a company through active and long-term engagement. During the year we had a number of engagements with Portfolio companies, including Mensch und Maschine. When conducting research on the company, our Analyst had identified that disclosure of ESG information lagged certain peers, particularly in relation to carbon emissions data, diversity of the workforce and compensation details. Given our strong relationship with the company, we were able to speak with the Founder and CEO, who was receptive to our ideas for improvement. We will monitor these developments in the months ahead.

Other engagements included NCAB, who asked for our views on a more detailed version of its sustainability report. This is a trend we have seen across many of our companies: they recognise that we take sustainability seriously and are not afraid to ask for our advice on what steps they should be taking. We also engaged with Atoss Software as they attempted to improve the gender diversity of its Board.

As well as these individual company engagements, the Investment Team also conducted two "Deep Dive" ESG focused research projects. The purpose of these is to focus on specific subjects that impact companies across our Portfolio. In previous years topics covered included Nutrition and Supply Chain Management. During the year, we published our second "Net Zero Carbon" Deep Dive – focused on understanding how our companies are responding to climate change and setting Net Zero Carbon targets. We also completed a Deep Dive on Data Centres, to better understand how "big data" is used and stored. These reports allow us to speak to many different experts, including leading academics and industry practitioners.

With almost every asset manager dedicating more time and resource to ESG and sustainability, we believe that we remain ahead of the curve. This is due to our experience, the high level of in-house resource that we have at our disposal and our belief that embedding ESG factors into an investment process leads to better investment outcomes. We look forward to sharing further developments with you in the coming years.

MONTANARO ASSET MANAGEMENT LIMITED
23 June 2022

Twenty Largest Holdings
as at 31 March 2022

1. NCAB
is a global full-service supplier of printed circuit boards (PCBs).

2. MIPS
develops patented inserts for helmets, which protects the brain against rotational motion.

3. Fortnox
is Sweden's leading provider of cloud-based applications for accounting, invoicing and payroll administration.

4. Sartorius Stedim
is a world leading supplier of equipment and technologies used to produce biopharmaceuticals.

5. MTU Aero Engines
manufactures and maintains aircraft engines and components.

6. VZ Holding
is a Swiss independent financial consultant and wealth manager.

7. IMCD
is one of the world's largest speciality chemical distributors.

8. Thule
is a global market leader of niche products and solutions for outdoor activities, including equipment such as bike racks and roof boxes for vehicles.

9. Atoss Software
develops and sells workforce management software in Europe.

10. CTS Eventim
is the market leading ticketing company in Europe, providing an online platform from which to sell tickets to a range of events such as operas and pop concerts.

11. Reply
is an Italian IT services company.

12. Amadeus FiRe
is a leading personnel service company in Germany, with integrated training and further education offerings.

13. Esker
offers a cloud-based platform that allows companies to digitise and automate their accounts payable and receivable processes.

14. Kitron
is a leading Scandinavian Electronic Manufacturing Services (EMS) company.

15. Tecan
develops automated instruments and solutions that are used in laboratories.

16. Belimo Holding
develops and manufactures electrical motorised control devices (actuators) for air and water. These are predominantly used in large buildings with sophisticated Heating, Ventilation and Air Conditioning ('HVAC') systems.

17. QT Group
is a Finnish company that provides software tools used to design and build graphical user interfaces.

18. Brunello Cucinelli
is a luxury fashion company, particularly famous for its cashmere products.

19. ChemoMetec
is a globally leading developer of cell counters that are used in the development of cell therapies.

20. Brembo
is a global leader in the design and production of high end automotive braking systems.

Holding	Country	**31 March 2022 Value £'000**	31 March 2021 Value £'000	31 March 2022 % of investment portfolio	31 March 2022 % of net assets	31 March 2022 Market cap £m
NCAB	Sweden	18,810	10,039	5.5	5.8	1,005
MIPS	Sweden	15,030	10,451	4.4	4.6	1,874
Fortnox	Sweden	14,196	12,818	4.2	4.4	2,546
Sartorius Stedim	France	13,205	11,963	3.9	4.1	28,982
MTU Aero Engines	Germany	12,444	6,861	3.7	3.8	9,500
VZ Holding	Switzerland	10,837	6,759	3.2	3.3	2,890
IMCD	Netherlands	10,494	7,068	3.1	3.2	7,476
Thule	Sweden	9,170	9,438	2.7	2.8	3,196
Atoss Software	Germany	9,115	8,180	2.7	2.8	1,208
CTS Eventim	Germany	8,395	6,342	2.5	2.6	5,037
Reply	Italy	8,238	5,516	2.4	2.5	4,742
Amadeus FiRe	Germany	8,224	5,830	2.4	2.5	697
Esker	France	7,919	9,335	2.3	2.5	847
Kitron	Norway	7,873	5,581	2.3	2.4	345
Tecan	Switzerland	7,584	6,452	2.2	2.3	3,846
Belimo Holdings	Switzerland	7,515	5,436	2.2	2.3	4,997
QT Group	Finland	6,964	3,817	2.1	2.2	2,698
Brunello Cucinelli	Italy	6,730	4,680	2.0	2.1	3,051
ChemoMetec	Denmark	6,568	4,795	1.9	2.0	1,633
Brembo	Italy	6,394	4,524	1.9	2.0	2,847
Twenty Largest Holdings		**195,705**		**57.6**	**60.2**	

Business Model and Strategy

Our objective is to achieve capital growth for our shareholders by investing principally in Continental European quoted smaller companies. We seek to invest in well managed, high quality, growth companies. We keep portfolio turnover low and follow our companies closely over many years.

INTRODUCTION

The Company carries on business as an investment trust. The Company is limited by Ordinary Shares which are traded on the Main Market of the London Stock Exchange. The Company has no employees but contracts investment management and administration to appropriate external service providers, who are subject to oversight by the Board of Directors. The principal service providers during the year were:

- Montanaro Asset Management Limited ('Montanaro' or the 'Manager'), which was appointed as Investment Manager on 5 September 2006 and the Company's AIFM on 22 July 2014.
- Link Alternative Fund Administrators Limited, which provided fund administration services during the year.
- Link Company Matters Limited, which provided company secretarial services during the year.
- Equiniti Limited which provided registrar services during the year.
- Bank of New York Mellon (International) Limited which provided depositary services during the year.

BOARD OF DIRECTORS

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, gearing, corporate strategy, corporate governance and risk management. Biographical details of the Directors, all of whom are independent and non-executive, can be found on page 23. The Board consists of two male Directors and one female Director.

The Directors have considered their duties under section 172 of the Companies Act 2006 in promoting the success of the Company for the benefit of stakeholders and further detail on this can be found on pages 19 to 22 An important responsibility is the annual evaluation and appointment of the Manager, which also acts as the Alternative Investment Fund Manager ('AIFM'). The outcome of the evaluation in the current year is set out on page 30.

THE MANAGER

Established in 1991, Montanaro is a highly experienced specialist investor in quoted smaller companies. It has one of the largest teams in the UK researching and investing exclusively in quoted smaller companies and currently manages over £4 billion, mainly on behalf of leading financial institutions. Montanaro's investment philosophy and approach is set out in the Manager's Report on pages 4 and 5.

INVESTMENT STRATEGY

The Company's investment strategy is set out in its objective and investment policy as set out below.

Objective

The Company's objective is to achieve capital growth by investing principally in Continental European quoted smaller companies. The Company's benchmark index is the MSCI Europe ex-UK SmallCap Index (in Sterling terms).

Investment Policy

The Company invests principally in quoted smaller companies within the European Union, Norway and Switzerland (but is not restricted from investing in smaller companies quoted on other European stock exchanges). In addition, the Company may invest in:

- Companies listed on non-European stock exchanges that derive significant revenues or profits from Europe;
- European securities, such as global depositary receipts, listed on other international stock exchanges; and
- Debt issued by European governments or denominated in European currencies.

The Company's investment policy is flexible, enabling it to invest in all types of securities of companies, including (but not limited to) equities, preference shares, debt, convertible securities, warrants and other equity-related securities. The Company may also invest, where appropriate, in open-ended collective investment schemes and closed-ended funds that invest in Europe. It is not intended that the Company will acquire securities that are unquoted or unlisted at the time of investment (with the exception of securities which are about to be listed or traded on a stock exchange). However, the Company may continue to hold securities that cease to be quoted or listed if the Manager considers this to be appropriate.

Investment risk is diffused through holding a range of securities in different countries and industry sectors. Investments are not limited as to country or sector basis weightings, but no investment in the portfolio may exceed 10% of the Company's total assets at the time of investment. The Company may invest in derivatives, financial instruments, money market instruments and currencies solely for the purpose of efficient portfolio management (i.e. solely for the purpose of reducing, transferring or eliminating investment risk in the Company's investments, including any technique or instrument used to provide protection against currency and credit risks).

The Company borrows funds for investment to enhance returns over the long-term and may borrow in Sterling, Euros or other currencies. The Board has set a maximum limit on borrowing, net of cash, of 30% of shareholders' funds at the time of borrowing.

The Company's portfolio will normally be fully invested. However, during periods in which changes in economic conditions or other factors so warrant, the Company may reduce its exposure to securities and increase its position in cash and money market instruments. The Company will not invest more than 10%, in aggregate, of the value of its total assets at the time of investment in other investment trusts or investment companies admitted to the Official List of the UK Listing Authority.

INVESTMENT OF ASSETS

At each Board Meeting, the Board receives a detailed presentation from the Manager together with a comprehensive analysis of the performance of the Company and confirmation of compliance with investment restrictions during the reporting period. An analysis of how the portfolio was invested as at 31 March 2022 is contained in the Manager's Report on pages 4 to 7 and the 20 largest holdings are shown on pages 10 and 11.

PRINCIPAL AND EMERGING RISKS

The Company's principal and emerging risks are set out in detail on pages 15 to 17.

REVIEW OF PERFORMANCE AND OUTLOOK

The Company's performance in meeting its objectives is measured against key performance indicators ('KPIs') as set out on page 1. Reviews of the Company's returns during the financial year, the position of the Company at the year end, and the outlook for the coming year are contained in the Chairman's Statement on pages 2 and 3 and the Manager's Report on pages 4 to 7, both of which form part of this Strategic Report.

DIVIDEND POLICY

The Company's primary aim is to deliver capital growth to its shareholders, rather than dividend income. In determining dividend payments, the Board takes account of income forecasts, brought forward revenue reserves, the Company's dividend payment record and the Corporation Tax rules governing investment trust status. These rules determine the minimum level of dividend which must be paid in order to comply with Section 1158 of the Corporation Tax Act 2010 in respect of the retention of distributable income. Dividends can also be paid from the Capital Reserve from any surplus arising from the realisation of any investment. The Company has revenue reserves which underpin any short-term reduction in dividend income. The Company will normally expect to pay its dividend from its distributable revenue reserves, however it may also pay the dividend either partially or fully from capital reserves, if required, to provide dividend stability for shareholders.

TAXATION POLICY

The Company complies at all times with Section 1158 of the Corporation Tax Act 2010 ("Section 1158") such that it does not suffer UK Corporation Tax on capital gains; and ensures that it submits correct taxation returns annually to HMRC and settles promptly any taxation due.

The Board is fully committed to complying with applicable legislation and statutory guidelines, including the UK's Criminal Finances Act 2017, designed to prevent tax evasion in the jurisdictions in which the Company operates.

BOARD DIVERSITY

Diversity is an important consideration in ensuring that the Board and its committees have the right balance of skills, experience, independence and knowledge necessary to discharge their responsibilities. The Board is composed solely of non-executive Directors and has one third female representation. The Board's approach to the appointment of non-executive Directors is based on its belief in the benefits of having a diverse range of experience, skills, length of service and backgrounds. The Board will always appoint the best person for the job and will not discriminate on the grounds of gender, race, ethnicity, religion, sexual orientation, age, social background or physical ability. The right blend of perspective is critical to ensuring an effective Board and successful company.

KEY PERFORMANCE INDICATORS

The Board recognises that it is long-term share price returns that are most important to the Company's shareholders. They are largely driven by competitive portfolio returns and by keeping down the level of both the discount and ongoing charges.

The Board uses a number of key performance indicators to assess the Company's success in pursuing its objectives.

They are as follows:

- Capital and total return – NAV and share price returns, both absolute and against the benchmark;
- Discount of share price to NAV per share;
- Gearing; and
- Ongoing charges.

The NAV and share price returns against the benchmark index for the one, three, five and ten year periods ended 31 March 2022 and for the period since Montanaro Asset Management Limited ('MAM') were appointed as Investment Manager are shown below. The historic discount and ongoing charges figures are included in the Historic Record below.

The Company's performance for the year against the key performance indicators, together with the outlook for the coming year, is reported within the Highlights on page 1, the Chairman's Statement on pages 2 and 3 and the Manager's Report on pages 4 to 7.

Business Model and Strategy continued

CAPITAL RETURNS TO 31 MARCH 2022

	1 year %	3 year %	5 year %	10 year %	MAM[1] %
Montanaro European Smaller Companies Trust Share price	4.3	88.8	141.7	314.8	426.3
Montanaro European Smaller Companies Trust NAV	7.9	69.7	110.9	263.9	401.8
Benchmark (Composite)^*	2.2	35.1	39.2	180.7	194.1

[1] From 5 September 2006, when MAM were appointed as Investment Manager.

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

* Details provided in the glossary on pages 68 and 69.

HISTORIC RECORD

	Net assets £'000s	NAV per share	Ordinary Share price	(Discount)/ premium[1]	Dividends per share	Ongoing Charges***
5 September 2006*	60,022	344.0p	322.0p	(6.4%)	n/a	1.6%
31 March 2007	74,447	426.7p	404.0p	(5.3%)	4.00p	1.8%
31 March 2008	69,061	401.6p	340.0p	(15.3%)	4.00p	1.8%
31 March 2009	42,653	257.4p	220.8p	(14.2%)	7.33p**	1.6%
31 March 2010	71,059	428.8p	373.0p	(13.0%)	4.50p	1.7%
31 March 2011	88,837	536.0p	467.0p	(12.9%)	4.50p	1.6%
31 March 2012	81,278	471.6p	405.0p	(14.1%)	5.50p	1.5%
31 March 2013	93,009	559.2p	519.3p	(7.1%)	6.75p	1.5%
31 March 2014	98,683	593.3p	540.0p	(9.0%)	7.00p	1.5%
31 March 2015	95,751	572.2p	515.0p	(10.0%)	7.50p	1.5%
31 March 2016	106,418	636.0p	540.0p	(15.1%)	7.50p	1.4%
31 March 2017	136,050	813.1p	695.0p	(14.5%)	8.25p	1.2%
31 March 2018	150,776	901.1p	800.0p	(11.2%)	8.50p	1.2%
31 March 2019	169,141	1010.8p	890.0p	(12.0%)	9.00p	1.2%
31 March 2020	160,123	956.9p	880.0p	(8.0%)	9.25p	1.2%
31 March 2021	276,065	1,589.0p	1,610.0p	1.3%	9.25p	1.2%
1 for 10 share split effective from 14 September 2021						
31 March 2022	324,905	171.5p	168.0p	(2.0%)	0.925p	1.1%

* Date of commencement of current management arrangements.

** Includes special dividends of 2.83p per share.

*** Ongoing Charges. Refer to Alternative Performance Measures on page 66.

[1] Discount. Refer to Alternative Performance Measures on page 66.

PRINCIPAL AND EMERGING RISKS AND UNCERTAINTIES AND RISK MITIGATION

In accordance with the AIC Code of Corporate Governance, the Board has an established process for identifying, evaluating and managing the emerging and principal risks faced by the Company. The Board carefully considers the Company's principal and emerging risks and seeks to mitigate these risks through continued and regular review, policy setting, compliance with and enforcement of contractual obligations and active communication with the Manager, the Administrator and shareholders.

Most of the principal and emerging 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 Report of the Audit Committee on pages 32 to 34 summarises the Company's internal control and risk management arrangements. By means of the procedures set out in that summary, and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, issued by the Financial Reporting Council, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. It has also regularly reviewed the effectiveness of the Company's risk management and internal control systems for the period. During the year, the Audit Committee have carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

The principal and emerging risks and uncertainties faced by the Company, and the Board's mitigation approach are described below.

Notes 16 to 20 to the accounts provide detailed explanations of the risks associated with the Company's financial instruments and their management.

Principal Risks	Mitigation
Investment and strategic risk: Inappropriate strategy, including country and sector allocation and stock selection could lead to poor returns for shareholders. *No material change in overall risk in year.*	*At each Board Meeting, the Manager discusses portfolio performance and strategy with the Directors and performance against the benchmark and the peer group is reviewed. The Manager also provides the Board with monthly reports. The portfolio is well diversified with typically 45-55 holdings, thereby reducing stock-specific risk. The Board formally reviews the performance of the Manager and its terms of appointment annually.*
Gearing: One of the benefits of an investment trust is its ability to use borrowings, which can enhance returns to shareholders in a rising stock market. However, gearing exacerbates movements in the NAV both positively and negatively and will exaggerate declines in NAV when share prices of investee companies are falling. *No change in overall risk in year.*	*The Board is responsible for setting the gearing range within which the Manager may operate and has set a maximum limit on borrowing, net of cash, of 30% of shareholders' funds at the time of borrowing. The Company currently has borrowing facilities in the form of a fixed rate loan €10 million and a €15 million revolving credit facility, both of which mature in September 2023. As at 31 March 2022, €10 million was drawn down from these facilities.* *The Board receives recommendations on gearing levels from the Manager, and monitors and discusses with the Manager the appropriate level of gearing at each Board Meeting.*
Other financial risks: The Company invests principally in Continental European quoted smaller companies and its principal risks are therefore market related with short term risk arising from the volatility in the prices of the Company's investments and foreign exchange. Events such as terrorism, disease (such as a global pandemic), protectionism, inflation or deflation, changes in regulation and taxation, excessive stock market speculation, economic recessions, political instability (such as the current war in Ukraine), and movements in interest rates and exchange rates could affect share prices in particular markets. As with all small company investment trusts, there is liquidity risk at times when the liquidity of the underlying portfolio is poor, such as when smaller companies are out of favour or during periods of adverse financial conditions. The portfolio is focused on investments in smaller European companies where the opportunities may be more attractive than in larger companies but where overall portfolio liquidity may be more challenging. This may result in difficulties in buying or selling individual holdings in difficult markets. In addition, illiquid stock markets may impact the discount of the Company's share price to the NAV per share. *No change in overall risk in year.*	*Portfolio diversification, both geographical and sectoral, can mitigate the consequences of such risky events and the Board reviews the portfolio with the Manager on a regular basis. It is not the Company's policy to hedge currency risk. The Board has also set investment restrictions and guidelines which are adhered to and reported on by the Manager. If required, it is also possible to raise the level of cash held, thereby reducing the risk of declining share prices and the effect of gearing on lower portfolio valuations. The portfolio's liquidity is not managed on the basis of timing short-term market fluctuations.* *One of the benefits of an investment trust is that the Manager is rarely forced to buy or sell individual holdings at inopportune times. The Manager constantly reviews the underlying liquidity of the portfolio, which is well diversified, and deals with a wide range of brokers to enhance its ability to execute and minimise liquidity risk.* *The liquidity of the portfolio is monitored by the Manager and reported to the Board, and market conditions and their impacts are considered.* *The Company's liquidity risk is managed on a daily basis by the Manager in accordance with established policies and procedures in place.* *Further details on the financial risks arising from the Company's financial instruments, together with the policies for managing these risks are included in notes 15 to 20 to the accounts.*

Business Model and Strategy continued

Principal Risks	Mitigation
Discount volatility: As with all small company investment trusts, discounts can fluctuate significantly both in absolute terms and relative to their peer group. *No material change in overall risk in year.*	*The Board and Manager actively monitor the discount of share price to NAV per share and seek to influence this through liaising closely with the Company's Broker, share buybacks and effective marketing. The Board has stated its commitment to an active discount management policy, such that it will consider a buyback of shares where the discount of the share price to the NAV per share is greater than 10% for a sustained period of time and is significantly wider than the average for similar trusts. Any such transaction must be value enhancing for shareholders and the Board will take into consideration the effect of the buyback on the liquidity of the Company's shares. The Board encourages the Manager to market the Company to new investors to increase demand for the Company's shares, which may help to reduce the discount.*
Regulatory: The Company carries on business as an investment trust and has been approved as such by HM Revenue & Customs subject to it continuing to meet eligibility conditions and ongoing requirements. As a result, it is not liable to corporation tax on capital gains. Breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on chargeable gains. Breach of regulatory rules could also lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. *No change in overall risk in year.*	*The Company Secretary and the Company's professional advisers provide reports to the Board in respect of compliance with all applicable rules and regulations.* *The Company complied with all applicable rules and regulations including AIFMD, the Packaged Retail and Insurance-based Products Regulation and the second Markets in Financial Instruments Directive during the year.* *The Administrator monitors the Company's compliance with Section 1158 of the Corporation Tax Act 2010 including revenue forecasts and the amount of proposed dividends to ensure the rules are not breached. The results are reported to the Board at each meeting.* *The Administrator monitors compliance with the Listing Rules of the UK Listing Authority and compliance with the principal rules is reviewed by the Directors at each Board Meeting.* *The Board and AIFM also monitor changes in legislation which may have an impact on the Company.*
Operational: In common with most other investment trust companies, the Company has no employees. The Company is therefore reliant on the services provided by third parties such as the Manager, the Administrator and the Custodian (as a delegate of the Depositary). Disruption or failure of the Manager's or Administrator's systems, or those of other third-party service providers could lead to an inability to provide accurate reporting and monitoring of the Company's financial position or a breach of regulatory and legal regulations. Cyber security risks and their impact on data security are inherent in the operations undertaken by the Company's third-party suppliers and risk disruption to business operations or financial loss. *No change in overall risk in year.*	*The Board and the Audit Committee receive regular reports on the operation of internal controls to mitigate against the risk of failure, including those at the Manager, the Administrator and the Custodian as explained in more detail within Risk Management and Internal Control on pages 32 and 33. These reports include controls over risks of cyber security. These have been tested and monitored throughout the year which is evidenced from their control reports regarding their internal controls which are reported on by their reporting accountants. Quarterly reports are also received from the Depositary which is responsible for the safekeeping of all custodial assets of the Company.* *Business continuity plans at all service providers have been implemented and services have continued with no disruption. The Manager has been in regular contact with the Board and has reported no matters of concern in continuity of operations.*

Principal Risks	Mitigation
Cyber Security The threat of cyber attack is regarded as being as important as more traditional physical threats to business continuity and security. The Company has limited direct exposure to cyber risk. However, the Company's operations or reputation could be affected if any of its service providers suffered a major cyber security breach. *New risk category.*	*The Board monitors the preparedness of its service providers and is satisfied that the risk is given due priority. The Manager provides a report to the Board at each meeting that covers cyber risk. The Company benefits from the network and information technology controls of the Manager around the security of data.* *The annual review of the Administrator's controls includes consideration of cyber risk. A letter confirming that appropriate cyber security controls are in place is requested on an annual basis from all third party service providers.*
Environmental, Social and Governance ("ESG") The key risk is that the Manager invests in a company which has poor ESG practices. It is the Manager's opinion that companies with poor standards of ESG are likely to underperform over the long-term. Key ESG risks include: **Environmental** • Climate change and greenhouse gas emissions ("GHG") • Resource depletion, including water • Waste and pollution **Social** • Working conditions, including no slavery or child labour • Health and safety • Employee relations and diversity **Governance** • Executive pay • Board diversity and structure (in terms of age, gender, educational and professional background) • Anti-bribery and corruption *No change in overall risk in year.*	*Montanaro is a certified B Corporation and therefore takes ESG and sustainability issues seriously. A strong and consistently applied investment process is in place and ESG risks are considered for every company in which the Manager considers investing in.* *An ethical framework excludes investment in companies that generate a significant proportion of sales from products with negative societal impact. A bespoke ESG Checklist is completed for every company by Montanaro's team of Research Analysts and the Manager only invests in those which pass the criteria set out in this Checklist, which is designed to cover the aforementioned Environmental, Social and Corporate Governance Risks.* *Overview is provided by Montanaro's Sustainability Committee, which review ESG stock analysis and coordinates detailed engagement activity with investee.* *The Board receives reports at each Board meeting which include ESG considerations for new and existing investments.*
Manager Should the Manager not be in a position to continue to manage the Company, performance may be impacted. *No change in overall risk in year.*	*Montanaro has one of the largest specialist teams in the UK focusing on quoted European smaller companies. Montanaro operates a team approach in the management of the investment portfolio which mitigates against the impact of the departure of any one member of the investment team. The Manager keeps the Board informed of developments within its business.*

Business Model and Strategy continued

VIABILITY ASSESSMENT AND STATEMENT

In accordance with the AIC Code of Corporate Governance, the Directors have assessed the prospects of the Company over the coming three years in order to assess the viability of the Company. The Board is required to assess its future prospects and has considered that a number of characteristics of its business model and strategy were relevant to this assessment:

- The Company's objective is to achieve capital growth.
- The Company's investment policy, which is subject to regular Board monitoring, means that the Company is invested principally in the securities of Continental European quoted smaller companies.
- The Company is a closed-end investment trust, whose shares are not subject to redemptions by shareholders.
- The Company's business model and strategy is not time limited.

Also relevant were a number of aspects of the Company's operational arrangements:

- The Company retains title to all assets held by the Custodian under the terms of a formal agreement with the Depositary and Custodian.
- The borrowing facilities, which remain available until September 2023, are also subject to formal agreements, including financial covenants with which the Company complied in full during the year.
- Revenue and expenditure forecasts are reviewed by the Directors at each Board Meeting.

In considering the viability of the Company, the Directors carried out a robust assessment of the principal risks and uncertainties which could threaten the Company's objective and strategy, future performance, liquidity and solvency, including the impact of a significant fall in equity markets or adverse currency movements on the Company's investment portfolio. They also considered the impact of the Covid-19 pandemic on the quality and continuity of the Manager's operations and those of third-party service providers. These risks, their mitigations and the processes for monitoring them are set out on pages 14 to 17 in Principal Risks and Uncertainties and Risk Mitigation, pages 32 and 33 in the Report of the Audit Committee and in the notes to the accounts.

The Directors have also considered:

- The level of ongoing charges incurred by the Company which are modest and predictable and that these were covered by investment income and total 1.1% of average net assets;
- Future revenue and expenditure projections and the potential impact of reduced dividend income in the short term as a result of market conditions;
- The Company's borrowing in the form of fixed rate loan facility of €10 million, which is due to mature in September 2023, noting that the Company has a large margin of safety over the covenants on this debt. The Company also has a €15 million revolving credit facility which also matures on 13 September 2023, of which €10 million was drawn down as at 31 March 2022. These loans were covered 20 times by the Company's total assets as at 31 March 2022;
- Its ability to meet liquidity requirements given the Company's investment portfolio consists principally of Continental European quoted smaller companies which can be realised if required. It is estimated that approximately 89% of the portfolio could be liquidated under normal conditions within ten business days;
- The ability to undertake share buybacks if required;
- That the Company's objective and investment policy continue to be relevant to investors; and
- The Company has no employees, having only non-executive Directors and consequently does not have redundancy or other employment related liabilities (including pensions) or responsibilities.

These matters were assessed over a three year period to June 2025, and the Board will continue to assess viability over three year rolling periods, taking account of severe but plausible scenarios. In the absence of any adverse change to the regulatory environment and to the treatment of UK investment trusts a rolling three year period represents the horizon over which the Directors do not expect there to be any significant change to the Company's principal risks or their mitigation and they believe they can form a reasonable expectation of the Company's prospects.

Based on their assessment, and in the context of the Company's business model, strategy and operational arrangements set out above, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period to June 2025. For this reason, the Board also considers it appropriate to continue adopting the going concern basis in preparing the Report and Accounts.

Directors’ Duties

SECTION 172 OF THE COMPANIES ACT 2006

Section 172 of the Companies Act 2006 (the “Act”) requires Directors to act in good faith and in a way that is the most likely to promote the success of the company. In doing so, Directors must take into consideration the interests of the various stakeholders of the Company, the impact the Company has on the community and the environment, take a long-term view of consequences of the decisions they make as well as aim to maintain a reputation for high standards of business conduct and fair treatment between the members of the Company.

Fulfilling this duty naturally supports the Company in achieving its Investment Objective and helps to ensure that all decisions are made in a responsible and sustainable way. In accordance with the requirements of the Companies (Miscellaneous Reporting) Regulations 2018, below, the Board explains how the Directors have individually and collectively discharged their duties under section 172 of the Act over the course of the reporting period.

To ensure that the Directors are aware of, and understand, their duties they are provided with a tailored induction, including details of all relevant regulatory and legal duties as a Director of a UK public limited company when they first join the Board, and continue to receive regular and ongoing updates and training on relevant legislative and regulatory developments.

They also have continued access to the advice and services of the Company Secretary, and when deemed necessary, the Directors can seek independent professional advice. The schedule of Matters Reserved for the Board, as well as the Terms of Reference of its committees are reviewed periodically and further describe Directors’ responsibilities and obligations and include any statutory and regulatory duties.

CULTURE

During the year, the Directors also considered the Company’s culture and values and have worked to incorporate these behaviours and processes into the annual review of the Manager, strategic planning, the annual evaluation of Board effectiveness and reporting to stakeholders – thus embedding consideration of stakeholders’ interests, long-term perspective, maintaining reputation for fairness and high standards of governance, corporate reporting and business conduct more generally in the Company’s culture and processes.

DECISION-MAKING

The importance of stakeholder considerations, in particular in the context of decision-making, is regularly considered by the board and taken into account at every board meeting. A paper setting out the Directors' responsibilities under s.172 is tabled at the start of every board meeting. For example, the strategic planning discussions involve careful considerations of the longer-term consequences of any decisions and their implications on shareholders and other stakeholders, and are supported by detailed analysis based on various scenarios, which include assumptions around the Company’s contractual commitments; availability of funding; borrowing; foreign currency management; as well as the wider economic conditions and market performance.

COMMUNITY AND ENVIRONMENT

The Board recognises that the Company has certain responsibility to its shareholders, stakeholders and wider society. While as an externally managed investment firm the Company itself does not have employees or offices, the Board endorses the Manager’s policy to invest the Company’s funds in a socially responsible manner. Environmental, social and governance factors are an integral part of the investment process. In addition, the Manager does not invest in companies that it deems to be harmful to society or the environment; this includes companies involved in tobacco, fossil fuels, gambling, adult entertainment, weapons manufacturing and alcohol. The Board monitors investment activity to ensure they are compatible with the policy and receives periodic updates from the Manager on its initiatives and performance against its ESG goals.

The Manager is a signatory to the Principles for Responsible Investment, the UK Stewardship Code, the Carbon Disclosure Project and the LGPS Code of Transparency. In June 2019, Montanaro became a “B Corporation”, a business certified for meeting the highest verified standards of social and environmental performance, transparency and accountability. In 2021, Montanaro was invited to co-chair the B Corporation Investment & Working Group and attended the UN Climate Change Summit COP26 as a member of the Glasgow Financial Alliance for Net Zero taskforce. Further information is included in the ESG Report on pages 8 and 9.

BUSINESS CONDUCT

Board policies are all reviewed on at least an annual basis, and the Directors ensure that they appropriately define obligations and correct procedures. The Report of the Audit Committee, which can be found on pages 32 to 34 of this Report, further explains how the Committee reviews the risk management and internal controls of the Company. This includes reasonably satisfying itself that relevant systems and controls in place remain effective and appropriate.

Directors' Duties continued

STAKEHOLDERS

The Board seeks to understand the needs and priorities of the Company's stakeholders and these are taken into account during all its discussions and as part of its decision-making. While as an externally managed investment Company, the Company does not have any employees or customers, its key stakeholders include:

Stakeholders	Why they are so important?	Board engagement
Shareholders	Continued shareholder support and engagement are critical to existence of the Company and the delivery of the long-term strategy of the Company.	The Company has more than 1,100 shareholders. Over the years, the Company has developed various ways of engaging with its shareholders, in order to gain an understanding of the views of our shareholders. These include: • **Website** – The Company's website is regularly updated with factsheets, reports, presentations, webinar recordings and commentaries as well as more details about the Manager, investment philosophy and process; • **Annual General Meeting** – The Company welcomes attendance from shareholders at its Annual General Meeting. With the exception of 2020 (owing to the Covid-19 pandemic), the Manager always delivers a presentation and all shareholders have an opportunity to meet the Directors and ask questions. The Board greatly values the feedback and questions it receives from shareholders and takes action or makes changes as and when appropriate; • **Presentations** – The annual and interim results, as well as monthly factsheets are available on the Company's website. Feedback and/or questions the Company receives from the shareholders help the Company to evolve its reporting, aiming to render the reports and updates transparent and understandable; and • **Investor Relations updates** – At every Board meeting, the Directors receive updates on the share trading activity, share price performance and any shareholders' feedback, as well as any publications or comments in the press.

SERVICE PROVIDERS

The Manager	The Manager's performance is critical for the Company to successfully deliver its investment strategy and meet its objective.	Maintaining a close and constructive working relationship with the Manager is crucial as the Board and the Manager both aim to continue to achieve consistent, long-term returns in line with the Company's investment objective. Important components in the collaboration with the Manager, which are representative of the Board's culture are: • Encouraging open discussion with the Manager; • Recognising that the interests of shareholders and the Manager are for the most part well aligned, adopting a tone of constructive challenge, balanced when those interests are not fully congruent by robust negotiation of the Manager's terms of engagement; and • Willingness to make the Directors' experience available to support the Manager in the sound, long-term development of its business and resources, recognising that the long-term health of the Manager is in the interests of shareholders in the Company.

Stakeholders	Why they are so important?	Board engagement
Other service providers, including: **the Company Secretary, the Administrator, the Registrar, the Depositary, the AIFM, the Custodian and the Broker**	In order to function as an investment trust with a premium listing on the London Stock Exchange, the Company engages a diverse range of advisors for support with meeting all relevant obligations.	The Board maintains regular contact with its key external providers, both through the Board and committee meetings, as well as outside of the regular meeting cycle. Their advice, as well as needs and views are routinely taken into account. In addition, the Board also undertakes periodic reviews of the external service providers and addresses any concerns raised in those reviews. It also holds relationship meetings and formally hears, and acts on, their feedback, as appropriate.
Bank	Availability of funding and liquidity are crucial to the Company's ability to take advantage of investment opportunities as they arise.	In recognition of the importance of funding availability, the Company aims to demonstrate to lenders that it is a well managed business, and in particular, that the Board focuses regularly and carefully on the management of risk.
Institutional Investors and proxy advisors	The evolving practice and support of the major institutional investors and proxy adviser agencies are important to the Directors, as the Company aims to maintain its reputation and high standards of corporate governance, which contributes to the long-term sustainable success of the Company.	Recognising the principles of stewardship, as promoted by the UK Stewardship Code, the Board welcomes engagement with all our investors. The Board recognises that the views, questions from, and recommendations of many institutional investors and proxy adviser agencies provide a valuable feedback mechanism and play a part in highlighting evolving shareholders' expectations and concerns.
Regulators	The Company can only operate with the approval of its regulators who have a legitimate interest in how the Company operates in the market and treats its shareholders.	The Company regularly considers how it meets various regulatory and statutory obligations and follows voluntary and best-practice guidance, is mindful of how any governance decisions it makes can have an impact on its shareholders and wider stakeholders, in the short and in the longer-term.
Community and Environment	The Board recognises that it has a responsibility to the wider environment and community.	Our engagement with the community and the environment can be found on page 19. A detailed ESG Report can be found on pages 8 and 9.

Directors' Duties continued

PRINCIPAL DECISIONS DURING THE YEAR ENDED 31 MARCH 2022

Examples of the Board's principal decisions during the year, how the Board fulfilled its duties under section 172 of the Act and the related engagement activities are set out below:

Principal decision	Stakeholder Considerations and Engagement
To issue new shares and shares from treasury, and to apply for a block listing	Issuing shares allows the Company to increase its liquidity and meet natural demand in the market which is an important consideration for shareholders. Furthermore, successful investment of the capital raised in issuances will promote further growth of the Company's NAV. When evaluating such decisions, the Board takes full account of the impact of any such issuances on the existing shareholder base.
To enact a share split	Following shareholder approval at the AGM, shareholders on 14 September 2021 received 10 New Ordinary Shares in exchange for each Existing Ordinary Share held at the Record Date. The New Ordinary Shares were admitted to trading on the premium segment of the Main Market of the London Stock Exchange on 14 September 2021. Following the completion of the share split, as at 14 September 2021, the Company had 179,682,600 New Ordinary Shares in issue. The significant movement from institutional to retail and platform shareholders on the Company's share register during the previous five years was considered. Factors included increased dividend reinvestment and daily transaction volumes as a result of the growing number of retail investors. A sub-division was considered as a way to make smaller sized share dealings more efficient, improve liquidity of shares to facilitate increased volumes and ensure that the current share price did not impede certain types of investor.
To implement a management fee change	Under the terms of the Investment Management Agreement ("IMA"), MAM is currently entitled to receive a management fee of 0.90% per annum of the Company's market capitalisation. Following the Remuneration Committee meeting in February 2021, discussions were held with MAM to link the management fee to the size of the Company. Accordingly, it was agreed that, with effect from 1 April 2021, the management fee would be linked to the size of the Company, as follows: • 0.90% p.a. of the amount of the Company's market capitalisation up to £500 million; • 0.75% p.a. of the amount of the Company's market capitalisation between £500 million and £750 million; and • 0.65% p.a. of the amount of the Company's market capitalisation above £750 million.

The Chairman's Statement on pages 2 and 3, the Manager's Report on pages 4 to 7, the Twenty Largest Holdings on pages 10 and 11, all form part of this Strategic Report on pages 2 to 22, which has been approved by the Board of Directors.

By order of the Board

LINK COMPANY MATTERS LIMITED
Company Secretary
23 June 2022

Board of Directors

The Directors of the Company who were in office during the financial year and up to the date of signing the financial statements were:

Richard Curling – Chairman of the Board and Chairman of the Nomination Committee
Date of Appointment: 2 November 2015

Richard was appointed to the Board as an independent non-executive director in 2015 and was appointed as Chairman of the Board on 29 August 2018. Richard has over 30 years' experience as a fund manager and is currently an investment director at Jupiter Fund Management Plc with extensive experience of investment trusts.

Relevant skills and experience and reasons for re-election:

Richard has comprehensive experience of investment management and the wider Investment Company sector. This has provided a strong basis for assessing, and where appropriate challenging, the Manager, on the Company's performance, and in leading the Board in strategic discussions. Following a rigorous board evaluation process, the Board agreed that Richard continues to be an effective member of the Board.

Caroline Roxburgh – Senior Independent Director and Chair of the Audit Committee
Date of Appointment: 8 November 2017

Caroline is a Chartered Accountant and was previously a partner at PricewaterhouseCoopers. She has over 30 years' business, finance and audit experience across a number of industries and sectors bringing extensive experience to the Board. Caroline also holds a number of other board positions including as a Non-Executive director of the Edinburgh Worldwide Investment Trust plc. She is an experienced Chair of Audit and Risk Committees and holds that position on other Boards of which she is a member.

Relevant skills and experience and reasons for re-election:

Caroline's experience as a senior Board advisor, Assurance Partner and Chartered Accountant brings valuable business, financial, governance and risk management skills to the Board, which enables her to assess the financial position of the Company, to lead discussions regarding the Company's risk management framework and risk appetite and to contribute to developing the Company's strategy. Her broad range of experience as a Chair of Audit and Risk Committees helps inform her role as Chair of the Company's Audit Committee. Given her experience on the Board, Caroline was appointed Senior Independent Director on 31 December 2020. Following a rigorous board evaluation process, the Board agreed that Caroline continues to be an effective member of the Board.

Gordon Neilly – Non-Executive Director and Chair of the Remuneration Committee
Date of Appointment: 21 September 2020

Gordon is Executive Chairman of WhiteStar Asset Management Europe, and non-executive director of Personal Assets Trust plc. Previously Chief of Staff at Standard Life Aberdeen, prior to which he was Head of Strategy and Corporate Activity at Aberdeen Standard Investments, Co-Chief Executive Officer of Cantor Fitzgerald Europe, Chief Executive of Intelli Corporate Finance and Finance and Business Development Director of Ivory & Sime plc.

Relevant skills and experience and reasons for re-election:

Gordon has gained an in depth knowledge of strategical matters, extensive leadership skills and possesses a wealth of experience in business transformation and developing strategies through his executive roles, particularly within the investment company sector. Gordon's diverse skill-set and strategic awareness facilitates open discussion and allows for constructive challenge in the boardroom, which brings a unique perspective and insight to the Board. Following a rigorous board evaluation process, the Board agreed that Gordon continues to be an effective member of the Board.

Directors' Report

The Directors submit the Annual Report and Accounts of the Company for the year ended 31 March 2022.

MANAGEMENT REPORT

For the purposes of compliance with Disclosure Guidance and Transparency Rules ('DTR') DTR 4.1.5 R (2) and DTR 4.1.8 R, the required content of the 'Management Report' can be found in the Strategic Report and this Directors' Report. The following disclosures required to be included in this Directors' Report have been incorporated by way of reference to other sections of this report and should be read in conjunction with this report:

- Corporate Governance Statement – refer to pages 29 to 31 of this report;
- Strategy and relevant future developments – refer to the Chairman's Statement on pages 2 and 3, the Manager's Report on pages 4 to 7 of the Strategic Report; and
- Financial risk management objectives and policies. An analysis of the portfolio is provided in note 15 on page 59.

Further information about financial instruments and capital disclosures is provided in note 15 on page 59.

STATEMENT REGARDING ANNUAL REPORT AND ACCOUNTS

Following a detailed review of the Annual Report and Accounts by the Audit Committee and the Board, the Directors consider that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Accounts would have a reasonable level of knowledge of the investment industry in general and investment trusts in particular. The outlook for the Company is set out in the Chairman's Statement on page 3. Principal risks can be found on pages 15 to 17, with further information on risk management objectives in notes 16 to 20 to the accounts.

POST BALANCE SHEET EVENTS

Disclosures relating to post balance sheet events can be found in note 23 to the accounts on page 62.

RESULTS AND DIVIDENDS

The results for the year are set out in this Annual Report and Accounts. An interim dividend of 0.20p per Ordinary Share was paid on 4 January 2022. The Board recommends a final dividend for the year of 0.725 per Ordinary Share payable on 16 September 2022 to shareholders on the register on 12 August 2022. The ex-dividend date will be 11 August 2022.

PRINCIPAL ACTIVITY AND STATUS

The Company is registered as a public limited company in Scotland (registered number SC074677) and is an investment company within the terms of Section 833 of the Companies Act 2006. Its shares are quoted on the Main Market of the London Stock Exchange.

The Company carries on business as an investment trust and has been approved as such by HM Revenue and Customs, subject to it continuing to meet the relevant eligibility conditions and ongoing requirements. The Company intends to conduct its affairs so as to enable it to comply with the requirements.

DISCLOSURE OF RELEVANT INFORMATION TO THE AUDITOR

Having made the requisite enquiries, so far as the Directors are aware, there is no relevant audit information (as defined by Section 418(3) of the Companies Act 2006) of which the Company's Auditor is unaware and each Director has taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

INDEPENDENT AUDITOR

A resolution to appoint PricewaterhouseCoopers LLP ("PwC") as the auditor to the Company was approved by shareholders at the 2021 Annual General Meeting for the financial year ending 31 March 2022. This is the first year that PwC is acting as the Company's Auditors. PwC has confirmed its willingness to continue in office as the Auditor of the Company ("the Auditor"). A resolution to re-appoint PwC as the Auditor to the Company and to authorise the Audit Committee to determine the Auditor's remuneration will be proposed to the forthcoming Annual General Meeting.

DIRECTORS

Biographical details of the Directors, all of whom are independent and non-executive, can be found on page 23. The Directors' interests in the shares of the Company are shown on page 37.

Unless otherwise determined by ordinary resolution, the Company shall not have fewer than two, or more than ten Directors (disregarding alternate Directors). The Company or the Board may appoint any person to be a Director and a Director is not required to hold any shares of the Company. Any Director appointed by the Board shall hold office only until the next Annual General Meeting and shall then be eligible for election.

In accordance with the Company's Articles (the "Articles"), each Director must retire from office at the third Annual General Meeting after the Annual General Meeting at which he or she was last elected. However, as explained in more detail under the Corporate Governance Statement on page 29, the Board has agreed that all Directors will retire annually. Accordingly, Mr Curling, Ms Roxburgh and Mr Neilly will retire at the forthcoming Annual General meeting and, being eligible, offer themselves for re-election. (Resolutions 4 – 6). Biographical details of all directors and their reasons for re-election are set out on page 23. The Board confirms that, following formal performance evaluations, the performance of all directors continues to be effective and demonstrates commitment to the role, and believes that it is therefore in the interests of shareholders that they are elected or re-elected. In recommending these resolutions, the Board, supported by its Nomination Committee, has considered its current composition, to ensure the overall composition of the Board in terms of skills, experience and background is appropriate.

No Director has a contract of service with the Company and no Director has any material interest in any contract to which the Company is a party.

DIRECTORS' INDEMNITIES

As at the date of this report, indemnities are in force between the Company and each of its Directors under which the Company has agreed to indemnify each Director, to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out his or her role as a Director of the Company. The Directors are also indemnified against the costs of defending any criminal or civil proceedings or any claim by the Company or a regulator as they are incurred provided that where the defence is unsuccessful the Director must repay those defence costs to the Company. The indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006 and were in force during the financial year and remain as at the date of this report.

A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

POWERS OF THE DIRECTORS

Subject to the provisions of the Companies Act 2006, the Articles and to any directions given by the Company in general meeting by special resolution, the business of the Company is managed by the Board, which may exercise all the powers of the Company whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to issue shares or other securities and to borrow money and to mortgage or charge all or any part of the Company's assets.

CONFLICTS OF INTEREST

Each Director has a statutory duty to avoid a situation where they have, or could have, a direct or indirect interest which conflicts, or may conflict with the interests of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles. The Board has approved a protocol for identifying and dealing with conflicts and has resolved to conduct a regular review of actual or possible conflicts and any authorised conflicts. No conflicts or potential conflicts were identified during the year.

INVESTMENT MANAGEMENT ARRANGEMENTS

Montanaro provides investment management services to the Company and is the Company's AIFM. Under the terms of the investment management agreement, Montanaro is entitled to receive a management fee of 0.9% per annum of the Company's market capitalisation (payable monthly in arrears). Montanaro is also entitled to a fee of £50,000 per annum for acting as the Company's AIFM. Montanaro's appointment may be terminated by either party giving to the other not less than six months' notice. The investment management agreement may be terminated earlier by the Company provided that a payment in lieu of notice, equivalent to the amount the Manager would otherwise have received during the notice period, is made.

Under the terms of the Investment Management Agreement ("IMA"), MAM was currently entitled to receive a management fee of 0.90% per annum of the Company's market capitalisation. Following the Remuneration Committee meeting in February 2021, discussions had been held with MAM to link the management fee to the size of the Company.

Accordingly, it was agreed that, with effect from 1 April 2021, the management fee would be linked to the size of the Company, as follows:

- 0.90% p.a. of the amount of the Company's market capitalisation up to £500 million;
- 0.75% p.a. of the amount of the Company's market capitalisation between £500 million and £750 million; and
- 0.65% p.a. of the amount of the Company's market capitalisation above £750 million.

In March 2022, the Remuneration Committee and the Board formally reviewed the Manager's appointment. In carrying out its review, the Board considered the skills, experience, resources and commitment of the Manager, together with the investment performance during the year and since its appointment. It also considered the length of the notice period of the investment management agreement and the fees payable to the Manager. Following this review, it is the Directors' opinion that the continuing appointment of Montanaro as Manager and AIFM, on the terms agreed, is in the interests of shareholders as a whole. Among the reasons for this view is the Company's long-term investment performance relative to that of the markets in which the Company invests and the depth and experience of the research capability of Montanaro. The Manager has also performed well during the year where the market remained adversely impacted by COVID-19 together with new implications from the conflict in Ukraine and energy supply crisis.

DEPOSITARY AND CUSTODIAN

The Bank of New York Mellon (International) Limited acts as the Company's Depositary and Custodian in accordance with the AIFM Directive. The Depositary's responsibilities include cash monitoring, segregation and safe keeping of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements.

CAPITAL STRUCTURE

The Company's capital structure is composed solely of Ordinary Shares. The rights and obligations of shareholders are set out in the Articles (which can be amended by special resolution). All shares rank equally for dividends and entitlement to capital, and at a general meeting of the Company every shareholder who is present in person or by proxy or by a corporate representative shall have one vote for all of the shares of which they are the holder on a show of hands, and one vote for each share on a poll. Unless the Board decides otherwise, no member is entitled in respect of any share held by them to vote (either personally or by proxy or by a corporate representative) at any general meeting of the Company if any calls or other sums presently

Directors' Report continued

payable by them in respect of that share remain unpaid or if they are a person with a minimum of 0.25% interest (as defined in the Articles) and they have been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

Subject to the provisions of the Companies Act 2006, the Company may by ordinary resolution from time to time declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board.

Subject to the provisions of the Companies Act 2006, the Board may pay such dividends as appear to it to be justified by the financial position of the Company. The Board may deduct from any dividend or other moneys payable to a member by the Company on or in respect of any shares all sums of money (if any) payable by them to the Company on account of calls or otherwise in respect of shares of the Company. The Board may also withhold payment of all or any part of any dividends or other moneys payable in respect of the Company's shares from a person with a minimum of 0.25% interest (as defined in the Articles) if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

There are no restrictions on voting rights and no restrictions concerning the transfer of shares in the Company except that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws). There are no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements to which the Company is a party that might change or fall away on a change of control or trigger any compensatory payments for Directors, following a successful takeover bid.

Share split

A proposal to implement a sub-division of the Company's share capital via a ten for one share split was approved at the Company's Annual General Meeting in September 2021. Following the sub-division, each ordinary shareholder received ten new shares of 5 pence each for every one ordinary share of 50 pence each previously held. It was noted that subsequent to the sub-division, shareholders still held the same proportion of the Company's ordinary share capital as before the sub-division. Following the completion of the share split, as at 14 September 2021, the Company had 179,682,600 New Ordinary Shares in issue.

SUBSTANTIAL INTERESTS IN SHARE CAPITAL

As at 31 March 2022, the Company had received notification of the following substantial holdings of voting rights (being only those received under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules):

	Number of shares held	Percentage held
Hargreaves Lansdown, stockbrokers (EO)	30,244,696	15.97
Interactive Investor (EO)	25,223,025	13.32
AJ Bell, stockbrokers (EO)	10,014,007	5.29
Brewin Dolphin Ireland	9,158,123	4.83
Montanaro Asset Management	9,000,000	4.75
Brewin Dolphin, stockbrokers	7,901,304	4.17
Rathbones	6,145,267	3.24
Transact (EO)	5,805,446	3.06

The Company has not been advised of any changes to these notified interests between 31 March 2022 and the date of this report.

CORPORATE GOVERNANCE

Full details of the Company's corporate governance arrangements are given in the Corporate Governance Statement, which forms part of this Directors' Report and can be found on pages 29 to 31.

ACCOUNTING AND GOING CONCERN

The financial statements start on page 46 and the unqualified Independent Auditor's Report on the financial statements is on pages 39 to 45. Shareholders will be asked to approve the Annual Report and Accounts at the AGM (Resolution 1). 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.

The Directors have taken into account the Company's investment policy, which is described on pages 12 and 13 and 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 year.

As part of the going concern review, the Directors have also considered the current cash position of the Company, the availability of the fixed rate loan, the secured revolving credit facility, compliance with the Company's banking covenants, the Company's other liabilities and forecast revenues. In particular, the Directors considered the impact of disruptions arising from the global pandemic and recent market factors on the company's liquidity, market values, bank covenants and continuity of operations.

Notes 16 to 20 to the accounts set out the financial risk profile of the Company and indicate the effect on its assets and liabilities of falls and rises in the value of securities, market rates of interest and changes in exchange rates.

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.

The Company's longer term viability is considered in the 'Viability Assessment and Statement' on page 18.

FUTURE DEVELOPMENTS OF THE COMPANY

The outlook for the Company is set out in the Chairman's Statement on page 3.

GREENHOUSE GAS EMISSIONS

All of the Company's activities are outsourced to third parties. As such it does not have any physical assets, property, employees or operations of its own and does not generate any greenhouse gas or other emissions or consume any energy reportable under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 or the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, implementing the UK Government's policy on Streamlined Energy and Carbon Reporting. Under listing rule 15.4.29(R), the Company, as a closed ended investment fund, is exempt from complying with the Task Force on Climate related Financial Disclosures. The Company is aware that the UK's Climate Change Act places obligations on the UK Government to decarbonise the economy by 2050 and to manage the impacts of climate change. Recognising the significance of the climate crisis and our role in the UK's response, we have been in active dialogue with our fund manager to address sustainability risks. Further details are provided in the ESG Report on pages 8 and 9.

DONATIONS

The Company made no political or charitable donations during the year (2020: nil) to organisations either within or outside of the EU.

LISTING RULE DISCLOSURE

Certain information is required to be included in the Annual Financial Report by Listing Rule 9.8.4. The following table provides references to where this information can be found in this Annual Report. If a requirement is not shown, it is not applicable to the Company.

Section	Listing Rule requirement	Location
7	Details of an allotment for cash of equity securities made during the period	Directors' Report (page 28 – new issuance of shares)

FINANCIAL INSTRUMENTS

The Company's financial instruments comprise its investment portfolio, cash balances, bank debt and debtors and creditors that arise directly from its operations, such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in notes 16 to 20 to the accounts.

ANNUAL GENERAL MEETING

The notice of Annual General Meeting to be held on 8 September 2022 is set out on pages 70 to 77.

Directors' Authority to Allot Shares (Resolution 9)

The Company's Articles empower the Directors to allot unissued shares. In accordance with section 551 of the Companies Act 2006, such allotments must be authorised by shareholders in a general meeting. Resolution 9 to be proposed at the forthcoming Annual General Meeting renews the Directors' authority, granted by shareholders at last year's Annual General Meeting, to allot new shares under section 551 of the Companies Act 2006. This authority will allow the Directors to allot shares up to an aggregate nominal amount of £947,138, representing an amount equal to approximately 10% of the Company's total issued ordinary share capital as at 23 June 2022 (being the latest practicable date before the publication of the Annual Report and Accounts) excluding shares held in treasury. This authority will expire at the conclusion of the Company's next Annual General Meeting, to be held in 2023 or, if earlier, on 30 September 2023.

Directors' Authority to Allot Shares other than on a Pre-emptive Basis (Resolution 10)

Resolution 10 to be proposed at the Annual General Meeting grants the Directors authority to allot new shares for cash and to dispose of treasury shares, up to an aggregate nominal amount of £947,138, representing an amount equal to approximately 10% of the Company's issued Ordinary Share capital (including treasury shares) as at 23 June 2022, without having to offer such shares to existing shareholders pro rata to their existing holdings. The authority also allows the Directors to take such steps as they consider necessary in relation to the treatment of overseas shareholders, treasury shares and fractional entitlements on pre-emptive share issues. This authority will expire at the conclusion of the Company's next Annual General Meeting to be held in 2023 or, if earlier, on 30 September 2023 and will enable the Company to issue new shares and to dispose of treasury shares at any price for cash, including where shares are being issued from treasury at a price representing a discount to the NAV per share at the time of issue. The Directors will only allot new shares pursuant to the authorities proposed to be conferred by Resolutions 9 and 10 if they believe it is advantageous to the Company's shareholders to do so and in no circumstances would it result in an overall dilution of the NAV per share. The Directors

Directors' Report continued

will only issue new shares at a price representing at or a premium to the NAV per share at the time of issuance. The Board's policy regarding the issue of shares from treasury is described below. The Directors consider that the authorities proposed to be conferred by Resolutions 9 and 10 are necessary to retain flexibility and will be exercised only if, in the opinion of the Directors, it would be in the best interests of shareholders as a whole.

Directors' Authority to Buy Back Shares (Resolution 11)

The Company did not buy back any Ordinary Shares during the year. The current authority of the Company to make market purchases of up to 14.99% of the issued Ordinary Shares expires at the end of the Annual General Meeting and Resolution 11, as set out in the notice of the Annual General Meeting, seeks renewal of such authority. The renewed authority to make market purchases will be in respect of a maximum of 14.99% of the issued Ordinary Shares of the Company as at the date of the passing of the resolution, excluding treasury shares (approximately 28,395,197 Ordinary Shares). The resolution specifies the minimum and maximum prices which may be paid for any Ordinary Shares purchased under this authority. This power will only be exercised if, in the opinion of the Directors, a purchase would result in an increase in the NAV per share and be in the best interests of the shareholders as a whole. The Board's intention is to apply an active discount management policy, and to consider a buyback of shares where the discount of the share price to the NAV per share is greater than 10% for a sustained period of time and is significantly wider than the average for similar trusts. Any such transaction must be value enhancing for shareholders and the Board will take into consideration the effect of the buyback on the liquidity of the Company's shares.

As a result of the share split that took place following the 2021 AGM, the buyback authority taken represented approximately 1.4 per cent (rather than the previously represented 14.99 per cent) of the issued share capital of the Company. While it is not the Company's intention to buy back Shares unless it is at a discount to the NAV, it is important that the Company has the requisite authority to operate its discount management policy if necessary. Accordingly, the Directors' put forward a resolution to seek approval for a renewal of the Company's buyback authority for up to a number of shares that represent 14.99% of the current issued share capital. This resolution was passed at a General Meeting of the Company held on 22 February 2022.

TREASURY SHARES

Shares which are bought back by the Company pursuant to the share buyback authority may be cancelled or held by the Company in treasury and subsequently re-issued. It is the Board's intention that any shares bought back by the Company will be held in treasury. Shares held in treasury will not carry any voting rights, dividends payable in respect of them will be suspended and they will have no entitlements on a winding-up of the Company.

It is the Board's policy that shares will only be re-issued from treasury either at a price representing a premium to the NAV per share at the time of re-issue, or at a discount to the NAV per share provided that such discount is lower than the weighted average discount to the NAV per share when they were bought back by the Company. It is also the Board's policy that shares may be held in treasury indefinitely.

The Board believes that the treasury shares policy will improve liquidity in the shares and help to maintain the size of the Company. Furthermore, the Board believes that the re-issuance of shares from treasury at a discount to the NAV per share within the parameters described above will, in conjunction with the Company's share buyback policy, ensure that the overall effect of the 'round trip' of repurchasing shares and subsequently reissuing them from treasury will be an enhancement to the NAV per share.

During the year, on 4 August 2021, owing to demand in the market, the Company issued 10,000 Ordinary Shares of 50p each fully paid from Treasury. Following the issuance there was 17,448,260 Ordinary Shares in issue and no shares held in Treasury. These shares were issued for cash on 4 August 2021 at a price of 2,020p per share.

There were further new share issuances in the year owing to demand in the market, amounting to 14,945,000 shares.

As at 23 June 2022, being the latest practicable date before the publication of the Annual Report and Accounts, there were 189,427,600 ordinary shares in issue. No shares are held in treasury. Accordingly, the total number of voting rights in the Company is 189,427,600. Further details are included under Note 13 to the Financial Statements on page 58.

RECOMMENDATION

The Directors consider that the passing of each of the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of these resolutions.

INDIVIDUAL SAVINGS ACCOUNTS ('ISAS')

The Company's shares are qualifying investments as defined by HM Revenue & Customs' regulations for ISAs. It is the intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

For and on behalf of the Board

LINK COMPANY MATTERS LIMITED
Company Secretary
23 June 2022

Corporate Governance Statement

The Corporate Governance Statement forms part of the Directors' Report.

INTRODUCTION

The Board has considered the Principles and Provisions of the AIC Code of Corporate Governance published in February 2019 (AIC Code). The AIC Code addresses the Principles and Provisions set out in the 2018 UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council, provides more relevant information to shareholders.

The AIC Code is available on the AIC website www.theaic.co.uk. It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies. The UK Code is available from the Financial Reporting Council's website at www.frc.org.uk.

During the year, the Company has complied with all of the recommendations of the AIC Code.

The Company is committed to maintaining the highest standards of governance and will ensure that it continues to meet all applicable requirements.

THE CHAIRMAN OF THE COMPANY

Mr Curling was appointed to the Board as an independent non-executive director in 2015, and as Chairman of the Board on 29 August 2018. His biography can be found on page 23. Mr Curling is also a member of the Audit Committee and Chairman of the Nomination Committee. The Board believes it is appropriate for Mr Curling to be a member of both committees as he is considered to bring valuable experience, to be independent and there are no conflicts of interest.

THE COMPANY SECRETARY

The Board has direct access to the services of the Company Secretary who is responsible for ensuring Board and Committee procedures are followed and that applicable regulations are complied with. The Company Secretary is also responsible to the Board for ensuring the timely delivery of the information and reports which the Directors require and that statutory obligations are met.

THE BOARD

The Board consists solely of non-executive Directors. All Directors are considered by the Board to be independent of the Manager. Under the requirements of the Articles of Association, Directors are subject to election at the next Annual General Meeting after their appointment. New Directors receive an induction from the Manager and Company Secretary on joining the Board, and all Directors are encouraged to attend relevant training courses and seminars.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate Directors' and officers' liability insurance. The Board is formed of three independent non-executive Directors. Mr Curling is the Chairman of the Board and Chairman of the Nomination Committee, Ms Roxburgh is Chair of the Audit Committee and Senior Independent Director and Mr Neilly is Chairman of the Remuneration Committee.

RE-ELECTION OF DIRECTORS

Under the provisions of the Company's Articles, the Directors retire by rotation at least every three years, however, in accordance with corporate governance best practice as set out in the AIC Code, all Directors should put themselves forward for re-election every year. As such, each of the Directors is subject to annual re-election by the shareholders at the Annual General Meeting and Mr Curling, Ms Roxburgh and Mr Neilly have confirmed that they will be standing for re-election at the forthcoming Annual General Meeting.

BOARD INDEPENDENCE AND TENURE

The Board ensures that it has the appropriate balance of skills, experience, knowledge and independence in order to remain effective and regularly reviews the independence of its members and considers all of the Directors to be independent. In line with the 2019 AIC Code, the Company has adopted a formal policy on tenure.

The Board does not feel that it would be appropriate to set a specific tenure limit for individual Directors or the Chairman of the Board or its Committees. Instead, the Board will regularly review the size and structure of the Board with the aim of new directors bringing the challenge of fresh thinking into the Board's discussions. By doing so, the Board intends to maintain a broad range of experience in the Board, with Directors who have served a range of periods on the Board of the Company. This will ensure that on each occasion the Board enters into new investment commitments, several members have direct personal experience of negotiating previous commitments with the Manager. This is intended to reserve the cumulative experience and deep understanding of the Company, its commitments and investment portfolio, while benefiting from new perspectives and helping to promote diversity of perspective. It is believed that the Directors provide, individually and collectively, the breadth of skill and experience to manage the Company and ensuring its long-term sustainable success.

The basis on which the Company aims to generate value over the longer term is set out in the Business Model and Strategy on pages 12 to 18.

Corporate Governance Statement continued

The Board currently meets at least four times a year and, in addition, informally on a regular basis. It receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. The Board has approved a formal schedule of matters reserved for it, including, but not limited to: overall strategy, investment policy, capital structure, gearing and monitoring the performance of the Manager.

The following table sets out the number of scheduled Board and Committee meetings held during the year ended 31 March 2022 and the number of meetings attended by each Director.

Number of meetings attended	Board	Audit Committee	Remuneration Committee	Nomination Committee
R M Curling	4/4	2/2	1/1	1/1
C A Roxburgh	4/4	2/2	1/1	1/1
G Neilly	4/4	2/2	1/1	1/1

In addition to the above meetings, the Board also met on two separate occasions to discuss the issuance of shares and to approve the Company's blocklisting, both of which were attended by all Directors. The Directors also met to discuss and approve the share split transaction.

The Board also met informally on a number of occasions during the year.

BOARD EFFECTIVENESS AND PERFORMANCE EVALUATION

During the year, the Directors undertook a formal and rigorous performance evaluation and also considered the output from the previous year's evaluation. The process was led by the Chairman and was designed to assess the strengths and independence of the board together with the performance of its committees, the Chairman and individual Directors.

The Board completed evaluation questionnaires which covered a range of areas including processes and effectiveness, size and composition, and corporate governance and were also intended to analyse the focus of meetings and assess whether they are appropriate, or if any additional information may be required to facilitate future Board discussions. The evaluation of the Chairman was carried out by the other Directors of the Company and the process was led by the Senior Independent Director.

Last year, the evaluation identified a review of the Board structure and succession planning as areas of focus for the year ended 31 March 2021. This year's evaluation reflects progress in these areas and the Board will continue to keep this under review. Output from the review also assists the Board in its consideration of strategic areas of focus going forward. The results of the Board evaluation process were reviewed and discussed by the Board. Following evaluation, the Board concluded that it had the appropriate balance of skills, experience, length of service and knowledge and that the Board and its committees continued to operate effectively.

The Board considered whether an external performance evaluation should be undertaken in the future and has noted that this is not a requirement under the AIC Code given the Company is outside of the FTSE 350. The Board has taken into account the costs and benefits associated with such an exercise and does not consider the use of external consultants to conduct this evaluation is likely to provide any meaningful advantage over the process that has been adopted. However, the option of doing so will be regularly reviewed.

VOTING POLICY ON PORTFOLIO INVESTMENTS

The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. Environmental, social and governance factors are taken into account by the Manager as part of its investment analysis and decision making processes. The Board is pleased that the Manager has been a signatory of the UK Stewardship Code since its publication in 2010 and its statement can be found on its website www.montanaro.co.uk. In June 2019, Montanaro became a "B Corporation", a business certified for meeting the highest verified standards of social and environmental performance, transparency and accountability.

COMMITTEES

The Board has established three committees to assist with its operations. Throughout the year the following committees have been in operation, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of the committees' delegated responsibilities are clearly defined in formal terms of reference which are available on the Company's website https://montanaro.co.uk/trust/montanaro-european-smaller-companies-trust/.

AUDIT COMMITTEE

The Report of the Audit Committee is included on pages 32 to 34 and forms part of this statement. The Committee comprises the full Board.

REMUNERATION COMMITTEE

The Remuneration Committee, chaired by Mr Neilly, comprises the full Board and reviews the appropriateness of the Manager's continuing appointment and determines the level of Directors' fees. The Directors' Remuneration Report on pages 35 to 37 provides information on the remuneration arrangements for the Directors of the Company.

NOMINATION COMMITTEE AND BOARD DIVERSITY

The Nomination Committee, chaired by Mr Curling, comprises the full Board and is convened for the purpose of considering the appointment of new Directors as and when considered appropriate and succession planning. The Board is composed solely of non-executive Directors and has one third female representation. Further details on performance evaluation is included under the Board Effectiveness and Performance Evaluation section of this Corporate Governance Statement.

The Company's Board diversity policy is shown on page 13. The Directors will ensure it adheres to set objectives in relation to the diversity of the Board as and when they seek to appoint additional Directors, in the future.

RELATIONS WITH SHAREHOLDERS

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Manager holds meetings with the Company's largest shareholders and reports back to the Board on these meetings. The Chairman and other Directors offer to meet with significant shareholders every year and are available to meet other shareholders, if required. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and the Manager of the Company. The Annual Report and Accounts (which includes the Notice of Annual General Meeting) is sent to shareholders at least 20 working days before the Annual General Meeting in line with the FRC's Guidance on Board Effectiveness.

STATEMENT ON MODERN SLAVERY

In October 2015, the UK Government introduced the 2015 Modern Slavery Act (the Act). As an Investment Trust, the Company does not provide goods or services in the normal course of business, and does not have customers or turnover. Accordingly, the Directors consider that the Company is not in scope because it does not have turnover and is therefore not required to make any slavery or human trafficking statement under the Act. The Company's own supply chain which consists predominately of professional advisers and service providers in the financial services industry, is considered to be low risk in relation to this matter.

RISK MANAGEMENT AND INTERNAL CONTROLS

Details of the principal risks and internal controls applied by the Board are set out on pages 15 to 17, and pages 32 and 33 of the Audit Committee Report, respectively.

SHARE CAPITAL AND COMPANIES ACT DISCLOSURES

Details of the Company's share capital structure and other Companies Act 2006 disclosures and details of substantial interests are set out on pages 25 and 26.

By order of the Board

LINK COMPANY MATTERS LIMITED
Company Secretary
65 Gresham Street
London
EC2V 7NQ
23 June 2022

Report of the Audit Committee

COMPOSITION OF THE COMMITTEE

The Board recognises the requirement for the Audit Committee as a whole to have competence relevant to the sector in which the Company operates and at least one member with recent and relevant experience.

The Audit Committee is chaired by Ms Roxburgh, a Chartered Accountant, who has recent and relevant financial experience, and the Committee operates within clearly defined terms of reference and comprises all the Directors. Given the size of the Board, and Mr Curling's experience, it is felt appropriate for him to sit on the Audit Committee as permitted by the AIC Code. The Directors have a combination of financial, investment and business experience, specifically with respect to the investment trust sector.

ROLE OF THE COMMITTEE

The duties of the Audit Committee include reviewing: the annual and interim financial statements; the system of internal controls; and the terms of appointment and remuneration of the Auditor, PricewaterhouseCoopers LLP ("PwC") including its independence and objectivity.

PwC was appointed as Auditor following shareholder approval at the Annual General Meeting in September 2021. The Audit Committee met twice during the year, with PwC in attendance at both meetings and with the Company's previous Auditor, Ernst & Young LLP ("EY") in attendance at the June 2021 meeting. The attendance of each of the members is set out on page 30. In the course of its duties throughout the year, the Committee had direct access to EY, PwC, Link Alternative Fund Administrators (Link) and Montanaro. Amongst other things, the Audit Committee considered and reviewed the following matters and reported thereon to the Board:

- The annual and half-yearly reports and accounts and results announcements;
- The accounting policies of the Company;
- The principal risks faced by the Company and the effectiveness of the Company's internal control and risk management environment, including consideration of the assumptions underlying the Board's Viability Statement;
- The effectiveness of the audit process and related non-audit services and the independence and objectivity of PwC, its appointment, remuneration and terms of engagement;
- The implications of proposed new accounting standards and regulatory changes;
- The receipt of AAF (01/06) and ISAE 3402 reports or their equivalent from the Manager, Administrator, Custodian and other service providers; and
- Whether the Annual Report and Accounts is fair, balanced and understandable.

RISK MANAGEMENT

The Board has established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the related guidance issued by the Financial Reporting Council.

Montanaro's Compliance and Risk department and Link provide regular control reports to the Audit Committee and the Board covering administration, risk and compliance matters.

A key risk summary is produced to identify the risks to which the Company is exposed, the controls in place and the actions being taken to mitigate them. The Board has a robust process for considering the resulting risk matrix and reviews the significance of the risks, reasons for any change and actions arising as a result.

The Company's principal risks and their mitigations are set out on pages 15 to 17, with additional information provided in notes 16 to 20 of the accounts.

The integration of these risks into the consideration of the Viability Assessment and Statement on page 18 was also fully considered by the Committee.

INTERNAL CONTROL

The Board is responsible for the Company's systems of internal controls and for reviewing their effectiveness. The Audit Committee has reviewed and reported to the Board on these controls which aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable.

The key procedures which have been established to provide an effective internal control environment are outlined below:

- Board procedures are set within clearly defined parameters, as set out in matters specifically reserved for the Board.
- At every Board meeting the Directors review financial information prepared by the Administrator, including management accounts, forecasts of income and expenditure and detailed analysis relating to the performance of the Company.
- The Bank of New York Mellon (International) Limited, as the Company's Depositary, provides quarterly reports to the Board and carries out daily independent checks on cash and investment transactions.
- The Bank of New York Mellon SA/NV is responsible for the custody of the Company's investments. Lists of investments held are reconciled to the Company's records on a regular basis and a report on controls, which is reviewed by a firm of independent reporting accountants, is produced annually for consideration by the Audit Committee.

- Investment management services are provided by Montanaro, which is regulated by the Financial Conduct Authority. At each Board Meeting the Board monitors the investment performance of the Company in comparison to its stated investment objective, the benchmark index and comparable investment trusts. The Board also reviews the Company's activities since the last Board Meeting to ensure that Montanaro adheres to the agreed investment policy and approved investment guidelines. On an annual basis, Montanaro produces an AAF 01/06 Report on internal controls, which is reviewed by a firm of independent reporting accountants, and which is then reviewed and considered by the Audit Committee. Montanaro is also the Company's AIFM and in this capacity provides a quarterly report to the Board.
- Link are responsible for the provision of company secretarial, accounting and administration services to the Company. On an annual basis, Link produce an AAF 01/06 Report on internal controls, which is reviewed by a firm of independent reporting accountants, for consideration by the Audit Committee.
- The Board reviews contracts with other third party service providers, including the standard of services provided, on a regular basis.

A formal annual review of these procedures is carried out by the Audit Committee. The review meeting is attended by the Company's Auditor. During the year, the Committee received updates on any material changes in the risk environment and regulatory requirements, and the action taken. These procedures have been in place throughout the year and up to the date of approval of the Annual Report and the Board is satisfied with their effectiveness. The procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has previously reviewed the need for an internal audit function. As an externally managed investment trust, it has decided that the systems and procedures employed by the Manager and the Administrator, including their risk management and internal audit functions, provide assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. In addition, reporting is also provided by the Depositary with respect to their monitoring and oversight of the Company. An internal audit function, specific to the Company, is therefore considered unnecessary.

EXTERNAL AUDIT PROCESS AND SIGNIFICANT MATTERS CONSIDERED BY THE AUDIT COMMITTEE

As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved PwC's plan for the audit of the financial statements for the year ended 31 March 2022. At the conclusion of the audit, PwC did not highlight any issues to the Audit Committee which would cause it to qualify its audit report nor did it highlight any fundamental internal control weaknesses. PwC has issued an unqualified audit report which is included on pages 39 to 45. The significant issues considered by the Audit Committee are discussed in the table on page 34.

NON-AUDIT SERVICES

The Committee regards the continued independence of the auditor to be a matter of the highest priority. The Company's policy with regard to the provision of non-audit services by the external auditor ensures that no engagement will be permitted if:

- the provision of the services would contravene any regulation or ethical standard;
- the auditor is not considered to be an expert provider of the non-audit services;
- the provision of such services by the auditor creates a conflict of interest for either the Board or the Manager; and
- the services are considered to be likely to inhibit the auditor's independence or objectivity as auditor.

As the Company is a Public Interest Entity listed on the London Stock Exchange, with effect from 1 April 2017, under EU legislation, a cap on the level of fees incurred for permissible non-audit services now applies and should not exceed 70% of the average audit fee for the previous three years.

The Committee amended its non-audit services policy in 2021 to reflect the requirements of the FRC's Revised Ethical Standard 2019, resulting in a 'whitelist' of permitted non-audit services as opposed to the former approach of a 'blacklist' of prohibited services.

Report of the Audit Committee continued

Significant Issues Considered by the Audit Committee in Relation to the Financial Statements

Matter	Action
Investment Portfolio Valuation The Company's portfolio is invested in the shares of European quoted smaller companies. Errors in the portfolio valuation could have a material impact on the Company's net asset value per share.	The Board reviews a full portfolio valuation at each Board meeting and, since the implementation of the AIFM Directive in July 2014, receives regular reports from the AIFM and the Depositary. The Audit Committee reviewed the Administrator's annual internal controls report, which is reported on by independent external accountants, and which details the systems, processes and controls around the daily pricing of securities, including the application of exchange rate movements.
Misappropriation of Assets Misappropriation of the Company's investments or cash balances could have a material impact on its net asset value per share.	The Audit Committee reviewed the Administrator's annual internal control report, as referred to above, which details the controls around the reconciliation of the Administrator's records to those of the Custodian. The Audit Committee also reviewed the Custodian's annual internal controls report, which is reported on by independent external accountants, and which provides details regarding its control environment. As stated above, since the implementation of the AIFM Directive in July 2014, the Board receives regular reports from the AIFM and the Depositary.
Section 1158 - Corporation Tax Act 2010 ("Section 1158") Ensuring the Company complies with the Corporation Tax rules governing investment trust status.	In determining dividend payments, the Board takes account of income forecasts, brought forward revenue reserves, the Company's dividend payment record and the Corporation Tax rules governing investment trust status. These rules determine the minimum level of dividend which must be paid in order to comply with Section 1158 in respect of the retention of distributable income. The Company complies at all times with Section 1158 such that it does not suffer UK Corporation Tax on capital gains; and ensures that it submits correct taxation returns annually to HMRC and settles promptly any taxation due.
Income Recognition Incomplete or inaccurate income recognition, including allocation between revenue and capital, could have an adverse effect on the Company's net asset value and earnings per share and its level of distributable revenue.	The Audit Committee reviewed the Administrator's annual internal controls report, as referred to above, which details the systems, processes and controls around the recording of investment income. It also compared the final level of income received for the year to the budget which was set at the start of the year and considered the accounting treatment of all special dividends received with the Manager.
Annual Report and Accounts Ensuring the Annual Report and Accounts is fair, balanced and understandable.	The Audit Committee read and discussed this Annual Report and Accounts and advised the Board that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

AUDITOR ASSESSMENT, INDEPENDENCE AND APPOINTMENT

Under mandatory audit rotation rules, the Company is required to put the external audit out to tender at least every ten years. In accordance with the EU regulations and transitional provisions, in 2021 the Committee undertook a robust tender process and, following this process, a recommendation based on quality, knowledge and experience was made to appoint PricewaterhouseCoopers LLP as Auditor for the financial year ending 31 March 2022. Shareholder approval for the appointment was sought and granted at the 2021 AGM, and PwC was appointed as at this date.

The Audit Committee reviews the re-appointment of the auditor every year. As part of this year's review of auditor independence and effectiveness, PwC has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating PwC, the Audit Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The Audit Committee, from direct observation and enquiry of the Administrator, remains satisfied that PwC continues to provide effective independent challenge in carrying out its responsibilities. PwC's fee in respect of the audit for the year ended 31 March 2022 is £45,000 (EY's fee in 2021: £38,000). The increase in fees from the previous year are a result of factors impacting the audit market, such as increasing costs of doing business and transition costs arising from the move from the previous auditor, EY, to PwC.

Following professional guidelines, the audit partner rotates after five years. The year ended 31 March 2022 is Shujaat Khan's first year as audit partner.

By Order of the Board

C A ROXBURGH
Chair of the Audit Committee
23 June 2022

Directors' Remuneration Report

The Board consists solely of independent non-executive Directors. The Company has no executive Directors or employees. The level of Directors' fees is determined by the Remuneration Committee, in accordance with the AIC Code of Corporate Governance, and within the limits defined in the Articles of Association and approved by shareholders. Full details of the Company's policy with regards to Directors' fees, and fees paid during the year ended 31 March 2022, are shown below and on page 36. This shows all major decisions on Directors' remuneration and any substantial changes made during the year relating to Directors' remuneration, including the context in which any changes occurred. Under company law, the Auditor is required to audit certain disclosures provided. Where disclosures have been audited they are indicated as such. The Auditor's opinion is included in its report on pages 39 to 45.

The Remuneration Committee is chaired by Mr Neilly. As the Company has no executive Directors, the Committee meets annually to determine the level of Directors' fees and to review the performance of the Manager. The Company Secretary provides information on comparative levels of Directors' fees to the Remuneration Committee in advance of each review. The outcome of the review of the Manager can be found on page 25. No director is involved in deciding their own remuneration outcome.

ANNUAL STATEMENT FROM THE CHAIR OF THE REMUNERATION COMMITTEE (THE "COMMITTEE")

I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2022.

During the year, the Committee reviewed the Remuneration Policy and the Directors' fees. The outcomes of each of these reviews can be found below.

Directors' Remuneration Policy

The existing Directors' remuneration policy was approved at the Company's Annual General Meeting in 2020. The policy will remain in force until the Annual General Meeting of the Company in 2023, at which time a further resolution will be proposed.

The Company's policy is to remunerate Directors exclusively by fixed fees in cash at a rate which should reflect the responsibilities of being a non-executive Director, including the potential liabilities associated with the position, and the time committed by them to these responsibilities including, where appropriate, Board Committee duties. There were no changes to the policy during the year.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £200,000 in aggregate per annum and may not be changed without seeking shareholder approval at a general meeting. There is no performance related remuneration scheme and therefore non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. Directors do not have service contracts, but new Directors are provided with a letter of appointment. These letters of appointment are available for inspection at the Company's registered office. The terms of Directors' appointments provide that they should retire and be subject to election at the next Annual General Meeting after their appointment. Under the terms of the Company's Articles of Association, Directors are obliged to offer themselves for re-election by shareholders by not later than the third Annual General Meeting after they were last elected. However, the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. There is no notice period and no provision for compensation upon early termination of appointment.

The Company has not received any views from its shareholders in respect of the levels of Directors' remuneration. Any such views expressed by shareholders will be taken into consideration by the Board when reviewing the Directors' Remuneration Policy and in the annual review of Directors' fees. It is intended that the policy will continue for the three year period ending at the AGM in 2023.

Directors' Remuneration Policy – Voting at Annual General Meeting

The Directors' Remuneration Policy was last approved by shareholders at the Company's Annual General Meeting, held on 10 September 2020. 99.84% of votes were in favour of the resolution and 0.16% of votes were against. 0.05% of votes were withheld.

Future Policy Table

Following a review of the level of Directors' fees, the Remuneration Committee concluded that, commencing 1 April 2022, the Chairman's fee be increased to £39,000 per annum, the Audit Committee Chairman's fee be increased to £33,500 per annum and other Directors' fees be increased to £28,000 per annum, the last increase having been made on 1 April 2021. These changes have been made following consideration of Directors' remuneration in the context of its peers and the wider investment trust sector, as well as the increased time commitment of Directors in order to fulfil their duties.

Based on these fees, Directors' fees for the forthcoming financial year would be as follows:

	31 March 2023	31 March 2022
Chairman	**£39,000**	£36,050
Audit Committee Chairman	**£33,500**	£30,900
Director	**£28,000**	£25,750

Directors' Remuneration Report continued

Approach to Recruitment Remuneration

The principle adopted by the Committee in respect of recruitment of Directors is that the fees for a non-executive Director should reflect the responsibilities and time commitment required. The Committee seeks to encourage the enhancement of the Company's performance and to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate Directors of the right calibre. Any new non-executive Director would be paid on the same basis as the existing non-executive Directors. As noted above the aggregate level of Directors' fees must not exceed a set limit, as set out in the Company's articles of association, which is currently £200,000 per annum.

ANNUAL REPORT ON DIRECTORS' REMUNERATION

Directors' Emoluments for the Year (audited)

The Directors who served during the financial year received the following amounts for services as non-executive Directors for the years ended 31 March 2022 and 2021 as well as reimbursement for expenses necessarily incurred. No other forms of remuneration were paid during the year.

Fees for services to the Company (audited)

	Fees £		Taxable Benefits^ £		Total £		Total fixed remuneration £		Total variable remuneration £	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
R M Curling	**36,050**	35,000	**1,675**	–	**37,725**	35,000	**37,725**	35,000	**1,675**	–
C A Roxburgh	**30,900**	30,000	**672**	–	**31,572**	30,000	**31,572**	30,000	**672**	–
M R Somerset Webb*	**–**	18,750	**–**	–	**–**	18,750	**–**	18,750	**–**	–
G Neilly**	**25,750**	13,269	**396**	–	**26,146**	13,269	**26,146**	13,269	**396**	–
Total	**92,700**	97,019	**2,743**	–	**95,443**	97,019	**95,443**	97,019	**2,743**	–

* Retired on 31 December 2020.

** Appointed on 21 September 2020.

^ Comprises amounts reimbursed for expenses incurred in carrying out business for the Company, which have been grossed up to include PAYE and NI Contributions.

No sums are paid to any third parties in respect of Directors' services and no sums were paid to any third parties in respect of advice from remuneration advisors. There have been no payments to past Directors during the financial year ended 31 March 2022, whether for loss of office or otherwise.

Annual percentage change in remuneration of directors

Directors' pay has increased over the last three years, as set out in the table below:

	2022 £	Change %	2021 £	Change %	2020 £
Chairman	36,050	3	35,000	9	32,000
Audit Committee Chairman	30,900	3	30,000	11	27,000
Director	25,750	3	25,000	9	23,000

The requirements to disclose this information came into force for companies with financial years starting on or after 10 June 2019 and, as such, this is the second year the Company has disclosed this information. The comparison will be expanded in future annual reports until such time as it covers a five year period.

The Company does not have any employees and therefore no comparisons are given in respect of Directors' and employees' pay increases.

Statement of implementation of Remuneration Policy in respect of the financial year ending 31 March 2023

The Committee will, as usual, review Directors' fees during 2022/23, including the time required to be committed to the business of the Company, and will consider whether any further changes to remuneration are required.

Relative Importance of Expenditure on Pay

As the Company has no employees, the table above represents the total remuneration costs and benefits paid by the Company. To enable shareholders to assess the relative importance of expenditure on Directors' remuneration, the table below shows the actual expenditure during the year in relation to Directors' remuneration (excluding taxable benefits), other operating expenses and shareholder distributions:

	2022 £	2021 £	Change %
Aggregate Directors' Remuneration	**95,443**	97,019	(1.6)
Management and other operating expenses*	**3,728,000**	2,834,000	31.5
Dividends paid to shareholders	**1,637,000**	1,555,000	5.3

* Includes Directors' remuneration.

Directors' Shareholdings (audited)

There is no requirement under the Articles of Association for Directors to hold shares in the Company. The Directors who held office during the year and their interests in the shares of the Company were as follows:

		As at 31 March 2022* No. of shares	No. of shares restated for share split	As at 1 April 2021 No. of shares
R M Curling	Beneficial	**100,000**	100,000	10,000
C A Roxburgh^	Beneficial	**61,885**	57,280	5,728
G Neilly	Beneficial	**61,496**	61,280	6,128

^ Includes 3,580 shares held in Ms Roxburgh's spouse's name

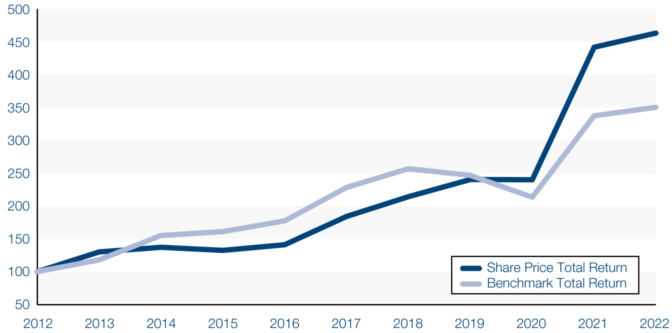
* 10:1 Share Split effective on 14 September 2021

There have been no changes in the Directors' interests in the shares of the Company between 31 March 2022 and the date of this Annual Report.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to Montanaro through the investment management agreement, as referred to in the Directors' Report on page 25. The graph below compares, for the ten financial years ended 31 March 2022, the share price total return (assuming all dividends are reinvested) to shareholders compared to the return from the benchmark index. An explanation of the performance of the Company for the year ended 31 March 2022 is given in the Chairman's Statement and the Manager's Report.

Total Return and Benchmark Performance* (rebased at 100 on 31 March 2012, GBP)



* From 5 September 2006: MSCI Europe SmallCap Index. The benchmark was changed on 1 June 2009 to the MSCI Europe ex-UK SmallCap Index (in Sterling terms). This benchmark was selected because it is the most commonly used index for SmallCap investors.

Annual Report on Directors' Remuneration – Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 9 September 2021, shareholders approved the Annual Report on Directors' Remuneration for the year ended 31 March 2021. 99.73% of votes were in favour of the resolution and 0.27% were against. 0.43% were withheld.

An ordinary resolution for the approval of this Annual Report on Directors' Remuneration will be put to shareholders at the forthcoming Annual General Meeting.

By Order of the Board

G NEILLY
Director
23 June 2022

Management Report and Directors' Responsibilities Statement

MANAGEMENT REPORT

Listed companies are required by the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (the 'Rules') to include a management report in their annual financial statements. The information required to be in the management report for the purpose of the Rules is included in the Chairman's Statement (pages 2 and 3), the Manager's Report (pages 4 to 7), Twenty Largest Holdings (pages 10 and 11), the Business Model and Strategy (pages 12 to 18) and the Directors' Report (pages 24 to 28). Therefore, a separate management report has not been included.

DIRECTORS' RESPONSIBILITIES STATEMENT IN RELATION TO THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and Accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENTS UNDER THE DISCLOSURE GUIDANCE AND TRANSPARENCY RULES

Each of the Directors confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic Report (comprising the Chairman's Statement, Manager's Report, Twenty Largest Holdings, Analysis of Investment Portfolio by Sector and Business Model and Strategy) and the Directors' Report include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces;
- taken as a whole, the Annual Report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the financial statements include details on related party transactions; and
- having assessed the principal risks and other matters discussed in connection with the Viability Statement, it is appropriate to adopt the going concern basis in preparing the financial statements.

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

R M CURLING
Chairman
23 June 2022

Independent Auditor's Report
to the Members of Montanaro European Smaller Companies Trust plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION
In our opinion, Montanaro European Smaller Companies Trust plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its return and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Balance Sheet as at 31 March 2022; the Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

BASIS FOR OPINION
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the Company in the period under audit.

OUR AUDIT APPROACH

Context
Montanaro European Smaller Companies Trust plc is an Investment Trust Company listed on the London Stock Exchange and invests primarily in equities quoted on Continental European investment markets. The operations of the Company are located in the UK. We focus our audit work primarily on the valuation and existence of investments and income from investments.

Overview
Audit scope

- The Company is a standalone Investment Trust Company and engages Montanaro Asset Management Limited (the 'Manager') to manage its assets.
- We conducted our audit of the financial statements using information from Link Alternative Fund Administrators Limited, (the 'Administrator') to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.
- We obtained an understanding of the control environment in place at both the Manager and the Administrator and adopted a fully substantive testing approach using reports obtained from the Administrator.

Independent Auditor's Report continued
to the Members of Montanaro European Smaller Companies Trust plc

Key audit matters

- Valuation and existence of investments.
- Accuracy, occurrence and completeness of investment income.

Materiality

- Overall materiality: £3,249,054 based on 1% of net assets.
- Performance materiality: £2,436,791.

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters
Key audit matters are those matters that, in the Auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the Auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation and existence of investments Refer to the Accounting Policies (pages 50 to 53) and the Notes to the financial statements (page 56). The investment portfolio at the year-end comprised listed equity investments valued at £339.7 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed in the Statement of Financial Position in the financial statements.	We assessed the accounting policy for the valuation of investments for compliance with accounting standards and performed testing to check that investments are accounted for in accordance with this stated accounting policy. We tested the valuation of all the listed equity investments by agreeing the prices used in the valuation to independent third party sources. We tested the existence of all the investments by agreeing investment holdings to an independent confirmation. No material issues were identified.

Key audit matter	How our audit addressed the key audit matter
Accuracy, occurrence and completeness of investment income Refer to page 51 (Accounting Policies) and page 53 (Notes to the Financial Statements). For the Company we consider that 'income' refers to both revenue and capital (including gains and losses on investments). We focused on the accuracy, occurrence and completeness of investment income as incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover. We also focused on the accounting policy for income recognition and its presentation in the Statement of Comprehensive Income as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP') as incorrect application could indicate a misstatement in income recognition.	We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy. The gains/losses on investments held at fair value through profit or loss comprise realised and unrealised gains/losses. For unrealised gains and losses, we sample tested the valuation of the portfolio at the year-end, together with testing the reconciliation of opening and closing investments. For realised gains/losses, we tested a sample of disposal proceeds by agreeing the proceeds to bank statements and we re-performed the calculation of a sample of realised gains/losses. We tested the accuracy of dividend receipts by agreeing the dividend rates from investments to independent third-party data. To test for occurrence, we confirmed that all dividends recorded had occurred in the market to independent third-party data, and traced a sample of cash payments to bank statements. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent third party data of dividends declared for all listed investments during the year. We also tested the allocation and presentation of dividend income between the revenue and capital return columns of the Statement of Comprehensive Income in line with the requirements set out in the AIC SORP by confirming reasons behind dividends. No material issues were identified.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Company materiality	£3,249,054
How we determined it	1% of net assets
Rationale for benchmark applied	We have applied this benchmark, which is a generally accepted auditing practice for investment trust audits.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £2,436,791 for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

Independent Auditor’s Report continued

to the Members of Montanaro European Smaller Companies Trust plc

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £162,453 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors’ assessment of the Company’s ability to continue to adopt the going concern basis of accounting included:

- evaluating the Directors’ updated risk assessment and considering whether it addressed the relevant threats to the Company;
- evaluating the Directors’ assessment of potential operational impacts to the Company of relevant risks, considering their consistency with other available information and our understanding of the business and assessed the potential impact on the financial statements;
- reviewing the Directors’ assessment of the Company’s financial position in the context of its ability to meet future expected operating expenses, their assessment of liquidity as well as their review of the operational resilience of the Company and oversight of key third-party service providers; and
- assessing the implication of potential significant reductions in NAV as a result of market movements on the ongoing ability of the Company to operate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

In relation to the Directors’ reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors’ statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our Auditors’ report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the Auditors.

Independent Auditor's Report continued
to the Members of Montanaro European Smaller Companies Trust plc

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement in Relation to the Financial Statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of section 1158 of the Corporation Tax Act 2010, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue (investment income and capital gains) or to increase net asset value. Audit procedures performed by the engagement team included:

- discussions with the Manager and Audit Committee, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- reviewing relevant committee meeting minutes, including those of the Board and Audit Committee;
- assessment of the Company's compliance with the requirements of section 1158 of the Corporation Tax Act 2010, including recalculation of numerical aspects of the eligibility conditions;
- review of financial statement disclosures to underlying supporting documentation;
- identifying and testing manual journal entries posted by the Administrator during the preparation of the financial statements; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 9 September 2021 to audit the financial statements for the year ended 31 March 2022 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

SHUJAAT KHAN (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
23 June 2022

Statement of Comprehensive Income
for the year ended 31 March 2022

		Year to 31 March 2022			Year to 31 March 2021		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Capital gains/(losses) on investments							
Gains on investments held at fair value	9	**–**	**18,806**	**18,806**	–	108,742	108,742
Exchange losses		**–**	**(264)**	**(264)**	–	(109)	(109)
Revenue							
Investment income	2	**3,788**	**–**	**3,788**	2,166	–	2,166
Total income		**3,788**	**18,542**	**22,330**	2,166	108,633	110,799
Expenditure							
Management expenses	3	**(1,092)**	**(2,028)**	**(3,120)**	(766)	(1,422)	(2,188)
Other expenses	4	**(570)**	**(38)**	**(608)**	(646)	–	(646)
Total expenditure		**(1,662)**	**(2,066)**	**(3,728)**	(1,412)	(1,422)	(2,834)
Return before finance costs and taxation		**2,126**	**16,476**	**18,602**	754	107,211	107,965
Finance costs	5	**(56)**	**(104)**	**(160)**	(56)	(105)	(161)
Return before taxation		**2,070**	**16,372**	**18,442**	698	107,106	107,804
Taxation	6	**(348)**	**–**	**(348)**	(169)	–	(169)
Return after taxation		**1,722**	**16,372**	**18,094**	529	107,106	107,635
Return per share*	8	**0.96p**	**9.09p**	**10.05p**	0.31p	63.24p	63.55p

The total column of this statement represents the Company's Income Statement and Statement of Comprehensive Income, prepared to International Accounting Standards in conformity with the Companies Act 2006.

The supplementary revenue return and capital return columns are both prepared under guidance published 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 year.

The accompanying notes are an integral part of the financial statements.

* In accordance with IAS 33 'Earnings per Share', the comparative return per ordinary share figures have been restated using the new number of shares in issue following the ten for one share split. For weighted average purposes, the share split has been treated as happening on the first day of the accounting period. See note 13 for further details.

Balance Sheet
as at 31 March 2022

	Notes	31 March 2022 £'000	31 March 2022 £'000	31 March 2021 £'000	31 March 2021 £'000
Non-current assets					
Investments held at fair value through profit and loss	9		**339,788**		282,575
Current assets					
Trade and other receivables	10	**967**		782	
Cash and cash equivalents	10	**1,821**		1,767	
		2,788		2,549	
Total assets		**342,576**		285,124	
Current liabilities					
Trade and other payables	11	**(787)**		(564)	
Revolving credit facility	11	**(8,450)**		–	
		(9,237)		(564)	
Non-current liabilities					
Interest-bearing bank loan	12	**(8,434)**		(8,495)	
Total liabilities		**(17,671)**		(9,059)	
Net assets			**324,905**		276,065
Capital and reserves					
Called-up share capital	13		**9,471**		8,724
Share premium account			**44,057**		12,707
Capital redemption reserve			**2,212**		2,212
Capital reserve			**265,843**		249,185
Revenue reserve			**3,322**		3,237
Total shareholder's fund			**324,905**		276,065
Net asset value per share*	14		**171.5p**		158.9p

The financial statements on pages 46 to 62 were approved and authorised for issue by the Board of Directors on 23 June 2022 and signed on its behalf by:

R CURLING
Director

Company Registered Number: SC074677

The accompanying notes are an integral part of the financial statements.

* The comparative NAV figures have been restated using the new number of shares in issue following the ten for one share split. Restating the NAVs following the share split allows the reader to see how the NAVs have evolved. See note 13 for further details.

Statement of Changes in Equity
for the year ended 31 March 2022

Year to 31 March 2022	Notes	**Share capital £'000**	**Share premium account £'000**	**Capital redemption reserve £'000**	**Capital reserve £'000***	**Revenue reserve £'000***	**Total £'000**
As at 1 April 2021		**8,724**	**12,707**	**2,212**	**249,185**	**3,237**	**276,065**
Return after taxation		**–**	**–**	**–**	**16,372**	**1,722**	**18,094**
Share issues		**747**	**31,350**	**–**	**286**	**–**	**32,383**
Dividends paid	7	**–**	**–**	**–**	**–**	**(1,637)**	**(1,637)**
As at 31 March 2022		**9,471**	**44,057**	**2,212**	**265,843**	**3,322**	**324,905**

Year to 31 March 2021	Notes	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000*	Revenue reserve £'000*	Total £'000
Balance at 1 April 2020		8,724	5,283	2,212	139,641	4,263	160,123
Return after taxation		–	–	–	107,106	529	107,635
Share issues		–	7,424	–	2,438	–	9,862
Dividends paid	7	–	–	–	–	(1,555)	(1,555)
Balance at 31 March 2021		8,724	12,707	2,212	249,185	3,237	276,065

The accompanying notes are an integral part of the financial statements.

* These reserves, excluding any unrealised capital reserve are distributable. As at 31 March 2022 distributable reserves totalled £125,714,000 (2021: £115,325,000).

Statement of Cash Flows
for the year ended 31 March 2022

	Notes	**31 March 2022 £'000**	31 March 2021 £'000
Cash flows from operating activities			
Return before taxation		**18,442**	107,804
Investment gains		**(18,806)**	(108,742)
Exchange losses		**264**	109
Finance costs		**160**	161
Withholding tax		**(348)**	(136)
Investment income		**(3,788)**	(2,166)
Dividends received		**3,838**	2,056
(Increase)/decrease in receivables		**(197)**	3
Increase in payables		**30**	346
Purchases of investments		**(75,661)**	(57,443)
Sales of investments		**37,583**	52,578
Net cash outflow from operating activities		**(38,483)**	(5,430)
Cash flows from financing activities			
Drawdowns/(repayments) of loans		**8.394**	(866)
Proceeds from the issue of shares		**32,383**	9,862
Dividends paid	7	**(1,637)**	(1,555)
Interest paid		**(155)**	(164)
Share split costs		**(38)**	–
Net cash inflow from financing activities		**38,947**	7,277
Net increase in cash and cash equivalents		**464**	1,847
Exchange losses		**(410)**	(485)
Increase in cash and cash equivalents		**54**	1,362
Cash and cash equivalents at beginning of year		**1,767**	405
Cash and cash equivalents at end of year	10	**1,821**	1,767

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements
for the year ended 31 March 2022

1 Accounting Policies
A summary of the principal accounting policies is set out below.

BASIS OF ACCOUNTING
The financial statements of the Company have been prepared in accordance with International Accounting Standards in conformity with the Companies Act 2006. The annual financial statements have been prepared in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies ("AIC SORP") for the financial statements of investment trust and venture capital trusts, except to any extent where it is not consistent with the requirements of International Accounting Standards in conformity with the Companies Act 2006.

The functional and presentational currency of the Company is Pounds Sterling and has been determined on the basis of the currency of the Company's share capital and the currency in which dividends and expenses are paid.

The financial statements have been prepared on a going concern basis, under historical cost convention, except for the measurement at fair value of investments measured at fair value through profit or loss and on the expectation that approval as an investment trust company will continue to be met.

The financial statements have adopted the following accounting policies in their preparation, which remain consistent with the accounting policies adopted in the audited financial statements for the year ended 31 March 2021. All values are rounded to the nearest thousand pounds unless otherwise indicated.

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future, for the period to 30 June 2023, which is at least twelve months from the date of approval of these accounts. As part of this review, the Directors have reviewed a forecast for the period to 30 June 2023. The Directors noted that the Company holds a portfolio of highly liquid listed investments. The Company is a closed end fund, where assets are not required to be liquidated to meet redemptions. Whilst the economic impact from the pandemic is uncertain, the Directors believe it is possible that the Company could continue to experience reductions in income and/or market value, and that this should not be to a level which would threaten the Company's ability to continue as a going concern. The Directors, the Manager and other service providers have had contingency plans operating for over a year to minimise disruption and these measures remain in place. Furthermore, the Directors are not aware of any material uncertainties that may cast doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis. Further detail is included in the Directors' Report on pages 26 and 27. In addition to the Going Concern assessment the Directors have assessed the longer term viability of the Company as set out in the viability assessment and statement on page 18.

ACCOUNTING DEVELOPMENTS
In the current year, the Company has applied the following standard, but has not had a significant effect on the Company:

IFRS 9 "Financial Instruments" interest benchmark reform phase 2.

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 March 2022 reporting periods and have not been early adopted by the Company. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY.
The preparation of financial statements in conformity with International Accounting Standards in conformity with the Companies Act 2006, requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts in the Balance Sheet, the Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The areas requiring the most significant judgement and estimation in the preparation of the financial statements are: recognising and classifying unusual or special dividends received as either revenue or capital in nature; and setting the levels of dividends paid and proposed in satisfaction of both the Company's long-term objective and its obligations to adhere to investment trust status rules under Section 1158 of the Corporation Tax Act 2010.

Dividends received which appear to be unusual in size or circumstance are assessed on a case-by-case basis, based on interpretation of the investee companies' relevant statements, to determine their allocation in accordance with the SORP to either the revenue account or capital reserves. Dividends which have clearly arisen out of the investee company's reconstruction or reorganisation are usually considered to be capital in nature and allocated to capital reserves. Investee company dividends which appear to be paid in excess of current year profits will still be considered as revenue in nature unless evidence suggests otherwise.

The estimates and underlying assumptions are reviewed on an ongoing basis. Any revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods. There are significant judgements or estimates in these financial statements.

1 Accounting Policies continued

SEGMENTAL REPORTING

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.

PRESENTATION OF STATEMENT OF COMPREHENSIVE INCOME

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. The net revenue return is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1158 of the Corporation Tax Act 2010.

INCOME

Dividends are recognised as income on the date that the related investments are marked ex-dividend.

Dividends receivable on equity shares where no ex-dividend date is quoted are recognised when the Company's right to receive payment is established.

Special dividends are taken to the revenue or capital account depending on their nature. In deciding whether a dividend should be regarded as a capital or revenue receipt, the Board reviews all relevant information as to the reasons for the sources of the dividend on a case-by-case basis.

Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income.

All other income is accounted for on a time apportioned basis.

EXPENSES AND FINANCE COSTS

All expenses and finance costs are accounted for on an accruals basis and are charged against revenue, except where incurred in connection with the maintenance or enhancement of the value of the Company's assets and taking account of the expected long-term returns as follows:

- finance costs payable are allocated 35% to revenue and 65% to capital.
- management expenses payable are allocated 35% to revenue and 65% to capital.

TAXATION

The tax expense represents the sum of the tax currently payable and movements in deferred tax. Tax payable is based on the taxable profit for the year and withholding tax payable. Taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the 'marginal basis'. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Investment trusts which have approval under Section 1158 of the Corporation Tax Act 2010 are not liable to taxation on capital gains.

Notes to the Financial Statements continued

1 Accounting Policies continued

INVESTMENTS
The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis in accordance with the documented investment strategy and information is provided internally on that basis to the Company's Board of Directors and other key management personnel.

The investments held by the Company are designated by the Company as 'at fair value through profit or loss'.

All gains and losses are allocated to the capital return within the Statement of Comprehensive Income as 'Gains or losses on investments held at fair value through profit or loss'. Also included within this heading are transaction costs in relation to the purchase or sale of investments. When a sale or purchase is made under a contract, the terms of which require delivery within the timeframe of the relevant market, the investments concerned are recognised or derecognised on the trade date.

All investments are classified upon initial recognition as held at fair value through profit or loss, and are measured at subsequent reporting dates at fair value, which is the bid price or the last traded price depending on the convention of the exchange on which the investment is listed. The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of consideration received and receivable and the cumulative gain or loss that had been accumulated is recognised in profit or loss.

All investments for which a fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy levels set out in note 15.

CASH AND CASH EQUIVALENTS
Cash comprises bank balances and cash held by the Company. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

LOANS
The loans are valued at amortised cost. Costs in relation to arranging the debt finance have been capitalised and are amortised over the term of the finance. Hence, amortised cost is the par value less the amortised cost of issue.

The Euro loan is shown at amortised cost with the exchange difference on the principal amounts to be repaid reflected. Any gains or losses arising from changes in exchange rate between Euro and Sterling is included in the capital reserves and shown in the capital column of the Statement of Comprehensive Income.

RESERVES
Share Premium Account
The following are included in this reserve:

- premium on the issue of shares.
- surplus arising on the sale of Ordinary Shares from treasury.
- costs associated with the issue of equity.

Capital Redemption Reserve
The nominal value of Ordinary Shares bought back for cancellation is added to this reserve. This reserve is non-distributable.

Capital Reserve
The following are included in this reserve:

- gains and losses on the realisation of investments.
- increases and decreases in the valuation of investments held at the year end.
- exchange differences of a capital nature.
- special dividends of a capital nature.
- expenses and finance costs, together with the related taxation effect, charged in accordance with the above policies.
- cost of purchasing Ordinary Shares to be held in treasury or cancelled.
- proceeds from the issue of Ordinary Shares held in treasury equivalent to the weighted average cost of the repurchase.

1 Accounting Policies continued

In addition, the Company's Articles of Association permit it to distribute from the Capital Reserve any surplus arising from the realisation of its investments.

Revenue Reserve

The net profit arising in the revenue column of the Statement of Comprehensive Income is added to this reserve. Dividends paid during the year may be deducted from this reserve.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Balance Sheet of the Company when the Company becomes a party to the contractual provisions of the instrument. The Company shall offset financial assets and financial liabilities if it has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis. As at 31 March 2022, no financial assets or financial liabilities had been offset (31 March 2021: nil).

FOREIGN CURRENCIES

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Non-monetary items expressed in foreign currencies held at fair value are translated into sterling at rates of exchange ruling at the date the fair value is measured. Transactions in foreign currencies are converted to sterling at the rate ruling at the date of the transaction. Exchange gains and losses are taken to the Statement of Comprehensive Income as a capital or revenue item depending on the nature of the underlying item.

Exchange gains and losses on investments are included within 'Gains/(losses) on investments held at fair value' and are taken to the Capital Reserve. Exchange differences on other financial instruments are included in the Statement of Comprehensive Income as 'Exchange losses'.

Rates of exchange (per Pound Sterling)	**31 March 2022**	31 March 2021	Change %
Danish Krone	**8.80**	8.56	2.8
Euro	**1.18**	1.15	2.6
Norwegian Krone	**11.52**	12.04	(4.3)
Swedish Krona	**12.27**	11.74	4.5
Swiss Franc	**1.21**	1.26	(4.0)

2 Income

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Investment income		
Overseas dividend income	**3,785**	2,175
Exchange gains/(losses)	**3**	(10)
Other income	**–**	1
Total	**3,788**	2,166

3 Management Expenses

	Year to 31 March 2022			Year to 31 March 2021		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**1,074**	**1,996**	**3,070**	748	1,390	2,138
AIFM fee	**18**	**32**	**50**	18	32	50
	1,092	**2,028**	**3,120**	766	1,422	2,188

Details of the management fee arrangements during the year are contained within the Directors' Report on page 25 and details of fees owed to the Manager at the balance sheet date are included in note 11.

Notes to the Financial Statements continued

4 Other Expenses

	Year to 31 March 2022			Year to 31 March 2021		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Directors' fees	**93**	**–**	**93**	97	–	97
Auditor's remuneration for:						
– statutory audit[1]	**45**	**–**	**45**	38	–	38
Secretarial and administration fees	**150**	**–**	**150**	144	–	144
Legal, professional and advisory fees	**9**	**–**	**9**	48	–	48
Custody and depositary fees	**118**	**–**	**118**	83	–	83
Credit facility commitment fee	**56**	**–**	**56**	59	–	59
Share split costs	**–**	**38**	**38**	–	–	–
Other	**99**	**–**	**99**	177	–	177
	570	**38**	**608**	646	–	646

[1] Auditor's remuneration paid excludes VAT.

5 Finance Costs

	Year to 31 March 2022			Year to 31 March 2021		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Interest payable on bank borrowings	**56**	**104**	**160**	56	105	161

6 Taxation

	Year to 31 March 2022			Year to 31 March 2021		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Overseas tax	**348**	**–**	**348**	169	–	169

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax charge for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Profit on ordinary activities before taxation	**18,442**	107,804
Corporation tax at standard rate of 19% (2021: 19%)	**3,504**	20,483
Effects of:		
Non-taxable gains on investments	**(3,573)**	(20,661)
Movement in unutilised expenses	**739**	569
Non-taxable overseas income	**(720)**	(412)
Exchange losses	**50**	21
Overseas tax	**348**	169
Total tax charge for the year	**348**	169

As at 31 March 2022, the Company had unutilised management expenses for taxation purposes of £29,847,000 (2021: £29,778,000). A deferred tax asset of £5,671,000 (2021: £5,658,000) has not been recognised on the unutilised expenses as it is unlikely that there will be suitable taxable profits from which the future reversal of the deferred tax could be deducted.

7 Dividends

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Final dividend for the year ended 31 March 2020 of 0.725p per share*	**–**	1,213
Interim dividend for the year ended 31 March 2021 of 0.200p per share*	**–**	342
Final dividend for the year ended 31 March 2021 of 0.725p per share*	**1,276**	–
Interim dividend for the year ended 31 March 2022 of 0.200p per share	**361**	–
	1,637	1,555
Amounts relating to the year but not paid at the year end:		
Final dividend for the year ended 31 March 2021 of 0.725p per share*	**–**	1,261
Final dividend for the year ended 31 March 2022 of 0.725p per share	**1,373**	–
	1,373	1,261

The Directors have proposed a final dividend in respect of the year ended 31 March 2022 of 0.725p per share, payable on 16 September 2022 to all shareholders on the register on 12 August 2022. The final dividend is subject to approval by shareholders at the Annual General Meeting.

The attributable revenue and the dividends paid and proposed for the purposes of the income retention test for section 1159 of the Income and Corporation Tax Act 2010, are set out below:

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Revenue attributable to equity shareholders	**1,718**	529
Interim dividend for the year ended 31 March 2021 of 0.200p per share*	**–**	(342)
Proposed final dividend for the year ended 31 March 2021 of 0.725p per share*	**–**	(1,261)
Interim dividend for the year ended 31 March 2022 of 0.200p per share	**(361)**	–
Proposed final dividend for the year ended 31 March 2022 of 0.725p per share	**–**	–
Net movement in revenue	**1,357**	(1,074)

* Restated to reflect the subsequent 10 for 1 share split.

8 Return per Share

	Year to 31 March 2022			Year to 31 March 2021		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Basic	**0.96p**	**9.09p**	**10.05p**	0.31p	63.24p	63.55p

Basic total return per Ordinary Share is based on the total comprehensive gain for the financial year of £18,094,000 (2021: £107,635,000) and on 180,046,654 (2021: 169,360,950*) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year, excluding those shares bought back and held in treasury.

Basic revenue return per Ordinary Share is based on the net revenue return on ordinary activities after taxation of £1,722,000 (2021: £529,000), and on 180,046,654 (2021: 169,360,950*) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year, excluding those shares bought back and held in treasury.

Basic capital return per Ordinary Share is based on the net capital return for the financial year of £16,372,000 (2021: £107,106,000), and on 180,046,654 (2021: 169,360,950*) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year, excluding those shares bought back and held in treasury.

* Restated to reflect the subsequent 10 for 1 share split.

Notes to the Financial Statements continued

9 Investments held at Fair Value Through Profit and Loss

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Opening cost	**145,479**	121,712
Holding gains	**137,096**	47,306
Opening fair value	**282,575**	169,018
Purchases at cost	**75,867**	57,443
Sales – proceeds	**(37,460)**	(52,628)
– gains on sales	**12,451**	18,952
Holding gains	**6,355**	89,790
Closing fair value	**339,788**	282,575
Closing cost	**196,337**	145,479
Holding gains	**143,451**	137,096
Closing valuation	**339,788**	282,575

Net gains on the realisation of investments during the year represents the difference between the net proceeds of sale and the book cost of investment sold.

Movement in fair value represents the decrease in the difference between book cost of investments held and their market value at 31 March 2022 compared with the difference between the book cost of investments held and their market value at 31 March 2021.

TRANSACTION COSTS

The Company incurred transaction costs on the purchase of investments of £66,000 and sale of investments of £25,000 (2021: £46,000 on purchases and £34,000 on sales).

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Gains on sales	**12,451**	18,952
Increase in holding gains	**6,355**	89,790
Gains on investments	**18,806**	108,742

10 Current Assets

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Due from brokers	**109**	121
Prepayments and accrued income	**235**	221
Overseas tax recoverable	**623**	440
	967	782

The carrying value of the balances above approximates to fair value. There are no amounts which are past due at the year end (2021: £nil).

CASH AND CASH EQUIVALENTS

These comprise bank balances and cash held by the Company. The carrying amount of these assets approximates to their fair value.

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Cash at bank and on hand	**1,821**	1,767

11 Current Liabilities

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Trade and other payables:		
Investment management and AIFM fee	**471**	432
Due to broker	**187**	–
Other creditors	**129**	132
	787	564

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Revolving credit facility:		
Revolving credit facility	**8,450**	–

The Company has a €15 million five year secured revolving credit facility with ING which will mature on 13 September 2023. Drawdowns from the facility are charged at margin over the relevant EUROBOR rate. As at 31 March 2022, €10 million (£8,450,000) of the facility was drawn (2021: €nil (£nil)), at a rate of 1.2%, with €5 million available to be drawn (31 March 2021: €15 million).

Once drawn, the facility will be measured at amortised cost and revalued for exchange rate movements. Any gain or loss arising from changes in exchange rates is included in the capital reserve and shown in the capital column of the Statement of Comprehensive Income. Interest costs are charged to capital and revenue in accordance with the Company's accounting policies.

The carrying value of the balances above approximates to fair value.

12 Interest-Bearing Bank Loans

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Opening balance	**8,495**	8,809
Amortisation of set-up costs	**10**	11
Non-cash foreign currency movements	**(71)**	(325)
Closing balance	**8,434**	8,495

The Company has a €10 million five year secured loan with ING Bank N.V. at a fixed rate of 1.33% per annum. This loan will mature on 13 September 2023.

The Company also has a €15 million five year secured revolving credit facility with ING which will also mature on 23 September 2023.

Under the bank covenants relating to the loans, the Company is to ensure that at all times the total borrowings of the Company do not exceed 40% of the Adjusted Net Asset Value (as defined in the loan agreements) and that the Adjusted Net Asset Value does not fall below £45 million (2021: £45 million). The Company met all covenant conditions during the year.

The carrying value of the balances above approximates to fair value.

Notes to the Financial Statements continued

13 Called-up Share Capital

	Listed		Held in Treasury		In Issue	
	Number	£'000	Number	£'000	Number	£'000
Allotted, issued and fully paid:						
Ordinary Shares of 5p (2021: 50p) each						
Balance at 1 April 2021	17,448,260	8,724	(75,000)	(38)	17,373,260	8,686
Shares issued from treasury*	–	–	75,000	38	75,000	38
Shares issued prior to the share split*	520,000	260	–	–	520,000	260
Shares issued after the share split	9,745,000	487	–	–	9,745,000	487
Shares issued through share split	161,714,340	–	–	–	161,714,340	–
Balance at 31 March 2022	**189,427,600**	**9,471**	**–**	**–**	**189,427,600**	**9,471**

* Balances stated prior to the subsequent 10 for 1 share split.

At the Annual General Meeting of the Company held on 9 September 2021, shareholders approved a resolution for a ten for one share split such that each shareholder would receive ten shares with a nominal value of 5 pence each for every one share held. These new shares were listed on 14 September 2021. Expenses associated with the share split amount to £38,000.

CAPITAL MANAGEMENT

The Company's capital is represented by the issued Share Capital, Share Premium Account, Capital Redemption Reserve, Capital Reserve, Revenue Reserve and external debt financing. Details of the movement through each reserve are shown in the Statement of Changes in Equity. The Company is not subject to any externally imposed capital requirements other than those associated with the loan finance.

The Company's capital is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Business Model and Strategy. The Company's capital structure is also explained in the Directors' Report on pages 25 and 26.

14 Net Asset Value per Ordinary Share

	Net asset value per share As at 31 March		Net asset value As at 31 March	
	2022 p	2021 p	**2022 £'000**	2021 £'000
Net asset value per Ordinary Share	**171.5**	158.9*	**324,905**	276,065

The net asset value per share is based on net assets at the year end and on 189,427,600 (2021: 173,732,600*) Ordinary Shares, being the number of Ordinary Shares in issue at the year end, excluding those shares bought back and held in treasury.

* Restated to reflect the subsequent 10 for 1 share split.

15 Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank loans, and debtors and creditors that arise directly from its operations. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company makes use of borrowings, as detailed in note 12 and the Chairman's Statement, to achieve improved performance in rising markets.

The Company's principal risks are described in the Business Model and Strategy on pages 15 to 17.

Financial risks arising from the Company's financial instruments are:

(i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements;

(ii) interest rate risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates;

(iii) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales, bank loans and accrued income will fluctuate because of movements in currency rates;

(iv) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and

(v) liquidity risk, being the risk that the Company may not be able to liquidate quickly its investments to meet obligations associated with its financial liabilities.

15 Financial Instruments continued

FAIR VALUE HIERARCHY

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

- **Level 1** – valued using quoted prices unadjusted in active markets for identical assets or liabilities.
- **Level 2** – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included within Level 1.
- **Level 3** – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

The tables below set out fair value measurements of financial instruments as at the year end, by the level in the fair value hierarchy into which the fair value measurement is categorised.

The Company held the following categories of financial instruments all of which are included fair value or amortised cost with is an approximation of fair value as at 31 March 2022:

	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**2022 Total £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000	2021 Total £'000
Financial instruments								
Investments	**339,788**	**–**	**–**	**339,788**	282,575	–	–	282,575
Interest-bearing bank loan	**–**	**(8,434)**	**–**	**(8,434)**	–	(8,495)	–	(8,495)
Revolving credit facility	**–**	**(8,450)**	**–**	**(8,450)**	–	–	–	–

There were no transfers between levels in the fair value hierarchy in the year ended 31 March 2022 (2021: none).

Cash balances of £1,821,000 (2021: £1,767,000), debtors of £344,000 (2021: £342,000) and creditors of £787,000 (2021: £564,000) are considered financial instruments.

16 Market Price Risk

Market price risk (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of investments.

The Board manages the risks inherent in the investment portfolio by ensuring full and timely reporting of relevant information from the Manager. Investment performance and exposure are reviewed at each Board meeting.

The maximum exposure to market price risk is the fair value of investments of £339,788,000 (2021: £282,575,000).

If the investment portfolio valuation fell by 10% from the amount detailed in the financial statements as at 31 March 2022, it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £33,979,000 (2021: £28,257,000). An increase of 10% in the investment portfolio valuation would have an equal and opposite effect on the net capital return before taxation. The analysis is based on closing balances only and is not representative of the year as a whole.

Notes to the Financial Statements continued

17 Interest Rate Risk

FIXED RATE

The Company has a €10 million fully drawn fixed rate term loan with ING Bank N.V., with a Sterling equivalent of £8.5 million as at 31 March 2022, at a rate of interest of 1.33% per annum. An interest rate sensitivity analysis has not been performed as the Company has borrowed at a fixed rate of interest.

FLOATING RATE

The Company has a €10 million fully drawn revolving credit facility term with ING Bank N.V., with a Sterling equivalent of £8.5 million as at 31 March 2022, at a rate of interest of 1.20% per annum.

When the Company retains cash balances, the cash is primarily held in accounts at the custodian. Interest received or paid on cash balances and bank overdrafts is at market rates and is monitored and reviewed by the Investment Manager and the Board. As at 31 March 2022, the cash position of the Company was £1.8 million (2021: £1.8 million).

If interest rates had increased by 1.0%, the impact on the profit or loss and the net asset value would have been negative £67,000 (2021: positive £18,000). If interest rates had decreased by 1.0%, the impact on the profit or loss and the net asset value would have been positive £67,000 (2021: negative £18,000). The calculations are based on the floating rate balances as at the respective balance sheet dates.

18 Foreign Currency Risk

The Company invests in overseas securities and holds foreign currency cash balances and foreign currency borrowings which give rise to currency risks. It is not the Company's policy to hedge this risk.

Foreign currency exposure:

As at 31 March 2022	**Investments £'000**	**Trade and other receivables £'000**	**Cash £'000**	**Trade and other payables £'000**	**Revolving credit facility* £'000**	**Interest-bearing bank loan* £'000**	**Net exposure £'000**
Danish Krone	**16,452**	**115**	**–**	**–**	**–**	**–**	**16,567**
Euro	**161,658**	**339**	**1,462**	**(186)**	**(8,450)**	**(8,434)**	**146,389**
Norwegian Krone	**23,183**	**60**	**–**	**–**	**–**	**–**	**23,243**
Swedish Krona	**104,584**	**34**	**–**	**–**	**–**	**–**	**104,618**
Swiss Franc	**33,911**	**318**	**–**	**–**	**–**	**–**	**34,229**
Total	**339,788**	**866**	**1,462**	**(186)**	**(8,450)**	**(8,434)**	**325,046**

As at 31 March 2021	Investments £'000	Trade and other receivables £'000	Cash £'000	Trade and other payables £'000	Revolving credit facility* £'000	Interest-bearing bank loan* £'000	Net exposure £'000
Danish Krone	12,182	104	–	–	–	–	12,286
Euro	133,542	148	1,474	–	–	(8,495)	126,669
Norwegian Krone	20,690	50	–	–	–	–	20,740
Swedish Krona	88,058	121	–	–	–	–	88,179
Swiss Franc	28,103	138	–	–	–	–	28,241
Total	282,575	561	1,474	–	–	(8,495)	276,115

* Par value excluding amortised Costs

If the value of Sterling had weakened by 5% (2021: 5%) against each of the currencies in the portfolio, the impact on the profit or loss and the net asset value would have been positive £17,108,000 (2021: positive £14,230,000). If the value of Sterling had strengthened by 5% (2021: 5%) against each of the currencies in the portfolio, the impact on the profit or loss and the net asset value would have been negative £15,478,000 (2021: negative £13,806,000). These calculations are based on the foreign currency exposure balances as at the respective balance sheet dates.

19 Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date.

The Company had the following categories of financial assets exposed to credit risk as at 31 March 2022:

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Cash and cash equivalents	**1,821**	1,767
Due from brokers and accrued income	**243**	317
	2,064	2,084

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the financial stability and credit quality of the brokers used, which are monitored on an ongoing basis by the Manager. The Manager also monitors the quality of service provided by the brokers used to further mitigate this risk.

There were no significant concentrations of credit risk to counterparties at 31 March 2022 or 31 March 2021. No individual investment exceeded 5.8% of the investment portfolio at 31 March 2022 (2021: 4.5%).

A significant majority of the assets of the Company, including those that are traded on a recognised exchange, are held in segregated accounts on behalf of the Company by The Bank of New York Mellon SA/NV (London Branch), the Company's custodian. Bankruptcy or insolvency of this or other custodians may cause the Company's rights with respect to securities held by the custodians to be delayed. The Board monitors the Company's risk by reviewing the custodian's internal control reports.

20 Liquidity Risk

The Company does not hold unlisted securities (2021: £nil). The Company's listed securities are considered to be readily realisable.

However, as with all smaller company investment trusts, there are times when the liquidity of the underlying portfolio is poor, such as when smaller companies are out of favour or during periods of adverse economic conditions. The Manager focuses on smaller companies where the opportunities may be more attractive but this can decrease overall underlying liquidity. This may result in the Manager being unable to buy or sell individual holdings within the portfolio. The Manager constantly reviews the underlying liquidity of the portfolio and deals with a wide range of brokers to enhance its ability to execute transactions and minimise liquidity risk. The Company's overall exposure to liquidity risks is monitored on a regular basis by the Board.

Liquidity risk is mitigated as the Company maintains sufficient cash to pay accounts payable and accrued expenses. As at 31 March 2022, the cash position of the Company was £1.8 million (2021: £1.8 million) and the Company has undrawn bank facilities of £4.2 million (2021: £12.8 million).

Notes to the Financial Statements continued

20 Liquidity Risk continued

CONTRACTUAL MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

As at 31 March 2022	**Within one month £'000**	**Between one and three months £'000**	**Between three and twelve months £'000**	**Between one and five years £'000**	**Total £'000**
Liabilities:					
Other creditors	**700**	**76**	**11**	**–**	**787**
Revolving credit facility	**8,450**	**–**	**–**	**–**	**8,450**
Loan and loan interest	**–**	**–**	**114**	**8,507**	**8,621**
Total liabilities	**9,150**	**76**	**125**	**8,507**	**17,858**

As at 31 March 2021	Within one month £'000	Between one and three months £'000	Between three and twelve months £'000	Between one and five years £'000	Total £'000
Liabilities:					
Other creditors	461	101	2	–	564
Revolving credit facility	–	–	–	–	–
Loan and loan interest	–	–	121	8,520	8,641
Total liabilities	461	101	123	8,520	9,205

21 Related Parties and Transactions with the Manager

The following are considered related parties: the Board of Directors. The Directors of the Company received fees for their services and dividends from their shareholdings in the Company. Further details are provided in the Directors' Remuneration Report on pages 35 to 37.

Transactions between the Company and the Manager are detailed in note 3 on management fees and note 11 on fees owed to the Manager at the balance sheet date. The existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies and therefore, under the AIC SORP, the Manager is not considered to be a related party.

22 Securities financing transactions ("SFT")

The Company has not, in the year to 31 March 2022 (2021: same), participated in any: repurchase transactions; securities lending or borrowing; buy-sell back transactions; margin lending transactions; or total return swap transactions (collectively called SFT). As such, it has no disclosure to make in satisfaction of the EU regulations on transparency of SFT, issued in November 2015.

23 Post Balance Sheet Events

Subsequent to the year end, investment valuations have fallen as a result of the market reaction to sustained inflationary forces, rising bond yields and Central Bank tightening. As at 20 June 2022 (being the latest practicable date before publication of this report), this had resulted in a decrease in net asset value of 18.9% to 139.1p and the Company's share price closing 28.1% lower at 120.8p compared to the balance sheet date.

These movements relate to post year end activity and will be reported in the Company's Annual Report and Accounts for the year ended 31 March 2023.

AIFMD Disclosures (Unaudited)

Alternative Investment Fund Managers ('AIFM') Directive ('AIFMD')

In accordance with the AIFMD, information in relation to the Company's leverage (as defined on page 69) and the remuneration of the Company's AIFM, Montanaro Asset Management Limited, is required to be made available to investors. Detailed regulatory disclosures including those on the AIFM's remuneration policy are available on the Company's website or from Montanaro Asset Management Limited on request. The Company's maximum and actual leverage levels at 31 March 2022 are shown below:

Leverage exposure

	Gross method	Commitment method
Maximum limit	200%	200%
Actual	104.58%	105.14%

For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of Company's exposure to its net asset value and is calculated on both a gross and commitment method.

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.

The leverage limits are set by the AIFM and approved by the Board. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings. Detailed regulatory disclosures to investors in accordance with the AIFMD are contained on the AIFM's website.

Shareholder Information

Annual General Meeting
The Annual General Meeting of Montanaro European Smaller Companies Trust plc will be held on Thursday 8 September 2022 at 11.00 a.m. at 53 Threadneedle Street, London EC2R 8AR. Further details can be found on pages 70 to 77.

Key Dates

31 March 2022	Company year end
8 September 2022	Annual General Meeting
16 September 2022	Payment of final dividend
November 2022	Interim results announced
January 2023	Payment of expected interim dividend

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 78.

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.

Non-Mainstream Pooled Investment ("NMPI") Status
The Company currently conducts its affairs so that the shares it issues can be recommended by financial advisers to retail investors in accordance with the FCA's rules in relation to non-mainstream investment products. It is intended to continue to do so for the foreseeable future. The Company's securities are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are securities in a UK listed investment trust.

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

AIC
The Company is a member of the Association of Investment Companies ('AIC').

Data protection
The Company is committed to protecting and respecting the confidentiality, integrity and security of the personal data it holds. For information on the processing of personal data, please see the privacy policy on the website at 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 call 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**.

Alternative Performance Measures ("APMs")

The Company uses the following APMs:

Premium/(discount)

If the share price of an Investment Trust is less than its Net Asset Value 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 31 March 2022, the Net Asset Value per share was 171.5p (2021: 158.9p*) and the share price was 168.0p (2021: 161.0p*). The discount is therefore calculated at 2.0% (2021: premium 1.3%) 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.

As at 31 March 2022, interest bearing bank loans and revolving credit facility were £16,884,000, (2021: (£8,495,000)) cash and cash equivalents were £1,821,000 (2021: £1,767,000) and net assets were £324,905,000 (2021: £276,065,000). As at 31 March 2022, Gearing is therefore equal to 4.6% (2021: 2.4%) as shown in the highlights on page 1.

Ongoing Charges (expressed as a percentage)

All operating costs expected to be incurred in future and that are payable by the Company expressed as a proportion of the average Net Assets of the Company over the reporting year. The costs of buying and selling investments are excluded, as are interest costs, taxation, non-recurring costs and the costs of buying back or issuing Ordinary Shares.

Ongoing charges calculation

	31 March 2022 £'000	31 March 2021 £'000
Total expenditure	**3,728**	2,834
Less non-recurring costs	**(38)**	–
Total (a)	**3,690**	2,834
Average monthly net assets (b)	**338,926**	240,757
Ongoing charges (c = a/b) (c)	**1.1%**	1.2%

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 31 March 2022, the 1 year NAV Capital Return was 7.9% (2021: 66.1%), and the 1 year Ordinary share price Capital Return was 4.3% (2021: 83.0%), as shown in the highlights on page 1.

NAV Capital Return calculation as at 31 March 2022

NAV per share as at 31 March 2022	171.50p	(a)
NAV per share as at 31 March 2021*	158.90p	(b)
NAV Capital Return	**7.9%**	**((a-b)/b)**

NAV Capital Return calculation as at 31 March 2021

NAV per share as at 31 March 2021*	158.90p	(a)
NAV per share as at 31 March 2020*	95.69p	(b)
NAV Capital Return	**66.1%**	**((a-b)/b)**

Share Price Capital Return calculation as at 31 March 2022

Share Price as at 31 March 2022	168.00p	(a)
Share Price as at 31 March 2021*	161.00p	(b)
Share Price Capital Return	**4.3%**	**((a-b)/b)**

Share Price Capital Return calculation as at 31 March 2021

Share Price as at 31 March 2021*	161.00p	(a)
Share Price as at 31 March 2020*	88.00p	(b)
Share Price Capital Return	**83.0%**	**((a-b)/b)**

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 31 March 2022, the 1 year NAV Total Return was 8.4% (2021: 67.2%), and the 1 year Ordinary share price Total Return was 4.8% (2021: 84.2%), as shown in the highlights on page 1.

* Restated to reflect the subsequent 10 for 1 share split.

NAV Total Return calculation as at 31 March 2022

NAV per share as at 31 March 2022	171.50p	(c)
NAV per share as at 31 March 2021*	158.90p	(d)
Dividend adjustment factor (+1)	1.0047	(a)
Pre-Dividend Reinvestment Factor	1.0793	(b)(b=c/d)
NAV Total Return	**8.4**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	PPS*	Dividend XD date	NAV at Dividend XD date*	NAV Multiplier
Interim dividend	0.200	03 Dec 21	205.00p	0.0010
Final dividend	0.725	12 Aug 21	196.90p	0.0037
				0.0047

Share price Total Return calculation as at 31 March 2022

Share price as at 31 March 2022	168.00p	(c)
Share price as at 31 March 2021*	161.00p	(d)
Dividend adjustment factor (+1)	1.0046	(a)
Pre-Dividend Reinvestment Factor	1.0434	(b)(b=c/d)
Share price Total Return	**4.8**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	PPS*	Dividend XD date	Share price at Dividend XD date*	Share price Multiplier
Interim dividend	0.200	03 Dec 21	208.50p	0.0010
Final dividend	0.725	12 Aug 21	201.00p	0.0036
				0.0046

NAV Total Return calculation as at 31 March 2021

NAV per share as at 31 March 2021*	158.90p	(c)
NAV per share as at 31 March 2020*	95.69p	(d)
Dividend adjustment factor (+1)	1.0067	(a)
Pre-Dividend Reinvestment Factor	1.6606	(b)(b=c/d)
NAV Total Return	**67.2**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	PPS*	Dividend XD date	NAV at Dividend XD date*	NAV Multiplier
Interim dividend	0.200	03 Dec 20	154.00p	0.0013
Final dividend	0.725	13 Aug 20	135.00p	0.0054
				0.0067

Share price Total Return calculation as at 31 March 2021

Share price as at 31 March 2021*	161.00p	(c)
Share price as at 31 March 2020*	88.00p	(d)
Dividend adjustment factor (+1)	1.0066	(a)
Pre-Dividend Reinvestment Factor	1.8294	(b)(b=c/d)
Share price Total Return	**84.2**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	PPS*	Dividend XD date	Share price at Dividend XD date*	Share price Multiplier
Interim dividend	0.200	03 Dec 20	154.00p	0.0013
Final dividend	0.725	13 Aug 20	135.00p	0.0053
				0.0066

* Restated to reflect the subsequent 10 for 1 share split.

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 Alternative Investment Fund Manager (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.

Association of Investment Companies ('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 ex-UK SmallCap 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 Net Asset Value 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 Net Asset Value.

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 SA/NV (London Branch).

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.

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.

International Accounting Standards
International Accounting Standards as adopted by the European Union.

Investment Manager
The Company's investment manager is Montanaro Asset Management Limited. The responsibilities and remuneration of the Manager are set out in the Business Model and Strategy on page 12 and in the Directors' Report on page 25.

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.

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 Asset Value ('NAV') per Ordinary Share
This is calculated as the net assets of an Investment Trust divided by the number of Ordinary Shares in issue, excluding those shares held in treasury.

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 total sales proceeds as a percentage of the average monthly net assets 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.

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about any aspect of the proposals referred to in this document or about the action which you should take, you should seek your own advice immediately from a stockbroker, solicitor, accountant or other independent professional adviser. If you have sold or otherwise transferred all of your shares, please pass this document, together with the accompanying documents, to the purchaser or transferee, or to the person who arranged the sale or transfer, so they can pass these documents to the person who now holds the shares.

Notice is hereby given that the Annual General Meeting of Montanaro European Smaller Companies Trust plc (the 'Company') will be held at Montanaro Asset Management, 53 Threadneedle Street, London, EC2R 8AR, on Thursday 8 September 2022 at 11.00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 9 will be proposed as ordinary resolutions and resolutions 10 and 11 will be proposed as special resolutions.

ORDINARY RESOLUTIONS

RESOLUTION 1 – ANNUAL REPORT AND ACCOUNTS
That the Annual Report and Accounts of the Company for the year ended 31 March 2022 be received.

RESOLUTION 2 – ANNUAL REPORT ON DIRECTORS' REMUNERATION
That the Annual Report on Directors' Remuneration for the year ended 31 March 2022 be approved.

RESOLUTION 3 – FINAL DIVIDEND
That a final dividend of 0.725p per Ordinary Share be declared.

RESOLUTION 4 – RE-ELECTION OF DIRECTOR
That Mr R M Curling, who retires annually, be re-elected as a Director.

RESOLUTION 5 – RE-ELECTION OF DIRECTOR
That Ms C A Roxburgh, who retires annually, be re-elected as a Director.

RESOLUTION 6 – RE-ELECTION OF DIRECTOR
That Mr G Neilly, who retires annually, be re-elected as a Director.

RESOLUTION 7 – RE-APPOINTMENT OF AUDITOR
That PricewaterhouseCoopers LLP be re-appointed as the Company's auditor, to hold office from the conclusion of this Meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

RESOLUTION 8 – AUDITOR'S REMUNERATION

That the Directors be authorised to determine the auditor's remuneration.

RESOLUTION 9 – AUTHORITY TO ALLOT SHARES

That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date of the passing of this resolution, the Board of Directors of the Company (the 'Board') be and is hereby generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £947,138, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2023 or, if earlier, on 30 September 2023 save that the Company may before such expiry make an offer or enter into an agreement which would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the Board may allot shares or grant such rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. The Directors will use this authority when it is in the best interests of the Company to issue Ordinary shares for cash and will only issue new shares at a price representing a premium to the NAV per share at the time of issuance.

SPECIAL RESOLUTIONS

RESOLUTION 10 – AUTHORITY TO ALLOT SHARES OTHER THAN ON A PRE-EMPTIVE BASIS

That, subject to the passing of resolution 9 and in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date of the passing of this resolution, the Board of Directors of the Company (the 'Board') be and is hereby generally empowered pursuant to sections 570 and 573 of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of section 560 of the Act) (including the grant of rights to subscribe for, or to convert any securities into, ordinary shares of 5 pence each in the capital of the Company ('Ordinary Shares')) wholly for cash either pursuant to the authority conferred on them by such resolution 9 or by way of a sale of treasury shares (within the meaning of section 560(3) of the Act) as if section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited to the allotment of equity securities and the sale of treasury shares:

(i) in connection with a rights issue, open offer or other pre-emptive offer in favour of the holders of Ordinary Shares who are on the register of members on a date fixed by the Board where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them on that date (subject to such exclusions or other arrangements in connection with the rights issue, open offer or other offer as the Board deem necessary or expedient to deal with shares held in treasury, fractional entitlements to equity securities and to deal with any legal or practical problems or issues arising in any overseas territory or under the requirements of any regulatory body or stock exchange); and

(ii) otherwise than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £947,138, and shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the Annual General Meeting of the Company to be held in 2023 or, if earlier, on 30 September 2023 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. This power shall authorise the Board to issue equity securities at such issue price as the Board may determine (including, without limitation, where equity securities are being issued from treasury at a price below the net asset value per Ordinary Share of the Company at the time of the relevant issue).

Notice of Annual General Meeting continued

RESOLUTION 11 – AUTHORITY TO BUY BACK SHARES

That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date of the passing of this resolution, the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the 'Act') to make one or more market purchases (as defined in section 693(4) of the Act) of ordinary shares of 5 pence each in the capital of the Company ('Ordinary Shares') on such terms and in such manner as the Board of Directors may determine provided that:

(i) the maximum aggregate number of Ordinary Shares which may be purchased is 28,395,197 (or if less, 14.99 per cent of the number of Ordinary Shares in issue (excluding treasury shares) immediately prior to the passing of this resolution);

(ii) the minimum price which may be paid for an Ordinary Share is 5 pence (exclusive of associated expenses);

(iii) the maximum price which may be paid for an Ordinary Share (exclusive of associated expenses) is the higher of:

   (a) 105 per cent of the average of the market value of an Ordinary Share for the five business days immediately preceding the day on which the Ordinary Share is purchased; and (b) the value of an Ordinary Share calculated on the basis of the higher price quoted for:

      (i) the last independent trade of; and
      (ii) the highest current independent bid for any number of Ordinary Shares on the trading venue where the purchase is carried out; and

(iv) unless previously renewed, varied or revoked, this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2023 or, if earlier, on 30 September 2023 save that the Company may before such expiry enter into a contract to purchase Ordinary Shares which will or may be completed wholly or partly after such expiry and a purchase of Ordinary Shares may be made pursuant to any such contract.

By order of the Board

LINK COMPANY MATTERS LIMITED
Company Secretary
23 June 2022

Registered office:
16 Charlotte Square
Edinburgh EH2 4DF

Explanation of Notice of Annual General Meeting

Resolution 1 – To receive the Annual Report and Financial Statements

The Directors are required to present the financial statements, Strategic Report, Directors' Report and Auditor's Report to the meeting. These are contained in the Company's Annual Report and Accounts for the year ended 31 March 2022 (the Annual Report). A resolution to receive the financial statements, together with the Strategic Report, Directors' Report and the Auditor's Report on those accounts is included as an ordinary resolution.

Resolution 2 – Remuneration

An advisory resolution to approve the Directors' Remuneration Report (set out in the Annual Report) is included.

Resolution 3 – Final dividend

The Board proposes a final dividend of 0.725 pence per share in respect of the year ended 31 March 2022. If approved, the recommended final dividend will be paid on 16 September 2022 to all ordinary shareholders who are on the register of members on 12 August 2022. The shares will be marked ex-dividend on 11 August 2022.

Resolutions 4 to 6 – Re election of Directors

In line with the recommendations of the 2019 AIC Corporate Governance Code, all Directors of the Company are required to retire and offer themselves for re-election at each AGM. In accordance with this requirement, Mr Curling, Ms Roxburgh and Mr Neilly will retire and offer themselves for re-election as Directors.

All of the Directors seeking re-election are recommended by the Board for re-election. Full biographies of all of the Directors are set out in the Annual Report on page 23 and are also available for viewing on the Company's website https://montanaro.co.uk/trust/montanaro-european-smaller-companies-trust/. The Nomination Committee considered the Directors' performance and recommended their re-election and the Board agrees that it is in the best interests of shareholders that each of the Directors be re-elected.

Resolutions 7 and 8 – Re-Appointment and remuneration of Auditor

At each meeting at which the Company's financial statements are presented to its members, the Company is required to appoint an auditor to serve until the next such meeting. The Board, on the recommendation of the Audit Committee, recommends the re-appointment of PricewaterhouseCoopers LLP as auditor to the Company. The auditor's re-appointment will be proposed to the AGM as Resolution 7. Resolution 8 authorises the Directors to fix the auditor's remuneration.

Resolution 9 – Authority to allot ordinary shares

Resolution 9 authorises the Board to allot ordinary shares generally and unconditionally in accordance with Section 551 of the Companies Act 2006 (the Act) up to an aggregate nominal value of £947,138, representing approximately 10% of the issued ordinary share capital at the date of the Notice, excluding shares held in treasury. This authority shall expire at the next AGM.

Resolution 10 – Authority to disapply pre emption rights

Resolution 10 is a special resolution which is being proposed to authorise the Directors to disapply the pre emption rights of existing Shareholders in relation to issues of ordinary shares under Resolution 9 (being in respect of ordinary shares up to an aggregate nominal value of £947,138, representing approximately 10% of the Company's issued ordinary share capital, including treasury share, as at the date of the Notice). This authority shall expire at the next AGM.

The Directors will only allot new shares pursuant to the authorities proposed to be conferred by Resolutions 9 and 10 if they believe it is advantageous to the Company's shareholders to do so and in no circumstances would it result in an overall dilution of the NAV per share. The Directors will only issue new shares at a price representing a premium to the NAV per share at the time of issuance. The Board's policy regarding the issue of shares from treasury is described on page 28.

Notice of Annual General Meeting continued

Resolution 11 – Purchase of own shares

Resolution 11 is a special resolution which will grant the Company authority to make market purchases of up to 28,395,197 ordinary shares, representing 14.99% of the ordinary shares in issue as at the date of the Notice. The ordinary shares bought back will either be cancelled or placed into treasury, at the determination of the Directors. There are currently no shares held in treasury. The maximum price which may be paid for each ordinary share must not be more than the higher of (i) 105% of the average of the market value of an ordinary shares for the five business days immediately preceding the day on which the purchase is made or (ii) the value of an Ordinary Share calculated on the basis of the higher price quoted for: (a) the last independent trade of; and (b) the highest current independent bid for any number of Ordinary Shares on the trading venue where the purchase is carried out. The minimum price which may be paid for each Ordinary share is £0.05.

This power will only be exercised if, in the opinion of the Directors, a purchase would result in an increase in the NAV per share and be in the best interests of the shareholders as a whole. The Board's intention is to apply an active discount management policy, and to consider a buyback of shares where the discount of the share price to the NAV per share is greater than 10% for a sustained period of time and is significantly wider than the average for similar trusts. Any such transaction must be value enhancing for shareholders and the Board will take into consideration the effect of the buyback on the liquidity of the Company's shares.

This authority shall expire at the next AGM, when a resolution to renew the authority will be proposed.

Notes

1. Attending the Annual General Meeting in Person

If you wish to attend the Annual General Meeting in person, you should arrive at the venue for the Annual General Meeting in good time to allow your attendance to be registered. It is advisable to have some form of identification with you as you may be asked to provide evidence of your identity to the Company's registrar, Equiniti Limited (the 'Registrar'), prior to being admitted to the Annual General Meeting.

2. Appointment of Proxies

Members are entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote at the Annual General Meeting. A proxy need not be a member of the Company but must attend the Annual General Meeting to represent a member. To be validly appointed a proxy must be appointed using the procedures set out in these notes and in the notes to the accompanying proxy form.

If members wish their proxy to speak on their behalf at the meeting, members will need to appoint their own choice of proxy (not the Chairman of the Annual General Meeting) and give their instructions directly to them.

Members can only appoint more than one proxy where each proxy is appointed to exercise rights attached to different shares. Members cannot appoint more than one proxy to exercise the rights attached to the same share(s). If a member wishes to appoint more than one proxy, they should contact the Registrar on 0371 384 2030. Lines are open from 8.30am to 5.30pm, Monday to Friday excluding public holidays in England and Wales. If calling from overseas please call +44 371 384 2030. A member may instruct their proxy to abstain from voting on any resolution to be considered at the meeting by marking the 'Abstain' option when appointing their proxy. It should be noted that an abstention is not a vote in law and will not be counted in the calculation of the proportion of votes 'For' or 'Against' the resolution.

The appointment of a proxy will not prevent a member from attending the Annual General Meeting and voting in person if he or she wishes.

A person who is not a member of the Company but who has been nominated by a member to enjoy information rights does not have a right to appoint any proxies under the procedures set out in these notes and should read note 8 below.

3. Appointment of a Proxy Using a Proxy Form

A proxy form for use in connection with the Annual General Meeting is enclosed. To be valid, any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand by the Registrar at FREEPOST RTHJ-CLLL KBKU, Equiniti, Aspect House, Spencer Road, Lancing BN99 6DA no later than 48 hours (excluding non-working days) before the time of the Annual General Meeting or any adjournment of that meeting.

If you do not have a proxy form and believe that you should have one, or you require additional proxy forms, please contact the Registrar on 0371 384 2030. Lines are open from 8.30am to 5.30pm, Monday to Friday excluding public holidays in England and Wales. If calling from overseas please call +44 371 384 2030.

4. Appointment of a Proxy Through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the following website: www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must in order to be valid, be transmitted so as to be received by the Registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the Annual General Meeting or any adjournment of that meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any

Notice of Annual General Meeting continued

change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. Appointment of Proxy by Joint Holders

In the case of joint holders, where more than one of the joint holders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

6. Corporate Representatives

Any corporation which is a member can appoint one or more corporate representatives. Members can only appoint more than one corporate representative where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s).

7. Entitlement to Attend and Vote

To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6.30pm on 6 September 2022 (or, if the Annual General Meeting is adjourned, at 6.30pm on the day two days prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

8. Nominated Persons

Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the '2006 Act' to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

9. Website Giving Information Regarding the Annual General Meeting

Information regarding the Annual General Meeting, including information required by section 311A of the 2006 Act, and a copy of this notice of Annual General Meeting is available from www.montanaro.co.uk.

10. Audit Concerns

Members should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the 2006 Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the 2006 Act to publish on a website.

11. Members resolution

Under Section 338 and Section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (a) to give to members of the Company entitled to receive notice of meeting, notice of any resolution which may properly be moved and is intended to be moved at the meeting and/or (b) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.

A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 28 July 2022, being the date six weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

12. Voting Rights

As at 23 June 2022 (being the latest practicable date prior to the publication of this notice) the Company had 189,427,600 Ordinary Shares in issue of £0.05 each. There were no Ordinary Shares held in treasury. Each Ordinary Share (other than those held in treasury) carries one vote. The total voting rights in the Company as at 23 June 2022 were 189,427,600 votes.

13. Notification of Shareholdings

Any person holding 3 per cent or more of the total voting rights of the Company who appoints a person other than the Chairman of the Annual General Meeting as his proxy will need to ensure that both he, and his proxy, comply with their respective disclosure obligations under the UK Disclosure Guidance and Transparency Rules.

14. Further Questions and Communication

Under section 319A of the 2006 Act, the Company must cause to be answered any question relating to the business being dealt with at the Annual General Meeting put by a member attending the meeting unless answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, or the answer has already been given on a website in the form of an answer to a question, or it is undesirable in the interests of the Company or the good order of the meeting that the question be answered. Members who have any queries about the Annual General Meeting should contact the Company Secretary, Link Company Matters Limited at 65 Gresham Street, London EC2V 7NQ. Members may not use any electronic address provided in this notice or in any related documents (including the Annual Report and Accounts and proxy form) to communicate with the Company for any purpose other than those expressly stated.

15. Documents Available for Inspection

The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and English public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting:

- 15.1 copies of the Directors' letters of appointment; and
- 15.2 copies of the Directors' deeds of indemnity.

None of the Directors has a service contract with the Company.

16. Personal data

Personal data provided by shareholders at or in relation to the Meeting will be processed in line with the Company's privacy policy.

Advisers

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
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: 07709 515694
Contact: 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 2030*

Registrar's Broker Helpline
Tel: 0906 559 6025

* Lines are open 8.30am to 5.30pm, Monday to Friday.

Stockbroker
CENKOS SECURITIES PLC
6-8 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

Bankers
ING BANK N.V., LONDON BRANCH
60 London Wall
London EC2M 5TQ

Auditor
PRICEWATERHOUSECOOPERS LLP
Atria One
144 Morrison Street
Edinburgh EH3 8EX

Solicitor
DICKSON MINTO W.S.
16 Charlotte Square
Edinburgh EH2 4DF

Montanaro European Smaller Companies Trust plc
Registered in Scotland No. SC074677

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

Notes

Notes

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

Tel: 020 7448 8600
Fax: 020 7448 8601
E-mail: enquiries@montanaro.co.uk
Website: www.montanaro.co.uk