MONTANARO

UK Smaller Companies Investment Trust PLC

Annual Report and Accounts 2021

The Montanaro UK Smaller Companies Investment Trust PLC (“MUSCIT” or the “Company”) was launched in March 1995 and its shares are premium listed on the London Stock Exchange.

Investment Objective

MUSCIT’s investment objective is capital appreciation through investing in small quoted companies listed on the London Stock Exchange or traded on AIM and to outperform its benchmark, the Numis Smaller Companies Index (excluding investment companies) ("NSCI").

No unquoted investments are permitted.

Contents

Highlights
for the year ended 31 March 2021

Performance

Total Returns[1]	1 year	3 year	5 year	10 year	Since launch
Ordinary share price	50.0%	47.8%	87.5%	165.7%	1,089.3%
Net Asset Value ("NAV")	35.8%	22.6%	51.1%	120.0%	979.8%
Benchmark (Composite)	65.6%	21.2%	51.4%	155.3%	560.1%

Sources: Morningstar Direct, AIC, Numis, Bloomberg, Montanaro Asset Management Limited ("Montanaro" or "the Manager").

All returns are shown with dividends reinvested.

The Benchmark is a composite index with the NSCI used since 1 April 2013.

	2021	2020	% change
For the year ended 31 March			
Revenue return per Ordinary share	**1.2p**	2.7p	(55.6%)
Dividend per Ordinary share	**5.5p**	5.3p	3.8%
Ongoing charges[1]	**0.82%**	0.81%	
Portfolio turnover[1]	**27.8%**	30.6%	
As at 31 March			
Ordinary share price	**145.0p**	101.0p	+43.5%
NAV per Ordinary share[2]	**148.6p**	113.8p	+30.6%
Discount to NAV[1]	**2.4%**	11.2%	
Gross assets[1]	**£268.7m**	£210.4m	+27.7%
Net assets	**£248.7m**	£190.4m	+30.6%
Market capitalisation	**£242.7m**	£169.1m	+43.5%
Net gearing employed[1]	**4.0%**	4.2%	

[1] Details provided in Alternative Performance Measures on pages 60 to 61.

[2] Details provided in the glossary on page 62.

Chairman's Statement

I am pleased to present the twenty-sixth annual report of MUSCIT for the year ended 31 March 2021.

Performance

In the year to 31 March 2021, the total return on net assets of MUSCIT was 36%. As a result of the narrowing of the discount of MUSCIT's share price to NAV over this period, the share price increased by 50% on a total return basis. In comparison, the Numis Smaller Companies (excluding investment companies) Index climbed by an even more remarkable 66%.

As explained in the Outlook section below, the Financial Year saw one of the sharpest rotations into Value and Low Quality on record. MUSCIT invests in high quality, growth companies that, as expected, fared less well in such an environment. The sharp underperformance registered during the year follows a year of strong performance during which MUSCIT outperformed by more than 17%. As a result, there is merit in looking at the past two Financial Years together. On that basis, MUSCIT has outperformed by c.2% on a NAV basis and by c.27% in share price terms.

Since inception in 1995, the Company has delivered a cumulative Net Asset Value ("NAV") total return of 980%, which compares to a return of 560% for the Benchmark.

Manager

The Board is delighted to confirm that Charles Montanaro has agreed to continue managing the Company for a minimum of 5 more years. Since returning as named manager in 2016, Charles has managed to outperform the benchmark by 8% in terms of NAV and by 55% in share price terms despite the recent Value rally. He is also a major shareholder in MUSCIT which, when combined with the holding of Montanaro Asset Management, means that it is his largest personal listed investment.

Dividends

The Company's investment objective is to generate capital growth and this remains unchanged despite the amended dividend policy introduced in July 2018. Dividends are paid each quarter equivalent to 1% of the Company's NAV on the last business day of the preceding financial quarter, being the end of March, June, September and December.

During the Financial Year, the Company paid four quarterly dividends amounting to a total of 5.52p, equivalent to 5.5% of the share price at the start of the year. MUSCIT remains the highest yielding UK SmallCap investment trust in the market.

Discount

Over the last financial year, the discount of MUSCIT's share price to NAV, as shown in the graph on page 3, narrowed from 11% to 2%. For the first time in more than 20 years, MUSCIT's shares briefly traded at a premium to NAV. The Board and the Manager have worked hard to make MUSCIT more attractive to private clients, including a five for one share split, an attractive dividend policy, and reducing costs. These initiatives appear to be bearing fruit.

Share Buy Backs

The Board is responsible for the implementation of share buy-backs which are undertaken at arms' length from Montanaro. No shares were bought back during the period. The Company's policy is to buy back shares when the Board believes it is in the best interests of shareholders as a whole.

Board

The Board consists solely of independent Non-Executive Directors with a good balance of skills, experience, diversity and knowledge of the Company and its business.

The Board is delighted to have welcomed Barbara Powley as a Non-Executive Director on 18 November 2020. Barbara brings more than 30 years of experience in the investment trust industry combined with a strong corporate governance and accountancy background.

ESG

The Board are supportive of Montanaro's ESG efforts and more information on their approach to this can be found in the Manager's Report.

AGM

The Board currently expects that the AGM will be held in person at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR, on Thursday, 12 August 2021 at 12 noon.

However, due to the ongoing uncertainty around COVID-related restrictions imposed by the Government, this is subject to possible change. Shareholders will be advised of any planned changes as soon as practicable.

Given the above, we recommend that all shareholders vote by proxy in advance of the AGM, appointing me, as the Chair of the meeting, as their proxy. I urge you to submit your proxy votes in good time for the meeting. Further details of this year's AGM, including information on how to vote, can be found on pages 63 to 72.

Arrangements are being made to enable shareholders to see the presentation which will be given by the Investment Manager at the AGM. This is being done in the event that the AGM might not be able to proceed in person, to ensure that all shareholders have the chance to see the update and engage with the Company. The presentation will be published on our website www.montanaro.co.uk/trust/muscit in advance of the AGM. Should you wish to ask the Board or the Investment Manager any questions, we request that you do so by either email to: MUSCIT_CoSec@linkgroup.co.uk, or by post by writing to: The Company Secretary, Link Company Matters Limited, 6th floor, 65 Gresham St, London EC2V 7NQ. Those questions which are submitted before Friday, 6 August 2021 will be answered ahead of the AGM, and we will endeavour to answer any questions subsequently received as soon as possible.

Coronavirus Pandemic

All the Company's service providers have continued to operate normally for the past year despite the need to work from home.

Continuation Vote

Under the Articles of the Company, the Directors will propose a resolution at this year's Annual General Meeting to remove the obligation that they put a resolution to shareholders at the Annual General Meeting in 2022 to wind up the Company. If passed, this will allow the Company to continue as an investment trust for a further five years.

In light of the strong long-term track record of MUSCIT and the commitment of Charles Montanaro to stay at the helm for at least 5 more years, the Board unanimously recommends that all Shareholders vote in favour of Resolution 12 at the Annual General Meeting, as they intend to do themselves.

Outlook

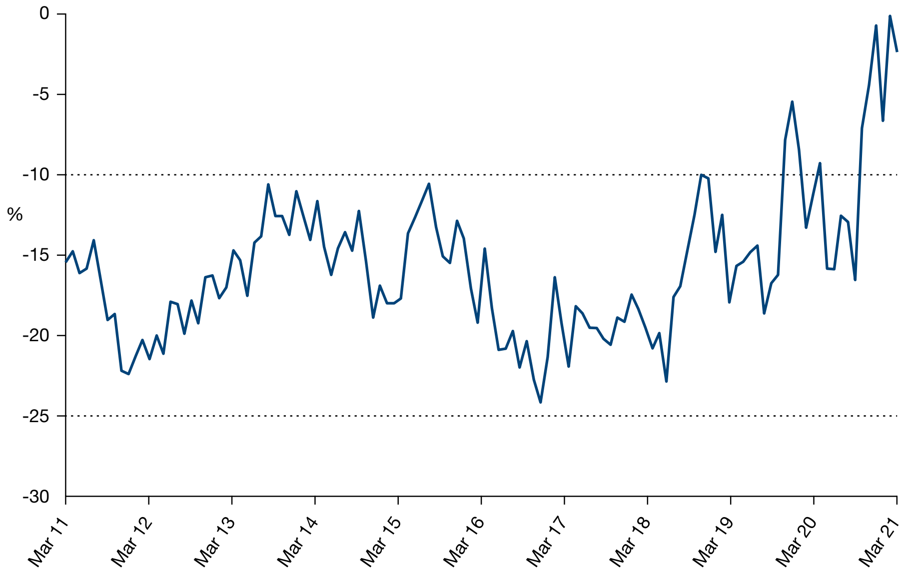
News of the Pfizer vaccine in November 2020 brought much-needed hope to the world. However, it also unleashed the most dramatic style rotation in equity markets in living memory. Value and Low Quality bounced back strongly at the expense of Growth and High Quality. The speed with which this rotation has unfolded is unprecedented.

Given MUSCIT's "Quality Growth" style and overweight in technology, the underperformance since last November is unsurprising. Indeed, it shows that the Manager has stuck to its knitting and has not deviated from its investment style. The Manager invests in profitable, well-managed companies in growth markets and avoids highly cyclical areas such as high street retail, restaurants, hotels, airlines, oil & gas, materials, and metals & mining which helped performance going into COVID. These lower quality Value companies suffered when the pandemic first broke out but have bounced back sharply in recent months.

These style rotations are typical of the recovery period that comes immediately after a Bear Market – think of March 2003, March 2009 and 2012/13. The Board is confident that the Manager will remain committed to the "Quality Growth" style that it has implemented so successfully since 1995. It believes that, in spite of the current uncertainties, shareholders can look forward to the future of MUSCIT with confidence and optimism.

ARTHUR COPPLE
Chairman
14 June 2021

Share Price Discount to NAV*

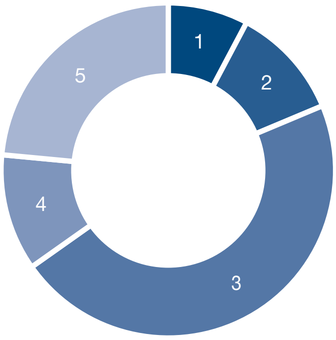


* Discount based on NAV over the last ten years.

Sources: Montanaro and Bloomberg.

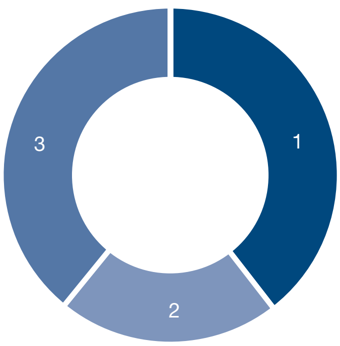
Manager's Report

Breakdown by Market Cap (Ex Cash)



		2021	(2020)
1	£0–£250m	8%	(15%)
2	£250m–£500m	11%	(23%)
3	£500m–£1bn	47%	(35%)
4	£1bn–£1.5bn	11%	(17%)
5	>£1.5bn	23%	(10%)

Breakdown by Index (Ex Cash)



		2021	(2020)
1	AIM	39%	(34%)
2	FTSE 250*	22%	(20%)
3	NSCI	39%	(46%)

The Attractions of Quoted UK 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 66 years, this has amounted to an average of 3.4% per annum ("the SmallCap Effect"). £1 invested in UK large companies in 1954 would now be worth £1,030 whereas the same £1 invested in smaller companies would now be worth over £7,900 – over 7 times more.

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

Montanaro Asset Management

Montanaro was established in 1991 and we will shortly be celebrating our 30th Anniversary. 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 35 gives us the breadth of resources and scope to conduct thorough in-house research.

At 31 March 2021, we were looking after almost £4 billion of assets.

Investment Philosophy and Approach

We specialise in researching and investing in quoted small companies.

We have a disciplined, two-stage investment process. Firstly, we identify "*good businesses*" within our investable universe. In the second stage, we determine the intrinsic value of each company to ensure they will make a "*good investment*" (the two are not always the same). When we consider that we have identified a good company, it must pass our stringent Quality and ESG Checklists and be approved by our Investment Committee before it can be added to the "Approved List". ESG has been integrated in our disciplined investment process for almost two decades. Only the most attractive companies make it on to the Approved List and it is from these that we construct your Portfolio.

We have an in-house team of eleven Analysts who are sector specialists. This is one of the largest such specialist teams in the country. Utilising their industry knowledge and a range of proprietary screens, they are continually searching for new ideas. With around 2,000 companies to choose from, we are spoiled for choice.

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.

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 has not been possible during the pandemic. We are looking forward to these visits resuming, although it is worth stating that company access during the year has remained excellent: you get a different perspective talking to a CEO while they sit at home rather than in the formal setting of a board room.

Management's past track record is examined in detail as we seek to understand their goals and aspirations. In smaller companies, the decisions

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

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 analysts conduct 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. We will sometimes get things wrong.

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 ourselves with our investors by investing meaningful amounts of our own money alongside yours. We are significant shareholders in MUSCIT.

Environmental, Social and Governance ("ESG")

Montanaro became a B Corporation in June 2019. "B Corps" are businesses that meet the highest standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose. We also joined the "Net Zero Asset Managers Initiative" in early 2021, further cementing our commitment to achieving "net zero carbon" for our business.

As part of our due diligence work, we place a great deal of emphasis on Ethical and ESG factors. We work closely with our companies to encourage sustainable business practices, which we believe play an integral part in the creation of long-term shareholder value.

Montanaro believes there is a clear correlation between how well a business fares on Environmental, Social and Corporate Governance grounds and the value it creates for its shareholders. Therefore, ESG considerations form an integral part of our assessment of a company's "Quality" and are fully integrated into our investment process. All the ESG research is done in-house by our Analysts.

In addition, we engage with companies in an effort to improve corporate behaviour. As responsible shareholders, we believe that it is our duty to engage with our investee companies. In our experience, active and constructive engagement can help to foster positive long-term change in the way businesses are run.

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. With the "sustainability" trend a growing feature of the investment landscape, we believe that we are ahead of the curve. In SmallCap, it is particularly important to engage with companies to influence the impact they have on the world. Our high level of in-house resources makes this possible and we recently hired an ESG & Impact Specialist to support the work of our Investment Team.

How to invest

We have invested a great deal of time to make MUSCIT 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 MUSCIT's retail following.

Together with the Board, we have appointed Marten & Co to provide sponsored research. The latest report published in April 2021 is available here: https://montanaro.co.uk/news-and-views/

For further details about how to invest, please refer to the website: https://montanaro.co.uk/trust/montanaro-uk-smaller-companies-investment-trust/

The Portfolio

At 31 March 2021, the Portfolio consisted of 50 companies of which the top ten holdings represented 35%. MUSCIT held 26 companies traded on AIM, representing 39% of the Portfolio by value.

Sector 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.

Gearing

Montanaro, the Alternative Investment Fund Manager ("AIFM"), in consultation with the Board, is responsible for determining the net gearing level of the Company. At 31 March 2021 gearing stood at 4.0%. The current borrowing facilities expire on 19 December 2021. The renewal of this facility is currently being reviewed.

Performance Review

The NAV gained 36% on a total return basis (share price: +50%), which compares to an extraordinary increase of 66% for the benchmark. The magnitude of the increase can be explained by the fact that MUSCIT's Financial Year began only a few days after the COVID-induced Bear Market reached its trough.

As the market recovery took hold and the successful rollout of the COVID vaccines started to turn the tide of pessimism, investors increasingly favoured those companies that had suffered the most during the pandemic – typically those in highly cyclical sectors with fragile balance sheets which we avoid. These Value companies outperformed Growth companies by 17% during the Financial Year while Low Quality SmallCap outperformed High Quality by a whopping 27%, making FY21 one of the most extreme "dash-for-trash" periods in MUSCIT's history.

However, despite this unusual period, the Company remains ahead of its benchmark over the past two and three years (and significantly ahead in share price terms).

Performance Attribution

The year to 31 March 2021 saw some strong performances from our largest contributors:

Treatt, the manufacturer of fragrances and flavourings, saw its share price rise by more than 140% during the period as the business continued to go from

Manager's Report continued

strength to strength. In particular, the move into higher valued-added products resulted in margin expansion, new capacity being filled up quickly and a greater frequency of business wins.

Kainos (share price: +127%), the software company headquartered in Belfast that specialises in digital transformation, had an exceptional year which saw strong demand for digitisation projects both from Government and corporate clients. Meanwhile, the company significantly curtailed its cost base by slowing down recruitment, enabling staff to work from home and saving on travel and entertainment. As a result, profits more than doubled during the year.

XP Power (share price: +80%), the UK provider of power solutions, benefited from a sustained uptick in orders as COVID generated demand for critical care equipment and semiconductors. The business enjoyed record earnings, reduced its debt and reinstated the dividend from the second quarter of 2020 as visibility began to improve.

The year was such a strong one for UK SmallCap that two of MUSCIT's three largest detractors were companies whose shares lagged the market despite posting double-digit returns:

Big Yellow (share price: +11%), the market leader in the UK self-storage sector, enjoyed an 11% share price gain. Ironically, the shares lagged the rest of the market as the business demonstrated good resilience through the pandemic. Big Yellow had also been one of the strongest performers in 2019.

Cranswick (share price: -2%), the leading UK supplier of fresh pork meat products, saw its share price edge 2% lower despite evidence of solid trading, which included an upgrade to the company's full year guidance in February 2021. As a beneficiary of COVID (people stayed at home and thus cooked more often), Cranswick was the best performing holding in MUSCIT during the first quarter of 2020.

Despite a 17% share price gain, **Marshalls**, the UK's leading hard landscaping manufacturer, made a negative contribution to performance as it represented a large off-benchmark position in the portfolio. After a tricky first half, the company started to see a sustained increase in its order book as demand for their residential products (including patios and driveways) increased. The company also reinstated its dividend for the full year 2020.

Review & Outlook

This is the second review written from home, the last written in the early weeks of the first lockdown when many thought we would be back in the office by the end of the summer. Now, with the arrival of the vaccines, a resumption of more "normal life" looks eminently possible – a return to the office and hopefully a summer holiday too. What an impact the vaccines have had, not just in containing the pandemic, but on the trajectory of equity markets too.

It is strange to think back to the early days of April 2020 with stock markets collapsing and consider that, no sooner had the beginning of the Financial Year started, a new Bull Market was born. This seemed at odds with the day to day reality of the most serious pandemic for at least a century: locked down populations; collapsed economies; and mounting death tolls. Investors have recovered their losses in just over a year – the quickest recovery from a Bear Market ever.

Yet as the world shut up shop and economies crashed, Governments and Central Banks unleashed an unprecedented level of monetary and fiscal stimulus, estimated at some $15 trillion across the G10 countries plus China. Plummeting interest rates pushed investors into riskier assets that offered a return on their investment. *"Don't fight the Fed"*, as the adage goes.

As a second wave of COVID cases grew over the autumn months of 2020, the outlook for consumer businesses that rely on customer footfall – restaurants, hotels, cinemas, theatres – looked particularly bleak. Conversely, the fortunes of Healthcare and Technology companies, many of which continued to operate as normal, looked far better. MUSCIT fared relatively well during this period.

Monday, 9 November 2020 changed this market dynamic entirely. This was the day when Pfizer and BioNTech announced the first effective Covid-19 vaccine, a great day for humanity but also for investors in those businesses which had suffered most from the economic consequences of Covid-19. It unleashed the most dramatic rotation in equity markets in living memory. Value and Low Quality bounced back strongly at the expense of Quality and Growth, a dynamic that continued unabated until the end of the Financial Year.

Within UK SmallCap, Growth underperformed Value by 24% between November 2020 and March 2021, which compares to a c.30% underperformance experienced in both 2009 and 2013. So if history is any guide, the current rotation may be almost complete. To add weight to this view, a recent survey published by Bank of America suggested that, by mid-March 2021, most Fund Managers were heavily overweight in Cyclicals and Commodities with the largest underweight in Technology since the start of the Bull Market in 2009. In a recent letter to investors, we urged our clients to remain calm in the face of the market rotation that has occurred. This is a message that we reiterate here.

We have been through several such periods before – after all, Montanaro is celebrating its 30th anniversary this year. Today, we are more convinced than ever that investing in high quality, small growth companies with experienced management teams will deliver excellent returns over any medium term period. We believe that we serve our shareholders best by remaining true to our "Quality Growth" style as we have always done.

There will be a continuation vote at the AGM this year. We would like to thank you, our investors, many who have been with us on this journey for over 25 years, and of course your Board. With your support, we hope to build on MUSCIT's strong, long-term track record in the coming years. It has been a privilege and very rewarding to see MUSCIT grow and thrive.

CHARLES MONTANARO
14 June 2021

Twenty Largest Holdings
as at 31 March 2021

1. NCC Group
a provider of software escrow and cyber security consulting services.

2. Discoverie
a designer and manufacturer of components for electronic applications.

3. Kainos Group
a software developer headquartered in Belfast that specialises in digital transformation.

4. Treatt
a leading manufacturer of fragrances and flavourings.

5. XP Power
a provider of power solutions.

6. Marshalls
the UK's leading provider of hard landscaping products.

7. 4imprint Group
a supplier of promotional merchandise.

8. Dechra Pharmaceuticals
an animal health specialist.

9. Liontrust Asset Management
a specialist asset manager launched in 1995.

10. Ideagen
a supplier of Governance, Risk and Compliance software for highly regulated industries.

11. Big Yellow Group
a real estate investment trust focused on the self-storage market.

12. Diploma
a supplier of specialised consumables in industrial seals, control systems and healthcare mainly in Europe and North America.

13. Integrafin Holdings
the provider of the Transact platform for UK IFAs.

14. Yougov
an Internet-based market research and data analytics company.

15. Hilton Food Group
a leading food packing business.

16. Avon Rubber
a leading protection equipment maker for the armed forces.

17. Judges Scientific
a company specialising in the design and production of scientific instruments.

18. Clarkson
a leading shipping brokerage business.

19. Porvair
an industrial filtration and environmental technology specialist.

20. Tristel
a manufacturer of high-level disinfectants used for medical infection control.

Twenty Largest Holdings continued
as at 31 March 2021

Holding	Sector	Value £'000	Market cap £m	% of portfolio 31 March 2021	% of portfolio 31 March 2020
NCC Group	Software and Computer Services	10,320	724	3.9	2.8
Discoverie	Electronic and Electrical Equipment	10,050	599	3.8	3.5
Kainos Group	Software and Computer Services	9,698	1,830	3.7	1.2
Treatt	Chemicals	9,500	566	3.6	2.0
XP Power	Electronic and Electrical Equipment	9,400	923	3.6	2.7
Marshalls	Construction and Materials	9,241	1,369	3.5	3.7
4Imprint Group	Media	8,575	688	3.3	3.2
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	8,575	3,710	3.3	2.4
Liontrust Asset Management	Financial Services	8,520	867	3.2	2.2
Ideagen	Software and Computer Services	8,160	686	3.1	3.7
Big Yellow Group	Real Estate Investment Trusts	7,805	1,961	3.0	3.1
Diploma	Support Services	7,644	3,174	2.9	2.5
Integrafin Holdings	Financial Services	7,605	1,680	2.9	4.5
Yougov	Media	7,350	1,084	2.8	2.0
Hilton Food Group	Food Producers	6,444	880	2.5	4.6
Avon Rubber	Aerospace and Defence	6,320	980	2.4	–
Judges Scientific	Electronic and Electrical Equipment	5,670	397	2.2	1.2
Clarkson	Industrial Transportation	5,500	836	2.1	2.4
Porvair	Industrial Engineering	5,460	252	2.1	2.6
Tristel	Healthcare Equipment and Services	5,355	296	2.0	2.1
Twenty Largest Holdings		**157,192**		**59.9**	

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

All investments are in Ordinary shares.

As at 31 March 2021, the Company did not hold any equity interests comprising more than 3% of any company's share capital.

Analysis of Investment Portfolio by Industrial or Commercial Sector

as at 31 March 2021

Sector	31 March 2021 % of portfolio	31 March 2021 % of NSCI	31 March 2020 % of portfolio	31 March 2020 % of NSCI
Software and Computer Services	19.5	5.3	15.4	3.8
Technology Hardware and Equipment	3.8	0.8	4.8	0.8
Technology	**23.3**	**6.1**	**20.2**	**4.6**
Telecommunications Equipment	–	0.3	–	1.5
Telecommunications Service Providers	–	1.9	–	3.6
Telecommunications	**–**	**2.2**	**–**	**5.1**
Health Care Providers	2.9	0.6	3.1	0.5
Medical Equipment and Services	–	0.3	2.6	0.4
Pharmaceuticals and Biotechnology	7.4	2.4	4.8	2.2
Health Care	**10.3**	**3.3**	**10.5**	**3.1**
Banks	–	2.3	–	1.5
Finance and Credit Services	–	2.1	–	2.4
Investment Banking and Brokerage Services	9.5	8.2	12.3	8.8
Life Insurance	–	1.0	–	1.1
Non-life Insurance	–	1.0	–	3.3
Financials	**9.5**	**14.6**	**12.3**	**17.1**
Real Estate Investment and Services Development	–	4.6	–	7.4
Real Estate Investment Trusts	2.9	4.3	4.3	1.8
Real Estate	**2.9**	**8.9**	**4.3**	**9.2**
Automobiles and Parts	–	0.9	–	1.3
Consumer Services	–	0.3	–	0.3
Household Goods and Home Construction	–	1.4	0.6	1.4
Leisure Goods	3.2	0.1	–	0.2
Personal Goods	–	1.3	–	0.6
Media	7.9	1.7	6.9	4.9
Retailers	–	3.9	–	3.8
Travel and Leisure	–	12.8	0.6	8.1
Consumer Discretionary	**11.1**	**22.4**	**8.1**	**20.6**
Beverages	–	1.3	–	1.5
Food Producers	5.1	2.6	9.1	3.4
Personal Care, Drug and Grocery Stores	–	0.9	–	1.0
Consumer Staples	**5.1**	**4.8**	**9.1**	**5.9**
Construction and Materials	5.0	4.9	7.0	5.4
Aerospace and Defense	2.4	3.2	–	3.1
Electronic and Electrical Equipment	10.3	2.4	7.3	2.3
General Industrials	–	1.0	–	1.0
Industrial Engineering	1.5	1.5	–	1.2
Industrial Support Services	10.0	8.2	13.7	4.5
Industrial Transportation	3.5	2.6	4.6	3.1
Industrials	**32.7**	**23.8**	**32.6**	**20.6**
Industrial Materials	–	0.1	–	0.1
Industrial Metals and Mining	–	2.9	–	2.5
Precious Metals and Mining	–	2.5	–	3.1
Chemicals	3.6	1.0	2.0	1.6
Basic Materials	**3.6**	**6.5**	**2.0**	**7.3**
Oil, Gas and Coal	–	4.6	–	4.1
Energy	–	**4.6**	**–**	**4.1**
Electricity	–	2.0	–	1.7
Waste and Disposal Services	1.5	0.8	0.9	0.7
Utilities	**1.5**	**2.8**	**0.9**	**2.4**
Total	**100.0**	**100.0**	**100.0**	**100.0**

The investment portfolio comprises 50 traded or listed UK equity holdings.

Business Model and Strategy

PRINCIPAL ACTIVITY

The Company carries on business as an investment trust and its objective and investment policy are set out below. Its Ordinary Shares are traded on the Main Market of the London Stock Exchange.

INVESTMENT OBJECTIVE

MUSCIT's investment objective is capital appreciation through investing in small quoted companies listed on the London Stock Exchange or traded on AIM and to outperform its benchmark, the NSCI.

No unquoted investments are permitted.

INVESTMENT POLICY

The Company seeks to achieve its objective and to manage risk by investing in a diversified portfolio of quoted UK small companies. At the time of initial investment, a potential investee company must be profitable and no bigger than the largest constituent of the NSCI, which represents the smallest 10% of the UK Stock Market by value. At the start of 2021, this was any company below £1.50 billion in size.

In order to manage risk, the Manager limits any one holding to a maximum of 4% of the Company's investments at the time of initial investment. The portfolio weighting of each investment is closely monitored to reflect the underlying liquidity of the particular company. The Company's AIM exposure is also closely monitored by the Board and is limited to 40% of total investments at the time of investment, with Board approval required for exposure above 35%.

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

The AIFM, in consultation with the Board, is responsible for determining the gearing levels of the Company and has determined that the Company's borrowings should be limited to a maximum of 25% of shareholders' funds. Gearing is used to enhance returns when the timing is considered appropriate.

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.

All material changes to the policy will require shareholder and FCA approval.

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.

PRINCIPAL AND EMERGING RISKS

The Board carefully considers the Company's principal and emerging risks and seeks to mitigate these risks through regular review, policy setting, compliance with and enforcement of contractual obligations and active communication with the Manager, the Administrator and other third party service providers. A core element of this process is the Company's risk register which identifies the Company's key risks, the likelihood and potential impact of each risk and the controls for mitigation.

The Board has 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.

A summary of the Company's risk management and internal control processes can be found in the Corporate Governance Statement on pages 27 and 28. Details of the principal and emerging risks and how these are mitigated are set out below. The principal financial risks are summarised in Note 15 to the financial statements.

Principal Risks	Mitigation

Liquidity and Discount Management:
The Company's share price performance lags NAV due to poor performance, or because "Quality Growth" investment style or SmallCap are out of favour.
 	
The Company may be at risk from arbitrageurs or a sale from a sizeable shareholder.
 	
Decreased risk due to the discount narrowing considerably during the year.
	The Board regularly reviews:
	• *the relative level of discount against the sector;*
	• *investment performance*
	  – *relative to the competition; and*
	  – *the benchmark;*
	• *the underlying liquidity of the portfolio; and*
	• *the share register.*
	
	The Company may buy back shares when it considers it to be in shareholders' best interests.
	
	The dividend policy was amended in July 2018 with the intention of attracting new investors and reducing the discount, since when the discount has narrowed considerably.

Principal Risks	**Mitigation**
Poor Investment Performance: Returns achieved are reliant primarily on the performance of the portfolio. Underperformance relative to the benchmark and/or peer group may result in a loss of capital together with dissatisfied shareholders. *Increased during the year due to under performance relative to the benchmark.*	*To manage the risk, a review is undertaken at each Board meeting with the Manager of portfolio performance against the benchmark and the peer group.* *The Board will seek:* • *to understand the reasons for any underperformance; and* • *comfort over the consistency of investment approach and style.* *Ultimately, the Board can terminate the Investment Management Agreement if unsatisfactory performance is considered irreversible and the causes cannot be rectified.* *The Company's shares have underperformed relative to the benchmark during the year, due to value shares outperforming growth shares, with Montanaro being a growth manager. The Board is satisfied and accepts the reasons for this underperformance. Despite this, the discount has narrowed considerably during the year.*
Risk Oversight: The Manager is taking too much risk in the portfolio leading to unacceptable volatility in performance or excessive portfolio turnover. *No material change in overall risk in year.*	*Risk oversight is primarily the responsibility of the AIFM, but the Board provides additional oversight through portfolio reviews at each Board meeting. Portfolio turnover is also reviewed at each Board meeting.*
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 AIFM, in consultation with the Board, is responsible for determining the gearing levels of the Company, which is monitored at each Board meeting.*
Key Man Risk: A change in the key investment management personnel involved in the management of the portfolio could impact on future investment performance and lead to loss of investor confidence. *No change in overall risk in year.*	*The Manager operates a team approach in the management of the portfolio which mitigates against the impact of the departure of any one member of the investment team.* *There is an identified lead manager within Montanaro offering continuity of communication with the Company's shareholders. The Board is in regular contact with Montanaro and its designated Manager and will be asked for their approval to any proposed change in the lead manager.* *During the year, the Manager has nominated a designated back-up fund manager.*

Business Model and Strategy continued

Principal Risks	Mitigation
Operational Risk: The Company has no employees, in common with most other investment trusts, and relies on services provided by third parties. It is therefore dependent on the control systems of the AIFM, depositary, custodian and administrator who maintain the Company's assets, dealing procedures and accounting records. Key operational risks include: • transactions not subject to best execution; • counterparty risk; • errors in settlement, title and corporate actions; • misstatement of NAV; and • breach of the Investment Policy. *No change in overall risk in year.*	*The Board monitors operational issues and reviews them in detail at each Board meeting.* *All third party service providers are subject to annual review by the Audit and Management Engagement Committee as part of which their internal control reports are reviewed.* *The Company's assets are subject to a liability regime. Unless the Depositary is able to demonstrate that any loss of financial assets held in custody was the consequence of an event beyond its reasonable control, it must return assets of an identical type or the corresponding amount.* *Business continuity plans at all service providers have been implemented in light of the Covid-19 pandemic 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.*
Cyber Risk: 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. *No change in overall risk in year.*	*The Board monitors the preparedness of its service providers and is satisfied that the risk is given due priority and consideration in Board meetings.* *The AIFM provides a report to the Board at each meeting that includes cyber risk. The Company benefits from the network and information technology controls of the Manager around the security of data.*
Breach of Regulations: The Company must comply with the provisions of the Companies Act 2006, the Listing Rules and Disclosure, Guidance & Transparency Rules, the UK Market Abuse Regulation and the Alternative Investment Fund Manager's Directive. Any serious breach could result in the Company and/or the Directors being fined or the subject of criminal proceedings. The Company has been accepted by HM Revenue & Customs as an investment trust, subject to continuing to meet the relevant eligibility conditions and operates as an investment trust in accordance with the Corporation Tax Act 2010. As such, the Company is exempt from capital gains tax on profits realised from the sale of investments. Any breach of the relevant eligibility conditions could lead to the loss of investment trust status. *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.* *Compliance with the accounting rules affecting MUSCIT is closely monitored.* *During the year under review, 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 (MiFID II).*
Financial: The Company's investment activities expose it to a variety of financial risks that include interest rate and liquidity risk. Events such as global pandemics could affect the level of share prices. *No change in overall risk in year.*	*The liquidity of the portfolio is monitored by the Manager and reported to the Board, and market conditions and their impacts are considered.* *Further details on liquidity risk and interest rate risk are disclosed in note 15 to the financial statements.*
Environmental, Social and Governance: A consideration of ESG factors when undertaking an investment has become increasingly important in recent years. Climate change in particular has started to have a major impact on the performance of different sectors of the stock market and there is a risk of being invested in the wrong sectors. *New risk during the year.*	*ESG considerations are fully embedded in the investment process and the Manager will aim to avoid investing in certain sectors. The Manager is a B Corporation which recognises its high ESG standards.*

KEY PERFORMANCE INDICATORS ("KPIs")

At each Board meeting, the Directors review performance by reference to a number of KPIs. The KPIs considered most relevant are those that demonstrate the Company's success in achieving its objectives.

The principal KPIs used to measure the progress and performance of the Company are set out below:

Performance to 31 March	% 2021[1]	2020[1]
NAV per share total return[2]	**35.8**	(8.5)
Share price total return[2]	**50.0**	(0.3)
Relative NAV[3] per share performance vs benchmark	**(29.8)**	17.4
Discount to NAV[2,3,4]	**2.4**	11.2
Ongoing charges ratio[2]	**0.82**	0.81

[1] Returns for both 2020 and 2021 are Total Returns, i.e. including dividends reinvested.

[2] Alternative performance measures. Please see pages 60 and 61 for further information.

[3] London Stock Exchange closing price.

[4] The percentage difference between the share price and the NAV.

Performance

At each meeting, the Board reviews the performance of the portfolio as well as the NAV and share price. Performance is reviewed against the benchmark and compared with the performance of other companies in the peer group. Information on the Company's performance is given in the Highlights on page 1.

Share price discount or premium to NAV

The Board monitors the level of the Company's premium or discount to NAV on an ongoing basis. The share price discount to NAV as at 31 March 2021 was 2.4%. During the year, the shares traded at an average discount to NAV of 9%.

Further details setting out how the discount or premium at which the Company's shares trade is calculated is provided in the Alternative Performance Measures on page pages 60 and 61.

Ongoing charges ratio

The Board reviews the ongoing charges and monitors the expenses incurred by the Company on an ongoing basis. Full details of how the ongoing charges ratio is calculated is included in the Alternative Performance Measures on page 60.

VIABILITY STATEMENT

In accordance with the AIC Code of Governance, the Directors have assessed the prospects of the Company over a period longer than the twelve months required by the 'Going Concern' provision and reviewed the viability of the Company and its future prospects over the five-year period to 31 March 2026.

In the absence of any adverse change to the regulatory environment and to the treatment of UK investment trusts, the rolling five-year period was determined by the Directors to:

- represent the horizon over which they do not expect there to be any significant change to the Company's principal risks or their mitigation; and
- the period over which they can form a reasonable expectation of the Company's prospects.

In its assessment, the Board took into account the Company's current financial position, its ability to meet liabilities as they fall due and the principal risks as set out on pages 10 to 12. In reviewing the financial position, the following factors were taken into consideration:

- the portfolio is comprised solely of cash balances and equity securities listed or traded on the London Stock Exchange;
- analysis suggests the current portfolio could be liquidated to the extent of 66% within five trading days and there is no expectation that the nature of the investments held within the portfolio will be materially different in future;
- future revenue and expenditure projections:
  - the expenses and interest payments of the Company are predictable and relatively small; and
  - there are no expected capital outlays.

In addition to considering the Company's principal risks and the financial position of the Company as referenced above, the Directors also took account of the following assumptions in considering the Company's longer-term viability:

- the Board and the Manager will continue to adopt a long-term view when making investments;
- it is reasonable to believe that the Company will maintain the credit facilities currently provided by ING Bank, and that even if it didn't, the Company has sufficient liquidity to repay the facilities if required;
- the Company invests principally in the securities of quoted UK small companies to which investors will wish to continue to have exposure;
- the Company has a large margin of safety over the covenants on its debt;
- there will continue to be demand for investment trusts;
- that resolution 12 at this year's AGM, that the Directors be released from the obligation to convene a General Meeting during 2022 for the purpose of providing for the Company to be wound-up on a voluntary basis as stated in the Company's Articles of Association, is passed;
- regulation will not increase to a level that makes the running of the Company uneconomic; and
- the performance of the Company will be satisfactory.

Business Model and Strategy continued

Since the global outbreak of COVID-19 in 2020, all necessary actions have been undertaken to preserve the financial condition of the Company and to ensure that it is able to operate effectively. Since 18 March 2020, the majority of the Manager's employees have been working from home in accordance with government requirements. The Company has successfully continued to manage its portfolios and the associated administration. Despite continued market volatility, the Board considers that the Company's available resources are more than sufficient to ensure its continuing viability.

Based on the results of their analysis and in the context of the consideration given to the Company's business model, strategy and operational arrangements, 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 five-year period of the assessment.

FUTURE PROSPECTS

The Board's main focus is the achievement of capital appreciation and outperformance of the benchmark. The future of the Company is dependent upon the success of the Company's investment strategy. The Company's outlook is discussed in the Chairman's Statement on page 3 and the Manager's Report on page 6.

MODERN SLAVERY ACT 2015

As an investment trust, the Company does not provide goods or services in the normal course of business and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

DIVERSITY AND INCLUSION

As at 31 March 2021, the Board of Directors comprised two male and two female non-executive Directors. 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 as mentioned above has 50% 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 therefore continues to consider that it would be inappropriate to set a target and will always appoint the best person for the job based on merit, and will not discriminate on the grounds of gender, race, ethnicity, religion, sexual orientation, age, physical ability or social background. The right blend of perspective is critical to ensuring an effective Board and successful company.

EMPLOYEES, HUMAN RIGHTS AND COMMUNITY ISSUES

The Board recognises the requirement under section 414C of the Companies Act 2006 to provide information about employees, human rights and community issues, including information in respect of any of its policies in relation to these matters and their effectiveness. These requirements do not apply to the Company as it has no employees, all of the Directors are non-executive and it has outsourced all of its functions to third-party providers. The Company has not, therefore, reported further in respect of these provisions.

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 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 on the consequences of 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. 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 and defined 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, a long-term perspective, maintaining a 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 brought to the Board's attention by the Company Secretary and taken into account at every Board meeting. A paper reminding Directors of that 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 cash flow projections based on various scenarios, which include assumptions around the Company's contractual commitments, availability of funding, borrowing, as well as the wider economic conditions and market performance.

During the year, the Chairman offered to meet with the Company's largest shareholders on a one-on-one basis and shareholders also regularly have the chance to engage with the Manager.

COMMUNITY AND ENVIRONMENT

The Board recognises that the Company has certain responsibilities to its shareholders, stakeholders and wider society. While 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. ESG 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, alcohol and high interest rate lending. Similarly, the Manager does not invest in companies that conduct animal testing, unless it is required by law for healthcare purposes.

The Manager is a signatory to the Principles for Responsible Investment, the UK Stewardship Code, the Carbon Disclosure Project, the LGPS Code of Transparency and in 2009 became a signatory to the UN Principles for Responsible Investment. 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.

The Board monitors investment activity to ensure that it is compatible with the policy and receives periodic updates from the Manager on its initiatives and performance against its ESG goals.

BUSINESS CONDUCT

The Matters Reserved for the Board, Board committees' terms of reference, the Share Dealing Code and other 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 and Management Engagement Committee, which can be found on pages 29 to 31 of this Report, further explains how the Committee reviews the risk management and internal controls of the Company. This includes 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 Important	Board Engagement
Shareholders	Continued shareholder support and engagement are critical to the existence of the business and the delivery of the long-term strategy of the business.	The Company has a large and diversified shareholder base. 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: • **Annual General Meeting** – Under normal circumstances the Company welcomes attendance from shareholders at its Annual General Meeting. With the exception of 2020, the Manager always delivers a presentation and all shareholders have an opportunity to meet the Directors and ask questions. The presentation is also made available on the Company's website. 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; • **Investor Relations updates** – The Manager's marketing team meet and speak to shareholders on a regular basis. 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. • During the year, the Chairman wrote to our largest shareholders to offer them meetings with himself on a one-on-one basis.
SERVICE PROVIDERS:		
The Manager and AIFM	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; and • 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.
Other service providers, including: the Company Secretary, the Administrator, the Registrar, the Depositary, the Custodian and the Broker	In order to function as an investment trust with a premium listing on the London Stock Exchange, the Company relies on 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 would expect to meet with all service providers on a regular basis and the Audit and Management Engagement Committee assesses their performance on an annual basis.

Stakeholders	Why They Are Important	Board Engagement
Bank	Availability of funding and liquidity may be helpful to the Company's ability to take advantage of investment opportunities as they arise.	Considering how important the availability of funding is, 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 advisers	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 shareholder 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. The Company is also 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 15.

PRINCIPAL DECISIONS DURING THE YEAR ENDED 31 MARCH 2021

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 undertake a review of the Company's investment policy	Ensuring there is a clear strategic direction for the Company is key to its long-term ability to deliver compelling returns to shareholders. The Board undertook a review of its investment policy during the year and this review validated the current investment model and its likely ability to continue to deliver returns to shareholders.
To make new appointments to the Board	During the year, the Board was pleased to appoint Mrs Powley as a non-executive director. She brings significant investment trust experience to the Board. Continuing to develop and evolve the Board so that it contains an appropriate mix of skills, diversity and experience is important to promote the long-term success of the Company.

The Chairman's Statement on pages 2 and 3, the Manager's Report on pages 4 to 6 and the portfolio analysis on pages 7 to 9 all form part of this Strategic Report, which has been approved by the Board of Directors.

On behalf of the Board

ARTHUR COPPLE
Chairman
14 June 2021

Board of Directors

MUSCIT has a highly experienced Board of Directors with extensive knowledge of investment management and investment trusts.

Arthur Copple – Chairman of the Board and Chairman of the Nomination and Remuneration Committee*

Date of Appointment: 1 March 2017

Arthur was appointed to the Board as an independent non-executive director in 2017 and succeeded Roger Cuming as Chairman on 25 July 2019. Arthur has specialised in the investment company sector for over 30 years. He was a partner at Kitcat & Aitken, an executive director of Smith New Court PLC and a managing director of Merrill Lynch. He is also non-executive chairman of Temple Bar Investment Trust plc.

Relevant skills and experience and reasons for re-election: Arthur 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 Arthur continues to be an effective member of the Board.

* Mrs. Powley was appointed Chair of the Nomination and Remuneration Committee as of 21/04/2021

James Robinson – Senior Independent Director and Chairman of the Audit and Management Engagement Committee

Date of Appointment: 30 September 2013

James is a non-executive Director of JPMorgan Elect plc and a Governor of Lord Wandsworth College. A chartered accountant, he was previously chief investment officer (investment trusts) and director of hedge funds at Henderson Global Investors and a non-executive director of Aberdeen New Thai Investment Trust plc, Invesco Asia Trust plc and Fidelity European Values plc. He was also formerly Chairman of Polar Capital Global Healthcare Trust plc and the investment committee of the British Heart Foundation.

Relevant skills and experience and reasons for re-election: James' experience as a chartered accountant brings valuable financial and risk management skills to the Board, which enables him to assess the financial position of the Company and to lead discussions regarding the Company's risk appetite. His experience helps inform his role as Chairman of the Audit and Management Engagement Committee. Additionally, he gained significant experience of investment trusts through his role as chief investment officer, investment trusts at Henderson Global Investors. Following a rigorous Board evaluation process, the Board agreed that James continues to be an effective member of the Board.

Catriona Hoare – Non-Executive Director
Date of Appointment: 19 November 2019

Catriona joined Veritas Investment Partners Limited in 2013. In her current role as an Investment Partner, she manages client portfolios and sits on the firm's research and investment governance committees. Catriona started her career at Newton Investment Management where she managed a number of portfolios and private family unit trusts, with a particular focus on international clients. She is a Governor of Southmead Primary School, a CFA Charterholder, a member of the Chartered Institute For Securities and Investment and holds a BA (Hons) in History from the University of Bristol.

Relevant skills and experience and reasons for election: Catriona's experience as an investment partner at Veritas Investment Partners Limited brings valuable investment and portfolio analysis skills to the Board, which enables her to assess and challenge the Manager on Company strategy and performance. Following a rigorous Board evaluation process, the Board agreed that Catriona continues to be an effective member of the Board.

Barbara Powley – Non-Executive Director*
Date of Appointment: 18 November 2020

Barbara is a non-executive director of M&G Credit Income Investment Trust plc. She is a chartered accountant with over 30 years' experience in the investment trust industry. Prior to her retirement in March 2018, she was a director in BlackRock's closed end funds team from 2005, with responsibility for the oversight and administration of BlackRock's stable of investment trusts. From 1996 to 2005, she held a similar role at Fidelity.

Relevant skills and experience and reasons for election: Barbara has extensive experience within the investment trust sector, along with significant financial and accounting experience. Her diverse skill-set facilitates open discussion and allows for constructive challenge in the boardroom. Barbara was appointed to the Board in November 2020 and is therefore seeking election from shareholders for the first time.

* Mrs. Powley was appointed Chair of the Nomination and Remuneration Committee as of 21/04/2021

Directors' Report

The Directors present the Annual Report and Accounts of the Company for the year ended 31 March 2021.

The outlook for the Company is set out in the Chairman's Statement on page 3. Principal and emerging risks can be found on pages 10 to 12, with further information on risk management objectives in note 15 to the accounts.

STATUS OF THE COMPANY

The Company was incorporated in England and Wales in 1994 under registered number 3004101 and is domiciled in the United Kingdom and registered as an investment company as defined in section 833 of the Companies Act 2006.

The Company has been approved by HMRC as an investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010, subject to continuing to meet eligibility requirements. The Directors are of the opinion that the Company has conducted its affairs in a manner compliant with the conditions for continued approval and intends to continue to do so. As an investment company that is managed and marketed in the United Kingdom, the Company is an Alternative Investment Fund ("AIF") falling within the scope of, and subject to, the requirements of the Alternative Investment Fund Managers Directive ("AIFMD"). Further details are provided in the AIFMD Disclosures on page 57.

The Company's shares are eligible for inclusion in the stocks and shares component of an Individual Savings Account ("ISA").

RESULTS AND DIVIDENDS

The results for the Company are set out in the Income Statement on page 43.

Details of dividends paid and declared in respect of the year, together with the Company's dividend policy, are set out in the Chairman's Statement on page 2 of the report.

CONTINUATION OF THE COMPANY

The Company's Articles of Association (the "Articles") provide that shareholders should have the opportunity to consider the future of the Company at regular intervals.

The next general meeting for the purpose of considering a voluntary winding up of the Company must be held on or before 16 July 2022, being a period of not more than five years since the Directors were last released from the obligation to convene a general meeting. However, an ordinary resolution may be passed to release the Directors from the obligation to convene the general meeting and this meeting must be held not more than eighteen months before 16 July 2022. The Board is therefore proposing a resolution at the forthcoming AGM which will release the Directors from the obligation to convene a General Meeting during 2022, and further details of this resolution can be found on pages 23 and 66.

GOING CONCERN

The financial statements of the Company have been prepared on a going concern basis. After reviewing the Company's forecast projections and actual performance on a regular basis throughout the year and, particularly in light of the ongoing economic disruption caused by the COVID-19 pandemic, the Directors believe that this is the appropriate basis. The Directors consider that the Company has adequate resources to continue in existence for the foreseeable future, being a period of at least 12 months from the date the financial statements were approved. In reaching this conclusion, the Directors had particular regard to the Company's ability to meet its obligations as they fall due and the liquidity of the portfolio. The Company is also able to meet all of its liabilities from its assets and the ongoing charges are approximately 0.82% per annum. The Manager is currently in discussion with several providers to secure new borrowing facilities upon expiry of the current facilities on 19 December 2021. The Manager does not anticipate any issues in securing new facilities on attractive terms.

The Company's Articles of Association ("Articles") contain a requirement for shareholders to vote on the continuation of the Company at regular intervals. At the Company's AGM held on 17 July 2017, shareholders voted to remove the obligation to convene a General Meeting during 2018 for the purpose of voluntarily winding up the Company. The Board is proposing Resolution 12, at the next AGM to remove the obligation to convene a General Meeting during 2022 for the purpose of providing for the Company to be wound-up on a voluntary basis as stated in the Articles of Association.

The Company's longer-term viability is considered in the Viability Statement on pages 13 and 14.

CAPITAL STRUCTURE

The Company's ordinary issued share capital consists of 167,379,790 ordinary shares. There are no shares held in treasury. The Ordinary shares carry the right to receive dividends and have one voting right per Ordinary share.

There are no restrictions concerning the transfer of securities; no special rights with regard to control attached to securities; no restrictions on voting rights; no agreements between holders of securities regarding their transfer known to the Company; and no agreements to which the Company is a party which might change or fall away on a change of control or trigger any compensatory payments for Directors following a successful takeover bid.

The Company may cancel or hold Ordinary shares acquired by way of market purchases in treasury. It is the Board's intention that any shares bought back by the Company will be held in treasury and 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. Any treasury shares re-issued must also be at an absolute profit.

The Directors will only consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between supply and demand for the Company's shares.

The Company's current authorities to buy back and sell shares from treasury and issue shares will expire at the conclusion of the 2021 Annual General Meeting. The Directors are proposing that these authorities be renewed at the forthcoming Annual General Meeting.

Any decisions regarding placing shares into treasury, or selling shares from treasury, will be taken by the Directors. No shares were held in treasury, bought back, sold from treasury or issued during the financial year or during the period from 31 March 2021 to the date of this report.

DIRECTORS

The biographical details of the Directors in office at the date of this report are provided on pages 18 and 19 and their interests in the shares of the Company are shown on page 34. All Directors are independent and non-executive. Mrs Powley was appointed as a Director on 18 November 2020 following a rigorous selection process.

The Directors may exercise all powers within their scope to manage the business of the Company subject to the provisions of the Articles of Association and the Companies Act 2006. These powers may be delegated to a Director, committee or a third party.

In accordance with the policy adopted by the Board, all Directors should submit themselves for re-election at each Annual General Meeting. Accordingly, Mr Copple, Mr Robinson and Ms Hoare will stand for re-election at the 2021 AGM and Mrs Powley will be seeking election for the first time.

As set out on page 26, following a performance review, the Board believes that it is in the best interests of shareholders that each Director continues in their roles and believes that it would be in the Company's best interests for each of them to be proposed for election, or re-election, at the forthcoming AGM given their material level of contribution, commitment to the role and for the reasons set out on pages 18 and 19.

The rules relating to the appointment and removal of Directors are set out in the Companies Act 2006 and the Company's Articles of Association.

DIRECTOR INDEMNIFICATION AND INSURANCE

In addition to Directors' and Officers' liability insurance cover, the Company's Articles of Association provide, subject to the provisions of applicable UK legislation, an indemnity for Directors.

CONFLICTS OF INTEREST

The Board has approved a procedure for identifying, reporting and addressing conflicts of interest, or potential conflicts, and will regularly review actual or potential conflicts. The Directors are aware that there remains a continuing obligation to notify the Company Secretary of any new conflict that may arise, or any change to a previously notified conflict.

The Board considers that the procedure has worked effectively during the year under review and intends to continue to review all notified conflicts on a regular basis.

DISCLOSURE OF INTERESTS

No Director was a party to, or had an interest in, any contract or arrangement with the Company. All of the Directors are non-executive and no Director had a contract of services with the Company at any time during the year.

SUBSTANTIAL SHAREHOLDINGS

At 31 March 2021 the Company had been informed of the following notifiable interests in its voting rights:

Beneficial owner	Ordinary shares	% of voting rights
Rathbone Investment Management Limited	16,736,892	9.9
Border to Coast Pensions Partnership	14,892,000	8.9
Derbyshire County Council	13,174,285	7.9
Lazard Asset Management LLC	9,181,888	5.4
Charles Stanley Group plc	8,382,647	5.0
Montanaro Asset Management Limited	8,375,000	5.0
Quilter Cheviot Limited	8,356,150	5.0
Newton Investment Management Limited	8,307,825	5.0
Brooks Macdonald Asset Management Limited	8,363,585	5.0
1607 Capital Partners LLC	7,899,099	4.7
Jupiter Asset Management Limited	7,825,000	4.7
Royal London Asset Management Limited	6,752,830	4.0
City of Bradford Metropolitan District Council	6,142,500	3.7

Since 31 March 2021, and as at 14 June 2021, being the latest practicable date prior to the publication of this annual report, the Company has received the following notifiable interests in its voting rights:

Beneficial owner	Ordinary shares	% of voting rights
Rathbone Investment Management Limited	16,701,567	9.97

Directors' Report continued

INVESTMENT MANAGEMENT AGREEMENT (THE "AGREEMENT")

The Board contractually delegated the management of the investment portfolio to Montanaro under an Investment Management Agreement dated 19 June 2014. The fees payable to the Manager are set out in Note 3 to the accounts. Except in certain circumstances, the Agreement may only be terminated by the Manager on giving 12 months' notice in writing to the Company. The Company shall be entitled to terminate the Agreement by notice in writing to the Manager forthwith, or as at the date specified in such notice.

On receiving such notice, the Manager will be entitled to a termination fee of 1% of the gross assets of the Company at the close of business on the last day of the calendar month immediately preceding the effective date of termination of the Agreement.

CONTINUING APPOINTMENT OF THE MANAGER

The Board considers arrangements for the provision of investment management and other services to the Company on an ongoing basis. A formal annual review is conducted by the Audit and Management Engagement Committee of all the Company's service providers, including the Manager.

During the year, the Board considered the performance of Montanaro as AIFM and Manager by reference to the investment process, portfolio performance and how it had fulfilled its obligations under the terms of the Investment Management Agreement.

In the opinion of the Board, the continuing appointment of Montanaro as Manager and AIFM, on the terms referenced above, is in shareholders' interests 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.

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

In order to comply with the Alternative Investment Fund Managers Directive ("AIFMD"), the Company entered into a Management Agreement with Montanaro dated 19 June 2014 under which the Manager was appointed by the Company to act as the AIFM. Montanaro receives an ongoing Fee of £50,000 per annum to act as the Company's AIFM.

The AIFMD requires certain information to be made available to investors in AIFs before they invest. An Investor Disclosure Document, which sets out this information, is available on the Company's website. There have been no material changes (other than those reflected in this Annual Report) to the information requiring disclosure.

DEPOSITARY AND CUSTODIAN

The Company is required under the AIFMD to appoint an AIFMD compliant Depositary. The main role of the Depositary is to act as a central custodian with additional duties to monitor the operations of the Company, including its cash flows, and ensuring that the Company's assets are valued in accordance with the relevant regulations and guidance. The Depositary is also responsible for enquiring into the conduct of the AIFM in each annual accounting period.

BNY Mellon Trust & Depositary (UK) Limited ("BNYMTD") was appointed as the Depositary with effect from 22 July 2014. However, with effect from 1 November 2017, the role of Depositary was transferred, by way of a novation agreement, from BNYMTD to its parent company, The Bank of New York Mellon (International) Limited ("BNYM" or the "Depositary"). The annual fee for depositary services is 0.024% per annum where gross assets are between £0 and £150 million, and 0.015% per annum of gross assets above a value of £150 million, subject to a minimum fee of £20,000 per annum.

The Depositary Agreement is subject to 90 days' written notice. The Depositary's responsibilities include cash monitoring, segregation and safekeeping of the Company's assets and monitoring the Company's compliance with investment limits and leverage requirements. Under the depositary agreement, the Depositary has delegated the custodian function to The Bank of New York Mellon SA/NV.

ADMINISTRATOR

Link Alternative Fund Administrators Limited has been appointed as Administrator to the Company since November 2011. The Administrator receives an annual fee of £72,000. The agreement may be terminated by either party by giving not less than six months' prior written notice.

COMPANY SECRETARY

Link Company Matters Limited has been appointed as Company Secretary since October 2019, and receives an annual fee of £55,000, which is subject to annual RPI increases. The agreement may be terminated by either party by giving not less than six months' prior written notice.

REGISTRAR

Link Market Services Limited has been appointed as the Company's registrar since November 2003, and is entitled to a fee calculated on the number of shareholders and the number of transfers processed. The Registry Services Agreement may be terminated on not less than six months' notice. The Registrar is also entitled to reimbursement of all disbursements and out of pocket expenses.

CHANGE OF CONTROL

There are no agreements to which the Company is a party that might be affected by a change in control of the Company.

CORPORATE GOVERNANCE

The Corporate Governance Statement, which forms part of this Directors' Report, is set out on pages 25 to 28.

FUTURE DEVELOPMENTS OF THE COMPANY

The outlook for the Company is set out in the Chairman's Statement on page 3 and the Manager's Report on page 6.

GLOBAL 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. Information on our Manager's net zero carbon status and sustainability can be found at: https://montanaro.co.uk/sustainability-at-montanaro/

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 9.8.4

Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the Annual Report or a table cross referencing where the information is set out. With the exception of the item below, no disclosures are required in relation to Listing Rule 9.8.4.

LR 9.8.4 (5) Under the Company's Remuneration Policy, the SID is entitled to an additional fee of £1,000. However, Mr Robinson has waived his entitlement to the additional £1,000. This decision will be kept under review and the Remuneration Policy still allows the flexibility of this additional fee to be paid to the SID.

ARTICLES OF ASSOCIATION

Any amendments to the Company's Articles of Association must be made by special resolution.

ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting ("AGM") to be held on 12 August 2021 (the "Notice") is set out on pages 63 to 72.

Resolutions 1 to 12 will be proposed as Ordinary Resolutions and Resolutions 13 to 15 will be proposed as Special Resolutions.

Authority to Allot Shares (Resolution 11)

The Directors may only allot shares for cash if authorised to do so by shareholders in a general meeting. This resolution seeks to renew the authority of the Directors to allot Ordinary shares for cash up to an aggregate nominal amount of £334,759 which represents approximately 10% of the Company's issued Ordinary share capital (excluding any treasury shares) as at 14 June 2021.

The Directors will use this authority when it is in the best interests of the Company to issue Ordinary shares for cash. This authority will expire at the conclusion of the AGM to be held in 2022 unless renewed prior to that date.

Continuation Vote (Resolution 12)

Resolution 12, if passed, will release the Directors from the obligation to convene a General Meeting during 2022 for the purpose of providing for the Company to be wound-up on a voluntary basis as stated in the Company's Articles of Association. It will also allow the Company to continue as an investment trust for a further five years. Further information about the duration of the Company is set out on page 20.

Disapplication of Pre-emption Rights: (Resolution 13)

The Directors are required by law to seek specific authority from shareholders before allotting new shares or selling shares out of treasury for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 13 authorises the Directors to allot new ordinary shares for cash or to sell shares held by the Company in treasury, otherwise than to existing shareholders on a pro rata basis, up to an aggregate nominal amount of £334,759 which is equivalent to 16,737,979 Ordinary shares and represents approximately 10% of the Company's issued ordinary share capital as at 14 June 2021. This authority will expire at the conclusion of the AGM to be held in 2022 unless renewed prior to that date.

Authority to Buy Back Shares (Resolution 14)

The resolution to be proposed will seek to renew the authority granted to Directors enabling the Company to purchase its own shares.

The Directors are seeking authority to purchase up to 25,090,230 Ordinary shares or, otherwise if less, 14.99% of the number of shares in issue immediately following the passing of this resolution.

This authority will expire at the conclusion of the AGM to be held in 2022 unless renewed prior to that date.

Any Ordinary shares purchased may be cancelled immediately upon completion of the purchase or held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Companies Act 2006.

Directors' Report continued

Adoption of New Articles of Association (Resolution 15)

Resolution 15 proposes to adopt a new set of Articles of Association of the Company.

The Board's aim in introducing the new Articles of Association is to the bring the Articles of Association in line with recent market practice and, amongst other changes, to cater specifically for shareholder attendance and participation in general meetings by electronic means, particularly in light of the COVID-19 pandemic.

Key proposed changes to the Articles of Association are set out in the Appendix to the Notice of Annual General Meeting on pages 71 to 72. In addition, the proposed new Articles of Association (and a comparison against the existing Articles of Association) will be available for inspection on the Company's website at www.montanaro.co.uk/trust/muscit from the date of this Annual Report until the conclusion of the AGM.

The proposed new Articles of Association (and comparison against the existing Articles of Association) may also be obtained from 53 Threadneedle Street, London EC2R 8AR (being the location of the AGM) from the date of this Annual Report until the conclusion of the AGM (including, for the avoidance of doubt, from 11.45 am on the day of the AGM until the conclusion of the AGM). Shareholders are advised that any inspection at 53 Threadneedle Street, London EC2R 8AR will be subject to the social distancing guidelines which may be in effect at the time, and as such, shareholders are requested to provide prior notice of a request to inspect the documents at this location, to the Company Secretary beforehand by emailing MUSCIT_CoSec@linkgroup.co.uk.

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, as they intend to do in respect of their own holdings.

INDEPENDENT AUDITOR

BDO LLP ("BDO") has confirmed its willingness to continue in office as the Auditor of the Company ("the Auditor"). A resolution to re-appoint BDO as the Auditor to the Company and to authorise the Audit and Management Engagement Committee to determine the Auditor's remuneration will be proposed to the forthcoming Annual General Meeting.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

For and on behalf of the Board

LINK COMPANY MATTERS LIMITED
Company Secretary
14 June 2021

Corporate Governance Statement

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

STATEMENT OF COMPLIANCE

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.

During the year, the Company has complied with all of the Principles and Provisions of the AIC Code.

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

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.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Company holds at least four Board meetings each year at which the Directors review portfolio investments and all other important issues in relation to the Company's affairs. The following table sets out the number of scheduled Board and Committee meetings held during the year ended 31 March 2021 and the number of meetings attended by each Director.

	Board		Audit and Management Engagement		Nomination and Remuneration	
	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended
Arthur Copple	5	5	3	3	1	1
James Robinson	5	5	3	3	1	1
Catriona Hoare	5	5	3	3	1	1
Barbara Powley*	2	2	1	1	–	–

* Appointed on 18 November 2020.

In addition to the above meetings, the Board and Nomination Committee also met on an ad-hoc basis to discuss the appointment of Mrs Powley and all Directors who were eligible to attend did so.

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

THE BOARD

The Board currently consists of four non-executive Directors.

As Chairman, Arthur Copple is responsible for leading the Board and ensuring its effectiveness in all aspects of its role. In line with the requirements of the AIC Code, the responsibilities of the Chairman and the Senior Independent Director (SID) have been agreed on by the Board and are available to view on the Company's website: www.montanaro.co.uk/trust/muscit

The Board has formalised the arrangements under which Directors, in the furtherance of their duties, may take independent professional advice. The Company also maintains Directors' and Officers' liability insurance. There were no third party indemnity provisions over the course of the year or since the year end.

Other than their letters of appointment, none of the Directors have a contract of service nor have there been any contracts or arrangements between the Company and any Director at any time during the year. These letters of appointment are available for inspection at the Company's registered office.

The Board has engaged external companies to undertake the Company's investment management, administrative and custodial activities. Clear, documented contractual arrangements are in place between the Company and its service providers that define the areas where the Board has delegated functions to them. Further details of the Investment Management Agreement are given on page 22. A schedule of matters specifically reserved to the Board for its decision has been adopted. These reserved matters include the approval of annual and half-yearly accounts, the recommendation of dividends, the approval of press releases and circulars, Board appointments and removals and the membership of committees. Decisions regarding the capital structure of the Company (including share buy backs and treasury share transactions) are also taken by the Board, while the day-to-day investment of the portfolio is delegated to the Manager.

Corporate Governance Statement continued

PERFORMANCE EVALUATION

The Directors conduct an annual review of the performance of the Board, its Committees and individual Directors. The Board evaluation process aims to provide a valuable feedback mechanism for improving Board effectiveness, maximising strengths and highlighting areas for further development. This process is comprised of a detailed questionnaire assessing the performance and effectiveness of the Board and each of its committees.

Arthur Copple, as Chairman, takes overall responsibility for the evaluation process and has selected a questionnaire methodology to achieve these objectives, which is followed by a feedback session that considers how effective the process has been and identifies any areas for improvement. James Robinson, as the SID, leads the appraisal of the Chairman.

The Board has reviewed the time commitment required from all Directors and, noting their contributions and attendance at all Board and Committee meetings and discussions held outside these formal meetings, believes that all Directors have demonstrated the necessary commitment to the role.

The Board considers that outside commitments have not impinged on their duties as Directors, and have enhanced the knowledge brought to the Board meetings.

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. Following last year's evaluation, in which it was identified that a further review of the Board structure was required, the Board was pleased to appoint Mrs Powley in November 2020. This year's evaluation did not identify any areas of particular concern.

INDEPENDENCE OF DIRECTORS AND TENURE

The Board has considered the independent status of each Director under the AIC Code and has determined that all Directors are 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 Chair of the Board or its Committees. Instead, under normal circumstances, the Board members, including the Chair, will be expected to serve a maximum tenure of 9 years, thus preserving the cumulative valuable experience and understanding of the Company, while benefitting from fresh perspectives and helping to promote diversity.

The Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company where continuity and experience can significantly add to the strength of the Board.

ELECTION/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 Messrs Copple and Robinson, and Ms Hoare have confirmed that they will be standing for re-election at the forthcoming Annual General Meeting. Mrs Powley, having been appointed during the year under review, will be standing for election for the first time.

EXERCISE OF VOTING RIGHTS IN INVESTEE COMPANIES

The exercise of voting rights attached to the Company's portfolio has been delegated to the Manager.

The Board encourages the Manager to give due consideration to environmental, social and governance matters whilst recognising the overall investment policy and objectives of the Company. Montanaro votes against resolutions it considers may damage shareholders' rights or economic interests and gives due weight to what it considers to be socially responsible investments when making investment decisions. However, its overriding objective is to produce good investment returns for shareholders.

During the year, the Manager on behalf of the Company exercised its voting authority as follows:

Meetings	
Number of meetings voted at:	53
Number of meetings voted against management or abstained:	6
Resolutions	
Number of resolutions where voted with management:	727
Number of resolutions where abstained:	4
Number of resolutions where voted against management:	7

BOARD COMMITTEES

The Chairman of each Board Committee fulfils an important leadership role similar to that of the Chairman of the Board, particularly in creating the conditions for overall Committee and individual Director effectiveness.

Audit and Management Engagement Committee

This Committee is comprised of all Directors and is chaired by Mr Robinson, who is a Chartered Accountant. The Board is satisfied that Mr Robinson has recent and relevant financial experience to guide the Committee in its deliberations.

The report from this Committee is set out on pages 29 to 31.

Nomination and Remuneration Committee

The Committee is comprised of all Directors and meets as required for the purpose of considering recruitment to, and removals from, the Board; levels of remuneration paid to the Directors; and reviews the Directors' Remuneration Report and Remuneration Policy. During the year under review, this Committee was chaired by Arthur Copple. However, following the year end, and as part of the feedback from the Committee performance evaluation undertaken during the year, it was agreed that Barbara Powley would take over as Chair of this Committee. Mr Copple remains a member of the Committee. Further details on this year's performance evaluation can be found on page 26.

As disclosed earlier in this report, Mrs Powley was appointed following a rigorous recruitment process. Candidates interviewed were drawn from a number of sources, including well known industry names and personal contacts of the Board. An external recruitment agency was not used in this search. The Committee reviewed Mrs Powley's other commitments as part of the recruitment process.

The Committee considers that the performance of each of the Directors continues to be effective and that they each demonstrate commitment to their role, including commitment of time for Board and Committee meetings and any other duties.

The Company's Diversity and Inclusion policy and the Board's gender balance can be found on page 14.

Each Committee has adopted formal written terms of reference which are available on the Company's website www.montanaro.co.uk/trust/muscit

INTERNAL CONTROL AND FINANCIAL REPORTING

The Board has delegated responsibility to the Audit and Management Engagement Committee for establishing and maintaining the Company's risk management and internal control processes and for monitoring their effectiveness. Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed and by their very nature provide reasonable but not absolute assurance against misstatement or loss. The Directors have reviewed the effectiveness of the system of internal controls, including financial, operational and compliance controls and risk management. The Committee will take actions to remedy any significant failings or weaknesses identified or make recommendations to the Board, as appropriate. The key procedures that have been established to provide effective internal controls are as follows:

- throughout the year under review and up to the date of this Annual Report, there has been an ongoing process for identifying, evaluating and managing the principal risks faced by MUSCIT, which complies with guidance supplied by the FRC on risk management, internal control and related financial and business reporting. This is reviewed on a regular basis by the Audit and Management Engagement Committee, on behalf of the Board. Details of the principal and emerging risks are set out on pages 10 to 12. The process involves reports from MUSCIT's Company Secretary and Manager as described below. In addition, the Audit and Management Engagement Committee receives internal control reports from all the third parties to which the Company delegates functions;
- in accordance with guidance issued to directors of listed companies, the Board has carried out a review of the effectiveness of the Company's risk management and internal control processes. There were no matters arising from this review that required further investigation and no significant failings or weaknesses were identified; and
- a risk register is maintained against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate them. The risk register is reviewed at each meeting of the Audit and Management Engagement Committee, and at other times as necessary.

Given the nature of the Company's activities and the fact that most functions are sub-contracted, the Board has concluded that there is no need for the Company to have an internal audit function. Instead, the Directors obtain information from key third party suppliers regarding the controls operated by them. The key procedures which have been established in relation to this are as follows:

- investment management is provided by Montanaro which is regulated by the FCA. The Board is responsible for setting the overall investment policy and monitors the activity of the Manager at regular Board meetings. Montanaro provides reports at these meetings, which cover investment performance and compliance issues;
- Link Alternative Fund Administrators Limited ("LAFA") is responsible for the provision of administration duties;
- company secretarial duties are undertaken by Link Company Matters Limited;
- depositary services and custody of assets are undertaken by BNY Mellon;
- the duties of investment management, accounting and the custody of assets are segregated;
- the procedures of the individual parties are designed to complement one another;
- the Board clearly defines the duties and responsibilities of its agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after due diligence involving consideration of the quality of the parties involved and the Audit and Management Engagement Committee monitors their ongoing performance and contractual arrangements;

Corporate Governance Statement continued

- mandates for authorisation of investment transactions and expense payments are set by the Board; and
- the Board reviews financial information produced by the Administrator in detail on a regular basis.

DIALOGUE WITH SHAREHOLDERS

Communication with shareholders is given a high priority by both the Board and the Manager. The Directors and Manager are always available to enter into dialogue with shareholders and have a policy of regularly inviting major shareholders to meet the Board and the Manager. Shareholders wishing to communicate directly with the Board should contact the Company Secretary at the registered office or the Manager.

The Annual and Half-Yearly Reports of the Company are prepared by the Board and its advisers to present a fair, balanced and understandable review of the Company's position and performance, business model and strategy.

With the exception of 2020, all shareholders have the opportunity to attend and vote at the AGM during which the Board and Manager are available to discuss issues affecting the Company. The Manager has signed up to the Stewardship Code and publishes its voting records on its website.

PACKAGED RETAIL AND INSURANCE-BASED INVESTMENT PRODUCTS ("PRIIPS") REGULATION ("THE REGULATION")

Shares issued by investment trusts fall within the scope of the European Union's PRIIPs Regulation. Investors should be aware that the PRIIPs Regulation requires the AIFM, as PRIIPs manufacturer, to prepare a key information document ("KID") in respect of the Company. This KID must be made available, free of charge, to EEA retail investors prior to them making any investment decision.

The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed. The PRIIPs KID in respect of the Company can be found at: www.montanaro.co.uk/trust/muscit

BRIBERY PREVENTION POLICY

The Board takes its responsibility to prevent bribery very seriously and has a zero tolerance policy towards bribery and has committed to carry out business fairly, honestly and openly.

The Manager has high level, proportionate and risk-based anti-bribery policies and procedures in place which are periodically reviewed by the Board.

CRIMINAL FINANCES ACT 2017

The Company has a commitment to zero tolerance towards the criminal facilitation of tax evasion.

For and on behalf of the Board
ARTHUR COPPLE
Chairman
14 June 2021

Report from the Audit and Management Engagement Committee

As Chairman of the Audit and Management Engagement Committee (the "Committee"), I am pleased to present its Report to shareholders for the year ended 31 March 2021.

COMPOSITION OF THE COMMITTEE

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

ROLE OF THE COMMITTEE

The primary responsibilities of the Committee are to:

- monitor the process for the production and integrity of the Company's accounts;
- consider compliance with regulatory and financial reporting requirements;
- review and monitor the effectiveness of the internal control and risk management systems;
- review annually the need for the Company to have its own internal audit function;
- consider the terms of appointment, remuneration, independence, objectivity and effectiveness of the Company's Auditor;
- make recommendations to the Board in relation to the appointment of the Auditor;
- agree the Auditor's fee;
- develop and implement a policy on the supply of non-audit services by the Auditor;
- review annually the performance of the Manager and the terms of its appointment;
- review annually the performance of other third party service providers; and
- review annually the Manager's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters insofar as they affect the Company.

MATTERS CONSIDERED IN THE YEAR

The Committee meets three times a year in advance of the publication of the annual and half-yearly financial results of the Company. At the two meetings held during the financial year, the Committee has:

- reviewed the internal controls and risk management systems of the Company and its third party providers;
- reviewed the performance of the Company's third party service providers and ensured that they complied with the terms of their agreements and that the terms of the agreements remain competitive;
- agreed the audit fee and audit plan with the Auditor, including the principal areas of focus;
- received and discussed with the Auditor their report on the results of the audit;
- reviewed the Company's financial statements and advised the Board accordingly;
- reviewed the Investment Management Agreement to ensure that the terms remain competitive;
- reviewed the performance of the Manager;
- satisfied itself that the continued appointment of the Manager was in the interests of shareholders as a whole;
- recommended to the Board that the Manager's appointment be continued; and
- reviewed and, where appropriate, updated the Company's risk register.

Report from the Audit and Management Engagement Committee continued

ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2021

Following discussion with the Manager and the Auditor, the Committee determined that the key areas of risk in relation to the financial statements of the Company for the year ended 31 March 2021 and how they were addressed were:

Significant issue	How the issue was addressed
COVID-19	Since the global outbreak of COVID-19 in 2020, all necessary actions have been undertaken to preserve the financial condition of the Company and to ensure that it is able to operate effectively. The majority of the Manager's employees continue to work from home in accordance with government requirements. The Company has successfully continued to manage its portfolios and the associated administration. Despite market volatility impacting the markets throughout the year, and the fact that the resulting economic disruption caused by the crisis will likely create further challenges for the Company in the coming months, the Board considers that the Company's available resources are more than sufficient to ensure its continuing viability.
Valuation and ownership of the Company's investments	The Board reviews detailed portfolio valuations at each meeting. It relies on the Administrator and AIFM to use appropriate pricing in accordance with the accounting standards adopted by the Company. Ownership of listed investments is verified by reconciliation to the Custodian's records. In addition, the Depositary reports to the Committee in relation to its monitoring and oversight of the activities of the AIFM, Administrator and Custodian. No matters of significance were identified in their monitoring.
Maintenance of investment trust status	The Committee regularly considers the controls in place to ensure that the regulations for maintaining investment trust status are observed at all times and receives supporting documentation from the Manager and the Administrator.
Incomplete or inaccurate revenue recognition	Income received is accounted for in accordance with the Company's accounting policies as set out in Note 1 to these accounts. The Board receives income forecasts, including special dividends, and receives an explanation from the Manager for any significant movements from previous forecasts and prior year figures.
Ensuring the Annual Report and Accounts is fair, balanced and understandable.	The Committee reviewed 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.

GOING CONCERN

The Committee assesses annually whether it is appropriate to prepare the Company's financial statements on a going concern basis and makes its recommendations to the Board. The Board concluded that the going concern basis continues to be appropriate and further information regarding the going concern assessment are set out in the Directors' Report on page 20.

INTERNAL CONTROL

The Committee is responsible for ensuring that suitable controls are in place to prevent and detect fraud, error and misstatement of financial information. As the Company outsources all of its functions to third parties, it requires these service providers to report on their internal controls. There were no significant matters of concern identified in the Committee's review of the internal controls of its third party suppliers. The Committee paid particular attention to the developing threat of cyber crime and the ongoing impact of COVID-19. It is considered that the Company does not require an internal audit function, principally because the Company delegates its day-to-day operations to third parties, which are monitored by the Committee and provide control reports on their operations annually.

EXTERNAL AUDIT, REVIEW AND APPOINTMENT

This is the first year with a new audit firm, BDO, which was appointed at the AGM held on 31 July 2020. Their appointment followed a tender process undertaken by the Committee during 2020. The Audit Committee reviews the re-appointment of the auditor every year. The Committee reviewed the effectiveness of the external audit process following the completion of the audit process, taking into consideration the standing, skills, experience, performance and objectivity of the firm and the audit team. The Committee has reviewed and accepted reports from BDO on its procedures for ensuring that its independence and objectivity are safeguarded and that it has complied with relevant auditing standards. The Committee, from direct observation and enquiry of the Administrator, is satisfied that BDO provides effective independent challenge in carrying out its responsibilities. Following this review, the Committee concluded that the audit process was effective.

BDO's fee in respect of the audit for the year ended 31 March 2021 is £31,000 (2020: £30,000). Following professional guidelines, the audit partner rotates after five years. The year ended 31 March 2021 is Peter Smith's first year as audit partner.

POLICY ON 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.

During the year, the Committee amended its non-audit services policy 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.

No non-audit services were provided in the year under review.

CONCLUSIONS

Following the consideration of the above and its detailed review of the half year and annual reports conducted at its meetings, the Committee is of the opinion that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Company's position and performance, business model and strategy. The Committee reported on these findings to the Board.

The Statement of Directors Responsibilities in respect of the Annual Report and Financial Statements is on page 35.

JAMES ROBINSON
Chairman, Audit and Management Engagement Committee
14 June 2021

Directors' Remuneration Report

The Board has prepared this Report in accordance with the requirements of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming AGM.

The law requires the Company's Auditor, BDO LLP, to audit certain disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 36 to 42.

ANNUAL STATEMENT FROM THE CHAIRMAN OF THE NOMINATION AND REMUNERATION COMMITTEE (THE "COMMITTEE")

I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2021.

Having reviewed the current level of remuneration payable to Directors, in accordance with the Remuneration Policy, the Committee has agreed fee increases for the Directors, with effect from 1 April 2021. The increases can be found in the future policy table on page 33. Directors' fees were last increased with effect from 1 April 2019. As disclosed on page 23, Mr Robinson has waived his entitlement to the additional fee which the Remuneration Policy permits him to take for his role as Senior Independent Director.

In accordance with the Companies Act 2006, the Company is required to seek shareholder approval for its remuneration policy on a triennial basis. The Remuneration Policy was approved by shareholders at the 2019 AGM. Currently, the total aggregate annual Directors' fees must be set within an aggregate ceiling of £125,000. However, the Company is seeking shareholders' approval to increase this limit at the forthcoming AGM to £200,000. The limit has not changed since 2012 and, during that time, the Directors' fees have gradually increased to reflect the growing amount of time they devote to the business of the Company. This has been driven mainly by material and incremental increases in regulation. It is also important that the Company remains able to recruit and retain high calibre directors with the right mix of skills and experience and retains the flexibility to maintain an appropriate size and composition of the Board.

The Committee was chaired by Mr Copple and is comprised of all Directors and meets as required for the purpose of considering levels of remuneration paid to the Board and any change in the Directors' remuneration policy. As disclosed on page 27, Mrs Powley took over as Chair of this Committee, with effect from 21 April 2021.

Remuneration Policy

The Company's policy is that remuneration should:

Purpose and link to strategy	• be sufficient to attract and retain individuals of a high calibre with suitable knowledge and experience to promote the long-term success of the Company; • reflect the time spent by the Directors on the Company's affairs; • reflect the responsibilities borne by the Directors; • recognise the more onerous roles of the Chairman of the Board and the Chairman of the Audit and Management Engagement Committee through the payment of higher fees.
	Directors are remunerated in the form of fees. The Committee reviews fees on an annual basis and makes recommendations to the Board. Reviews will take into account wider factors such as research carried out on the level of fees paid to the Directors of the Company's peers, any feedback from shareholders, the level of, and any change in, the complexity of the Directors' responsibilities.
Fixed fee element	Directors are not eligible to be compensated for loss of office, nor are they eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no performance related elements to the Directors' fees. None of the Directors has a service contract with the Company and their terms of appointment are set out in a letter provided when they join the Board. These letters are available for inspection at the Company's registered office.
Description	Annual fees set at a competitive level for the industry and appropriate for the role, based on individual skills, time commitment and experience.
Maximum	Total remuneration paid to the non-executive Directors is subject to an annual aggregate limit of £125,000 in accordance with the Company's Articles of Association. Any changes to this limit will require shareholder approval by ordinary resolution. Should the shareholders approve the amendment to the Company's Articles of Association to increase the aggregate limit on Directors fees of £125,000 to £200,000 at the forthcoming AGM, the aggregate Directors' fees will not exceed £200,000 per annum.

Remuneration Policy continued

Taxable benefits	In accordance with the Company's Articles of Association, the Directors are also entitled to be reimbursed for out-of-pocket expenses and any other reasonable expenses incurred in the proper performance of their duties. Such expenses are treated as a benefit in kind and are subject to tax and national insurance.
Approach to recruitment remuneration	Any new non-executive director would be paid on the same basis as the existing non-executive directors.

Future Remuneration Policy Table

Following a review of the level of Directors' fees, the Remuneration Committee concluded that commencing 1 April 2021, the Chairman's fee be increased to £36,750, the Audit and Management Engagement Committee Chair's fee be increased to £29,500 and Director fees be increased to £25,250. The additional fee which may be paid to the Senior Independent Director will be increased to £1,050. These changes have been made following consideration of Directors' remuneration in the context of its peers, the wider investment trust sector and inflation. Directors' fees were last increased in 2019.

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

	31 March 2022	31 March 2021
Chairman	**£36,750**	£35,000
Audit and Management Engagement Committee Chairman	**£29,500**	£28,000
Director	**£25,250**	£24,000

Directors' Emoluments for the Year (Audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Fees £		Taxable Benefits £		Total £		Total fixed remuneration £		Total variable remuneration £	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Arthur Copple	**35,000**	31,503	**–**	–	**35,000**	31,503	**35,000**	31,503	**–**	–
Catriona Hoare	**24,000**	8,831	**–**	–	**24,000**	8,831	**24,000**	8,831	**–**	–
Barbara Powley[1]	**8,830**	–	**–**	–	**8,830**	–	**8,830**	–	**–**	–
James Robinson	**28,000**	28,000	**–**	98	**28,000**	28,098	**28,000**	28,098	**–**	–
Roger Cuming	**–**	11,308	**–**	–	**–**	11,308	**–**	11,308	**–**	–
Kate Bolsover	**–**	15,833	**–**	55	**–**	15,888	**–**	15,888	**–**	–
	95,830	95,475	**–**	153	**95,830**	95,628	**95,830**	95,628	**–**	–

[1] appointed to the Board on 18 November 2020

No sums are paid to any third parties in respect of Directors' services. There have been no payments to past Directors during the financial year ended 31 March 2021, whether for loss of office or otherwise.

Annual percentage change in remuneration of directors

Directors' pay has not increased over the last two years, as set out in the table below:

	2021 £	2020 £	Change %
Chairman	**35,000**	35,000	–
Audit and Management Engagement Committee Chairman	**28,000**	28,000	–
Director	**24,000**	24,000	–

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 first 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.

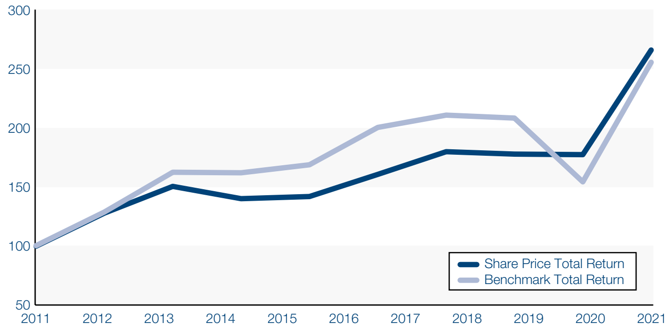
The Company does not have any employees and therefore no comparisons are given in respect of Directors' and employees' pay increases.

Directors' Remuneration Report continued

Your Company's Performance

In accordance with the Companies Act 2006, a graph showing the Company's share price total return compared to its benchmark is set out below. The share price includes all dividends reinvested.

Share Price and Benchmark Performance* (rebased to 100 on 31 March 2011)



Source: Link Alternative Fund Administrators Limited.

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

Share Price Total Return has been chosen because shareholders' returns are determined by the evolution of the share price and the dividends received. The Numis Smaller Companies Index (excluding investment companies) has been chosen as it is considered to be the most appropriate benchmark against which to assess the relative performance of the Company as it represents companies of a similar market capitalisation and is in line with the peer group.

Voting at AGM

The Directors' Remuneration Report for the year ended 31 March 2020 and the Remuneration Policy were approved by shareholders at the AGMs held on 31 July 2020 and 25 July 2019 respectively. The proxy voting was as follows:

	Remuneration Report Number of votes cast	%	Remuneration Policy Number of votes cast	%
For*	84,906,854	99.95	89,521,307	99.98
Against	44,569	0.05	22,184	0.02
Total votes cast	**84,951,423**		**89,543,491**	
Number of votes withheld	29,880	0.03	–	–

* including votes granting discretion to the Chairman who voted in favour.

Any views expressed by shareholders on the fees being paid to Directors will be taken into consideration by the Board when reviewing the Directors' Remuneration Policy and in the annual review of Directors' fees.

Directors' Beneficial and Family Interests (Audited)

There is no requirement under the Articles of Association for Directors to hold shares in the Company. The interests of the current Directors and their families in the voting rights of the Company are set out below:

	As at 31 March 2021 No. of shares	As at 1 April 2020 No. of shares
Arthur Copple[1]	**125,000**	125,000
Catriona Hoare	**7,339**	7,250
James Robinson[2]	**40,000**	40,000
Barbara Powley[3]	**11,567**	–

[1] Includes 25,000 shares held by Mrs Copple

[2] Held jointly by Mr and Mrs Robinson

[3] Appointed on 18 November 2020. Mrs Powley acquired 11,238 of her shares in the Company prior to appointment. Her shareholding subsequently increased to 11,567 shares pursuant to a dividend reinvestment plan, as announced on 23 November 2020, 1 March 2021 and 21 May 2021.

There have not been any changes to the above holdings between 31 March 2021 and the date of this Annual Report, other than in relation to Mrs Powley, as disclosed in footnote 3 in the table above. None of the Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements during the year.

Relative Importance of Spend on Pay

The table below sets out, in respect of the financial year ended 31 March 2021 and the preceding financial year:

a) the remuneration paid to the Directors; and

b) the distributions made to shareholders by way of dividends.

	Year ended 31 March 2021 £	Year ended 31 March 2020 £	Change %
Total remuneration	**95,830**	95,628	0.2
Dividends paid	**9,239,363**	8,887,867	3.9

Statement of implementation of Remuneration Policy in respect of the financial year ending 31 March 2022

Apart from the fee increases disclosed in this report which will take effect for the financial year ending 31 March 2022, no other changes are proposed. The Committee will, as usual, review Directors' fees during 2022 and consider whether any further changes to remuneration are required.

On behalf of the Board

ARTHUR COPPLE
Chairman of the Board
14 June 2021

Statement of Directors' Responsibilities
in respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Under company law, the 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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 comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with UK Accounting Standards, give a true and fair view of the assets, liabilities, financial position and return of the Company; and
- the Strategic Report 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.

In the opinion of the Board, the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board
ARTHUR COPPLE
Chairman
14 June 2021

Independent Auditor's Report
to the Members of Montanaro UK Smaller Companies Investment Trust PLC

OPINION ON THE FINANCIAL STATEMENTS
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

We have audited the financial statements of Montanaro UK Smaller Companies Investment Trust PLC (the 'Company') for the year ended 31 March 2021 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's 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. Our audit opinion is consistent with the additional report to the audit committee.

Independence
Following the recommendation of the audit committee, we were appointed by the Board of Directors on 17 March 2020 and subsequently by the members at the AGM on 31 July 2020 to audit the financial statements for the year ended 31 March 2021 and subsequent financial periods. The period of total uninterrupted engagement is one year, covering the year ending 31 March 2021. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

CONCLUSIONS RELATING TO GOING CONCERN
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. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's assessment of the going concern status of the Company, which has been approved by the Directors and which considered the terms and expiry of the borrowing facilities, the current borrowings as a percentage of NAV and the adjusted NAV of the Company in comparison to the loan covenants, the liquidity of the portfolio and the timing and expected outcome of the next Continuation vote.
- We performed our own independent testing on the liquidity of the portfolio to corroborate that the portfolio is sufficiently liquid that if necessary it could be liquidated in order to meet the Company's liabilities as they fall due.
- We acknowledged that the next continuation vote falls outside of the 12-month period from the date of signing of these financial statements.
- We acknowledged that the loan was due to expire within 12 months of the date of signing these financial statements however we concur that if further borrowing was not secured the company could sufficiently liquidate part of its portfolio to repay the debt.
- We considered the significance of the headroom with respect to the covenants.
- Consideration of financial ratios to ascertain the financial health of the Company.

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 relation to the Company's reporting on how it has 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.

OVERVIEW

Key audit matters	• Valuation and ownership of investments • Revenue recognition
Materiality	*Financial statements as a whole* • £2,480,000 based on 1% of net assets

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Independent Auditor's Report continued
to the Members of Montanaro UK Smaller Companies Investment Trust PLC

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified, 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 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.

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation and ownership of investments Note 1 and note 9	The investment portfolio at the year end comprised of 100% quoted investments at fair value through profit or loss. The investment portfolio is the most significant balance in the financial statements and is the key driver of performance. The Investment Manager's fee is based on the gross asset value of the Company. As such, there is a potential risk of overstatement of investment valuations, however this is mitigated to an extent by the valuations being produced by the administrator and reviewed and approved by the Board. Due to the significance of this balance we considered it to be a key audit matter.	We have responded to this matter by testing the valuation and ownership of 100% of the portfolio of investments. We performed the following procedures on valuation: • Confirmed that bid price has been used by agreeing to externally quoted prices; • Reviewed trading volumes around year-end to check that there are no contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value by considering the realisation period for individual holdings In respect of the ownership of investments we obtained direct confirmation from the custodian regarding all investments held at the balance sheet date. **Key observations:** Based on our procedures performed we did not identify any material exceptions with regards to valuation or ownership of investments.

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue recognition Note 1 and Note 2	Income arises predominately from UK dividends and to a lesser extent overseas dividends and is material and can be volatile, but is a key factor in demonstrating the performance of the portfolio. Furthermore, judgement is required in the allocation of income to revenue or capital. Accordingly, we considered revenue recognition to be a key audit matter.	We have responded to this matter by developing an independent expectation of income using data analytics based on the investment holding and distributions from independent sources. We have also cross checked the portfolio against corporate actions and special dividends and challenged whether these have been appropriately accounted for as income or capital. We have analysed the population of dividend receipts to identify any items for further discussion that could indicate a potential capital distribution, for example where a dividend represents a particularly high yield. We have then traced a sample of dividend income receipts to bank statements. **Key observations:** Based on our procedures performed we concur with management's judgements and did not identify any material exceptions with regards to revenue recognition.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

Independent Auditor's Report continued
to the Members of Montanaro UK Smaller Companies Investment Trust PLC

	Financial statements 2021
Materiality	£2,480,000
Basis for determining materiality	1% of net assets
Rationale for the benchmark applied	As an investment trust, net asset value is considered to be the key measure of performance.
Performance materiality	£1,860,000
Basis for determining performance materiality	75% of materiality of materiality based on the brought forward uncorrected misstatements, known or expected misstatements for the current year, prior year corrected misstatements and the number of areas of the financial statements subject to estimation uncertainty.

Specific testing threshold
We also determined that for items impacting on revenue return, a misstatement of less than materiality for the financial statements as a whole, could influence the economic decisions of users. As a result, we determined a specific testing threshold for these items based on the higher of 10% of revenue return before tax and our clearly trivial threshold being £196,000.

Reporting threshold
We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £128,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

OTHER INFORMATION
The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

CORPORATE GOVERNANCE STATEMENT
The Listing Rules require us to review the Directors' statement 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 Statement specified for our review.

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 or our knowledge obtained during the audit.

Going concern and longer-term viability	• The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and • The Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate.
Other Code provisions	• Directors' statement on fair, balanced and understandable; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks; • The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and • The section describing the work of the audit committee.

OTHER COMPANIES ACT 2006 REPORTING

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on 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 the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the 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.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; 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; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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.

AUDITOR'S 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 auditor's 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.

Independent Auditor's Report continued
to the Members of Montanaro UK Smaller Companies Investment Trust PLC

Extent to which the audit was capable of detecting irregularities, including fraud

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:

We gained an understanding of the legal and regulatory framework applicable to the Company and industry in which the Company operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the AIC SORP and FRS 102. We also considered the Company's qualification as an Investment Trust under UK tax legislation.

We considered compliance with this framework through discussions with the Audit Committee and performed audit procedures on these areas as considered necessary.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements and the susceptibility of the entity's financial statements to material misstatement including fraud. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- testing of journal postings made during the year to identify potential management override of controls
- the procedures as outlined in our key audit matters above
- review of legal invoices and correspondence
- checked compliance with each of the Investment Trust tax legislation tests
- review of minutes of board meetings throughout the period; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

PETER SMITH (Senior Statutory Auditor)
for and on behalf of BDO LLP
Statutory Auditor
London
14 June 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income Statement
for the year to 31 March 2021

		Year to 31 March 2021			Year to 31 March 2020		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments designated as fair value through profit or loss	9	**–**	**66,370**	**66,370**	–	(19,776)	(19,776)
Investment income	2	**2,994**	**–**	**2,994**	5,596	–	5,596
Management fee	3	**(320)**	**(960)**	**(1,280)**	(330)	(989)	(1,319)
Other expenses	4	**(557)**	**–**	**(557)**	(527)	–	(527)
Net return before finance costs and taxation		**2,117**	**65,410**	**67,527**	4,739	(20,765)	(16,026)
Interest payable and similar charges	5	**(154)**	**(462)**	**(616)**	(160)	(480)	(640)
Net return before taxation		**1,963**	**64,948**	**66,911**	4,579	(21,245)	(16,666)
Taxation	6	**–**	**–**	**–**	(8)	–	(8)
Net return after taxation		**1,963**	**64,948**	**66,911**	4,571	(21,245)	(16,674)
Return per Ordinary share: Basic and Diluted	8	**1.18p**	**38.80p**	**39.98p**	2.73p	(12.69p)	(9.96p)

The total column of this statement is the Statement of Total Comprehensive Income of the Company prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". The supplementary revenue return and capital return columns are prepared in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies ("AIC SORP").

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

There are no items of other comprehensive income and therefore the net loss after taxation is both the profit/loss and the total comprehensive income for the year.

No operations were acquired or discontinued in the year.

The notes on pages 46 to 56 form part of these financial statements.

Statement of Changes in Equity
for the year to 31 March 2021

Year to 31 March 2021	Notes	**Called-up share capital £'000**	**Share premium account £'000**	**Capital redemption reserve £'000**	**Special reserve** £'000**	**Capital reserve* £'000**	**Distributable revenue reserve* £'000**	**Total equity shareholders' funds £'000**
As at 31 March 2020		**3,348**	**19,307**	**1,362**	**4,642**	**159,757**	**1,993**	**190,409**
Total comprehensive income:								
Fair value movement of investments	9	**–**	**–**	**–**	**–**	**66,370**	**–**	**66,370**
Costs allocated to capital		**–**	**–**	**–**	**–**	**(1,422)**	**–**	**(1,422)**
Net revenue for the year		**–**	**–**	**–**	**–**	**–**	**1,963**	**1,963**
		–	**–**	**–**	**–**	**64,948**	**1,963**	**66,911**
Dividends paid in the year	7	**–**	**–**	**–**	**–**	**(4,891)**	**(3,763)**	**(8,654)**
As at 31 March 2021		**3,348**	**19,307**	**1,362**	**4,642**	**219,814**	**193**	**248,666**

Year to 31 March 2020	Notes	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Special reserve** £'000	Capital reserve* £'000	Distributable revenue reserve* £'000	Total equity shareholders' funds £'000
As at 31 March 2019		3,348	19,307	1,362	4,642	184,267	3,296	216,222
Total comprehensive income:								
Fair value movement of investments	9	–	–	–	–	(19,776)	–	(19,776)
Costs allocated to capital		–	–	–	–	(1,469)	–	(1,469)
Net revenue for the year		–	–	–	–	–	4,571	4,571
		–	–	–	–	(21,245)	4,571	(16,674)
Dividends paid in the year	7	–	–	–	–	(3,265)	(5,874)	(9,139)
As at 31 March 2020		3,348	19,307	1,362	4,642	159,757	1,993	190,409

* These reserves, excluding any unrealised capital reserve are distributable. As at 31 March 2021 distributable reserves totalled £141,267,000 (2020: £149,577,000).

**The special reserve can be used for the repurchase of the Company's own shares.

The notes on pages 46 to 56 form part of these financial statements.

Balance Sheet
as at 31 March 2021

	Notes	**31 March 2021** £'000	**31 March 2021** £'000	31 March 2020 £'000	31 March 2020 £'000
Fixed assets					
Investments at fair value	9		**262,436**		195,593
Current assets					
Debtors	10	**787**		3,049	
Cash at bank		**10,031**		12,097	
		10,818		15,146	
Creditors: amounts falling due within one year					
Fixed rate term loan	11	**(20,000)**		–	
Other creditors	12	**(4,588)**		(330)	
		(24,588)		(330)	
Net current (liabilities)/assets			**(13,770)**		14,816
Total assets less current liabilities			**248,666**		210,409
Creditors: amounts falling due after more than one year					
Fixed rate term loan	11		**–**		(20,000)
Net assets			**248,666**		190,409
Share capital and reserves					
Called-up share capital	13		**3,348**		3,348
Share premium account			**19,307**		19,307
Capital redemption reserve			**1,362**		1,362
Special reserve			**4,642**		4,642
Capital reserve			**219,814**		159,757
Distributable revenue reserve			**193**		1,993
Total equity shareholders' funds			**248,666**		190,409
Net asset value per Ordinary share: Basic and Diluted			**148.56p**		113.76p

These financial statements were approved and authorised for issue by the Board of Directors on 14 June 2021.

ARTHUR COPPLE
Chairman

Company Registered Number: 3004101

The notes on pages 46 to 56 form part of these financial statements.

Notes to the Financial Statements
at 31 March 2021

1 Accounting Policies

Montanaro UK Smaller Companies Investment Trust plc ("MUSCIT") is a company incorporated and registered in England and Wales. The principal activity of the Company is that of an investment trust company within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010. The registered office of the Company is 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

ACCOUNTING CONVENTION

The financial statements are prepared on a going concern basis under the historical cost convention as modified by the revaluation of fixed asset investments and in accordance with UK applicable accounting standards and the Statement of Recommended Practice regarding the Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued in November 2014 and updated in October 2019. The financial statements have been prepared under FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Following the adoption of FRS 102, the Company elected not to present the statement of cash flows per paragraph 7.1.A. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the year and the preceding year.

GOING CONCERN

The financial statements have been prepared on a going concern basis and on the basis that approval as an investment trust company will continue to be met.

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, being a period of at least 12 months from the date these financial statements were approved. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern, having taken into account the liquidity of the Company's investment portfolio and the Company's financial position in respect of its cash flows, borrowing facilities and investment commitments (of which there are none of significance). In particular, the Directors considered the impact of disruptions arising from the global pandemic on the Company's liquidity, market values, bank covenants and continuity of operations in reaching their conclusion and they continue to adopt the going concern basis in preparing the financial statements.

The Manager is currently in discussion with several providers to secure new borrowing facilities upon expiry of the current facilities on 19 December 2021. The Manager does not anticipate any issues in securing new facilities on attractive terms. The Company's Articles of Association ("Articles") contain a requirement for shareholders to vote on the continuation of the Company at regular intervals. At the Company's AGM held on 17 July 2017, shareholders voted to remove the obligation to convene a General Meeting during 2018 for the purpose of voluntarily winding up the Company. The Board is proposing Resolution 12, at the next AGM to remove the obligation to convene a General Meeting during 2022 for the purpose of providing for the Company to be wound-up on a voluntary basis as stated in the Articles of Association.

SEGMENTAL REPORTING

The Company has one reportable segment being invested primarily in a portfolio of quoted UK small companies.

INCOME RECOGNITION

Dividends receivable on quoted equity shares are taken to revenue on an ex-dividend basis. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity shares are recognised on a time-apportioned basis.

Dividends from overseas companies are shown gross of any non-recoverable withholding taxes, which are presented separately in the Income Statement.

Special dividends are taken to 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.

When the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend forgone is recognised as income. Any excess in the value of the cash dividend is recognised in the capital column.

1 Accounting Policies continued

EXPENSES AND FINANCE COSTS

All expenses and finance costs are accounted for on an accruals basis. On the basis of the Board's expected long-term split of total returns, the Company charges 75% of its management fee and finance costs to capital.

Expenses directly incurred in relation to arranging debt and loan facilities have been amortised over the term of the finance. Expenses incurred directly in relation to issue or redemption of shares are deducted from equity and charged to the share premium account. All other expenses are allocated in full to the revenue account.

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 a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's Board of Directors. The Company has fully adopted sections 11 and 12 of FRS 102.

All investments are classified upon initial recognition as financial assets at fair value through profit or loss and are measured at subsequent reporting dates at fair value, which is the bid price or the closing price for the Stock Exchange Electronic Trading Service – quotes and crosses ('SETSqx'). The Company derecognises a financial asset either 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 fair value is measured in the financial statements are categorised within the fair value hierarchy in note 9.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents (which are presented as a single class of asset on the Statement of Financial Position) comprise cash at bank and in hand.

The carrying value of these assets approximates their fair value.

TAXATION

UK corporation tax payable is provided on taxable profits at the current rate.

Provision is made for deferred taxation, without discounting, on all timing differences and is calculated using substantively enacted tax rates.

This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

DIVIDENDS PAYABLE TO SHAREHOLDERS

Final dividends are recognised in the year in which they have been approved by shareholders in a general meeting. Interim dividends are recognised in the period in which they have been declared and paid.

BANK LOANS AND BORROWINGS

All bank loans and borrowings are carried at amortised cost. Costs in relation to arranging debt finance have been amortised over the term of the instrument.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods. There have been no significant judgements, estimates or assumptions which have had a significant impact on the financial statements for the current or preceding financial year.

Notes to the Financial Statements continued
at 31 March 2021

1 Accounting Policies continued

RESERVES

Share premium

The account represents the accumulated premium paid for shares issued in previous periods above their nominal value less expenses of issuance.

Capital redemption reserve

The capital redemption reserve accounts for amounts by which the issued capital is diminished through the repurchase and cancellation of the Company's own shares.

Special reserve

The special reserve was created by a reduction in the share premium account by order of the High Court in August 1998. It can be used for the repurchase of the Company's Ordinary shares.

Revenue reserve

The revenue reserve represents retained profits from the income derived from holding investment assets less the costs and interest on cash balances associated with running the company. This reserve can be distributed.

Capital reserve

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- net movement arising from changes in the fair value of investments;
- net movement from changes in the fair value of derivative financial instruments;
- expenses, together with related taxation effect, charged to this account in accordance with the above policies;
- Dividends paid from the realised Capital Reserve.

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

2 Income

	Year to 31 March 2021 £'000	Year to 31 March 2020 £'000
UK dividend income	**2,834**	5,346
Overseas dividend income	**160**	250
Income from investments	**2,994**	5,596
Total income	**2,994**	5,596

Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	**2,994**	5,596
Dividends	**2,994**	5,596

3 Management fee

	Year to 31 March 2021			Year to 31 March 2020		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Management fee	**307**	**923**	**1,230**	317	952	1,269
AIFMD fee	**13**	**37**	**50**	13	37	50
	320	**960**	**1,280**	330	989	1,319

The Manager received a monthly management fee equivalent to 1/12 of 0.50% (2020: 0.50%) of the gross assets of the Company valued at the close of business on the last business day of each month.

At 31 March 2021, £135,000 (2020: £88,000) was due for payment to the Manager.

4 Other Expenses

	Year to 31 March 2021 £'000	Year to 31 March 2020 £'000
Administration	**78**	76
Company secretarial fees	**55**	46
Directors' fees†	**96**	96
Depositary fee	**51**	64
Registrar fee	**57**	51
Auditor's remuneration for:		
– audit	**31**	30
Custody and other bank charges	**21**	22
Legal fees	**4**	9
Other expenses (including VAT)	**164**	133
	557	527

† A breakdown of the Directors' remuneration is set out in the Directors' Remuneration Report on page 33.

The Company has no employees.

5 Interest Payable and Similar Charges

	Year to 31 March 2021			Year to 31 March 2020		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Interest payable on loan	**143**	**429**	**572**	152	456	608
Loan commitment fee	**11**	**33**	**44**	8	24	32
	154	**462**	**616**	160	480	640

6 Taxation

	Year to 31 March 2021			Year to 31 March 2020		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Current tax:						
Overseas tax suffered	**–**	**–**	**–**	(8)	–	(8)
	–	**–**	**–**	(8)	–	(8)

The taxation charge for the year is different from the standard rate of Corporation Tax in the UK of 19% (2020: 19%). The differences are explained below.

	Year to 31 March 2021			Year to 31 March 2020		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Net return/(loss) before taxation	**1,963**	**64,948**	**66,911**	4,579	(21,245)	(16,666)
Theoretical tax at UK corporation tax rate of 19% (2020: 19%)	**373**	**12,340**	**12,713**	870	(4,037)	(3,167)
Effects of:						
– UK dividends that are not taxable	**(539)**	**–**	**(539)**	(1,016)	–	(1,016)
– Foreign dividends that are not taxable	**(30)**	**–**	**(30)**	(47)	–	(47)
– Non-taxable investment losses	**–**	**(12,610)**	**(12,610)**	–	3,757	3,757
– Irrecoverable overseas tax	**–**	**–**	**–**	8	–	8
– Unrelieved excess expenses	**196**	**270**	**466**	193	280	473
Taxation charge for the year	**–**	**–**	**–**	8	–	8

Notes to the Financial Statements continued
at 31 March 2021

6 Taxation continued

Factors that may affect future tax charges

Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Company meets (and intends to continue for the foreseeable future to meet) the conditions for approval as an Investment Trust company. At 31 March 2021, based on current estimates and including the accumulation of net allowable losses, the Company had unrelieved losses of £50,004,000 (2020: £47,788,000) that are available to offset future taxable revenue. A deferred tax asset of £9,501,000 (2020: £9,080,000) has not been recognised because the Company is not expected to generate sufficient taxable income in future periods in excess of the available deductible expenses and accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus losses.

7 Dividends

	Year to 31 March 2021 £'000	Year to 31 March 2020 £'000
In respect of the previous period:		
Paid		
2020 fourth quarter dividend of 1.14p (2019:1.29p)	**1,908**	2,159
In respect of the year under review:		
Paid		
2021 first quarter dividend of 1.26p (2020: 1.32p)	**2,109**	2,209
2021 second quarter dividend of 1.31p (2020: 1.31p)	**2,193**	2,193
2021 third quarter dividend of 1.46p (2020: 1.54p)	**2,444**	2,578
Dividends distributed during the year	**8,654**	9,139
Declared:		
2021 fourth quarter dividend of 1.49p (2020: 1.14p)	**2,494**	1,908

The quarters referred to in the table above relate to the Company's financial year.

8 Return/(loss) per Ordinary Share

	Year to 31 March 2021			Year to 31 March 2020		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Ordinary share	**1.18p**	**38.80p**	**39.98p**	2.73p	(12.69p)	(9.96p)

Revenue return per Ordinary share is based on the net revenue after taxation of £1,963,000 (2020: £4,571,000) and 167,379,790 (2020: 167,379,790) Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in treasury.

Capital return/(loss) per Ordinary share is based on net capital gains/(losses) for the year of £64,948,000 (2020: £(21,245,000)), and on 167,379,790 (2020: 167,379,790) Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in treasury.

Basic and diluted return/(loss) per share are the same as there are no dilutive elements on share capital.

9 Investments

	Year to 31 March 2021 £'000	Year to 31 March 2020 £'000
Total investments at fair value	**262,436**	195,593

The investment portfolio comprises 50 (2020: 49) traded and listed UK equity holdings.

	Year to 31 March 2021 £'000	Year to 31 March 2020 £'000
Opening book cost	**183,422**	189,029
Opening investment holding gains	**12,171**	40,447
Opening valuation	**195,593**	229,476
Movements in the year		
Purchases at cost	**66,065**	66,685
Sales – proceeds	**(65,592)**	(80,792)
– realised (losses)/gains on sales against book cost	**(199)**	8,500
Increase/(decrease) in investment holding gains	**66,569**	(28,276)
Closing valuation	**262,436**	195,593
Closing book cost	**183,696**	183,422
Closing investment holding gains	**78,740**	12,171
	262,436	195,593

FAIR VALUE HIERARCHY

Financial assets of the Company are carried in the Balance Sheet at their fair value or approximation of fair value. The fair value is the amount at which the asset could be sold in an ordinary transaction between market participants, at the measurement date, other than a forced or liquidation sale. The Company measures fair values using the following 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 asset as follows:

- Level 1 – Valued using quoted prices, unadjusted in active markets for identical assets and liabilities.
- Level 2 – Valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included in 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. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

The table below sets out the fair value measurement of financial assets and liabilities in accordance with the fair value hierarchy.

	31 March 2021			31 March 2020		
	Level 1 £'000	**Level 2 £'000**	**Total £'000**	Level 1 £'000	Level 2 £'000	Total £'000
Equity investments	**262,436**	**–**	**262,436**	195,593	–	195,593
	262,436	**–**	**262,436**	195,593	–	195,593

There were no level 2 or 3 investments.

Notes to the Financial Statements continued
at 31 March 2021

9 Investments continued

TRANSACTION COSTS

During the year, the Company incurred transaction costs of £163,000 (2020: £226,000) and £40,000 (2020: £35,000) on purchases and sales of investments respectively. These amounts are deducted in determining gains on investments at fair value as disclosed in the Income Statement.

	Year to 31 March 2021 £'000	Year to 31 March 2020 £'000
Net gains on investments at fair value		
(Losses)/gains on sales	**(199)**	8,500
Changes in fair value	**66,569**	(28,276)
	66,370	(19,776)

A list of the twenty largest holdings by market value and an analysis of the investment portfolio by industrial or commercial sector can be found on pages 7 to 9.

10 Debtors

	Year to 31 March 2021 £'000	Year to 31 March 2020 £'000
Prepayments and accrued income	**50**	59
Due from brokers	**579**	2,692
Dividends receivable	**158**	298
	787	3,049

11 Fixed Rate Term and Floating Rate Revolving Credit Facilities

	Year to 31 March 2021 £'000	Year to 31 March 2020 £'000
Falling due within one year	**20,000**	–
Falling due after more than one year	**–**	20,000

On 19 December 2016, the Company agreed a £20,000,000 Fixed Rate Term Loan Facility with ING Bank N.V. At the same time, the Company also entered into a £10,000,000 Floating Rate Revolving Credit Facility.

The Fixed Rate Term Loan Facility is available for a five-year term from 19 December 2016 to 19 December 2021. The loan was fully drawn down at 31 March 2021 and 31 March 2020. Interest is payable at a fixed rate of 2.68% per annum in both the current and prior year.

The Floating Rate Revolving Credit Facility is available for a five-year term from 19 December 2016 to 19 December 2021. None of this facility was utilised at 31 March 2021 and 31 March 2020. When drawn down, interest is payable at LIBOR plus a margin of 1.65% per annum and mandatory costs. A Commitment fee is payable on the daily undrawn balance at 0.55% per annum in the event that the average utilisation is less than 50% during the applicable quarter or 0.40% per annum in the event that the average utilisation is greater than 50% during the applicable quarter.

The facilities contain covenants which require that total borrowing will not at any time exceed 30% of the adjusted NAV, which itself shall not fall below £80,000,000 in respect of both facilities. The Company remained compliant with these covenants throughout the year.

The Manager is currently in discussion with several providers to secure new borrowing facilities upon expiry of the current facility on 19 December 2021. The Manager does not anticipate any issues in securing new facilities on attractive terms.

12 Other Creditors

	Year to 31 March 2021 £'000	Year to 31 March 2020 £'000
Due to brokers	**4,202**	–
Accruals	**386**	330
	4,588	330

13 Share Capital

	31 March 2021 £'000	31 March 2020 £'000
Allotted, called-up and fully paid:		
167,379,790 Ordinary shares of 2p each (2020: 167,379,790)	**3,348**	3,348

Treasury shares

At the AGM on 31 July 2020, the Company was granted the authority to purchase 25,090,230 Ordinary shares. This authority is due to expire at the conclusion of the next AGM.

There were no shares held in treasury at any time during the year (2020: nil) and no shares purchased during the year (2020: nil).

14 Net Asset Value per Ordinary Share

The Net asset value per share of 148.56p (2020: 113.76p) is based on net assets of £248.6 million (2020: £190.4 million) and on 167,379,790 (2020: 167,379,790) Ordinary shares, being the number of Ordinary shares in issue at the year end.

15 Analysis of Financial Assets and Liabilities

Investment Objective and Policy

The Company's investment objective and policy are detailed on page 10.

The Company's investing activities in pursuit of its investment objective involve certain inherent risks. The Company's financial instruments can comprise:

- shares and debt securities held in accordance with the Company's investment objective and policies;
- derivative instruments for efficient portfolio management, gearing and investment purposes; and
- cash, liquid resources and short-term debtors and creditors that arise from its operations.

The risks identified arising from the Company's financial instruments are market risk (which comprises market price risk, interest rate risk and foreign currency exposure risk), liquidity risk and credit and counterparty risk. The Company may enter into derivative contracts to manage risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below.

These policies have remained unchanged since the beginning of the accounting period.

Market risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions by way of price movements, interest rate movements and exchange rate movements. The Manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the Manager on a regular basis and the Board at quarterly meetings with the Manager.

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 £262,436,000 (2020: £195,593,000).

Notes to the Financial Statements continued
at 31 March 2021

15 Analysis of Financial Assets and Liabilities continued

If the investment portfolio valuation fell by 10% from the amount detailed in the financial statements as at 31 March 2021, it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £26,240,000 (2020: £19,960,000). 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.

Foreign currency risk

Any income denominated in a foreign currency is converted into Sterling upon receipt. At the Balance Sheet date, all the Company's assets were denominated in Sterling and accordingly the only currency exposure the Company currently has is through the trading activities of its investee companies.

Interest rate risk

Changes in interest rates may cause fluctuations in the income and expenses of the Company. The Company has a Fixed Rate Term Loan Facility (see note 11) so this would not be affected by any changes in interest rates. The Company also has a Floating Rate Revolving Credit Facility. This was undrawn at the year end so would not yet be affected by any changes in interest rates.

The Company received no interest on cash deposits in the year (2020: £nil).

If interest rates had reduced by 1% from those paid as at 31 March 2021, it would have the effect, with all other variables held constant, of increasing the net revenue return before taxation on an annualised basis by £nil (2020: £nil). If there was an increase in interest rates of 1%, the net revenue return before taxation on an annualised basis would have decreased by £nil (2020: £nil).

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Manager does not invest in unlisted securities on behalf of the Company. The investments consist of UK small companies which, whilst less liquid than quoted large companies, are quoted and tradeable on a recognised stock exchange.

The Company's liquidity risk is managed on a daily basis by the Manager in accordance with established policies and procedures in place. The Manager reviews daily forward-looking cash reports which project cash obligations. These reports allow it to manage its obligations as they fall due.

Contractual maturities of the financial liabilities at undiscounted amount at the year end, based on the earliest date on which payment can be required, are detailed on page 55.

Credit risk

Credit risk is the risk of financial loss to the Company if the contractual party to a financial instrument fails to meet its contractual obligations.

The Company's listed and traded investments and cash balances are held on its behalf by The Bank of New York Mellon, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed. The Board monitors the Company's risk by reviewing the custodian's internal controls report.

Investment transactions are carried out with a number of brokers whose creditworthiness is reviewed by the Manager.

Transactions are ordinarily undertaken on a delivery versus payment basis within CREST, whereby the transaction will only settle if the Company and counterparty details are matching.

The maximum exposure to credit risk at 31 March 2021 was:

	31 March 2021 £'000	31 March 2020 £'000
Cash at bank (held at Bank of New York Mellon)	**10,031**	12,097
Debtors and prepayments	**787**	3,049
	10,818	15,146

None of the Company's assets are past due or impaired.

15 Analysis of Financial Assets and Liabilities continued

Gearing

Gearing can have amplified effects on the NAV of the Company. It can have a positive or negative effect depending on portfolio performance. It is the Company's policy to determine the level of gearing appropriate to its own risk profile.

The AIFM, in consultation with the Board, is responsible for determining the gearing level of the Company, which is disclosed on page 5. The Directors receive financial information on a regular basis which is used to identify and monitor risk.

FINANCIAL ASSETS

The Company's financial assets consist of listed and traded equity shares, which neither pay interest nor have a maturity date, cash at bank and short-term debtors. No fixed interest assets were held at 31 March 2021 (31 March 2020: £Nil) or at any time during the year. All financial assets are in Sterling.

FINANCIAL LIABILITIES

The Company finances its operations through equity, retained profits and bank borrowings (see note 11).

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2021 was as follows:

	Total £'000	**Weighted average interest rate %**	**Period until maturity Years**
Amounts drawn down under Fixed Rate Term Loan Facility	**20,000**	**2.7**	**0.7**
Amounts drawn down under Floating Rate Revolving Credit Facility	**–**	**–**	**–**
Financial liabilities upon which no interest is paid	**4,588**	**–**	**–**

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2020 was as follows:

	Total £'000	Weighted average interest rate %	Period until maturity Years
Amounts drawn down under Fixed Rate Term Loan Facility	20,000	2.7	1.7
Amounts drawn down under Floating Rate Revolving Credit Facility	–	–	–
Financial liabilities upon which no interest is paid	330	–	–

The maturity profile of the Company's financial liabilities at undiscounted amount is as follows:

	31 March 2021 £'000	31 March 2020 £'000
In three months or less	**4,673**	423
In more than three months but not more than one year	**20,288**	432
In more than one year but not more than three years	**–**	20,383
In more than three years but not more than five years	**–**	–
	24,961	21,238

Notes to the Financial Statements continued
at 31 March 2021

16 Capital Management Policies
The structure of the Company's capital is described on pages 20 and 21 and details of the Company's reserves are shown in the Statement of Changes in Equity.

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern;
- to achieve capital growth through a focused portfolio of investments, particularly in UK small companies; and
- to maximise the return to shareholders while maintaining a capital base to allow the Company to operate effectively and meet obligations as they fall due.

The Board and the AIFM regularly monitor and review the capital on an ongoing basis. These reviews include:

- the level of gearing, which takes account of the Company's position and the Manager's views on the market; and
- the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital are unchanged from last year.

The Company is subject to externally imposed capital requirements:

As a public company, the Company is required to have a minimum share capital of £50,000; and

In accordance with the provisions of Sections 832 and 833 of the Companies Act 2006, the Company as an investment company:

- is only able to make a dividend distribution to the extent that the assets of the Company are equal to at least one and a half times its liabilities after the dividend payment has been made; and
- is required to make a dividend distribution each year such that it does not retain more than 15% of the income that it derives from shares and securities.

These requirements are unchanged since last year and the Company has complied with them at all times.

17 Commitments and Contingent Liabilities
At 31 March 2021, there were no capital commitments or contingent liabilities (2020: nil).

18 Related Party Transactions
Under the Listing Rules, the Manager is regarded as a related party and deemed to be Key Management Personnel of the Company. The amounts paid to the Manager are disclosed in note 3.

The related party transactions with the Directors are set out in the Directors' Remuneration Report on pages 32 to 34.

AIFMD Disclosures (Unaudited)

In accordance with the AIFMD, Montanaro and the Company are required to make certain disclosures available to investors in relation to the Company's leverage and the remuneration of the Company's AIFM. In accordance with the Directive, the AIFM's remuneration policy is available from Montanaro on request. The Company's maximum and average actual leverage levels at 31 March 2021 are shown below:

Leverage exposure

	Gross method	Commitment method
Maximum limit	200%	200%
Actual	105.5%	109.5%

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 the Company's NAV and is calculated on both a gross and commitment method.

An explanation of the methods used can be found in the glossary of terms on page 62.

The leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles. 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 Company's website.

The AIFM has sufficient capital and liquid assets to meet the requirements under AIFMD. In addition, the AIFM has professional liability insurance cover of £5 million.

The periodic disclosures to investors as required under the AIFMD are made below:

- pages 10 to 35 and note 15 to the financial statements set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- information on the investment strategy, geographic and sector investment focus and stock exposures are included on pages 4 to 9; and
- none of the Company's assets are subject to special arrangements arising from their illiquid nature.

Shareholder Information

Sources of Further Information

Information on the Company is available on the Company's website: www.montanaro.co.uk/trust/muscit and the Manager's website: www.montanaro.co.uk.

Key Dates

The timing of the announcement and publication of the Company's results would normally be expected in the following months:

June	Annual results for the year ended 31 March announced and the annual report and financial statements published
July/August	Annual General Meeting
November	Half-yearly results to 30 September announced and published on the Company's website

Quarterly Dividend

Period ending	Declared	Payment date
30 June	July	August
30 September	October	November
31 December	January	February
31 March	April	May

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.

Share price and NAV

The Company's Ordinary shares are listed on the main market of the London Stock Exchange. The market price of these shares can be found in the London Stock Exchange Daily Official List. The Company's NAV is published daily and released through the London Stock Exchange's Regulatory News Service and is available on the Company's website.

Registrar enquiries

The register for the Ordinary Shares is maintained by Link Group. In the event of queries regarding your holding, please contact the registrar. You can contact the Registrar by calling 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales. Or alternatively you may contact the Registrar at enquiries@linkgroup.co.uk.

Changes of name must be notified in writing to the registrar, whose address is: Link Group, Shareholder Services Department, The Registry, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL. A change of address can be updated online via www.signalshares.com.

Common Reporting Standard

Under the Common Reporting Standard financial institutions, including investment trust companies, are required to provide personal information to HMRC on investors who meet certain criteria set out in the legislation. On an annual basis, the Company will provide information to the local tax authority on the tax residencies of non-UK based certificated shareholders and corporate entities. The local tax authority may exchange this information with the tax authorities of another country or countries in which the shareholder may be a tax resident, where those countries, or the tax authorities in those countries, have entered into agreements to exchange financial account information. New shareholders, excluding those whose shares are held in CREST, entered on the Company's share register, will be sent a certification form for the purposes of collecting this information.

Share dealing

Investors wishing to purchase more shares in the Company or to sell all or part of their existing holding may do so through their financial adviser, stockbroker or, if financial advice is not required, through a fund supermarket or any other execution-only platform. Further information can be found at: www.montanaro.co.uk/trust/muscit.

Nominee Code

Where shares are held in a nominee company name, the Company undertakes:

- to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance; and
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available; and nominee companies are encouraged to provide the necessary authority to underlying shareholders to attend the Company's general meetings.

Website

Your Board is committed to shareholder engagement. To receive regular email news and updates about the Company please visit: www.montanaro.co.uk/trust/muscit. Useful information on the Company, such as investor updates and half year and annual reports can also be found on the website.

AIC

The Company is a member of the Association of Investment Companies.

Stocks and Shares Individual Savings Accounts (ISA)

ISAs are a tax-efficient method of investment and the Company's shares are eligible investments for inclusion in an ISA.

Alternative Performance Measures ("APMs")

The Company uses the following APMs:

Discount (or Premium)

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

As at 31 March 2021, the Net Asset Value per share was 148.6p and the share price was 145.0p. The Discount is therefore calculated at 2.4% as shown in the highlights on page 1.

Gross Assets

Gross assets are calculated as net assets adding back borrowings.

	31 March 2021 £'000	31 March 2020 £'000
Net Assets	**248,666**	190,409
Fixed rate term loans	**20,000**	20,000
Gross assets	**268,666**	210,409

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 2021 £'000	31 March 2020 £'000
Total expenditure	**2,453**	2,486
Less interest payable and similar charges (see note 5)	**(616)**	(640)
Total (a)	**1,837**	1,846
Average daily net assets (b)	**225,120**	227,097
Ongoing charges (c = a/b) (C)	**0.82%**	0.81%

Net Gearing

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

	31 March 2021 £'000	31 March 2020 £'000
Fixed rate term loans	**20,000**	20,000
less: Cash at bank	**(10,031)**	(12,097)
Net debt (a)	**9,969**	7,903
Shareholders' funds (b)	**248,666**	190,409
Net Gearing (a/b)	**4.0%**	4.2%

Portfolio Turnover

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

	31 March 2021 £'000	31 March 2020 £'000
Purchases at cost	**66,065**	66,685
Sales proceeds	**65,592**	80,792
Total (a)	**131,657**	147,477
Average total (b) (b=a/2)	**65,829**	73,739
Average daily fair value of investments (c)	**236,452**	240,617
Portfolio turnover (b/c)	**27.8%**	30.6%

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 2021, the 1 year NAV Total Return was 35.8% and the 1 year Ordinary share price Total Return was 50%, as shown in the highlights on page 1.

NAV Total Return calculation as at 31 March 2021

	£'000	
NAV per share as at 31 March 2021	148.56	(c)
NAV per share as at 31 March 2020	113.76	(d)
Dividend adjustment factor (+1)	1.040	(a)
Pre-Dividend Reinvestment Factor	1.306	(b) (b=c/d)
NAV Total Return	**35.8%**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	**PPS**	**Dividend XD date**	**NAV at Dividend XD Date**	**NAV Multiplier**
Quarterly dividend 1	1.14	23.Apr.20	119.82	0.1
Quarterly dividend 2	1.26	23.Jul.20	126.61	0.1
Quarterly dividend 3	1.31	22.Oct.20	134.21	0.1
Quarterly dividend 4	1.46	28.Jan.21	143.57	0.1
				0.4

NAV Total Return calculation as at 31 March 2020

	£'000	
NAV per share as at 31 March 2020	113.76	(c)
NAV per share as at 31 March 2019	129.18	(d)
Dividend adjustment factor (+1)	1.040	(a)
Pre-Dividend Reinvestment Factor	0.880	(b) (b=c/d)
NAV Total Return	**(8.5%)**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	NAV at Dividend XD Date	NAV Multiplier
Quarterly dividend 1	1.29	25.Apr.19	137.29	0.01
Quarterly dividend 2	1.32	25.Jul.19	130.53	0.01
Quarterly dividend 3	1.31	24.Oct.19	132.16	0.01
Quarterly dividend 4	1.54	06.Feb.20	154.42	0.01
				0.04

Share price Total Return calculation as at 31 March 2021

Share price as at 31 March 2021	145.00	(c)
Share price as at 31 March 2020	101.00	(d)
Dividend adjustment factor (+1)	1.045	(a)
Pre-Dividend Reinvestment Factor	1.436	(b) (b=c/d)
Share price Total Return	**50.0%**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	Share price at Dividend XD Date	Share price Multiplier
Quarterly dividend 1	1.14	23.Apr.20	105.25	0.011
Quarterly dividend 2	1.26	23.Jul.20	108.00	0.012
Quarterly dividend 3	1.31	22.Oct.20	124.00	0.011
Quarterly dividend 4	1.46	28.Jan.21	135.00	0.011
				0.045

Share price Total Return calculation as at 31 March 2020

Share price as at 31 March 2020	101.00	(c)
Share price as at 31 March 2019	106.00	(d)
Dividend adjustment factor (+1)	1.046	(a)
Pre-Dividend Reinvestment Factor	0.953	(b) (b=c/d)
Share price Total Return	**(0.30%)**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	Share price at Dividend XD Date	Share price Multiplier
Quarterly dividend 1	1.29	25.Apr.19	117.50	0.011
Quarterly dividend 2	1.32	25.Jul.19	111.59	0.012
Quarterly dividend 3	1.31	24.Oct.19	110.00	0.012
Quarterly dividend 4	1.54	06.Feb.20	143.00	0.011
				0.046

Glossary of Terms

Alternative Performance Measure ("APM")
An APM is a numerical measure of the Company's current, historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial framework.

Articles
Articles of Association of the Company, being its Constitutional Document.

Commitment method of calculating leverage
Exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

Gearing
Gearing refers to the ratio of the Company's debt to its equity capital. The Company may borrow money to invest in additional investments for its portfolio. If the Company's assets grow, the shareholders' assets grow proportionately more because the debt remains the same.

If the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Gross method of calculating leverage
Represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements.

Montanaro, AIFM or Manager
Montanaro Asset Management Limited.

MUSCIT
Montanaro UK Smaller Companies Investment Trust PLC.

NAV
The NAV is the shareholders' funds. Shareholders' funds are the total value of all of the Company's assets, at their current market value, having deducted all liabilities and prior charges at their par value, or at their asset value as appropriate. The NAV per share is calculated by dividing the shareholders' funds by the number of Ordinary shares in issue excluding treasury shares.

NSCI
Numis Smaller Companies Index (excluding investment companies).

PPS
Pence per share.

Relative NAV per share performance vs benchmark
This is the difference between the increase in the NAV as a percentage over the year and the Benchmark as a percentage over the year.

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.

COVID-19 AND CONTINGENCIES

We are keen to welcome shareholders in person to our 2021 Annual General Meeting this year, particularly given the constraints we faced in 2020 due to the COVID-19 pandemic. At present, it is expected that Step 4 of the Government's roadmap out of lockdown will take place before the Company's AGM and therefore public gatherings will be possible indoors. We are therefore proposing to hold the Annual General Meeting at 53 Threadneedle Street, London EC2R 8AR and to welcome the maximum number of shareholders we are able within safety constraints and in accordance with government guidelines.

However, given the constantly evolving nature of the situation, we want to ensure that we are able to adapt these arrangements efficiently to respond to changes in circumstances. On this basis, should the situation change such that we consider that it is no longer possible for shareholders to attend the meeting, we will notify shareholders of the change by RNS announcement. Should we have to change the arrangements in this way, it is likely that we will not be in a position to accommodate shareholders beyond the minimum required to hold a quorate meeting, which will be achieved through the attendance of Directors, who are shareholders. Any updates to the position will be included on our website at www.montanaro.co.uk/trust/muscit.

ATTENDANCE AT THE MEETING

Shareholders intending to attend the Annual General Meeting, should this be possible, are asked to register their intention as soon as practicable by emailing the Company Secretary at MUSCIT_CoSec@linkgroup.co.uk.

SHAREHOLDER ENGAGEMENT

Arrangements are being made to enable shareholders to see the presentation which will be given by the Investment Manager at the AGM. This is being done in the event that the AGM might not be able to proceed in person, to ensure that all shareholders have the chance to see the update and engage with the Company. The presentation will be published on our website www.montanaro.co.uk/trust/muscit in advance of the AGM. Should you wish to ask the Board or the Investment Manager any questions, we request that you do so by either email to: MUSCIT_CoSec@linkgroup.co.uk, or by post, by writing to: The Company Secretary, Link Company Matters Limited, 6th floor, 65 Gresham St, London EC2V 7NQ. Those questions which are submitted before Friday 6 August 2021 will be answered ahead of the AGM, and we will endeavour to answer any questions subsequently received as soon as possible.

PROXIES

Given the uncertainty around whether shareholders will be able to attend the Annual General Meeting, because of tighter restrictions due to a change in the situation with the COVID-19 pandemic, we encourage all shareholders to complete and return a proxy form appointing "the Chair of the meeting", as their proxy. This will ensure that your vote will be counted if ultimately you (or any other proxy you might otherwise appoint) are not able to attend the meeting. To be valid, the form of proxy should be completed, signed and returned in accordance with the instructions printed thereon, as soon as possible, and in any event, to reach the Company's registrars, Link Group, no later than 48 hours before the time of the Annual General Meeting, or any adjournment of that meeting.

Notice of Annual General Meeting continued

Notice is hereby given that the Annual General Meeting of Montanaro UK Smaller Companies Investment Trust plc (the 'Company') will be held at 53 Threadneedle Street, London EC2R 8AR, on Thursday, 12 August 2021 at 12.00 noon for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13 to 15 will be proposed as special resolutions.

ORDINARY RESOLUTIONS

RESOLUTION 1 – ANNUAL REPORT AND FINANCIAL STATEMENTS
To receive and, if thought fit, to accept the Strategic Report, the Directors' Report, the Auditor's Report and the audited financial statements of the Company for the year ended 31 March 2021.

RESOLUTION 2 – DIRECTORS' REMUNERATION REPORT
To receive and approve the Directors' Remuneration Report for the year ended 31 March 2021.

RESOLUTION 3 – DIRECTORS' REMUNERATON POLICY
To approve the Directors' Remuneration Policy as set out in the Directors' Remuneration Report on pages 32 and 33.

RESOLUTION 4 – DIVIDENDS
To approve the Company's dividend policy to continue to pay four quarterly interim dividends.

RESOLUTION 5 – RE-ELECTION OF DIRECTOR
To re-elect Arthur Copple as a Director of the Company.

RESOLUTION 6 – RE-ELECTION OF DIRECTOR
To re-elect James Robinson as a Director of the Company.

RESOLUTION 7 – RE-ELECTION OF DIRECTOR
To re-elect Catriona Hoare as a Director of the Company.

RESOLUTION 8 – ELECTION OF DIRECTOR
To elect Barbara Powley as a Director of the Company.

RESOLUTION 9 – RE-APPOINTMENT OF AUDITOR
To re-appoint BDO LLP as Auditor to the Company to hold office from the conclusion of this Meeting until the conclusion of the next General Meeting at which financial statements are laid before the Company.

RESOLUTION 10 – AUDITOR'S REMUNERATION
To authorise the Audit and Management Engagement Committee to determine the Auditor's remuneration.

RESOLUTION 11 – AUTHORITY TO ALLOT SHARES
THAT the Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any authorities previously granted to the Directors to the extent unused) pursuant to Section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot shares and to grant rights to subscribe for, or to convert any security into, shares in the Company ("Rights") up to an aggregate nominal amount of £334,759 (being approximately 10% of the issued share capital (excluding treasury shares) as at 14 June 2021) provided that the authorities conferred on the Directors shall, unless renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares or grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

RESOLUTION 12 – CONTINUATION VOTE
THAT the Directors be released from the obligation to convene a General Meeting during 2022 for the purpose of providing for the Company to be wound-up on a voluntary basis as stated in the Company's Articles of Association.

SPECIAL RESOLUTIONS

RESOLUTION 13 – DISAPPLICATION OF PRE-EMPTION RIGHTS

THAT, subject to the passing of Resolution 11 (and in substitution for all subsisting authorities to the extent unused but without prejudice to the exercise of any such power prior to the date hereof), the Directors be and are hereby empowered pursuant to Section 570 and Section 573 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of Section 560 of the Act) and to sell equity securities held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority conferred by Resolution 11 as if Section 561 of the Act did not apply to any such allotment and of sales of equity securities, provided that this power:

(a) shall expire at the conclusion of the Company's next Annual General Meeting after the passing of this resolution, 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 Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired;

(b) shall be limited to the allotment of equity securities and/or sale of equity securities held in treasury for cash up to an aggregate nominal amount of £334,759 (being approximately 10% of the issued share capital (excluding treasury shares) as at 14 June 2021); and

(c) shall authorise the Directors to issue equity securities at such issue price as the Directors may determine (including, without limitation, where equity securities are being issued from treasury at a price below the net asset value per ordinary share (including income) of the Company at the time of the relevant issue).

RESOLUTION 14 – AUTHORITY TO BUY BACK SHARES

THAT in substitution for the Company's existing authority to make market purchases of Ordinary shares in the capital of the Company ("Ordinary shares"), the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 ("the Act") to make market purchases (within the meaning of Section 693(4) of the Act) of Ordinary shares, provided that:

(i) the maximum number of Ordinary shares hereby authorised to be purchased shall be 25,090,230, or if less, that number of Ordinary shares which is equal to 14.99% of the number of shares in issue immediately following the passing of this resolution;

(ii) the minimum price (excluding expenses) which may be paid for each Ordinary share is the nominal value of that share;

(iii) the maximum price (excluding expenses) payable by the Company for each Ordinary share is the higher of (i) 105% of the average closing market value of the Ordinary shares in the Company as derived from the Daily Official List of the London Stock Exchange, for the five business days prior to the date of the market purchase and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange;

(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2022 unless such authority is renewed prior to such time; and

(v) the Company may make a contract to purchase Ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary shares pursuant to any such contract.

All Ordinary shares purchased pursuant to the above authority shall be either:

(i) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act; or

(ii) cancelled immediately upon completion of the purchase.

RESOLUTION 15 – ARTICLES OF ASSOCIATION

THAT the articles of association produced to the meeting and signed by the chairman of the meeting for the purposes of identification be approved and adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association with effect from the conclusion of the meeting.

By order of the Board

LINK COMPANY MATTERS LIMITED
Company Secretary
14 June 2021

65 Gresham Street
London EC2V 7NQ

Notice of Annual General Meeting continued

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 2021 (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 – Directors' Remuneration Policy
The Board proposes a resolution to approve the Remuneration Policy that will apply until it is next put to shareholders for renewal of that approval, which must be at intervals of not more than three years.

Resolution 4 – Final dividend
To approve the Company's dividend policy to continue to pay four quarterly interim dividends. Further details on the timings of each quarterly dividend can be found in the Shareholder Information section on page 58.

Resolutions 5 to 8 – Election and 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, Messrs Copple and Robinson, and Ms Hoare will retire and offer themselves for re election as Directors. Mrs Powley will offer herself for election.

All of the Directors seeking election or re election are recommended by the Board for election or re election, respectively. Full biographies of all of the Directors are set out in the Annual Report on pages 18 and 19 and are also available for viewing on the Company's website www.montanaro.co.uk/trust/muscit. The Nomination and Remuneration Committee considered the Directors' performance and recommended their election or re election and the Board agrees that it is in the best interests of shareholders that each of the Directors be elected or re elected.

Resolutions 9 and 10 – 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 and Management Engagement Committee, recommends the re-appointment of BDO LLP as auditor to the Company. The auditor's re-appointment will be proposed to the AGM as Resolution 9. Resolution 10 authorises the Audit and Management Engagement Committee to fix the auditor's remuneration.

Resolution 11 – Authority to allot ordinary shares
Resolution 11 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 £334,759, representing approximately 10% of the issued ordinary share capital at the date of the Notice. This authority shall expire at the next AGM.

Resolution 12 – Continuation Vote
Resolution 12, if passed, will release the Directors from the obligation to convene a General Meeting during 2022 for the purpose of providing for the Company to be wound-up on a voluntary basis as stated in the Company's Articles of Association. It will also allow the Company to continue as an investment trust for a further five years. A similar resolution was last passed at the AGM in 2017.

Resolution 13 – Authority to disapply pre emption rights
Resolution 13 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 11 (being in respect of ordinary shares up to an aggregate nominal value of £334,759, representing approximately 10% of the Company's issued ordinary share capital 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 11 and 13 if they believe it is advantageous to the Company's shareholders to do so.

Resolution 14 – Purchase of own shares

Resolution 14 is a special resolution which will grant the Company authority to make market purchases of up to 25,090,230 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 £0.02.

It is the Board's intention that any shares bought back by the Company will be held in treasury and 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. Any treasury shares re-issued must also be at an absolute profit. The Directors will only consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between supply and demand for the Company's shares. Any decisions regarding placing shares into treasury, or selling shares from treasury, will be taken by the Directors.

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

Resolution 15 – Articles of Association

Please see the Appendix to this Notice of AGM on pages 71 and 72 for further information on the proposed amendments to the Company's Articles of Association.

Notice of Annual General Meeting continued

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf.

1. To be entitled to vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on Tuesday, 10 August 2021. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
2. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different Ordinary share or Ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
3. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
5. You can vote either:
   (i) by logging on to www.signalshares.com and following the instructions;
   (ii) You may request a hard copy form of proxy directly from the registrars, Link Group on Tel: 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday, excluding public holidays in England and Wales.
   (iii) in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below. In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Group at PXS 1, 10th Floor, Central Square, 29 Wellington Street, LEEDS, LS1 4DL by 12 noon on Tuesday, 10 August 2021.
6. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
7. The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in note 8 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a 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.
9. In order for a proxy appointment or instruction made by means of CREST 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 instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 12 noon on Tuesday, 10 August 2021. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10. CREST members and, where applicable, their CREST sponsors or voting service providers 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 to 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.
11. 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. If a 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.
12. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.
13. 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 a 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 1 July 2021, 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.
14. As at 14 June 2021 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 167,379,790 ordinary shares of 2 pence each, carrying one vote each. Therefore, the total voting rights in the Company as at 14 June 2021 are 167,379,790.
15. Under Section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the Auditor's Report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with Section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, 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 Meeting for the relevant financial year includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.
16. Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered. A copy of the proposed new articles of association of the Company, together with a copy showing all of the proposed changes to the existing articles of association, will be available for inspection at the AGM venue, from the date of this AGM Notice until the close of the AGM. Any inspection will be subject to the social distancing guidelines which may be in effect at the time, and prior notice of a request to inspect the documents should be agreed with the Company Secretary beforehand by emailing MUSCIT_CoSec@linkgroup.co.uk.

Notice of Annual General Meeting continued

17. Copies of the Directors' letters of appointment are available for inspection during normal business hours at the registered office of the Company on any business day from the date of this Notice until the time of the Meeting and may also be inspected at the Meeting venue, as specified in this Notice, from 11.45 am on the day of the Meeting until the conclusion of the Meeting. The proposed new Articles of Association (and a comparison against the existing Articles of Association) will be available for inspection on the Company's website at www.montanaro.co.uk/trust/muscit from the date of this Annual Report until the conclusion of the AGM. They may also be obtained from 53 Threadneedle Street, London EC2R 8AR (being the location of the AGM) from the date of this Notice until the conclusion of the AGM (including, for the avoidance of doubt, from 11.45 am on the day of the Meeting until the conclusion of the Meeting). Shareholders are advised that any inspection at 53 Threadneedle Street, London EC2R 8AR will be subject to the social distancing guidelines which may be in effect at the time, and as such, shareholders are requested to provide prior notice of a request to inspect the documents at this location, to be agreed with the Company Secretary beforehand by emailing MUSCIT_CoSec@linkgroup.co.uk.
18. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
19. Personal data provided by shareholders at or in relation to the Meeting will be processed in line with the Company's privacy policy.

A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website at www.montanaro.co.uk/trust/muscit.

Appendix

SUMMARY OF KEY CHANGES IN NEW ARTICLES OF ASSOCIATION OF THE COMPANY

Shareholders are advised that the below list is not an exhaustive list of all changes in the proposed new Articles of Association. Shareholders must not rely on the below list and all shareholders should review the proposed new Articles of Association in full prior to voting and prior to the AGM.

The proposed new Articles of Association (and comparison against the existing Articles of Association) will be available for inspection on the Company's website at www.montanaro.co.uk/trust/muscit from the date of this Notice of Annual General Meeting until the conclusion of the AGM. The proposed new Articles of Association (and comparison against the existing Articles of Association) may also be obtained from 53 Threadneedle Street, London EC2R 8AR (being the location of the AGM) from the date of this Notice of Annual General Meeting until the conclusion of the AGM (including, for the avoidance of doubt, from 11.45 am on the day of the AGM until the conclusion of the AGM). Shareholders are advised that any inspection at 53 Threadneedle Street, London EC2R 8AR will be subject to the social distancing guidelines which may be in effect at the time, and as such, shareholders are requested to provide prior notice of a request to inspect the documents at this location, to be agreed with the Company Secretary beforehand by emailing MUSCIT_CoSec@linkgroup.co.uk

1. Electronic general meetings

The Board will have the ability to call a 'hybrid' general meeting, being a meeting with a physical location in addition to remote attendance through an electronic facility. Provisions governing general meetings will also be updated to include additional provisions in respect of such hybrid meetings (including but not limited to notice for, attendance by shareholders and proxies at, voting at, and postponement and adjournment of, such hybrid meetings).

2. Postponement of general meetings

The Board will have the ability to postpone a hybrid general meeting (in addition to a general meeting other than the hybrid general meeting) if, in its absolute discretion, it considers that it is impractical or unreasonable for any reason to hold the meeting on the date or at the time or at any place specified in the notice calling the general meeting. In addition, if the Chairman determines that the facilities or security at any general meeting (including any hybrid meeting) have become inadequate, the Chairman may interrupt or adjourn the meeting (without the consent of the meeting).

3. Documents available for inspection at a meeting

If, in the case of a general meeting which is held by way of a hybrid meeting, any document is required to be on display or available for inspection at that meeting (whether prior to and/or for the duration of the meeting), the Company shall ensure that it is electronically available to persons entitled to inspect it for at least the required period of time.

4. Accommodation of members and security arrangements at general meetings

Where a general meeting is held by a hybrid meeting by means of an electronic facility, the Board and the Chairman may make any proportionate arrangement and impose any proportionate requirement or restriction that is necessary to ensure the identification of those taking part by way of electronic communication. The entitlement of any member or proxy to attend and participate in a general meeting (physically or electronically) shall be subject to such arrangements.

5. Method of voting at general meetings conducted electronically

A resolution put to the vote at a hybrid general meeting by means of an electronic facility shall be decided on a poll, with poll votes to be cast by such electronic means as the Board, in its sole discretion, deems appropriate for the purposes of the meeting.

6. Appointment and retirement of Directors at annual general meetings

In line with the UK Corporate Governance Code and AIC Code of Corporate Governance, the Directors shall retire at each annual general meeting of the Company (except for any director appointed by the Board after the notice of such annual general meeting and before the annual general meeting is held).

Appendix continued

7. Untraced shareholders and unclaimed dividends

The Company's ability to sell the shares of an untraced shareholder, if they cannot be traced, will change to reflect current market practice and, in doing so, provide additional flexibility to the Company. There will no longer be a requirement for the Company to advertise in a newspaper in the event of an untraced shareholder. The Company will, instead, be required to use reasonable efforts to trace the relevant shareholder (including, if appropriate, engaging a professional asset reunification company).

In addition, in the event that a shareholder cannot be traced and the Company is able to sell such shares, the net proceeds of sale and/or any unclaimed dividends relating to such shares will belong to the Company. The Company will not be liable or required to account any such net proceeds of sale and/or dividends to the untraced shareholder or any other person entitled to the proceeds by law, but the Company will assess any such claims on a case-by-case basis. The Company will be permitted to use the proceeds and/or dividends for the benefit of the Company in any matter that the Directors think fit.

8. Information rights and forced transfers

The Board will be able to require any shareholder to provide the Company with any information that the Board determines is required in order for the Company to, inter alia, comply with certain specified obligations and requirements. In addition, if the Board determines that any shares held by any person are Prohibited Shares (as defined in the proposed new Articles of Association), then the Board will be able to require any such person holding such Prohibited Shares to transfer the Prohibited Shares. From the date of any such request by the Board, the shareholder of the prohibited shares will not be entitled to vote or attend any general meeting. If the transfer notice is not complied with, the Board may arrange for sale of the prohibited shares and net proceeds of sale (after deduction of the Company's costs in respect of the sale and an appropriate interest rate determined by the Directors) will be paid to the former shareholder upon surrender of the relevant share certificate (if applicable).

9. Directors' Fees

In line with the proposed new Directors' Remuneration Policy (as set out in the Directors' Remuneration Report on pages 32 to 33), the maximum fees to be paid to the Directors shall not exceed £200,000 (to be divided among the Directors in such proportions and in such manner as the Board may determine).

10. Other

Other updates and changes include (but are not limited to) additional and/or amended provisions in respect of:

- certificated shares and uncertificated shares;
- increase, consolidation, sub-division and redenomination of share capital;
- reduction of capital;
- treasury shares;
- quorum at general meetings;
- number of directors;
- eligibility of new directors;
- share qualification;
- vacation of office by directors;
- associate directors;
- net asset value;
- information made available to members;
- valuation; and
- liability for loss of financial assets held in custody.

Principal 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
Website: www.montanaro.co.uk
Email: enquiries@montanaro.co.uk

Administrator
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51 New North Road
Exeter EX4 4EP
Tel: 01392 477500
Fax: 01392 498288

Company Secretary and Registered Office
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65 Gresham Street
London EC2V 7NQ
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Email: Muscit_Cosec@linkgroup.co.uk

Registrar
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Shareholder Services Department
The Registry
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Central Square
29 Wellington Street
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Tel: 0371 664 0300
(calls will cost 12p per minute plus network charges)
Email: shareholderenquiries@link.co.uk
Website: https://www.linkgroup.eu/

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Custodian
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Montanaro UK Smaller Companies Investment Trust PLC
Registered in England and Wales No. 3004101

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

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