MONTANARO

UK Smaller Companies Investment Trust PLC

Annual Report and Accounts 2017

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 the Alternative Investment Market ("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 2017

Results

	As at 31 March 2017	As at 31 March 2016	% change
Ordinary share price	510.0p	461.0p	10.6
Net Asset Value ("NAV") per Ordinary share	631.6p	570.6p	10.7
NAV (excluding current period revenue) per Ordinary share	621.6p	558.4p	11.3
Discount to NAV (excluding current period revenue)	18.0%	17.4%	
NSCI*	7,701.3	6,674.2	15.4

* Capital only.

	Year to 31 March 2017	Year to 31 March 2016	% change
Revenue return per Ordinary share	10.0p	12.1p	-17.4
Dividend per Ordinary share	10.5p	10.0p	5.0
Gross assets	£232.2m	£219.6m	5.7
Net assets	£211.4m	£191.0m	10.7
Market capitalisation	£170.7m	£154.3m	10.6
Net gearing employed*	2.7%	9.9%	
Ongoing charges	1.2%	1.2%	
Portfolio turnover**	31.5%	16.5%	

* Borrowing net of cash.
** Calculated using average transactions as a percentage of the average total Investments at fair value during the year.

Performance

Capital Return	1 year	3 year	5 year	10 year	Since launch
Share price	10.6	0.9	46.6	64.0	436.8
NAV (excluding current period revenue)	11.3	7.1	44.8	71.1	530.5
Benchmark*	15.4	13.3	72.7	12.0	159.6

Total Return	1 year	3 year	5 year	10 year	Since launch
Share price**	13.3†	6.8†	60.8†	99.3†	521.1
NAV**	12.8†	12.6†	56.2†	101.1†	621.9
Benchmark*	18.8	23.4	99.2	52.1	392.7

* 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.

** Returns have been adjusted for dividends paid.

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

Strategic Report

Chairman's Statement

Background

I am pleased to present the twenty-second annual report of MUSCIT which was launched on 16 March 1995. In 1996, the initial investment of £25 million was increased in size through a £30 million "C" share issue. Net assets now stand at £211 million.

An investment trust is an attractive vehicle for shareholders to invest in quoted UK "smaller" companies, which are less well researched and more illiquid than larger, blue chip companies.

Since inception, MUSCIT has delivered a cumulative NAV total return of 622% compared with an increase of 393% for the composite benchmark.

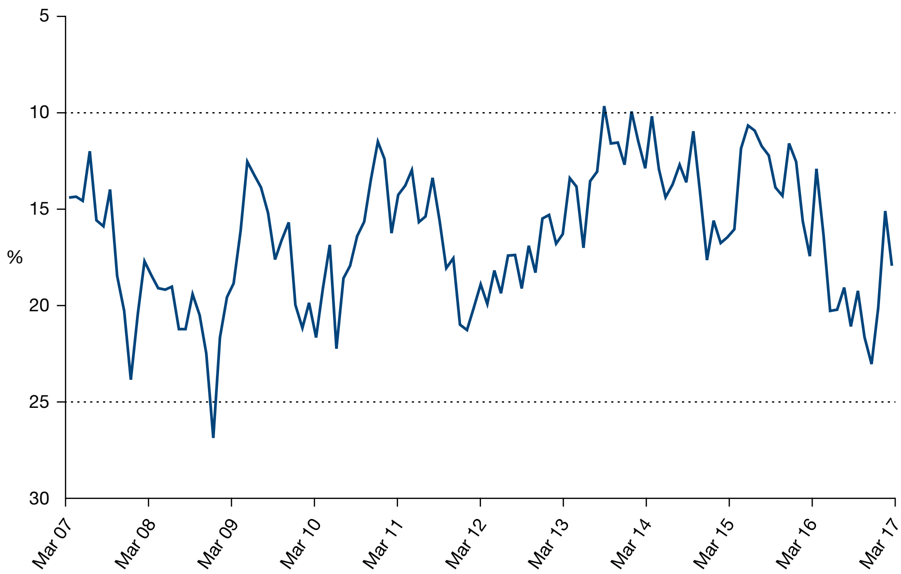
Results

In the year to 31 March 2017, the NAV per share of MUSCIT (excluding current period revenue) rose by 11.3% to 621.6p in comparison with a gain of 15.4% by the NSCI. During the same period, the Company's share price rose by 10.6% to 510.0p, reflecting a modest widening of the discount.

Discount

The discount of MUSCIT's share price to NAV, as shown in the graph below, widened to 18.0% on 31 March 2017 from 17.4% at the end of the previous financial year. The BREXIT referendum held in June 2016 led to significant investor concern over the future of the UK economy, which was reflected in an increase in the average discount of the SmallCap investment trust sector.

Share Price Discount to NAV*



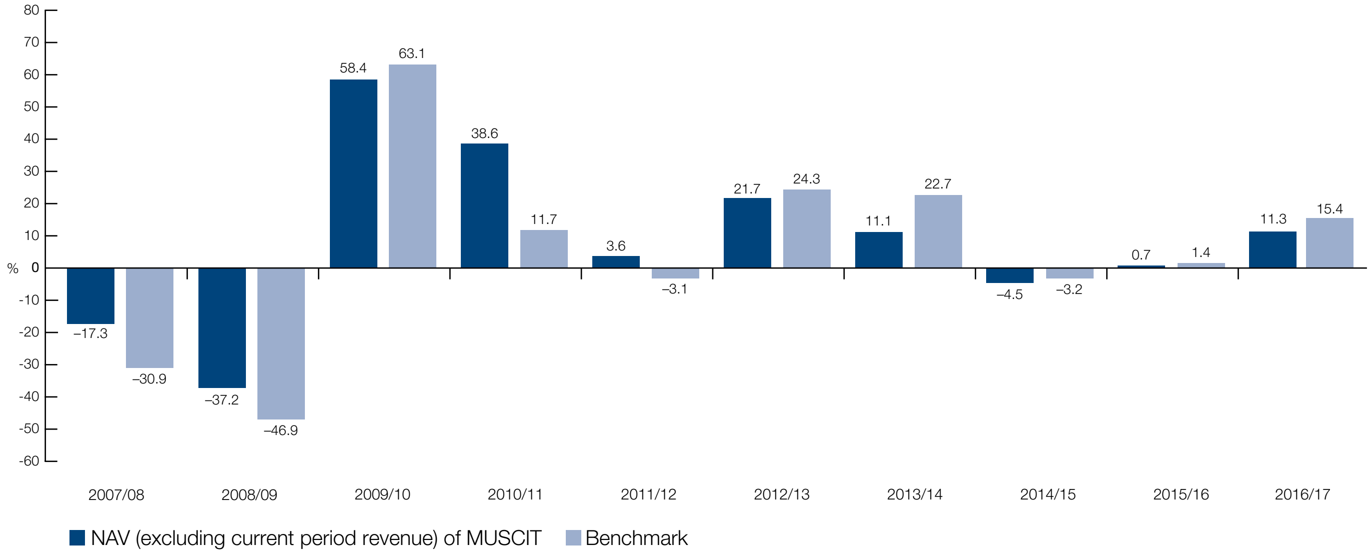
* Discount based on NAV (excluding current period revenue) over the last ten years.

Source: Montanaro Asset Management Limited.

Strategic Report continued

Chairman's Statement continued

Annual NAV Performance vs Benchmark (over the last 10 years)



Source: Capita Sinclair Henderson Limited.

Management Fee

The Board remains ever sensitive to the need to review and manage costs: on 1 April 2014, the investment management fee decreased from 1% to 0.85% of gross assets. In addition, the performance fee was removed. Montanaro has gone one stage further in seeking to stay ahead of its peers and act in the interests of investors; it has reduced once again the investment management fee to 0.50% p.a. of gross assets with effect from 1 April 2017. The Board believes that shareholders will benefit from the significant reduction in the ongoing charge which will make MUSCIT one of the most competitive investment trusts in the sector.

Share Buy Backs

The Board is responsible for the implementation of the share buy-back programme which is undertaken at arms' length from Montanaro. No shares were bought back during the year.

As at 31 March 2017, no shares were held in Treasury.

Gearing

The Board, in discussion with the Manager, regularly reviews the gearing strategy of the Company and approves the arrangement of any gearing facility. This is a key feature of investment trusts that we believe offers a strong competitive advantage over open-ended investment funds. The ability to gear can significantly enhance investment returns to shareholders and as such the Board strongly encourages active use of the gearing facility by the Manager.

During the course of the year, the two £15 million revolving credit facilities with ING Bank (that expired in December 2016 and February 2017) were replaced by a Fixed Rate Term Loan of £20 million and a £10 million Revolving Credit Facility. Both these facilities will expire in December 2021.

At 31 March 2017, net gearing was reduced to 2.7%, a level that the Board and the Manager considered to be appropriate following a strong final quarter.

Dividend

MUSCIT's primary aim is to deliver capital growth to its shareholders rather than dividend income. Nonetheless, the high quality of the companies in which we invest has allowed us to maintain a consistent dividend policy.

The Board proposes a final dividend of 10.5p per Ordinary share to be paid on 2 August 2017 to shareholders who appear on the register at the close of business on 7 July 2017. This represents an increase of 5% compared to last year. On average the dividend has increased by 15% per annum over the past 10 financial years.

Directors

After seven years on the Board and three years as Chairman, Kathryn Matthews stepped down from the Board on 8 March 2017.

Together with the whole Board, I would like to thank Ms. Matthews for her valuable contribution to the Company and extend our best wishes to her for the future.

The Board is delighted to have appointed Arthur Copple as a Non-Executive Director on 1 March 2017. Arthur brings more than 30 years of experience in investment trusts combined with valuable expertise in the SmallCap sector.

Outlook

Brexit

It is currently almost obligatory to make cautionary remarks about the impact of the UK's planned withdrawal from the European Union ('BREXIT'). The two-year period for discussions about withdrawal is currently scheduled to end on 29 March 2019.

The 2015 Office for National Statistics ('ONS') 'Pink Book' figures show that the UK exported £134bn worth of goods to the remaining 27 countries of the EU and imported £223bn. It is therefore in everybody's interest that negotiations are conducted in a reasonable and constructive manner. From the UK's perspective, it is essential that we show a united approach, free from any form of schadenfreude. This is particularly relevant following the recent General Election which resulted in a hung parliament. A minority Conservative government relying on the Democratic Unionist Party ("DUP") for support is far from ideal.

Although BREXIT worries may increase volatility in UK and European stock markets, it is debatable whether it will cause anything other than a 'blip' to long-term returns. The enormous debt levels incurred by governments, companies and individuals as a result of unconventional monetary policies (such as Quantitative Easing), together with the risk of protectionist trade measures, are of far greater concern. However, the exponential technological progress aiding new discoveries in medicine, energy, robotics and other areas bodes well for the future, especially in SmallCap.

MIFID II

MiFID II rules, to be implemented across Europe in 2018, are intended to increase transparency and reduce costs for investors. Perhaps in order to further aid transparency, Regulatory and Compliance costs should also be stated separately to ensure that investors can assess the value for money of the regulatory regime.

It has been suggested that the new MiFID rules on research payments will favour the larger fund companies and harm small boutiques such as Montanaro. On the contrary, Montanaro has one of the largest SmallCap teams in Europe, with no less than eight nationalities, and should benefit from their own proprietary in-house research in what is likely to become an even more under-researched sector.

Active vs Passive

The unusual investment environment since 2007/08 and the impact of fees in a low growth decade has boosted the trend away from active towards passive management. The dramatic growth of passive management, dominated by indices on autopilot, could pose future systemic risk. Over many years of investing, I have found that the most popular trends have a habit of disappointing.

I feel comforted by the rigorous analysis behind the Trust's portfolio and the Manager's passion and knowledge of the SmallCap sector where risk, in my view, is best managed actively.

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 2018 to wind up the Company. If passed, this will allow the Company to continue as an investment trust for a further five years.

MUSCIT is proud of its long-term performance record, but over the last five years it has been disappointing. The Board and the Manager have reviewed and analysed the reasons behind this. Over this period, part of the explanation relates to investment style as the Trust's quality growth and low debt investment style were out of favour.

However, this is only part of the explanation. We conducted a systematic review of the universe (including peers) to identify where opportunities had been missed. Since Charles Montanaro handed over the reins in 2011, there had been some style drift with a few poor investment selections which, during such a low growth environment, were harshly treated by the market. An avoidance of AIM stocks, although sensible for many years, was a mistake over the past two. The AIM index has grown considerably in both size and quality and is now capitalised at some £70bn. Going forward, selective exposure to companies traded on AIM is targeted at 15%–20% of the portfolio.

The Board believes that the reasons for the underperformance have been identified and that the key issues have been addressed. We are particularly pleased that Charles has resumed the day to day management of MUSCIT with a commitment to do so for at least another five years. Recent performance has been encouraging.

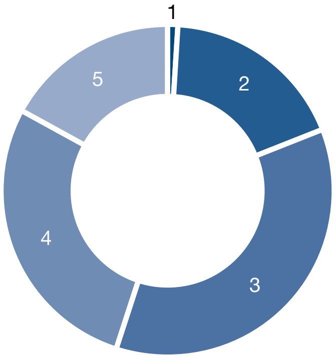
In light of the strong long-term track record of MUSCIT, the commitment of Montanaro, and following the comprehensive review shown above, the Board unanimously recommends that all Shareholders should vote in favour of Resolution 10 at the Annual General Meeting, as they intend to do themselves.

ROGER CUMING
Chairman
12 June 2017

Strategic Report continued

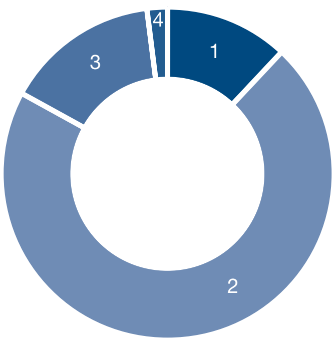
Manager's Report

Breakdown by Market Cap (Ex Cash)



		2017	(2016)
1	£0–£250m	1%	(3%)
2	£250m–£500m	18%	(13%)
3	£500m–£1bn	36%	(30%)
4	£1bn–£1.5bn	28%	(40%)
5	>£1.5bn	17%	(14%)

Breakdown by Index (Ex Cash)



		2017	(2016)
1	FTSE 250*	12%	(33%)
2	NSCI	71%	(67%)
3	UK AIM	15%	(0%)
4	Other	2%	(0%)

Montanaro

Montanaro was established in 1991. We have one of the largest and most experienced specialist teams in the UK dedicated exclusively to researching and investing in quoted European small companies. We have a team of 28, which gives us the benefit of local contacts and knowledge that is so essential.

At 31 March 2017, Montanaro's assets under management were over £2 billion.

Investment Philosophy and Approach

Montanaro specialises in quoted UK small companies. Investment ideas typically are generated internally, rather than through brokers, and are researched in detail in-house. With around 2,000 UK companies within our universe, we are spoilt for choice. There is never a shortage of exciting new ideas. Before conducting detailed research on an individual company, we gather and carefully review extensive trade and industry data to help us to understand the sector in which a company operates and its growth drivers.

Investments are focused exclusively on companies that are profitable. We are mindful of our 'circle of competence' – complicated, blue-sky companies are not for us. We focus on companies we can understand, typically niche franchises with good and experienced management, sound finances, simple business models, good order visibility, high barriers to entry, a strong, normally dominant market position and a competitive advantage that ensures pricing power. If there is a choice of more than one company in a specific sector, we would normally invest in the market leader. We prefer companies that can demonstrate self-funded organic growth rather than those on the acquisition treadmill.

We believe that "*you get what you pay for in life*" – it is worth paying more for a higher quality company. We like cash-generative companies with high operating profit margins, an indicator that they are providing goods or services of value to their clients, which are better able to withstand a downturn. We carefully assess potential catalysts for share price performance such as positive news flow. We never lose sight of our primary goal, which is to make money for shareholders through sound investment based on our own rigorous, fundamental analysis. We take a conservative approach. We also believe that it is right and proper to align our interests with those of our investors – we invest in our own funds.

To ensure that we remain well informed, we regularly visit the companies in which we invest. This is the fun part of the job and where we feel we can add the most value. We place great emphasis on management and seek to gain an understanding of their goals and aspirations by seeing them operate in their own environment. It is a privilege to meet them. The track record of executives is examined in detail along with board structure, the level of insider ownership and the emphasis placed by management on sound corporate governance. Good communication and regular dialogue with management are an important part of our investment process. We are more interested in where an industry and a specific company will be in 5-10 years than its next set of figures. We are genuine long-term investors, seemingly an increasing rarity these days.

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

We believe that the major risk of investing in quoted UK small companies is stock specific. Having a high level of in-house resources and a disciplined investment process means that we are well-equipped to manage this risk. In addition, we have a number of risk disciplines aimed at limiting our exposure to a particular sector or company. For example, if a holding reaches a 4% weighting in the portfolio, we will consider reducing our exposure even if we believe the outlook is still positive – no company is immune to external shocks or unexpected surprises.

In summary, we invest in well managed, high-quality companies in growth markets at sensible valuations. We are long-term investors and keep turnover and transaction costs low. We follow the companies in which we invest very closely over many years, measured more in decades than the short-termism of others. We would rather pay more for a higher quality, more predictable company that can be valued with greater certainty. We like to sleep at night.

The Portfolio

The portfolio at 31 March 2017 consisted of 53 companies of which the top ten holdings represented 29.4%.

At 31 March 2017, the Company held 12 companies traded on AIM, representing 15.1% 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.

Review

The past year will long be remembered for the BREXIT referendum held on 23 June 2016, which resulted in the UK's decision to leave the European Union. The outcome came as a shock to the investment community.

Following the vote, the Numis Smaller Companies Index, excluding investment companies, ("NSCI") declined by 7%, recording its worst monthly performance relative to the FTSE All-Share in more than 26 years. Not even the aftermaths of 9/11 or Lehman Brothers were as bad. Investors were quick to sell small companies, favouring the perceived safety of big multinationals that derive most of their revenue in US Dollars and from overseas.

The market's reaction to the BREXIT referendum, however, was as short-lived as it was severe. A sharp fall in Sterling provided welcome support to investor confidence. By the end of the Summer, economists were revising their GDP forecasts higher and bond yields were on the rise. The victory of Donald Trump in the US presidential election in November 2016 gave an additional impetus to equity markets, which consolidated their recovery. By 31 March 2017, the NSCI was 31% higher than its low point two days after the referendum.

Our "Quality Growth" investment approach struggled against such a backdrop, which saw the strongest share price gains recorded by exporters and low quality businesses in the Commodities, Mining and Banking sectors where typically we do not find attractive companies with the predictability that we like. Low Quality SmallCap outperformed High Quality by no less than 8% during the financial year (source: Montanaro Quality indices). By contrast, companies with predominantly domestic exposure such as house builders, REITs, construction companies, retailers and asset managers underperformed sharply which impacted MUSCIT's performance.

Gearing

The Alternative Investment Fund Manager ("AIFM"), in consultation with the Board, is responsible for determining the net gearing levels of the Company. Net gearing was reduced to 2.7% at 31 March 2017 from 9.9% at the start of the financial year.

Outlook

MUSCIT's performance has not lived up to our expectations over the past five years in contrast with the Trust's strong long-term track record. Following an in-depth review initiated during the Summer of 2016 as described in the Chairman's Statement on page 5, we believe that the reasons have been identified and addressed. Charles Montanaro has returned to the helm as day-to-day manager of MUSCIT, supported by the wider investment team. Charles launched MUSCIT over twenty-two years ago and he is determined to restore the Trust to its former glory.

Strategic Report continued

Manager's Report continued

Although it is disappointing that MUSCIT underperformed during the financial year, we are pleased to report that the start to the new financial year has been encouraging. The momentum behind Low Quality and Value appears to have waned. Since the turn of the year, investors have been rewarding companies for their fundamentals once again. The Value segment of the market no longer offers such good "value". It is elsewhere – in the Quality Growth space – that investors have been looking for opportunities.

We believe that we serve our shareholders best by remaining true to our "Quality Growth" style as we have always done. Since launch in March 1995, MUSCIT's NAV total return has outperformed its benchmark cumulatively by 229% – despite a lacklustre time recently – delivering annualised capital returns of 8.7% after fees. This is twice the return of the FTSE All-Share. With your support, we hope to build on this track record in the coming years.

MONTANARO ASSET MANAGEMENT LIMITED
12 June 2017

Business Review

The Business Review sets out the Company's structure, the investment objective of the Company, its investment policy, benchmark, analysis of performance using key performance indicators, environmental, human rights, employee, social and community issues, description of principal risks and viability statement.

STRUCTURE

MUSCIT is a closed-ended investment trust with registration number 3004101 and its shares are listed on the premium segment of the official list and traded on the main market of the London Stock Exchange. It has been granted approval from HM Revenue & Customs ("HMRC") as an investment trust under s1158/1159 of the Corporation Tax Act 2010, subject to there being no serious breaches of the conditions for approval.

MUSCIT is also an investment company as defined in Section 833 of the Companies Act 2006 ("Act"). The current portfolio of MUSCIT is such that its shares are eligible for inclusion in ISAs up to the maximum annual subscription limit and the Directors expect this eligibility to be maintained.

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.

The Attractions of Quoted Small Companies ("SmallCap")

The key attraction of investing in SmallCap is that investors have the opportunity to make higher returns than from investing in LargeCap. It is easier for small companies to grow faster than it is for large companies; hence they offer investors the potential for higher earnings growth. In the UK, research shows that, since 1954, SmallCap equities have outperformed LargeCap by an average of 3.5% per annum ("the SmallCap Effect"). As a result, investors have received almost seven times higher returns.

The SmallCap market gives investors access to global market-leading companies managed by dynamic entrepreneurs operating in attractive niche markets that are growing. However, due to a lack of broker research and the illiquidity of their shares, it takes time to get to know and understand these companies. This requires a level of in-house resources beyond the scope of most institutional investors. This is why many institutions are attracted to the asset class and equally why they will often outsource the day-to-day investment decisions to dedicated specialists such as Montanaro.

INVESTMENT POLICY

The Company seeks to achieve its objectives and to manage risk by investing in a diversified portfolio of quoted UK small companies. At the time of initial investment, a potential investee company must be profitable and no bigger than the largest constituent of the NSCI, which represents the smallest 10% of the UK Stock Market by value. At the start of 2017, this was any company below £1.43 billion in size. The Manager focuses on the smaller end of this Index.

In order to manage risk, the Manager limits any one holding to a maximum of 4% of the Company's investments at the time of initial investment. The portfolio weighting of each investment is closely monitored to reflect the underlying liquidity of the particular company. The Company's AIM exposure is also closely monitored by the Board and is limited to 30% of total investments, with Board approval required for exposure above 25%.

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

The Alternative Investment Fund Manager ('AIFM'), in consultation with the Board, is responsible for determining the gearing levels of the Company and has determined that the Company's borrowings should be limited to 25% of shareholders' funds. Gearing is used to enhance returns when the timing is considered appropriate. The Company currently has credit facilities totalling £30 million with ING Bank, of which £20 million was utilised via the Fixed Rate Term Loan as at 31 March 2017. Net gearing at that date amounted to 2.7%.

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.

BENCHMARK

Following a review to assess the most appropriate benchmark against which its performance should be measured, the Company adopted the NSCI on 1 April 2013. Prior to this date, the benchmark was the FTSE SmallCap Index. Both benchmarks exclude investment companies.

ANALYSIS OF PERFORMANCE USING KEY PERFORMANCE INDICATORS ("KPIS")

The Board reviews performance by reference to a number of KPIs and considers that the most relevant KPIs are those that communicate the financial performance and strength of the Company as a whole.

The Board and the Manager monitor the following KPIs:

The NAV

The NAV per Ordinary share (excluding current period revenue), at 31 March 2017 was 621.6p. Over the previous ten years and since launch, the NAV has increased by 71.1% and 530.5% respectively. In comparison, the benchmark has increased by 12.0% over the previous ten years and 159.6% since launch.

The Level of Discount

The discount of MUSCIT's share price to NAV (excluding current period revenue) stood at 18.0% on 31 March 2017 in comparison with a weighted sector average of 14.2% (source: Winterfloods).

Strategic Report continued

Business Review continued

The Ongoing Charges

	2017	2016
Ongoing charges	**1.2%**	1.2%
Finance costs	**0.4%**	0.4%
Total ongoing charges plus performance fees and finance costs	**1.6%**	1.6%

Further KPIs are those which show the Company's position in relation to the investment trust tests which it is required to meet in order to maintain its investment trust status.

ENVIRONMENTAL, HUMAN RIGHTS, EMPLOYEE, SOCIAL AND COMMUNITY ISSUES

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

Socially Responsible Investment

Day-to-day management of the Company's business is undertaken by Montanaro.

The Manager has signed up to the Stewardship Code and has published its voting records on its website.

Montanaro receives independent third party corporate governance research and will usually vote in line with International Corporate Governance Network policies. Where possible, Montanaro engages with management teams of investee companies before an AGM or General Meeting prior to any decision to abstain or vote against a board's recommendation.

The Company aims to conduct itself responsibly, ethically and fairly.

DESCRIPTION OF PRINCIPAL RISKS ASSOCIATED WITH MUSCIT

The Board carefully considers the principal risks for MUSCIT and seeks to manage these risks through continual and regular review, policy setting, compliance with and enforcement of contractual obligations and active communication with the Manager, the Administrator and shareholders.

The Board applies the principles detailed in the recommendations of the AIC Code as described above. The Board has carried out a robust assessment of the principal 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 20 to 23. Details of MUSCIT's principal risks and how these are mitigated are set out below. The principal financial risks are summarised in note 20 to the financial statements.

Liquidity and Discount Management:
The Company's share price performance lags NAV performance due to poor performance, or because SmallCap is out of favour. The Company may become vulnerable to arbitrageurs or a sale from a sizeable shareholder.

The Board regularly reviews the underlying liquidity of investments and the composition of the shareholder register. In relation to the level of the discount, the Board monitors this against three criteria in order to determine whether to initiate buy backs of the Company's shares. The three criteria are: whether the level of the discount is above a defined threshold; whether the discount has persisted for a prolonged period at a level above this threshold; and whether the discount is substantially wider than the peer group.

Share buybacks cause the size of the Company to become too small to be viable in terms of ongoing charges or for thresholds of institutional investors.

When the Board considers share buybacks it will take into consideration the impact on the size, liquidity and ongoing viability of the Company.

Corporate Ownership and Management Structure of Montanaro:
A change in ownership and/or management structure of Montanaro.

The Board has no control over Montanaro's corporate future and uncertainty that may occur from any changes to it. The Board could change the Manager under the terms of the contract if it was not happy with the new ownership structure. The Board is in regular contact with the senior management of Montanaro.

Poor Investment Performance:
Underperformance of benchmark and/or peer group.

A review is undertaken at each Board meeting with the Manager to compare and review the performance of the portfolio with the benchmark and the peer group. In addition, the Board seeks to understand the reasons for any underperformance as well as seeking 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.

Risk Oversight: The Manager is taking too much risk in the portfolio leading to unacceptable volatility in performance or there is excessive portfolio turnover.

Risk oversight is primarily the responsibility of the AIFM, but the Board provides additional oversight in its portfolio reviews at each Board meeting. Portfolio turnover is 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.

The Board receives recommendations on gearing levels from the Manager, and monitors and discusses with the Manager the appropriate level of gearing at each Board Meeting.

Key Man Risk: A change in key investment management personnel who are involved in the management of the MUSCIT portfolio could impact on future investment performance and lead to loss of investor confidence.

Montanaro 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 MUSCIT'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.

Operational Risk: 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.

The Board monitors operational issues regularly and reviews them in detail at each Board meeting. The internal control reports of each service provider are reviewed annually.

Breach of Regulation: Failure to comply with the Companies Act 2006, Stock Exchange rules, Financial Conduct Authority ("FCA") Listing Rules and Disclosure & Transparency Rules, Anti-Money Laundering procedures or other applicable regulations.

Shareholder reports and results announcements are reviewed by the Board prior to publication. Annual results are audited prior to release of the document to shareholders. Control reports from the Manager and Administrator are provided to ensure compliance with applicable laws and regulations.

VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the twelve months required by the 'Going Concern' provision. The Board asked the Audit and Management Engagement Committee (the "Committee") to review this new requirement over a three-year period ending 31 March 2020. In the absence of any adverse change to the regulatory environment and to the treatment of UK investment trusts, a rolling three-year period represents the horizon over which the Directors do not expect there to be any significant change to the Company's principal risks or their mitigation and they believe they can form a reasonable expectation of the Company's prospects.

In its review, the Committee 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 in the Strategic Report. The Board concluded that it had a reasonable expectation that the Company would be able to continue in operation during the period under review.

To provide this assessment, the Committee has considered the Company's financial position as described above and its ability to liquidate its portfolio and meet its expenses as they fall due:

- the portfolio is comprised solely of cash balances and equity securities traded on the London Stock Exchange. The current portfolio could be liquidated to the extent of 72% 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;
- the portfolio currently has a 15% exposure to investments traded on AIM;
- the expenses and interest payments of the Company are predictable and small;
- there are no expected capital outlays; and
- the Company has no employees, with only non-executive Directors and consequently does not have potential employment related liabilities.

The Committee, as well as considering the principal risks on pages 10 and 11 and the financial position of the Company as set out above, has also taken 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;
- the Company invests principally in the securities of quoted UK smaller 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;
- regulation will not increase to a level that makes the running of the Company uneconomical;
- that resolution 10 at this year's AGM, that the Directors be released from the obligation to convene a General Meeting during 2018 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; and
- the performance of the Company will be satisfactory.

Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their detailed assessment.

On behalf of the Board
ROGER CUMING
Chairman
12 June 2017

Ten Largest Holdings
as at 31 March 2017

29.4%
of the portfolio

Marshalls
Construction and Materials

The UK's leading provider of landscaping products.

Value	Portfolio	Market cap
£7.6m	3.5%	£703m

Dechra Pharmaceuticals
Pharmaceuticals and Biotechnology

An international veterinary pharmaceutical business.

Value	Portfolio	Market cap
£7.1m	3.3%	£1,559m

Cineworld Group
Travel and Leisure

A leading cinema operator in the UK.

Value	Portfolio	Market cap
£6.6m	3.0%	£1,784m

Big Yellow Group
Real Estate/Real Estate Investment Trusts ("REIT")

A REIT focused on the self-storage market.

Value	Portfolio	Market cap
£6.6m	3.0%	£1,153m

Cranswick
Food Producers

A supplier of premium meat products.

Value	Portfolio	Market cap
£6.4m	2.9%	£1,289m

Consort Medical
Health Care, Equipment and Services

Medical device technologies for drug delivery.

£6.2m	2.9%	£510m
Value	Portfolio	Market cap

Rathbone Brothers
Financial Services

A provider of investment management and wealth management services for private clients.

£6.0m	2.8%	£1,214m
Value	Portfolio	Market cap

Shaftesbury
Real Estate/Real Estate Investment Trusts

A property investment company focused on the West End of London.

£5.9m	2.7%	£2,553m
Value	Portfolio	Market cap

4imprint Group
Media

A supplier of promotional merchandise.

£5.8m	2.7%	£502m
Value	Portfolio	Market cap

Mears Group
Support Services

A leading provider of social housing maintenance and domiciliary care services.

£5.8m	2.7%	£518m
Value	Portfolio	Market cap

Twenty Largest Holdings
as at 31 March 2017

Holding	Sector	Value £'000	Market cap £m	% of portfolio 31 March 2017	% of portfolio 31 March 2016
Marshalls	Construction and Materials	7,585	703	3.5	3.8
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	7,115	1,559	3.3	3.7
Cineworld Group	Travel and Leisure	6,625	1,784	3.0	3.5
Big Yellow Group	Real Estate/Real Estate Investment Trusts	6,575	1,153	3.0	3.7
Cranswick	Food Producers	6,398	1,289	2.9	2.9
Consort Medical	Health Care, Equipment and Services	6,216	510	2.9	4.2
Rathbone Brothers	Financial Services	5,988	1,214	2.8	2.8
Shaftesbury	Real Estate/Real Estate Investment Trusts	5,947	2,553	2.7	3.0
4imprint Group	Media	5,804	502	2.7	–
Mears Group	Support Services	5,790	518	2.7	2.0
James Fisher and Sons	Industrial Transportation	5,590	801	2.6	2.2
Hilton Food Group	Food Producers	5,487	475	2.5	2.7
Dignity	General Retailers	5,353	1,188	2.5	3.6
Clarkson	Industrial Transportation	5,200	786	2.4	2.3
Polypipe Group	Construction and Materials	5,048	755	2.3	–
Entertainment One	Media	4,892	1,051	2.2	2.1
Ricardo	Support Services	4,788	463	2.2	1.9
Diploma	Support Services	4,765	1,199	2.2	2.2
McCarthy and Stone	Household Goods and Home Construction	4,725	1,016	2.2	2.8
Renishaw	Electronic and Electrical Equipment	4,669	2,266	2.1	1.8
Twenty Largest Holdings		**114,560**		**52.7**	

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

Analysis of Investment Portfolio by Industrial or Commercial Sector

as at 31 March 2017

Sector	% of portfolio	% of NSCI
Oil and Gas Producers	–	2.9
Oil Equipment, Services & Distribution	–	1.2
Oil and Gas	**–**	**4.1**
Chemicals	–	2.1
Industrial Metals	–	0.6
Mining	–	2.0
Basic Materials	**–**	**4.7**
Construction and Materials	5.8	4.6
Aerospace and Defence	–	1.9
General Industrials	–	1.4
Electronic and Electrical Equipment	5.6	1.9
Industrial Engineering	0.9	2.8
Industrial Transportation	5.0	2.2
Support Services	15.9	11.2
Industrials	**33.2**	**26.0**
Beverages	0.9	0.6
Food Producers	6.1	2.6
Household Goods and Home Construction	5.7	4.8
Leisure Goods	–	0.6
Personal Goods	1.3	1.9
Consumer Goods	**14.0**	**10.5**
Health Care, Equipment and Services	3.9	1.8
Pharmaceuticals and Biotechnology	5.5	2.7
Health Care	**9.4**	**4.5**
Food and Drug Retailers	–	0.8
General Retailers	4.3	5.1
Media	6.4	4.1
Travel and Leisure	6.2	8.7
Consumer Services	**16.9**	**18.7**
Fixed Line Telecommunications	–	1.0
Telecommunications	**–**	**1.0**
Electricity	–	0.1
Utilities	**–**	**0.1**
Banks	–	3.3
Life and Non-life Insurance	–	2.8
Real Estate/Real Estate Investment Trusts	11.6	11.7
Financial Services	6.7	6.5
Financials	**18.3**	**24.3**
Software and Computer Services	8.2	4.7
Technology Hardware & Equipment	–	1.4
Technology	**8.2**	**6.1**
Total	**100.0**	**100.0**

The investment portfolio comprises 53 traded and listed UK equity holdings.

Directors' Report

Board of Directors

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

Roger Cuming – Board Chairman and Nomination Committee Chairman
Roger Cuming was appointed a Director on 5 June 2009 and has been in the investment industry for over 35 years. He was head of investments for Reliance Mutual Insurance Society Limited prior to his retirement in December 2015, and was a significant investor in closed and open-ended investments of all types.

Kate Bolsover – Senior Independent Director and Remuneration Committee Chairman
Kate Bolsover was appointed a Director on 17 October 2014. She is a non-executive Chairman of Fidelity Asian Values plc. She is also chairman of Tomorrow's People Trust Limited and a director of a number of affiliated companies. She worked for Cazenove Group plc and JP Morgan Cazenove between 1995 and 2005 where she was managing director of the mutual fund business and latterly director of Corporate Communications. Prior to this, her work involved business development and mutual funds experience covering countries in the UK, Europe and the Far East.

Arthur Copple – Non-Executive Director
Arthur Copple was appointed a Director on 1 March 2017. He 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 a director of Temple Bar Investment Trust plc and The Hastings Academies Trust.

James Robinson – Audit and Management Engagement Committee Chairman
James Robinson was appointed a Director on 30 September 2013. He was chief investment officer (investment trusts) and director of hedge funds at Henderson Global Investors prior to his retirement in 2005. A chartered accountant, he has 34 years' investment experience and is a director of Invesco Asia Trust plc, Fidelity European Values PLC and JP Morgan Elect plc. He is also chairman of Polar Capital Global Healthcare Growth and Income Trust plc and a former chairman of the investment committee of the British Heart Foundation.

DIRECTORS

The Directors in office at the date of this report are shown on page 16 and their interests in the shares of the Company are shown on page 27. All served throughout the year with the exception of Arthur Copple who was appointed on 1 March 2017. Kathryn Matthews was a Director until her retirement on 8 March 2017.

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 Agent.

In accordance with the policy adopted by the Board, all Directors will stand for re-election at the forthcoming Annual General Meeting. The rules concerning the appointment and replacement of Directors are set out in the Articles of Association and the Companies Act 2006.

As set out on page 22, following the performance review, the Board believes that it is in the best interests of shareholders that each Director continues in their roles. The Board strives to maintain a diversity of age, skills, gender and experience. At 31 March 2017, the Board comprised one female and three male Directors.

DIVIDEND

The results for the year are shown in the Income Statement on page 33. The Directors recommend that a final dividend of 10.5p (2016: final 10.0p) per Ordinary share, amounting to £3,515,000 (2016: £3,348,000) be paid on 2 August 2017 to shareholders on the share register at the close of business on 7 July 2017.

MANAGEMENT AGREEMENT

The Company entered into a Management Agreement with Montanaro dated 19 June 2014 under which for this financial year the Manager received a management fee of 0.85% per annum of gross assets and no performance fee. The Board has announced from 1 April 2017 a revised management fee of 0.50% per annum of gross assets and no performance fee.

Except in certain circumstances, the Management 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 MUSCIT 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 MONTANARO

The Board, through the Audit and Management Engagement Committee, keeps under review the performance of the Manager and the level and terms of the management fee. In the opinion of the Directors, the continuing appointment of the Manager on the terms agreed is in the interests of shareholders as a whole. Among the reasons for this view is the long-term investment performance of MUSCIT relative to that of the markets in which MUSCIT invests and the depth and experience of the research capability of Montanaro.

AIFMD

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 AIFM. Montanaro receives an ongoing fee of £50,000 per annum to act as the Company's AIFM. The Company also appointed Bank of New York ("BONY") as Depositary and Custodian.

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 this information requiring disclosure.

SECTION 992 COMPANIES ACT 2006

The following disclosures are made in accordance with Section 992 of the Companies Act 2006.

Share Capital

There are currently in issue 33,475,958 Ordinary shares of 10p nominal value each (2016: 33,475,958), none of which are held in treasury (2016: nil). Each share has an equal entitlement to income by way of dividends and an equal entitlement to capital in the event the Company was wound up.

Transfer of Securities

There are no restrictions on the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements to which the Company is party that might affect its control following a successful takeover bid.

Voting Rights in the Company's shares

Holders of Ordinary shares have unrestricted voting rights of one vote per share at all general meetings of the Company.

Directors' Report continued

Holding Shares in Treasury

The Board's current powers to buy back and issue shares, and proposals for their renewal are disclosed below. At 31 March 2017, no shares were held in Treasury.

The Board has actively and carefully considered the use of Treasury shares. It is the Company's policy is to ensure that shareholders receive a tangible benefit above and beyond an enhanced ability to manage the liquidity of the shares of MUSCIT. Shares held in Treasury will only be re-issued at a lower weighted average discount than when they were originally purchased and to produce a positive absolute return.

Substantial Shareholdings

At 31 March 2017, the Company had been informed of the following notifiable interests in its voting rights:

Beneficial owner	Ordinary shares	% of voting rights
1607 Capital Partners LLC	3,779,393	11.3
Derbyshire County Council	2,925,000	8.7
East Riding of Yorkshire Council	2,743,400	8.2
Montanaro Asset Management Limited	1,675,000	5.0
Quilter Cheviot Limited	1,671,230	5.0
Newton Investment Management Limited	1,661,565	5.0
Brooks Macdonald Asset Management Limited	1,635,138	4.9
Jupiter Asset Management Limited	1,565,000	4.7
Royal London Asset Management Limited	1,534,839	4.6
HSBC Global Custody Nominees (UK) Ltd	1,350,566	4.0
City of Bradford Metropolitan District Council	1,228,500	3.7

The Company was notified on 15 May 2017 that Royal London Asset Management's shareholding changed to 1,350,566 (4.0%) and on 2 June 2017 that 1607 Capital Partner's shareholding changed to 3,196,893 (9.6%). The Company has not been notified of any other changes between 31 March 2017 and the date of this report.

DIRECTOR INDEMNIFICATION AND INSURANCE

Articles 156 and 157 of the Company's Articles of Association provide that, insofar as permitted by law, every Director shall be indemnified by the Company against all costs, charges, expenses, losses or liabilities incurred in the execution and discharge of the Directors' duties, powers or office. The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

CORPORATE GOVERNANCE

The Corporate Governance Statement, which forms part of this Directors' Report, is set out on pages 20 to 23.

GLOBAL GREENHOUSE GAS EMISSIONS

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting ('AGM') to be held on 17 July 2017 (the "Notice") is set out on pages 50 to 54. Resolutions 1 to 10, 12 and 14 will be proposed as Ordinary Resolutions and Resolutions 11, 13 and 15 will be proposed as Special Resolutions. Below there is additional information on the special business to be considered at the AGM.

Remuneration Policy

Resolution 9, concerning the proposed Remuneration Policy is set out on page 27 of the Directors' Remuneration Report, which if approved, shall take effect immediately after the end of the AGM. There are no substantive changes to the Policy that is already in place.

Continuation Vote

Resolution 10, if passed, will release the Directors from the obligation to convene a General Meeting during 2018 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 in Note 17 to the financial statements.

Purchase of Own Shares

Resolution 11, if passed, will renew the Company's authority granted at the AGM held last year on 22 July 2016 to purchase (either for cancellation or for placing into Treasury) up to 14.99% of the Company's Ordinary shares in issue at that date, amounting to 5,018,046 shares. No shares have been bought back under this authority.

Purchases will be made on the open market and prices will be in accordance with the terms laid out in Resolution 11. The authority will be used where the Directors consider it to be in the best interests of shareholders.

Authority to Issue Shares and Disapplication of Pre-Emption Rights

Resolution 12, if passed, will give the Directors the general authority (pursuant to paragraph (a) of the Resolution) to allot Ordinary shares up to an aggregate nominal amount of £1,115,865, representing approximately one-third of MUSCIT's issued Ordinary shares. Upon the passing of Resolution 12 the Directors will also have the authority (pursuant to paragraph (b) of the Resolution) to allot Ordinary shares up to an additional one-third of the current issued share capital, but only for the purposes of a rights issue to existing shareholders. No shares are currently held in Treasury. The authority will be used where the Directors consider it to be in the best interests of shareholders.

Resolution 13, subject to the passing of Resolution 12, will give the Directors the general authority, in accordance with institutional guidelines, to allot Ordinary shares (including issues out of Treasury) for cash, up to an aggregate nominal amount of £167,380, representing approximately 5% of the issued Ordinary shares and at a price above net asset value per share, in respect of new issues of shares, without having to offer such shares to existing shareholders in proportion to their existing holdings. See Resolution 14 in relation to sales of Treasury Shares.

The authorities for the above Resolutions will expire at the conclusion of the Company's next AGM after the passing of the Resolutions.

Authority to Issue Treasury Shares at a Discount

Resolution 14, subject to the passing of Resolution 13, will give the Directors a general authority to sell shares held in Treasury at a discount to net asset value, up to the same aggregate nominal amount of £167,380, representing 5% of the issued Ordinary shares. Any shares will only be re-issued at an absolute profit and at a lower weighted average discount than when they were originally purchased.

Any decisions regarding placing shares into Treasury, or selling shares from Treasury, will be taken by the Directors.

Notice Period for General Meetings

Resolution 15, if passed, will allow the Directors to hold a General Meeting, other than an AGM, on a minimum of 14 clear days' notice. The notice period for AGMs will remain at 21 clear days. The Directors will only call General Meetings on 14 clear days' notice where they consider it in the best interests of the shareholders to do so and the relevant matter requires to be dealt with expeditiously.

Full details of these Resolutions are provided in the Notice of AGM.

The Directors consider that all Resolutions to be proposed at the AGM are in the best interests of the Company and its members as a whole.

The Directors unanimously recommend that all shareholders vote in favour of all the Resolutions, as they intend to do in respect of their own holdings which amount in aggregate to 24,669 shares representing approximately 0.07% of the voting rights in the Company.

FINANCIAL RISK MANAGEMENT

The principal financial risks and the Company's policies for managing these risks are set out in note 20 to the financial statements.

GOING CONCERN

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 26 July 2013, shareholders voted to remove the obligation to convene a General Meeting during 2014 for the purpose of voluntarily winding up the Company.

The Board is proposing, Resolution 10, at the next AGM to remove the obligation to convene a General Meeting during 2018 for the purpose of providing for the Company to be wound-up on a voluntary basis as stated in the Articles of Association.

The Directors, after due consideration of the Company's cash balances, the liquidity of the Company's investment portfolio and the cost base of the Company, are of the opinion that it is appropriate to presume that the Company will continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis, consistent with previous years.

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.

INDEPENDENT AUDITOR

Ernst & Young ("EY") has expressed its willingness to continue to act as the Company's independent auditor ("the Auditor"). A resolution to re-appoint EY as the Auditor to the Company and to authorise the Directors to determine the Auditor's remuneration will be proposed to the forthcoming AGM.

DISCLOSURE OF INFORMATION TO AUDITOR

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

By order of the Board

MAITLAND ADMINISTRATION SERVICES LIMITED
Company Secretary
12 June 2017

Corporate Governance Statement

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

COMPLIANCE WITH THE PROVISIONS OF THE AIC CODE

The Board of MUSCIT has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to MUSCIT.

The Board considers that reporting under the principles and recommendations of the AIC Code and by reference to the AIC Guide will provide better information to shareholders.

During the year, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to: the role of the chief executive; executive directors' remuneration; and the need for an internal audit function. For the reasons set out in the AIC Guide, the Board considers that these provisions are not relevant to the position of the Company. The UK Code's recommendations with respect to the role of the chief executive and executive directors' remuneration (there are no executive directors) are not relevant to the Company's circumstances as an externally managed investment trust. The Company has therefore not reported further in respect of these provisions.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Company holds at least five Board meetings each year at which the Directors review MUSCIT's investments and all other important issues in relation to the Company's affairs. During the year ended 31 March 2017, five Board meetings were held, one of which was a full-day session devoted entirely to reviewing strategic matters. The number of scheduled Board and Committee meetings attended by each Director is set out below.

	Board		Audit and Management Engagement Committee		Remuneration Committee		Nomination Committee	
	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended
Roger Cuming	5	5	3	3	1	1	3	3
Kate Bolsover	5	5	3	3	1	1	3	3
Arthur Copple†	1	1	1	1	0	0	0	0
Kathryn Matthews*	5	5	3	3	1	1	3	3
James Robinson	5	5	3	3	1	1	3	3

* Resigned 8 March 2017.

† Appointed 1 March 2017.

THE BOARD

The Board consists of four non-executive Directors.

Roger Cuming is Chairman of MUSCIT. The Board considers him to be independent and to have no conflicting relationships.

Kate Bolsover is the Senior Independent Director ("SID") of MUSCIT. The Board considers that Kate Bolsover is ideally suited to perform the role of the SID.

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 has a contract of service with MUSCIT nor has there been any contract or arrangement between MUSCIT and any Director at any time during the year. These letters of appointment are available for inspection on request to the Company Secretary.

The Company has neither executive directors nor employees. However, the Board has engaged external companies to undertake the investment management, administrative and custodial activities of MUSCIT. Clear, documented contractual arrangements are in place between MUSCIT and these firms that define the areas where the Board has delegated functions to them. Further details of the Management Agreement are given on page 17.

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 MUSCIT (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.

PERFORMANCE EVALUATION

The Directors conduct an annual review of the performance of the Board, its Committees and the 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 the following:

1. a report of Board Committee procedures from MUSCIT's Company Secretary;
2. a self-evaluation by each Director against specified criteria;
3. an assessment of the Chairman by each Director against specified criteria;
4. an assessment of each Director's independence; and
5. an assessment of any required training.

Roger Cuming, 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. Kate Bolsover, 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 a Director of MUSCIT and have enhanced the knowledge brought to the Board meetings.

Following evaluation, the Board concluded that it had the appropriate balance of skills, experience, length of service and knowledge.

INDEPENDENCE OF DIRECTORS

The Board has considered the independent status of each Director under the AIC Code and has determined that all Directors are independent.

ELECTION/RE-ELECTION OF DIRECTORS

Under the Company's Articles and in accordance with the AIC Code, Directors are required to retire at the first AGM following their appointment. Thereafter, one third of Directors shall be subject to retirement by rotation at each AGM. In so far as the number of Directors retiring is less than one-third, those Directors who have been longest in office shall also retire.

Beyond these requirements, the Board has agreed a policy whereby all Directors will seek annual re-election at the Company's AGMs. This is in line with the recommendations of the UK Corporate Governance Code for FTSE 350 companies, albeit the Company does not fall in this category.

The Board does not have a formal policy requiring Directors to stand down after a fixed period as it believes there can be significant benefits to the Company in having a long serving Director.

A Chairman stepping down from that role will be capable of continuing to serve as a Director.

STEWARDSHIP CODE

The Company has given discretionary voting powers to the Manager. AIC Code Principle 16 recommends that the Board should agree a policy regarding voting rights exercised by Montanaro. The Board has agreed that there is no need to set a written policy with Montanaro as the Board and Montanaro already have a clear understanding of their respective responsibilities.

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 reports to the Board at every meeting and votes against resolutions it considers may damage shareholders' rights or economic interests. Montanaro gives due weight to what it considers to be socially responsible investments, when making investment decisions, but its overriding objective is to produce good investment returns for shareholders.

Corporate Governance Statement continued

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

Meetings	
Number of meetings voted at:	50
Number of meetings voted against management or abstained:	8
Resolutions	
Number of resolutions where voted with management:	773
Number of resolutions where abstained:	9
Number of resolutions where voted against management:	1

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

The roles of the Audit Committee and Management Engagement Committee have been combined to form one Committee. This Committee is comprised of all Directors and is chaired by James Robinson, who is a Chartered Accountant. The Board is satisfied that James Robinson has recent and relevant financial experience to guide the Committee in its deliberations.

The report from this Committee is set out on pages 24 and 25.

Remuneration Committee

The Remuneration Committee is chaired by Kate Bolsover and is comprised of all Directors. The Committee meets as required for the purpose of considering levels of remuneration paid to the Directors and reviews the Directors' Remuneration Report and Remuneration Policy.

Nomination Committee

The Nomination Committee is comprised of all Directors and meets as required for the purpose of considering recruitment to, and removals from, the Board. This Committee is chaired by Roger Cuming.

The Directors have many years' experience within the industry between them and a broad knowledge of individuals who would have the necessary skills to promote and develop the Company. Accordingly the Nomination Committee does not consider it necessary to engage the services of third party search consultants unless the Directors are unable to identify suitably skilled individuals. When the Company conducted the latest recruitment process, which resulted in the appointment of Arthur Copple, the Company was able to attract and consider a diverse group of highly skilled candidates.

The Company will ensure that any future Board vacancies will also be filled by the most qualified candidates. The value of diversity in the composition of the Board is recognised and, when Board positions become available, the Company will ensure it considers a diverse group of candidates.

The Nomination Committee met and considered the appointment of Arthur Copple together with the re-appointment of the other Directors at the AGM. All of the Company's Directors will stand either for election or for re-election at the forthcoming AGM. 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.

Each Committee has adopted formal written terms of reference which are available upon request from the Company Secretary and are available on the Company's website.

INTERNAL CONTROL AND FINANCIAL REPORTING

The Board is responsible for establishing and maintaining MUSCIT's risk management and internal control processes, and for monitoring their effectiveness. Internal control systems are designed to meet the particular needs of MUSCIT 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 Board would take actions to remedy any significant failings or weaknesses identified. 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 accords with guidance supplied by the Financial Reporting Council ("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 risks are set out on pages 10 and 11. The process involves reports from MUSCIT's Company Secretary and Manager as described below. In addition, the Audit and Management Engagement Committee receives internal controls statements 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 has been produced 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;
- Capita Sinclair Henderson Limited ("CSH") is responsible for the provision of administration duties;
- company secretarial duties are undertaken by Maitland Administration Services Limited ("Maitland");
- 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 of MUSCIT 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 consideration of the quality of the parties involved and the Board monitors their ongoing performance and contractual arrangements;
- mandates for authorisation of investment transactions and expense payments are set by the Board; and
- the Board reviews financial information produced by CSH 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 with 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.

All shareholders have the opportunity to attend and vote at the AGM during which the Board and Manager are available to discuss issues affecting MUSCIT. The Manager has signed up to the Stewardship Code and publishes its voting records on its website.

Report from the Audit and Management Engagement Committee

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 and remuneration of the Auditor;
- develop and implement a policy on the supply of non-audit services by the Auditor;
- review annually the performance of the Manager; and
- review annually the performance of other third party service providers.

MATTERS CONSIDERED IN THE YEAR

The Committee meets at least twice a year in conjunction with the annual and half-yearly financial results of MUSCIT.

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;
- 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 performance of the Manager and recommended to the Board that the Manager's appointment be continued; and
- reviewed and, where appropriate, updated the Company's risk register.

The key area of risk that had been determined by the Committee in relation to the business activities and financial statements of the Company, was the valuation of the investments. The Board relies on the Administrator to use correct quoted prices and seeks comfort in the testing of this process through its review of the Administrator's annual internal control reports and regular reporting to the Board on the accuracy of daily NAV information reported to the London Stock Exchange, which includes any material pricing errors and stale prices. This was discussed with the Administrator, Manager and Auditor at the conclusion of the audit of the financial statements.

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's conclusions are set out on page 19.

The Committee considers carefully the internal control systems. The Company relies heavily on third party suppliers. There were no significant matters of concern identified in the Committee's review of the internal controls of its third party suppliers. The Committee has paid particular attention to the developing threat of cyber-crime and has sought assurance from its suppliers regarding this risk. All main suppliers have provided written assurance of measures taken to mitigate this risk.

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.

Following the consideration of the above, and its detailed review of the half year and annual reports conducted at its meetings, the Committee was 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 and advised the Board accordingly.

PERFORMANCE OF MONTANARO

The Committee considers the performance of Montanaro as AIFM and Manager by reference to obligations imposed under the terms of the Investment Management Agreement. The Committee makes recommendations to the Board on any variations to the terms of the Investment Management Agreement when it considers it necessary or desirable and on the continuing appointment of the Manager.

The Committee has considered the performance of Montanaro as Manager and AIFM and its terms of engagement. A recommendation for revised terms of engagement and the continued appointment of Montanaro has been made to the Board.

External Auditor

An audit fee of £23,000 (excluding expenses) has been agreed in respect of the audit for the year ended 31 March 2017 (2016: £21,500 (excluding expenses)).

The Committee reviews the need for non-audit services and authorises such on a case by case basis, having consideration to the cost-effectiveness of the services and the independence and objectivity of the Auditor. Non-audit work may be given to the external Auditor unless there is a conflict of interest or someone else is considered to have more relevant experience. No non-audit services were provided in the year under review.

This is the first year with a new audit firm, EY who was appointed at the AGM held on 22 July 2016. Their appointment followed a tender process undertaken by the Committee in November 2015.

The Committee reviewed the effectiveness of the external audit process during the year, considering performance, objectivity, independence and experience. The Committee has reviewed and accepted reports from EY on its procedures for ensuring that its independence and objectivity are safeguarded. Following review, the Committee concluded that the audit process was effective.

JAMES ROBINSON
Chairman, Audit and Management Engagement Committee
12 June 2017

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. Ordinary Resolutions for the approval of this report and the Directors' Remuneration Policy will be put to shareholders at the forthcoming AGM.

The law requires the Company's Auditor, Ernst & Young 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 29 to 32.

ANNUAL STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2017.

Having reviewed the current level of remuneration payable to Directors in accordance with the Remuneration Policy, the Committee has determined, after reference to RPI and the peer group, the fees shown on page 27 for the year ending 31 March 2018. The Directors' fees, before this adjustment, were last changed in 2014.

There is no significant change in the way the current, approved Remuneration Policy will be implemented during the course of the next financial year.

Remuneration Committee

The Remuneration Committee is comprised of all Directors and meets as required for the purpose of considering levels of remuneration paid to the Board. Each Director of the Company takes no part in discussions concerning their own salary.

Directors' Fees

	2017	2016
	£	£
Chairman of the Board	**29,000**	29,000
Chairman of the Audit Committee	**23,000**	23,000
Senior Independent Director	**21,000**	21,000
Other Directors	**20,000**	20,000
	93,000	93,000

Directors' Emoluments for the Year (Audited)

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

	2017		2016	
	Fees†	**Total†**	Fees†	Total†
	£	**£**	£	£
Roger Cuming	**25,000**	**25,000**	21,000	21,000
Kate Bolsover	**20,500**	**20,500**	20,000	20,000
Arthur Copple*	**1,666**	**1,666**	–	–
Kathryn Matthews**	**23,295**	**23,295**	29,000	29,000
James Robinson	**23,000**	**23,000**	23,000	23,000
Michael Moule#	**–**	**–**	6,667	6,667
	93,461	**93,461**	99,667	99,667

* Appointed 1 March 2017.
** Resigned 8 March 2017.
\# Resigned 31 July 2015.
† The Directors received no taxable benefits.

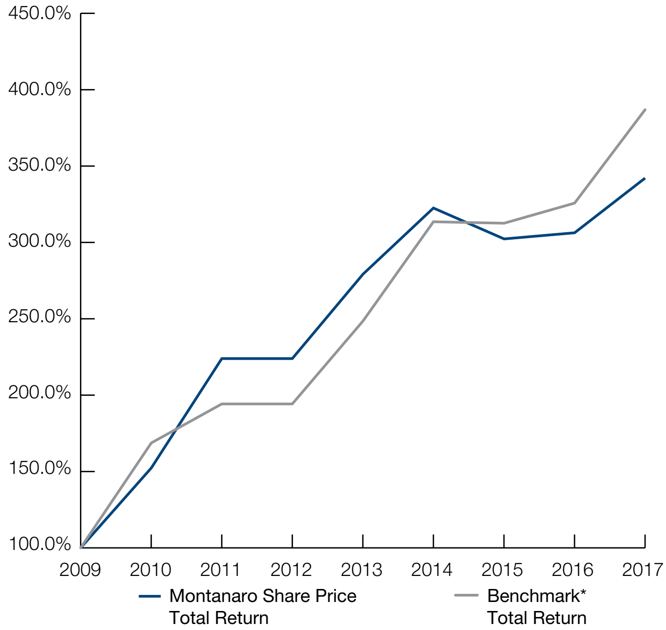
Kathryn Matthews stepped down as Chairman on 22 July 2016 and Roger Cuming assumed the role on the same day. Roger Cuming stepped down as SID on 22 July 2016 and Kate Bolsover assumed the role on the same day. The fees for 2017 for these Directors reflect these changes.

No sums are paid to any third parties in respect of Directors' services.

Your Company's Performance

The following graph compares the total return (assuming all dividends are reinvested) over the past eight years to Ordinary shareholders to the total shareholder return of the NSCI. The NSCI was adopted as the new benchmark from 1 April 2013.

Total Return vs Benchmark* (rebased from March 2009)



Source: Capita Sinclair Henderson 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.

Voting at AGM

The Directors' Remuneration Report for the year ended 31 March 2016 and the Directors' Remuneration Policy were approved by shareholders at the AGMs held on 22 July 2016 and 30 July 2014 respectively. The votes cast by proxy were as follows:

Directors' Remuneration Report (2016 AGM)

	Number of votes	% of votes cast
For	20,701,637	100.00%
Against	0	0%
At Chairman's discretion	0	0%
Total votes cast	20,701,637	100.00%
Number of votes withheld	0	

Directors' Remuneration Policy (2014 AGM)

	Number of votes	% of votes cast
For	16,915,915	100.00%
Against	0	0.00%
At Chairman's discretion	0	0.00%
Total votes cast	16,915,915	100.00%
Number of votes withheld	0	

Directors' Beneficial and Family Interests (Audited)

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

	As at 31 March 2017 No. of shares	As at 1 April 2016 (or date of appointment if later) No. of shares
Roger Cuming	**10,000**	5,000
Kate Bolsover	**1,669**	1,669
Arthur Copple	**5,000**	N/A
Kathryn Matthews	**N/A**	1,500
James Robinson	**8,000**	8,000

There have been no changes to the above holdings between 31 March 2017 and the date of this Annual Report. None of the Directors nor any persons connected with them had a material interest in any of MUSCIT'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 2017 and the preceding financial year:

a) the remuneration paid to the Directors; and

b) the distributions made to shareholders by way of a dividend.

	Year ended 31 March 2017 £	Year ended 31 March 2016 £	Change %
Total remuneration	**93,461**	99,667	(6.2)
Dividend paid	**3,347,596**	2,979,360	12.4

Remuneration Policy

The Board's policy is that the remuneration of Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other companies of a similar size and capital structure (Ordinary shares and bank borrowings) and that have a similar investment objective (capital growth).

It is the Board's policy that none of the Directors has a service contract. The terms of their appointment provide that a Director shall retire and be subject to election at the first AGM after appointment and at least every three years thereafter. The Board has agreed to a policy of annual re-election. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

The fees of the existing or new Directors are determined within the limits set out in the Company's Articles. The maximum aggregate amount of Directors' fees in any one financial year shall not exceed £125,000. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits as they do not feel it is appropriate for the Directors of the Company at this time.

The Remuneration Committee has agreed to review fees on an annual basis. Annual increases are subject to an increase in the net assets and share price of the Company and reference will be made to the RPI and peer group to determine the level of increase.

	Expected fees for the year to 31 March 2018 (annualised) £	Fees for the year to 31 March 2017 £
Chairman	**32,000**	29,000
Chairman of the Audit Committee	**25,500**	23,000
Senior Independent Director	**23,000**	21,000
Non-executive Director	**22,000**	20,000

Fees for any new Director appointed will be on the above basis. Fees payable in respect of subsequent periods will be determined following an annual review.

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

The Directors' Remuneration Policy will be put to shareholders' vote at least once every three years and in any year if there is to be a change in that Policy.

Approval

The Directors' Remuneration Report was approved by the Board on 12 June 2017.

On behalf of the Board
KATE BOLSOVER
Chairman, Remuneration Committee

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).

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
ROGER CUMING
Chairman
12 June 2017

Independent Auditor's Report

to the Members of Montanaro UK Smaller Companies Investment Trust PLC only

OUR OPINION ON THE FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 March 2017 and of its financial performance for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

WHAT WE HAVE AUDITED

Montanaro UK Smaller Companies Investment Trust plc's financial statements comprise:

- Income Statement for the year ended 31 March 2017;
- Statement of Changes in Equity for the year ended 31 March 2017;
- Balance Sheet for the year ended 31 March 2017; and
- The related notes 1 to 23 to the financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

OVERVIEW OF OUR AUDIT APPROACH

Risks of material misstatement	• Incomplete or inaccurate investment income recognition • Incorrect valuation and existence of the investment portfolio
Materiality	• £2.1 million which represents 1% of total equity as at 31 March 2017

OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit and Management Engagement Committee
Incomplete or inaccurate income recognition *Refer to the Report of the Audit Committee (pages 24 and 25); Accounting policies (page 36); and Note 2 of the Financial Statements (page 37)* The Company has reported income from investment of £4.5m (2016: £5.2m). This includes special dividend income of £73k. Overstatement of revenue often results from fraudulent financial reporting and management overrides of controls. The investment income receivable by the Company during the period directly affects the Company's ability to pay a dividend to shareholders. There is also a manual and judgemental element in allocating special dividends between revenue and capital. Given this, we considered there to be a potential fraud risk, in accordance with Auditing Standards, in this area of our audit.	**We have performed the following procedures:** Obtained an understanding of the Administrator's and the Manager's processes and controls for the recognition of investment income by performing walkthrough procedures, reviewing the Administrator's and the Manager's internal control reports and discussing with Manager the governance structure and protocols for oversight of investment income recognition. Agreed a sample of dividend received from income report to an independent pricing source and to bank statements as supporting documentation. Tested all accrued dividends at the period end for occurrence and measurement. To test for completeness, for a sample of holdings we identified whether any dividends had been declared during the period by these holdings and then checked the dividends had been correctly recorded in the income receipts report. Tested all material special dividends received during the period and assessed the appropriateness of the accounting treatment adopted. Performed a review of revenue related journal entries focusing in particular on manual journals, journals posted around the year end date and raised in the processing and recording of special dividends.	The results of our procedures identified no material error with the accuracy or completeness of income receipts. We concurred with the accounting treatment adopted for material special dividends.

Independent Auditor's Report continued

to the Members of Montanaro UK Smaller Companies Investment Trust PLC only

Risk	Our response to the risk	What we concluded to the Audit and Management Engagement Committee
Incorrect valuation and existence of the investment portfolio *Refer to the Report of the Audit Committee (pages 24 and 25); Accounting policies (page 36); and Note 10 of the Financial Statements (page 40)* The Company holds a portfolio of quoted investments in the UK. Quoted investments held as at year-end were valued at £217.5m (2016: £209.5m). The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders.	**We have performed the following procedures:** Obtained an understanding of the Administrator and the Manager's processes and controls for the valuation of investments by performing walkthrough procedures, reviewing the Administrator's and the Manager's internal control reports and discussing with Manager the governance structure and protocols for oversight of investment valuations. Agreed all quoted investment holding prices to a relevant independent source. Agreed the number of shares held for each security to a confirmation of legal title received from the Company's custodian and the depositary.	The results of our procedures identified no material error in the valuation or existence of listed investments portfolio assets.

THE SCOPE OF OUR AUDIT

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. Taken together, this enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls at the Investment Manager, Administrator and Custodian and, changes in the business environment when assessing the level of work to be performed at Company level.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £2.1m, which is 1% of total net assets (2016: £1.9m). We derived our materiality calculation from a proportion of the net asset value as we consider that to be the most important financial metric on which shareholders judge the performance of the Company.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that overall performance materiality for the Company should be 50% of our planning materiality, being £1.1m. We have set performance materiality at this percentage based on our knowledge of the control environment and discussion with the prior auditor that indicate a lower risk of material misstatements, both corrected and uncorrected.

Given the importance of the distinction between revenue and capital for the Company we also apply a separate, lower performance materiality of £168,000 for the revenue column of the Statement of Comprehensive Income, being 5% of the revenue profit before taxation.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Management Engagement Committee that we would report all audit differences in excess of £106,000, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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.
  - the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

<table>
<tr><td>ISAs (UK and Ireland) reporting</td><td>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:
• materially inconsistent with the information in the audited financial statements; or
• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
• otherwise misleading.

In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.</td><td>We have no exceptions to report.</td></tr>
</table>

Independent Auditor's Report continued

to the Members of Montanaro UK Smaller Companies Investment Trust PLC only

Companies Act 2006 reporting	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report. We are required 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.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the directors' statement in relation to going concern, set out on page 19, and longer-term viability, set out on page 11; and • the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review	We have no exceptions to report.

STATEMENT ON THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE ENTITY

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

MATTHEW PRICE (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP
Statutory Auditor
London
12 June 2017

Income Statement
for the year to 31 March 2017

		Year to 31 March 2017			Year to 31 March 2016		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Gains on investments at fair value through profit or loss	10	**–**	**22,299**	**22,299**	–	2,779	2,779
Income	2	**4,535**	**–**	**4,535**	5,249	–	5,249
Management fee	3	**(480)**	**(1,439)**	**(1,919)**	(480)	(1,439)	(1,919)
Other expenses	4	**(495)**	**–**	**(495)**	(515)	–	(515)
Movement in fair value of derivative financial instruments	15	**–**	**141**	**141**	–	123	123
Net return before finance costs and taxation		**3,560**	**21,001**	**24,561**	4,254	1,463	5,717
Interest payable and similar charges	6	**(193)**	**(579)**	**(772)**	(187)	(562)	(749)
Net return before taxation		**3,367**	**20,422**	**23,789**	4,067	901	4,968
Taxation	7	**(10)**	**–**	**(10)**	(3)	–	(3)
Net return after taxation		**3,357**	**20,422**	**23,779**	4,064	901	4,965
Return per Ordinary share	9	**10.0p**	**61.0p**	**71.0p**	12.1p	2.7p	14.8p

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

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

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

No operations were acquired or discontinued in the year.

The notes on pages 36 to 46 form part of these financial statements.

Statement of Changes in Equity
for the year to 31 March 2017

Year to 31 March 2017	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 2016		**3,348**	**19,307**	**1,362**	**4,642**	**155,743**	**6,607**	**191,009**
Total comprehensive income:								
Fair value movement of investments	10	**–**	**–**	**–**	**–**	**22,299**	**–**	**22,299**
Costs allocated to capital		**–**	**–**	**–**	**–**	**(2,018)**	**–**	**(2,018)**
Movement in fair value of derivative financial instruments	15	**–**	**–**	**–**	**–**	**141**	**–**	**141**
Net revenue for the year		**–**	**–**	**–**	**–**	**–**	**3,357**	**3,357**
		–	**–**	**–**	**–**	**20,422**	**3,357**	**23,779**
Dividends paid in the year	8	**–**	**–**	**–**	**–**	**–**	**(3,348)**	**(3,348)**
As at 31 March 2017		**3,348**	**19,307**	**1,362**	**4,642**	**176,165**	**6,616**	**211,440**

Year to 31 March 2016	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 2015		3,348	19,307	1,362	4,642	154,842	5,522	189,023
Total comprehensive income:								
Fair value movement of investments	10	–	–	–	–	2,779	–	2,779
Costs allocated to capital		–	–	–	–	(2,001)	–	(2,001)
Movement in fair value of derivative financial instruments	15	–	–	–	–	123	–	123
Net revenue for the year		–	–	–	–	–	4,064	4,064
		–	–	–	–	901	4,064	4,965
Dividends paid in the year	8	–	–	–	–	–	(2,979)	(2,979)
As at 31 March 2016		3,348	19,307	1,362	4,642	155,743	6,607	191,009

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

The notes on pages 36 to 46 form part of these financial statements.

Balance Sheet
as at 31 March 2017

	Notes	31 March 2017 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2016 £'000
Fixed assets					
Investments at fair value	10		**217,475**		209,502
Current assets					
Debtors	12	**479**		988	
Cash at bank		**14,261**		9,061	
		14,740		10,049	
Creditors: amounts falling due within one year					
Other creditors	13	**(775)**		(401)	
Revolving credit facility	14	**–**		(28,000)	
Interest rate swap	15	**–**		(141)	
		(775)		(28,542)	
Net current assets/(liabilities)			**13,965**		(18,493)
Total assets less net current assets/(liabilities)			**231,440**		191,009
Creditors: amounts falling due after more than one year					
Fixed rate credit facility	14		**(20,000)**		–
Net assets			**211,440**		191,009
Share capital and reserves					
Called-up share capital	16		**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			**176,165**		155,743
Distributable revenue reserve			**6,616**		6,607
Total equity shareholders' funds			**211,440**		191,009
Net asset value per Ordinary share	19		**631.6p**		570.6p

These financial statements were approved by the Board of Directors on 12 June 2017.

ROGER CUMING
Chairman

Company Registered Number: 3004101

The notes on pages 36 to 46 form part of these financial statements.

Notes to the Financial Statements
at 31 March 2017

1 Accounting Policies

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 January 2017. 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.

INCOME RECOGNITION
Dividend income is included in the financial statements when the investments concerned are quoted ex-dividend and shown net of any associated tax credit where applicable.

Deposit interest and underwriting commissions receivable are included on an accruals basis.

EXPENSES AND FINANCE COSTS
All expenses are accounted for on an accruals basis. Management fees and finance costs are allocated 75% to the capital reserve and 25% to the revenue reserve in line with the expectations of long-term returns from the investment portfolio of the Company.

Costs arising on early settlement of debt are allocated 100% to capital, in accordance with the requirements of the SORP.

All other expenses are allocated in full to the revenue account.

INVESTMENTS
The Company has fully adopted sections 11 and 12 of FRS 102. Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned and are initially measured at fair value.

All investments held by the Company are classified as at "fair value through profit or loss". Investments are initially recognised at cost, being the fair value of the consideration given. After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments recognised in the Income Statement and allocated to capital.

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

TREASURY SHARES
The consideration paid for shares held in Treasury is presented as a deduction from equity shareholders' funds in accordance with FRS 102. Any profit on the sale of shares out of Treasury is credited to the share premium account in full.

TAXATION
The charge for taxation is based on the net revenue for the year. Deferred taxation is provided in accordance with FRS 102 on all timing differences that have originated but not reversed by the Balance Sheet date. Deferred taxation assets are only being recognised to the extent that they are regarded as recoverable. Provision is made for deferred taxation on the liability method, without discounting, on all timing differences calculated at the current rate of tax relevant to the benefit or liability.

DIVIDENDS PAYABLE TO SHAREHOLDERS
In accordance with FRS 102, interim dividends are not accounted for until paid and final dividends are accounted for when approved by shareholders at an AGM.

BANK LOANS AND BORROWINGS
All bank loans and borrowings are initially recognised at cost, being the fair value of the consideration received less issue costs where applicable. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost. Any differences between cost and redemption value are recognised in the Income Statement over the period of the borrowings on an effective interest basis.

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

1 Accounting Policies continued

DERIVATIVE FINANCIAL INSTRUMENTS

It is the Company's policy not to trade in derivative financial instruments. However, the Company has utilised an interest rate swap to mitigate its exposure to interest rate changes on its bank loan which was subject to a variable rate of interest; this swap expired during the year ended 31 March 2017. Details can be found in note 15.

Derivatives are recognised at fair value. Movement in the fair value of the interest rate swap has been recognised in the Income Statement and allocated to capital.

RESERVES

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 that can be readily converted to cash without accepting adverse terms;
- net movement from changes in the fair value of derivative financial instruments; and
- expenses, together with related taxation effect, charged to this account in accordance with the above policies.

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.

In accordance with the SORP, the consideration paid for shares bought into and held in Treasury is shown as a deduction from the special reserve.

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.

2 Income

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
Income from investments	**4,535**	5,249
UK dividend income	**4,491**	5,228
Overseas dividend income	**44**	21
Total income	**4,535**	5,249

Total income comprises

Dividends from financial assets at fair value	**4,535**	5,249
Dividends	**4,535**	5,249

3 Management fee

	Year to 31 March 2017			Year to 31 March 2016		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Management fee	**467**	**1,402**	**1,869**	467	1,402	1,869
AIFMD fee	**13**	**37**	**50**	13	37	50
	480	**1,439**	**1,919**	480	1,439	1,919

The Manager received a monthly fee equivalent to 1/12 of 0.85% of the gross assets of the Company valued at the close of business on the last business day of each month. From 1 April 2017, the monthly fee reduced from 1/12 of 0.85% to 1/12 of 0.50% of the gross assets of the Company.

At 31 March 2017, £224,000 (2016: £160,000) was due for payment to the Manager.

Notes to the Financial Statements continued
at 31 March 2017

4 Other Expenses

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
Administration and company secretarial fees (CSH)*	102	113
Company secretarial fees (Maitland)*	9	–
Directors' fees (see note 5)	93	100
Depositary fee	68	71
Registrar fee	27	29
Auditor's remuneration for:		
– audit	23	22
Custody and other bank charges	21	21
Legal fees	5	8
Other expenses (including VAT)	147	151
	495	515

* Maitland were appointed as Company Secretary from 1 January 2017.

5 Directors' Remuneration

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
Total fees	93	100

A breakdown of the Directors' remuneration is set out in the Directors' Remuneration Report on page 26.
The Company has no employees.

6 Interest Payable and Similar Charges

	Year to 31 March 2017			Year to 31 March 2016		
Financial liabilities not at fair value through profit or loss	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest payable on loan	186	559	745	176	530	706
Loan commitment fee	7	20	27	11	32	43
	193	579	772	187	562	749

7 Taxation

Analysis of charge in year	Year to 31 March 2017			Year to 31 March 2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Current tax:						
Overseas tax suffered	10	–	10	3	–	3
	10	–	10	3	–	3

7 Taxation continued

The taxation charge for the year is lower than the standard rate of Corporation Tax in the UK of 20% (2016: 20%). The differences are explained below.

	Year to 31 March 2017			Year to 31 March 2016		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Net return before taxation	**3,367**	**20,422**	**23,789**	4,067	901	4,968
Theoretical tax at UK corporation tax rate of 20% (2016: 20%)	**674**	**4,084**	**4,758**	814	180	994
Effects of:						
– UK dividends that are not taxable	**(836)**	**–**	**(836)**	(1,001)	–	(1,001)
– Foreign dividends that are not taxable	**(9)**	**–**	**(9)**	(4)	–	(4)
– Non–taxable investment gains	**–**	**(4,488)**	**(4,488)**	–	(580)	(580)
– Irrecoverable overseas tax	**10**	**–**	**10**	3	–	3
– Disallowed expenses	**–**	**15**	**15**	–	–	–
– Unrelieved excess expenses	**171**	**389**	**560**	191	400	591
	10	**–**	**10**	3	–	3

Factors that may affect future tax charges
At 31 March 2017, the Company had no unprovided deferred tax liabilities (2016: £nil). At that date, based on current estimates and including the accumulation of net allowable losses, the Company had unrelieved losses of £41,329,594 (2016: £38,848,047) that are available to offset future taxable revenue. A deferred tax asset of £7,026,031 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. Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments.

8 Dividends

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
Paid		
2016 Final dividend of 10.00p (2015: 8.90p) per Ordinary share	**3,348**	2,979
Proposed		
2017 Final dividend of 10.5p (2016: 10.00p) per Ordinary share	**3,515**	3,348

9 Return per Ordinary Share

	Year to 31 March 2017			Year to 31 March 2016		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Ordinary share	**10.0p**	**61.0p**	**71.0p**	12.1p	2.7p	14.8p

Revenue return per Ordinary share is based on the net revenue after taxation of £3,357,000 (2016: £4,064,000) and 33,475,958 (2016: 33,475,958) Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in Treasury.

Capital return per Ordinary share is based on net capital gains for the year of £20,422,000 (2016: £901,000), and on 33,475,958 (2016: 33,475,958) Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in Treasury.

Normal and diluted return per share are the same as there are no dilutive elements on share capital.

Notes to the Financial Statements continued
at 31 March 2017

10 Investments

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
Total investments at fair value	**217,475**	209,502

The investment portfolio comprises 53 traded and listed UK equity holdings.

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
Opening book cost	**157,627**	150,527
Opening investment holding gains	**51,875**	48,048
Opening valuation	**209,502**	198,575
Movements in the year		
Purchases at cost	**66,150**	38,531
Sales – proceeds	**(80,476)**	(30,383)
– realised gains/(losses) on sales	**14,145**	(1,048)
Increase in investment holding gains	**8,154**	3,827
Closing valuation	**217,475**	209,502
Closing book cost	**157,446**	157,627
Closing investment holding gains	**60,029**	51,875
	217,475	209,502

FAIR VALUE HIERARCHY

In accordance with FRS 102, the Company must disclose the fair value hierarchy of financial instruments.

The fair value hierarchy consists of the following three levels:

- level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date;
- level 2 – Inputs other than quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

For financial instruments (within the scope of FRS 102), which are measured at fair value in the Balance Sheet, an entity shall disclose for each class of financial instruments, the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety.

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

	31 March 2017			31 March 2016		
	Level 1 £'000	**Level 2 £'000**	**Total £'000**	Level 1 £'000	Level 2 £'000	Total £'000
Equity investments	**217,475**	**–**	**217,475**	209,502	–	209,502
	217,475	**–**	**217,475**	209,502	–	209,502

10 Investments continued

There are no financial liabilities measured at fair value for the period ended 31 March 2017 (2016: under level 2 of the fair value hierarchy system, the derivative financial instruments were valued at £141,000).

There were no level 3 investments.

TRANSACTION COSTS

During the year, the Company incurred transaction costs of £221,000 (2016: £192,000) and £77,000 (2016: £24,000) 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 2017 £'000	Year to 31 March 2016 £'000
Net gains on investments at fair value		
Gains/(losses) on sales	**14,145**	(1,048)
Changes in fair value	**8,154**	3,827
	22,299	2,779

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 14 and 15.

11 Significant Holdings

The Company has no holdings of 3% or more of the voting rights attached to shares that is material in the context of the financial statements.

12 Debtors

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
Prepayments and accrued income	**90**	31
Due from corporate action	**20**	–
Dividends receivable	**369**	930
Taxation recoverable	**–**	27
	479	988

The carrying amount for prepayments, accrued income and dividends receivable disclosed above reasonably approximates to its fair value at the year end and is expected to be realised within a year from the Balance Sheet date.

13 Other Creditors

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
Accruals	**458**	401
Due to brokers	**317**	–
	775	401

The carrying amount for accruals disclosed above reasonably approximates to its fair value at the year end and is expected to be paid within a year from the Balance Sheet date.

Notes to the Financial Statements continued
at 31 March 2017

14 Fixed Rate Term and Floating Rate Revolving Credit Facilities

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
Falling due within one year	**–**	28,000
Falling due after more than one year	**20,000**	–
	20,000	28,000

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 2017. Interest is payable at a fixed rate of 2.68% per annum.

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 the 31 March 2017. When drawndown, 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 net asset value, which itself shall not fall below £80,000,000 in respect of both facilities. The Company remained compliant with these covenants throughout the year.

On 19 December 2011, the Company agreed a £15,000,000 Floating Rate Revolving Credit Facility with ING Bank N.V. At the same time, the Company entered into a £15,000,000 Interest Rate Swap with ING Bank N.V. This loan has now expired.

This facility was available for a five-year term from 19 December 2011 to 19 December 2016. The loan was paid back and cancelled on the 19 December 2016. Interest was payable at LIBOR plus a margin and mandatory costs.

The Interest Rate Swap was originally entered into with the intention of hedging the £15,000,000 Floating Rate Revolving Credit Facility with ING Bank N.V. to a fixed rate. This Interest Rate Swap has now expired.

On 10 February 2014, the Company agreed an additional £10,000,000 Floating Rate Revolving Credit Facility with ING Bank N.V. This facility was available for a three-year term from 24 February 2014 to 24 February 2017. On 25 November 2015 the Company increased the Floating Rate Revolving Credit Facility to £15,000,000. The loan was paid back and cancelled on 19 December 2016. This loan has now expired.

Interest was payable on each advance at LIBOR plus a margin and mandatory costs. A commitment fee was payable at the rate of 0.40% if the average utilisation was less than 50% of the facility during the quarter, or 0.35% if the average utilisation was 50% or more of the facility during the quarter.

15 Derivative Financial Instruments

An interest rate swap is an agreement between two parties to exchange fixed and floating rate interest payments based upon interest rates defined in the contract without the exchange of the underlying principal amounts.

The Company entered into an agreement on 19 December 2011 which swapped its obligation to pay variable rates of interest on its £15,000,000 facility for a fixed rate until 19 December 2016, when it was repaid and the Interest Rate Swap expired.

The fair value of the derivative financial instrument is shown below:

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
Opening valuation	**(141)**	(264)
Movement in fair value	**141**	123
Closing valuation	**–**	(141)

16 Share Capital

	31 March 2017 £'000	31 March 2016 £'000
Allotted, called-up and fully paid:		
33,475,958 (2016: 33,475,958) Ordinary shares of 10p each	**3,348**	3,348

Voting rights
Ordinary shareholders have unrestricted voting rights at all general meetings of the Company.

At the AGM on 22 July 2016, the Company was granted the authority to purchase 5,018,046 Ordinary shares. This authority is due to expire at the conclusion of the next AGM.

During the year, no shares were purchased for cancellation.

The Company does not have any externally imposed capital requirements. The capital of the Company is managed in accordance with its Investment Policy in pursuit of its Investment Objective, both of which are detailed in the Strategic Report on page 9.

17 Duration of the Company

The Articles prescribe that shareholders should have the opportunity to consider the future of the Company at regular intervals. At the AGM held on 26 July 2013, shareholders voted to remove the obligation to convene a General Meeting during 2014 for the purpose of voluntarily winding up the Company. The Board has proposed a resolution for the AGM to be held on 21 July 2017 to remove the obligation to convene a General Meeting during 2018 for the purpose of voluntarily winding up the Company.

18 Own Shares Held in Treasury

The Company has previously taken advantage of the regulations which came into force on 1 December 2003 to allow companies, including investment trusts, to buy their own shares and hold them in Treasury for re-issue at a later date. There were no shares held in Treasury at any time during the year.

19 Net Asset Value per Ordinary Share

Net asset value per Ordinary share is based on net assets of £211,440,000 (2016: £191,009,000) and on 33,475,958 (2016: 33,475,958) Ordinary shares, being the number of Ordinary shares in issue at the year-end.

20 Analysis of Financial Assets and Liabilities

As required by FRS 102, an analysis of financial assets and liabilities, which identifies the risk to the Company of holding such items, is given below.

BACKGROUND

The Company's financial instruments comprise securities, cash balances, debtors and creditors that arise from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income.

The risk management policies and procedures outlined in this note have not changed from the previous accounting period.

The Company has little or no exposure to cash flow or foreign currency risk.

The principal risks the Company faces in its portfolio management activities are:

- credit risk;
- market price risk, i.e. movements in the value of investment holdings caused by factors other than interest rate or currency movement;
- interest rate risk;
- liquidity risk, i.e. the risk that the Company has difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments;
- gearing; and
- use of derivatives.

Notes to the Financial Statements continued
at 31 March 2017

20 Analysis of Financial Assets and Liabilities continued

(i) 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 are held on its behalf by BONY, 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 reports.

Investment transactions are carried out with a large 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 banks at which cash is held are under regular review.

The maximum exposure to credit risk at 31 March 2017 was:

	31 March 2017 £'000	31 March 2016 £'000
Cash at bank (held at Bank of New York Mellon)	**14,261**	9,061
Debtors and prepayments	**479**	988
	14,740	10,049

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

(ii) Market Price Risk
Market price risk arises mainly from uncertainty about future prices of financial instruments. The value of shares and the income from them may fall as well as rise and shareholders may not get back the full amount invested. The Manager continues to monitor the prices of financial instruments held by the Company on a real time basis. Adherence to the Company's Investment Policy shown on page 9 mitigates the risk of excessive exposure to one issuer or sector.

The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Manager. The Board meets regularly and at each meeting reviews the investment performance, the investment portfolio and the rationale for the current investment positioning to ensure consistency with the Company's objectives and Investment Policy. The portfolio does not seek to reproduce the index, investments are selected based upon the merit of individual companies and therefore the portfolio may well diverge from the short-term fluctuations of the benchmark.

Fixed asset investments are valued at fair value as detailed in note 1. A list of the Company's 20 largest equity investments, an analysis of the investment portfolio by broad industrial and commercial sector, an analysis of the 20 largest holdings by market capitalisation and a description of the 10 largest equity investments are set out on pages 12 to 15.

The maximum exposure to market price risk is the fair value of investments of £217,475,000 (2016: £209,502,000).

If the investment portfolio valuation fell by 1% from the amount detailed in the financial statements as at 31 March 2017, it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £2,175,000 (2016: £2,095,000). An increase of 1% in the investment portfolio valuation would have an equal and opposite effect on the net capital return before taxation.

(iii) 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 14) 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 did not receive any interest on cash deposits in the year (2016: £nil).

If interest rates had reduced by 1% from those paid as at 31 March 2017, 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 (2016: £150,000). 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 (2016: £150,000).

(iv) 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. However, the investments held by the Company consist of UK traded small companies which are inherently less liquid than quoted large companies. The Manager reviews the portfolio liquidity on a regular basis. Short-term flexibility is achieved through the use of bank borrowings. Liquidity risk is mitigated by the fact that the Company has £14.7 million cash at bank and short-term debtors which can satisfy its creditors and that, as a closed-ended fund, assets do not need to be liquidated to meet redemptions.

20 Analysis of Financial Assets and Liabilities continued

(v) Gearing

Gearing can have amplified effects on the net asset value of the Company. It can have a positive or negative effect depending on market conditions. 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 levels of the Company. The Directors receive financial information on a regular basis which is used to identify and monitor risk.

(vi) Use of Derivatives

It is the Company's policy not to trade in derivative financial instruments.

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 2017 or at any time during the year. All financial assets are in sterling and disclosed at fair value through profit or loss.

FINANCIAL LIABILITIES

The Company finances its operations through equity, retained profits and bank borrowings (see note 14). The change in the fair value of financial liabilities during the year was not related to the credit risk profile. The interest rate risk profile of the financial liabilities of the Company as at 31 March 2017 is as follows:

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2017 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**	**4.7**
Amounts drawn down under Floating Rate Revolving Credit Facility	**–**	**–**	**–**
Financial liabilities upon which no interest is paid	**775**	**–**	**–**

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2016 was as follows:

	Total £'000	Weighted average interest rate %	Period until maturity Years
Amounts drawn down under Floating Rate Revolving Credit Facility	13,000	3.2	0.2
Amounts drawn down under the additional Floating Rate Revolving Credit Facility	15,000	1.9	0.1
Derivative financial instruments	141	1.0	0.7
Financial liabilities upon which no interest is paid	401	–	–

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

	31 March 2017 £'000	31 March 2016 £'000
In three months or less	**873**	28,369
In more than three months but not more than one year	**438**	173
In more than one year but not more than three years	**1,072**	–
In more than three years but not more than five years	**20,922**	–
	23,305	28,542

The Company had £10,000,000 undrawn under the new Floating Rate Revolving Credit Facility at 31 March 2017.

The Company has a Fixed Rate Credit Term Facility at 31 March 2017 of £20,000,000 which expires on 19 December 2021.

As at 31 March 2016 the Company had £2,000,000 undrawn of the Floating Rate Revolving Credit Facility, and the additional Floating Rate Revolving Credit Facility was fully drawn.

Notes to the Financial Statements continued
at 31 March 2017

21 Capital Management Policies
The investment objective of the Company is to achieve capital appreciation through investing in small quoted companies listed on the London Stock Exchange or traded on AIM and outperform its benchmark, the NSCI. No unquoted investments are permitted. In pursuing this long-term objective, the Board has a responsibility for ensuring the Company's ability to continue as a going concern. It must therefore maintain an optimal capital structure through varying market conditions. This involves the ability to: issue and buy back share capital within limits set by the shareholders in general meeting; borrow monies in accordance with the Articles; and pay dividends to shareholders out of distributable reserves.

Details of the Ordinary share capital are set out in note 16. Dividend payments are set out in note 8.

	31 March 2017 £'000	31 March 2016 £'000
Called-up share capital	**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	**176,165**	155,743
Distributable revenue reserve	**6,616**	6,607
Total equity shareholders' funds	**211,440**	191,009

The Company's policies for managing capital are unchanged and have been complied with throughout the year.

22 Commitments and Contingent Liabilities
At 31 March 2017, there were no capital commitments or contingent liabilities (2016: nil).

23 Related Party Transactions
Under the Listing Rules, the Manager is regarded as a related party of the Company. The amounts paid to the Manager are disclosed in note 3. However, the existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies and therefore, in terms of FRS 102, the Manager is not considered a related party. The relationship between the Company, its Directors and the Manager is disclosed in the Directors' Report.

AIFMD Disclosure (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 and the numerical remuneration disclosures in relation to the AIFM's first relevant accounting period will be made available in due course. The Company's maximum and average actual leverage levels at 31 March 2016 are shown below:

Leverage exposure

	Gross method	Commitment method
Maximum limit	200%	200%
Actual	102.9%	109.6%

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 exposure to its net asset value 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 49.

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 extended its professional liability insurance cover to £5 million.

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

- pages 10 and 11 and note 20 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 6 to 9 and 14 and 15; and
- none of the Company's assets are subject to special arrangements arising from their illiquid nature.

Company Summary

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 2017, this was any company below £1.43 billion in size. The Manager focuses on the smaller end of this Index.

In order to manage risk, the Manager limits any one holding to a maximum of 4% of the Company's investments at the time of initial investment. The portfolio weighting of each investment is closely monitored to reflect the underlying liquidity of the particular company. The Company's AIM exposure is also closely monitored by the Board and is limited to 30% of total investments, with Board approval required for exposure above 25%.

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

The AIFM, in consultation with the Board, is responsible for determining the gearing levels of the Company and has determined that the Company's borrowings should be limited to 25% of shareholders' funds. Gearing is used to enhance returns when the timing is considered appropriate. The Company currently has credit facilities of £30 million with ING Bank N.V., of which £20 million was utilised via the Fixed Rate Term Loan as at 31 March 2017. Net gearing at that date amounted to 2.7%.

Benchmark (capital return)
For the year under review, the benchmark was the NSCI. Prior to 1 April 2013, the benchmark was the FTSE SmallCap.

Gross Assets
£232,215,000 as at 31 March 2017.

Shareholders' Funds
£211,440,000 as at 31 March 2017.

Market Capitalisation
£170,727,000 as at 31 March 2017.

Capital Structure
As at 31 March 2017 and at the date of this report, the Company had 33,475,958 Ordinary shares of 10p each in issue (of which none were held in Treasury).

Wind-up Date
In accordance with the Articles, an ordinary resolution is being put to shareholders at the AGM in 2017 (Resolution 10) to release the Directors from the obligation to convene a General Meeting during 2018 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.

Management Fee
The Manager was entitled to receive 0.85% of the gross assets with no performance fee during the financial year. From 1 April 2017 the Manager is entitled to received 0.50% of gross assets with no performance fee.

Administration Fees
Administrative services are provided by Capita Sinclair Henderson Limited. Secretarial services were also provided by Capita Sinclair Henderson until 31 December 2016. Fees for these services of £102,000 were paid in the year to 31 March 2017. The Administration fee is subject to an annual RPI uplift.

Company Secretarial Fees
Company Secretarial Services since 1 January 2017 have been provided by Maitland Administrator Services Limited. Fees for these services for the period from 1 January 2017 to 31 March 2017 were £9,000.

Glossary of Terms

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

Discount/Premium
If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, the shares are said to be trading at a premium.

Gross Assets
Gross assets are the sum of both fixed and current assets with no deductions.

Montanaro, AIFM or Manager
Montanaro Asset Management Limited.

MUSCIT
Montanaro UK Smaller Companies Investment Trust PLC.

NAV
NAV stands for Net Asset Value and represents shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of a company's assets at current market value less its liabilities.

NSCI
Numis Smaller Companies Index (excluding investment companies).

Ongoing Charges (formerly TER)
Ongoing Charges are the Company's expenses (excluding performance fees and interest payable) expressed as a percentage of its average monthly net assets.

Gearing
Gearing is the process whereby growth or decline in the total assets of a company has an exaggerated effect on the NAV of that company's ordinary shares due to the presence of borrowings or share classes with a prior ranking entitlement to capital.

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

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.

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.

Shareholder Information

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

Key Dates

31 March 2017	Company year end
June 2017	Annual results
7 July 2017	Record date for dividend
17 July 2017	Annual General Meeting
2 August 2017	Dividend payable
November 2017	Half-yearly results

Half-Yearly Report
To reduce ongoing costs, the Board has decided not to print the Half-Yearly Report. The Report will be published on the Company's website.

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

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

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

Notice of Annual General Meeting

Notice is hereby given that the twenty-second Annual General Meeting of the Company will be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on Monday, 17 July 2017 at 12 noon for the following purposes:

RESOLUTION 1 – ORDINARY RESOLUTION
To receive and, if thought fit, to accept the Strategic Report, the Directors' Report, the Auditor's Report and the audited financial statements for the year ended 31 March 2017.

RESOLUTION 2 – ORDINARY RESOLUTION
To receive and approve the Directors' Remuneration Report for the year ended 31 March 2017.

RESOLUTION 3 – ORDINARY RESOLUTION
To declare a final dividend of 10.5p per Ordinary share for the year ended 31 March 2017.

RESOLUTION 4 – ORDINARY RESOLUTION
To re-elect Roger Cuming as a Director of the Company.

RESOLUTION 5 – ORDINARY RESOLUTION
To re-elect Kate Bolsover as a Director of the Company.

RESOLUTION 6 – ORDINARY RESOLUTION
To elect Arthur Copple as a Director of the Company.

RESOLUTION 7 – ORDINARY RESOLUTION
To re-elect James Robinson as a Director of the Company.

RESOLUTION 8 – ORDINARY RESOLUTION
To appoint Ernst & Young 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 and to authorise the Directors to determine their remuneration.

RESOLUTION 9 – ORDINARY RESOLUTION
To receive and approve the Directors' Remuneration Policy as set out in the Directors' Remuneration Report.

RESOLUTION 10 – ORDINARY RESOLUTION
THAT the Directors be released from the obligation to convene a General Meeting during 2018 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.

RESOLUTION 11 – SPECIAL RESOLUTION
THAT in substitution for the Company's existing authority to make market purchases of Ordinary shares of 10p each 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 5,018,046 or, if less, 14.99% of the number of shares in issue immediately following the passing of this resolution;

(ii) the minimum price which may be paid for each Ordinary share is 10p;

(iii) the maximum price payable by the Company for each Ordinary share is the higher of (i) 105% of the average of the mid-market quotations 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 bid as stipulated by Article 5(1) of the Buy-Back and Stabilisation Regulation 2003;

(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2018, 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.

RESOLUTION 12 – ORDINARY RESOLUTION

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"):

(a) up to an aggregate nominal amount of £1,115,865 (being approximately one-third of the issued share capital (excluding Treasury shares) as at the date of this report); and

(b) comprising equity securities (within the meaning of section 560 of the Act) up to a further aggregate nominal amount of £1,115,865 in connection with an offer by way of a rights issue:

(i) to holders of Ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities (if any) as required by the rights of those securities or as the Directors otherwise consider necessary,

and so that Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter (including any such problems arising by virtue of equity securities being represented by depositary receipts),

provided that the authorities conferred on the Directors by paragraphs (a) and (b) above 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 so the Directors of the Company may allot shares or grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

RESOLUTION 13 – SPECIAL RESOLUTION

THAT, subject to the passing of Resolution 12 above (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) for cash pursuant to the authority conferred by Resolution 12 as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with an offer of equity securities (but in the case of the authority granted under paragraph (b) of Resolution 12, by way of a rights issue only):

(i) to holders of Ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities (if any) as required by the rights of those securities or as Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter (including any such problems arising by virtue of equity securities being represented by depositary receipts); and

(b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £167,380 (being approximately 5% of the issued share capital (excluding Treasury shares) as at the date of this report),

and 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.

Notice of Annual General Meeting continued

RESOLUTION 14 – ORDINARY RESOLUTION

THAT, subject to the passing of Resolution 13 set out above, the Directors of the Company be and are hereby authorised, for the purposes of paragraph 15.4.11 of the Listing Rules of the United Kingdom Listing Authority, to issue Ordinary shares of 10p each in the capital of the Company at a price below the net asset value per share of the existing Ordinary shares in issue, provided always that such issue will be limited to:

(i) an aggregate nominal amount of £167,380, being approximately 5% of the Ordinary shares in issue as at the date of this report;

(ii) the sale of shares which, immediately before such sale, were held by the Company as Treasury shares; and

(iii) the authority contained in Resolution 13 set out above.

RESOLUTION 15 – SPECIAL RESOLUTION

THAT a General Meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By order of the Board

MAITLAND ADMINISTRATION SERVICES LIMITED
Company Secretary
12 June 2017

Registered Office:
Springfield Lodge
Colchester Road
Chelmsford
CM2 5PW

Note 1: Pursuant to Section 324 of the Companies Act 2006, a member entitled to attend and vote at this meeting may appoint one or more persons as his/her proxy or proxies to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If multiple proxies are appointed, they must not be appointed in respect of the same shares. To be effective, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a notarially certified copy thereof, should be lodged at the office of the Company's Registrar, Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, not later than 48 hours (excluding non-working days) before the time of the meeting or any adjournment thereof. The appointment of a proxy will not prevent a member from attending the meeting and voting in person if he/she so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every Ordinary share of which he/she is the holder. The termination of the authority of a person to act as proxy must be notified to the Company in writing. Amended instructions must be received by the Company's Registrar by the deadline for receipt of proxies. To appoint more than one proxy, shareholders will need to complete a separate proxy form in relation to each appointment (you may photocopy the proxy form), stating clearly on each proxy form the number of shares in relation to which the proxy is appointed. A failure to specify the number of shares to which each proxy appointment relates or specifying an aggregate number of shares in excess of those held by the member will result in the proxy appointment being invalid. Please indicate if the proxy instruction is one of multiple instructions being given. All proxy forms must be signed and should be returned together in the same envelope.

Note 2: Shareholders who hold their shares electronically may submit their votes through CREST, by submitting the appropriate and authenticated CREST message so as to be received by the Company's Registrar not later than 48 hours (excluding non-working days) before the start of the meeting or any adjournment thereof. Instructions on how to vote through CREST can be found by accessing the following website: www.euroclear.com/CREST. Shareholders are advised that CREST is the only method by which completed proxies can be submitted electronically. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting and any adjournment thereof by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made 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 (available via www.euroclear.com/crest). The message, in order to be valid, must be transmitted so as to be received by the Company's agent (ID RA10) by the latest time for receipt of proxy appointments specified in Note 1 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company'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. 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 messages. 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 service 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.

Note 3: A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder 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 shareholder as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in Note 1 above do not apply to a Nominated Person. The rights described in that Note can only be exercised by registered members of the Company.

Note 4: As at 9 June 2017 (the business day prior to the publication of this notice) the Company's issued share capital amounted to 33,475,958 Ordinary shares carrying one vote each. The total voting rights in the Company as at 9 June 2017 were 33,475,958 votes.

Note 5: Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, as amended and/or the purposes of Section 360B of the Companies Act 2006, the Company specifies that only those shareholders registered on the Register of Members of the Company as at close of business on 13 July 2017 (or, in the event that the meeting is adjourned, only those shareholders registered on the Register of Members of the Company as at close of business on the day which is two days prior to the adjourned meeting) shall be entitled to attend in person or by proxy and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Note 6: In accordance with Section 319A of the Companies Act 2006, the Company must cause any question relating to the business being dealt with at the meeting put by a member attending the meeting to be answered. No such answer need be given if:

a) to do so would:
   (i) interfere unduly with the preparation for the meeting, or
   (ii) 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.

Note 7: A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

Notice of Annual General Meeting continued

Note 8: Members should note that it is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the 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 Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

Note 9: A copy of this Notice and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice, will be available on the Company's website.

Note 10: None of the Directors has a contract of service with the Company. A copy of the letters of appointment of the Directors will be available for inspection at the registered office of the Company during usual business hours on any weekday (except weekends and public holidays) until the date of the meeting and at the place of the meeting for a period of fifteen minutes prior to and during the meeting.

Registered in England and Wales No. 3004101.

Form of Proxy

for use at the Twenty-second Annual General Meeting

I/We (block capitals please)________________________________

Address ________________________________

being a member/members of Montanaro UK Smaller Companies Investment Trust PLC, hereby appoint the

Chairman of the meeting /________________________ (see note 1)

for the following number of shares

as my/our proxy to vote for me/us on my/our behalf at the twenty-second Annual General Meeting of the Company to be held at the offices of Montanaro Asset Management Limited, 53 Threadneedle Street, London EC2R 8AR on Monday, 17 July 2017 at 12 noon and at any adjournment thereof.

Signature ________________________

Dated ________________________ 2017

Please indicate with an X in the spaces below how you wish your votes to be cast.

☐ Please tick here to indicate that this proxy appointment is one of multiple appointments being made.

		For	Against	Withheld
RESOLUTION 1	To receive and accept the Strategic Report, the Directors' Report, the Auditor's Report and the audited financial statements for the year ended 31 March 2017.			
RESOLUTION 2	To receive and approve the Directors' Remuneration Report for the year ended 31 March 2017.			
RESOLUTION 3	To declare a final dividend of 10.5p per Ordinary share for the year ended 31 March 2017.			
RESOLUTION 4	To re-elect Roger Cuming as a Director of the Company.			
RESOLUTION 5	To re-elect Kate Bolsover as a Director of the Company.			
RESOLUTION 6	To elect Arthur Copple as a Director of the Company.			
RESOLUTION 7	To re-elect James Robinson as a Director of the Company.			
RESOLUTION 8	To appoint Ernst & Young LLP as Auditor and to authorise the Directors to determine their remuneration.			
RESOLUTION 9	To receive and approve the Directors' Remuneration Policy.			
RESOLUTION 10	To release the Directors from the obligation to convene a General Meeting during 2018 to propose the winding up of the Company.			
RESOLUTION 11	That the Company be authorised to make market purchases of up to 14.99% of its Ordinary shares.			
RESOLUTION 12	To allot relevant securities in accordance with Section 551 of the Companies Act 2006.			
RESOLUTION 13	To allot equity securities for cash and to disapply pre-emption rights, in accordance with Sections 570 and 573 of the Companies Act 2006.			
RESOLUTION 14	To issue shares held in Treasury at a discount to net asset value.			
RESOLUTION 15	To hold a General Meeting on not less than 14 clear days' notice.			

Notes

1 A member may appoint a proxy of his or her own choice. If such an appointment is made, delete the words "the Chairman of the Meeting" and insert the name of the person appointed proxy in the space provided.
2 The "Vote Withheld" option is provided to enable you to instruct the registered holder to abstain from voting. A "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" or "Against" a Resolution.
3 You are entitled to appoint more than one proxy provided that each proxy is appointed to exercise rights attached to a different share or shares held by you. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional Proxy Form(s) may be obtained by contacting the Registrars' helpline on 0871 664 0300 if calling within the UK or +44 20 8639 3399 if calling from outside the UK (calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate). Lines are open between 9.00am – 5.30pm, Monday to Friday, excluding public holidays in England and Wales. Calls may be recorded and monitored for security and training purposes. Or you may photocopy this form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
4 If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
5 In the case of joint holders, the signature of any one holder will be sufficient, but the names of all the joint holders should be stated.
6 If this form is returned without any indication as to how the person appointed proxy shall vote, he/she will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.
7 To be valid, this form must be completed and deposited at the office of the Registrar of the Company by post to Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF or by hand during normal business hours to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, not less than 48 hours (excluding non-working days) before the time fixed for holding the meeting or adjourned meeting.

Please see enclosed self addressed envelope for return of this proxy form.

Principal Advisers

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