MONTANARO

UK Smaller Companies Investment Trust PLC

The best way to get to know a Smaller Company isn't by looking at a spreadsheet

Annual Report and Accounts 2024

The investment objective of **Montanaro UK Smaller Companies Investment Trust** (the "Company" or "MUSCIT") is to achieve capital appreciation through investing in smaller quoted companies listed on the London Stock Exchange or traded on AIM and to outperform its benchmark, the Deutsche Numis Smaller Companies Index (excluding investment companies) ("NSCI").

The Company was launched in March 1995. Its Ordinary shares are listed on the Main Market of the London Stock Exchange.

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

Contents

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

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

Highlights
for the year ended 31 March 2024

Performance

Total Returns	1 year	3 year	5 year	10 year	Since launch
Ordinary share price[1]	0.7%	(20.7%)	18.6%	40.2%	843.4%
Net Asset Value ("NAV")[1]	8.3%	(9.6%)	12.4%	36.3%	876.0%
Benchmark[2]	9.0%	(0.7%)	21.8%	56.2%	555.5%

Capital Returns	1 year	3 year	5 year	10 year	Since launch
Ordinary share price[1]	(3.8%)	(30.3%)	(4.7%)	(0.1%)	431.6%
NAV[1]	3.9%	(19.9%)	(7.9%)	1.1%	495.8%
Benchmark[2]	5.0%	(9.7%)	5.6%	17.2%	168.7%

Sources: Deutsche Numis, Bloomberg, Association of Investment Companies ("AIC"), Montanaro Asset Management Limited ("MAM").

As at 31 March	**2024**	2023	% change
Ordinary share price	**101.0p**	105.0p	(3.8)
NAV per Ordinary share[1]	**118.9p**	114.5p	3.9
Discount to NAV[1]	**15.1%**	8.3%	
Gross assets[1]	**£219.1m**	£211.6m	3.5
Net assets	**£199.1m**	£191.6m	3.9
Market capitalisation	**£169.1m**	£175.7m	(3.8)
Net gearing employed[1]	**2.7%**	4.8%	

Year ended 31 March	**2024**	2023	% change
Revenue return per Ordinary share	**3.2p**	2.3p	39.1
Dividends per Ordinary share	**4.6p**	4.5p	2.2
Ongoing charges[1]	**0.9%**	0.9%	
Portfolio turnover[1]	**23.4%**	22.2%	

[1] Details provided in Alternative Performance Measures on pages 62 to 63.

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

How to invest

The Board has dedicated a great deal of time to make MUSCIT readily available to all investors. MUSCIT has continued to grow its presence across the UK's investment platforms. We are delighted to see a steady increase in MUSCIT's retail following.

Together with Montanaro Asset Management, we have appointed Marten & Co to provide sponsored research. The latest report published in June 2024 is available here: https://quoteddata.com/research/montanaro-uk-smaller-companies-a-coiled-spring-qd/.

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

Chairman's Statement

I am pleased to present the twenty-ninth annual report of MUSCIT for the year ended 31 March 2024.

Results

In the year to 31 March 2024, the Net Asset Value ("NAV") of MUSCIT returned 8.3% (with dividends reinvested). In comparison, our benchmark, the Deutsche Numis Smaller Companies (excluding investment companies) Index (the "NSCI") gained 9.0%. During the same period, the share price of MUSCIT returned 0.7% (with dividends reinvested) as the discount widened from 8.3% to 15.1%. Compared with the NSCI including AIM, MUSCIT's NAV outperformed by c.5%. Details of the factors which have contributed to the Company's performance are given in the Manager's Report on pages 5 to 10.

Since its inception in 1995, the Company has delivered a cumulative NAV total return of 876%, significantly outperforming the composite benchmark which delivered a return of 555%.

Dividends

The Company's investment objective has always been to generate capital growth. This remains unchanged. Dividends are now paid each quarter equivalent to 1% of the Company's NAV on the last business day of the preceding financial quarter, being the end of March, June, September and December.

During the financial year, the Company paid four quarterly dividends amounting to a total of 4.60p, equivalent to 4.4% of the share price at the start of the year and 4.6% of the share price at the end of the period. MUSCIT remains one of the highest yielding UK small cap investment trusts.

The Company holds substantial reserves which are available for distribution in future.

Discount

In common with many other investment companies, over the the last financial year, the discount of MUSCIT's share price to NAV, as shown in the graph on page 3, widened from 8.3% to 15.1%. The average discount for the year was 11.6%.

The Board and the Manager have worked hard to make MUSCIT attractive to private clients, including implementing a five-for-one share split in 2018; introducing the new dividend policy; reducing costs; and increasing the focus on marketing. These initiatives continue to bear fruit as more and more retail investors appear on the share register. This should help to reduce discount volatility in the shares of MUSCIT.

Gearing

The Board is responsible for setting the Company's gearing strategy and approves the arrangement of any gearing facilities. Montanaro Asset Management, the Company's Alternative Investment Fund Manager (the "AIFM"), is responsible for determining the net gearing level within the parameters set by the Board. The ability to issue debt to gear the portfolio is a key feature of investment trusts that we believe offers a strong competitive advantage over open-ended investment funds. Gearing can enhance investment returns to shareholders. The Board strongly encourages active use of the gearing facility by the Manager but delegates the decision about optimum levels to him.

On 17 December 2021, the borrowing facilities with ING Bank were renewed for a period of three years. The interest rate on the £20 million Fixed Rate Term Loan was reduced by approximately 0.2% p.a., which represents a welcome saving for shareholders. Similarly, the £10 million Revolving Credit Facility was renewed with a lower commitment fee.

At 31 March 2024, net gearing was 2.7%, a level that the Manager considered to be appropriate in light of the macroeconomic uncertainty and volatility in financial markets.

Share Buybacks

The Board is responsible for share buybacks which are undertaken at arm's length from the Manager. These are regularly considered by the Board and implemented when considered to be in the best interest of shareholders. No shares were bought back during the period under review.

During the life of MUSCIT, the Company has bought back and cancelled 29% of the shares outstanding.

Board

The Board consists exclusively of independent non-executive Directors with a good balance of skills, experience, diversity and knowledge of the Company and its business.

On 1 January 2024, Yuuichiro Nakajima was appointed as a non-executive Director. Yuuichiro is the founder and managing director of Crimson Phoenix, a special cross-border M&A advisory firm, providing advice on Japan-related transactions and a range of corporate strategy initiatives from offices in Tokyo, London and Frankfurt. Yuuichiro spent 10 years with S.G. Warburg (later SBC Warburg) and four years with PricewaterhouseCoopers. For nine years until July 2023, Yuuichiro was a non-executive director of JPMorgan Japan Small Cap Growth & Income plc. We are delighted to welcome such an experienced Director to the Board and he has already made a valuable contribution.

Environmental, Social and Governance (“ESG”)

The Board and Montanaro believe there is a strong correlation between how well a business fares on ESG grounds and the value it creates for its shareholders. This is why ESG considerations form an integral part of the Manager’s assessment of a company’s “quality” and have been fully integrated into the investment process for many years.

The depth of Montanaro’s commitment to ESG is perhaps best exemplified by the fact that they are one of the few UK asset managers to be a certified B Corporation – a certification Montanaro have held since 2019. Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose. The certification was renewed for a further three years in 2022. Montanaro’s score rose from 81.8 to 105.5 (classified as “outstanding”), demonstrating their commitment to continual improvement.

Please refer to pages 6 and 7 for more on ESG.

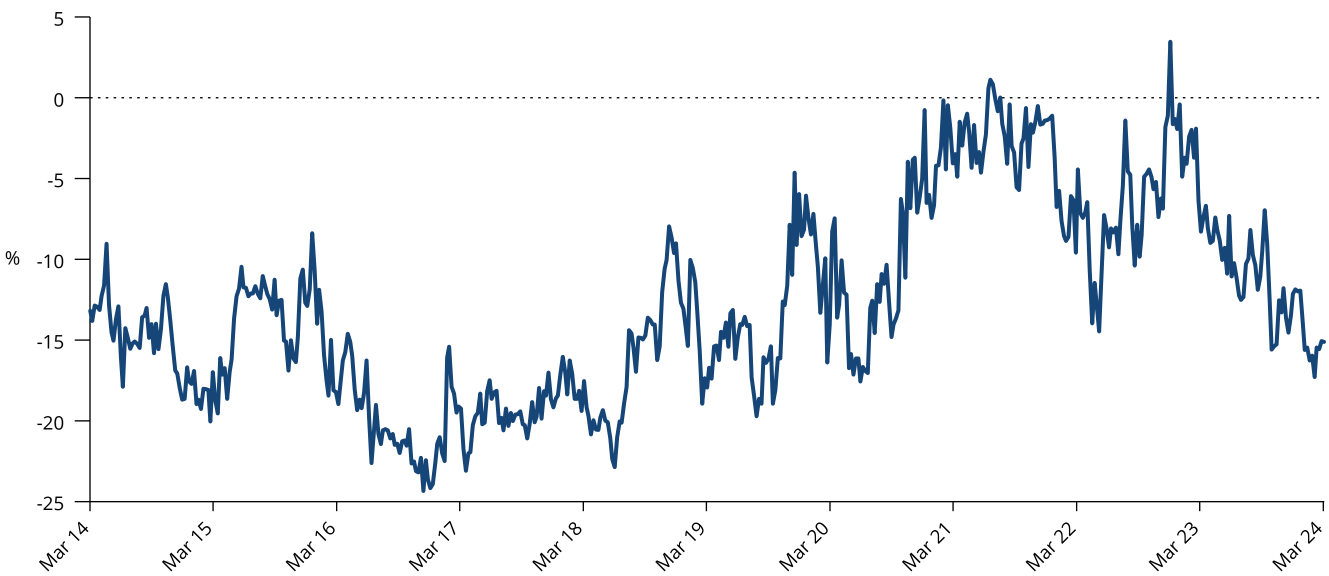
Annual General Meeting

The Company’s Annual General Meeting (the “AGM”) will be held on Thursday, 25 July 2024 at 12pm at the offices of Montanaro Asset Management, 53 Threadneedle Street, London EC2R 8AR. Shareholders are warmly invited to attend the AGM where, after the formal business has been concluded, there will be an opportunity to meet and ask questions of the Board and the Manager over tea and coffee.

Continuation Vote

We are pleased to report that, at the AGM held on 12 August 2021, over 99% of shareholders voted in favour of continuation of MUSCIT for a further five years. The next Continuation Vote is scheduled to be held in 2027.

Share Price Discount to NAV*



* Discount based on NAV over the last ten years. Source: Montanaro Asset Management, Bloomberg.

Chairman's Statement continued

Outlook

In recent years, the landscape of the UK stock market has undergone a noticeable transformation, characterised by a gradual shrinkage in its size and scope. One indicator of this trend is the dwindling number of companies quoted on the Main Market. The number of companies in MUSCIT's benchmark, the NSCI, has fallen to c.350 compared to around 1,000 at the turn of the century. The number of those companies traded on AIM has shrunk by 56% since its peak in 2007.

This is, to say the least, a very negative development for the UK as a whole. Historically, the British stock market has been renowned for its diversity and breadth, offering investors a wide array of investment opportunities across various sectors. The UK has been home to many world-leading companies with outstanding management teams and excellent corporate governance. However, the UK equity market has faced numerous challenges: relatively poor performance especially compared to the United States and some other overseas markets, multiple regulatory changes and of course Brexit. As a result, an increasing number of companies have chosen to delist, move abroad or to seek funding from private equity.

The ramifications of this trend extend beyond mere numerical decline, impacting the vibrancy and competitiveness of the UK stock market as a whole. A shrinking market not only reduces the breadth of investment opportunities available to investors but also diminishes the market's role as a catalyst for economic growth and innovation. With fewer companies listed on the stock exchange, there is a risk of reduced liquidity and market depth, potentially deterring international companies from listing in the UK. It makes international investors less interested in investing in the UK and drives our own savers to look overseas. It is a sorry state of affairs when the average UK pension fund holds less than 4% in UK equities, a far cry from 39% back in 2000.

Sadly, for years the UK has been a notable outlier in its absence of support for its domestic stock market compared to other countries with an active investment environment. China has recently been stepping in to support domestic share prices through investments from state institutions, whilst part of the resurgence in the Japanese equity market has been attributed to the Nippon ISA that has been supporting domestic retail flows. Since 2014, France has had its own version of a Stocks & Shares ISA dedicated to supporting domestic and European quoted smaller companies. Investment in these ISAs now stands at over £2 billion.

We were pleased to hear the Chancellor of the Exchequer recently announce plans to introduce a UK ISA. Although this initiative alone is unlikely to revive the UK equity market, it is nonetheless a step in the right direction. The possible re-bundling of research and broker commissions – currently disallowed under the MiFID II regime – could also help encourage retail investors back into the market. There are other avenues to explore in future such as: incentivising companies to list and remain listed by reviewing tax incentives and simplifying listing rules; abolishing Stamp Duty; and addressing the implications for the smaller end of the market of the ever-growing consolidation amongst wealth managers.

There is a silver lining, however. Today's challenging environment presents a compelling opportunity for long-term investors to capitalise on favourable valuations for UK smaller companies. The Board was pleased to see Montanaro Asset Management recently take advantage of this opportunity to increase its own stake in the Company.

ARTHUR COPPLE
Chairman

14 June 2024

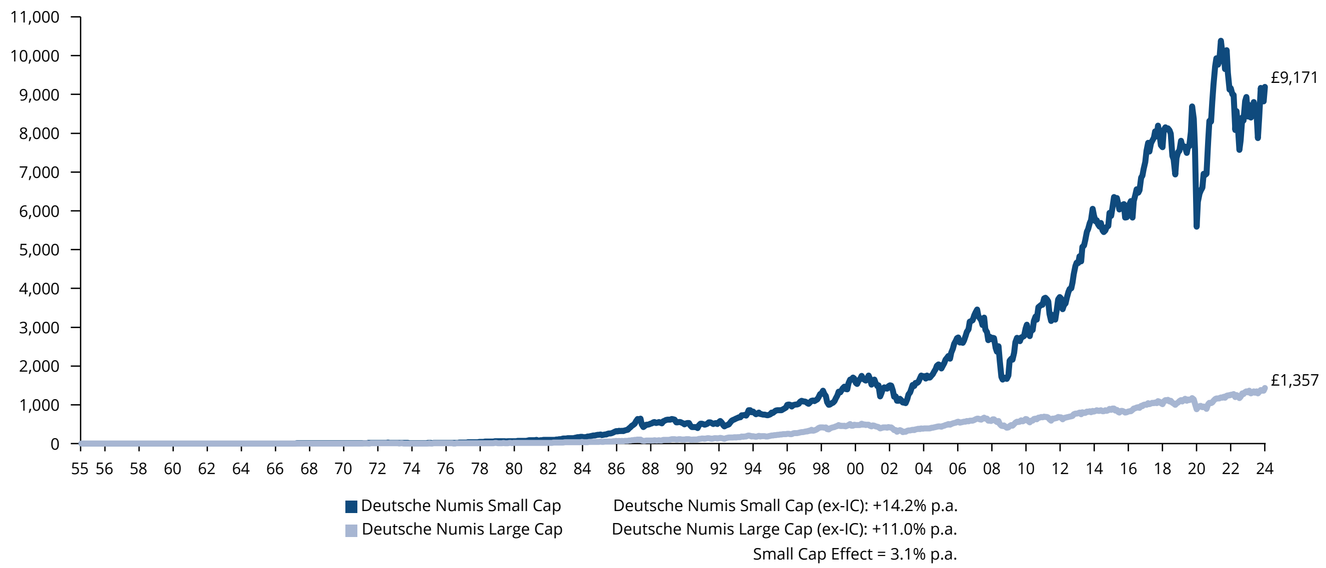
Manager's Report

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

The key attraction of investing in SmallCap is their long-term record of delivering higher returns to investors than large companies. In the UK, over the last 69 years, this has amounted to an average of 3.1% per annum ("the SmallCap Effect"). £1 invested in UK large companies in 1955 would now be worth £1,357 whereas the same £1 invested in SmallCap would now be worth £9,171 – almost seven times more (see chart below).

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

Cumulative Nominal Return of £1 invested on January 1955 (to 31 March 2024)



Montanaro Asset Management

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 smaller companies. Our team of thirty-nine includes twelve nationalities and eighteen Analysts and Portfolio Managers, which gives us the breadth of resources to conduct thorough in-house research.

At 31 March 2024, we were looking after around £3.3 billion of client assets.

Investment Philosophy and Approach

We specialise in researching and investing in quoted small companies.

We have a disciplined, two-stage investment process. Firstly, we identify "*good businesses*" within our investable universe. In the second stage, we determine the intrinsic value of each company to ensure they will make a "*good investment*" (the two are not always the same).

When we consider that we have identified a good company, it must pass our stringent Quality and Ethical, Social and Governance ("ESG") Checklists and be approved by our Investment Committee before it can be added to our "Approved List". ESG has been integrated in our disciplined investment process for almost two decades. Only the most attractive companies make it on to the Approved List and it is from these that we construct your Portfolio.

Our in-house team of Analysts, who are sector specialists, is one of the largest specialist teams in the country. Utilising their industry knowledge and a range of proprietary screens, they are continually searching for new ideas. With around 1,500 quoted companies in the UK to choose from, we are spoiled for choice.

We look for high quality companies in markets that are growing. They must be profitable; have good and experienced management; deliver sustainably high returns on capital employed; enjoy high and ideally growing profit margins reflecting pricing power and a strong market position; and provide goods and services that are in demand and likely to remain so. We like focused companies that are well-established with a long history so that we can see how they perform over different cycles. Ideally, they should deliver self-funded organic growth rather than rely on acquisitions and stick to their core areas of expertise.

Manager's Report continued

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

We believe that a deep understanding of a company's business model and the way it is managed are essential. We meet or speak to our investee companies on a regular basis, typically after they announce their semi-annual or annual figures. Site visits are particularly useful. They allow us to meet management in situ when they can give us more time and we can talk to more people. Investing in small companies is all about meeting the executive team. It is a privilege for us and where we can add most value.

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

Once a company has been added to the Portfolio, our Analysts conduct ongoing reviews. We will sell a holding if we believe that the company's underlying quality is deteriorating or if there has been a fundamental change to the investment case or management. We will get things wrong and make mistakes, but we try to learn from them.

In summary, we invest in well managed, focused, high quality, growing companies bought at sensible valuations. We keep turnover and transaction costs low and follow our companies closely over many years. We would rather pay more for a higher quality, more predictable company that can be valued with greater certainty.

ESG

Montanaro became a certified B Corporation in 2019, placing sustainability at its core. This was achieved by meeting verified standards of social and environmental performance, transparency and accountability. It is regarded as one of the toughest sustainability standards to achieve globally. Montanaro recertified for "B Corp" status in 2022 and achieved a score of 105.5, well above the 81.8 originally achieved in 2019 and an achievement of which we are proud.

In 2021, Montanaro was the only UK investment boutique to be invited to join the Glasgow Financial Alliance for Net Zero ("GFANZ") taskforce, chaired by former Bank of England Governor, Mark Carney.

In 2023, we announced our commitment to becoming carbon negative and removing 100% of our historical emissions by 2030. We have partnered with Klimate, a Danish carbon removal specialist. Together, we are building an innovative portfolio of carbon removal projects to achieve our targets. This includes projects such as direct air capture; deep storage bio-oil; ocean kelp; and restorative tree-planting. All will be independently verified to ensure their integrity. *We believe that we are the first asset manager in the world to have publicly stated such ambitious goals*. We try to be pioneers and to lead by example.

Montanaro's long track record of sustainable investing has always been reflected in the way the Portfolio has been managed. Ethical restrictions mean that we do not invest in companies that generate a significant proportion of sales from products with negative societal impact such as tobacco.

The analysis of ESG factors has long formed part of our definition of a company's "Quality". The analysis of such information allows us to better understand the risks and opportunities that our companies may be exposed to, from factors such as climate change and supply chain challenges.

We continue to participate in collaborative engagements. We joined the Farm Animal Investment Risk and Return ("FAIRR") initiative engagement with Cranswick to discuss labour rights. Through discussions with the CFO, we established that the majority of its workforce is directly employed and labour metrics are reported to the Board on a monthly basis, with follow-up reports on actions taken to mitigate problems. We will continue to monitor labour practices at the company but are satisfied with the policies, approach and transparency.

We are pleased that MUSCIT was awarded an 'AA' rating for its ESG credentials by MSCI, the second-best rating out of a possible seven.

In March 2022, Montanaro won "*the Best Small & Mid-Cap Sustainable Investment Boutique*" award from Ethical Finance. This recognised Montanaro's continuing commitment to sustainable investing within its own business, across the investment industry and in our investment process. We were delighted to receive this award once again in 2024.

Examples of recent investee company engagement

During the year, we continued our ongoing engagement on sustainability with **Tristel**, the leader in antiseptic wipes used in hospitals. One area in particular that we brought up was the use of plastics in the company's clinical wipes and whether the company could consider recyclable substitutes. We were pleased to hear that Tristel is now working towards fully recyclable packaging, although regulatory requirements still necessitate some plastic use in clinical wipes. Tristel is also putting pressure on suppliers to develop eco-friendly alternatives, indicating a broader shift towards sustainability.

For the past few years, we have also been engaging with **Marshalls**, the leader in paving slabs and landscaping products, on their net zero carbon initiatives including the development of products aligned with a circular economy. Over the past twelve months, Marshalls has demonstrated significant progress in permanent carbon removal in the manufacturing process of its concrete products. They have also developed a comprehensive climate strategy that includes both mitigation and adaptation efforts, positioning them as leaders in sustainable practices.

We engaged with **Diploma**, the global supplier of consumable products in seals, controls and healthcare. This was by means of a shareholder consultation on the new remuneration policy, focused in particular on the proposed salary increases for the CEO and CFO. Despite some concerns about the frequency of changes to the remuneration arrangements, we believe that the proposed policy is fair in light of the positive strategic acquisitions made by the company. We voted in favour of the resolution at the AGM, recognizing the critical role of the executive team in Diploma's success.

Finally, we have been pleased with the progress made by **Greggs**, the restaurant chain best known for its sausage rolls, with respect to their "Greggs Pledge" towards social responsibility. The company has achieved a 10% reduction in food waste through partnerships with the app Too Good to Go, charities and outlet stores in deprived areas. In addition, Greggs has been accredited by the UK's National Equality Standard for their Diversity, Equity and Inclusion policies, which include training for ex-offenders and a charity partnership aiding employment for people with down's syndrome. Separately, we continue to monitor Greggs' progress on nutrition as part of our membership in the ShareAction Healthy Markets Initiative.

The Portfolio

At 31 March 2024, the Portfolio consisted of 35, high conviction investments of which the top ten holdings represented 46% by value. MUSCIT held 11 companies traded on AIM, representing 21% of the Portfolio by value.

Sector distribution within the Portfolio is driven by stock selection. Although weightings relative to the market are monitored, overweight and underweight positions are held based on where the greatest value and upside are perceived to be.

Gearing

The Board is responsible for setting the Company's gearing strategy and approves the arrangement of any gearing facilities. The AIFM is responsible for determining the net gearing level within the parameters set by the Board. At 31 March 2024, gearing stood at 2.7%.

Performance Review

The NAV returned 8.3% (with dividends reinvested) over the year, less than 1% behind the Benchmark. However, compared to the Deutsche Numis Smaller Companies Index (including AIM), MUSCIT *outperformed* by more than 5%. The discount widened from 8.3% to 15.1% in line with a general widening of discounts in the sector.

Since its launch in March 1995, MUSCIT has delivered NAV returns of 8.2% p.a. (including dividends reinvested) and *outperformed* the benchmark by 1.5% p.a.

Performance Attribution

The largest positive contributors over the period were:

XPS Pensions, leading pension fund consultants and administrators, reported record growth and new clients, winning several awards. The mini budget from Liz Truss in September 2022 caused a dramatic sell-off in gilts, sparking a liability driven investment (LDI) crisis as pension funds were forced to liquidate assets. Demand for their services and advice unsurprisingly increased as a result.

4imprint supplies promotional merchandise – the place to go to if you want, for example, a pen or laptop bag with your company logo on it. During the year, it announced several upgrades to forecasts and ended the year announcing record sales. The share price has risen by 31% over the past twelve months (to March 31st).

Manager's Report continued

Dechra Pharmaceuticals offers pharmaceutical products and services to vets. A long-standing investment mentioned in last year's annual report, it has been acquired by EQT. We are sorry to see it go and feel it makes for a good case study.

There will always be some investments that do not go as expected. The largest negative contributors over the period were:

Kainos provides IT services primarily to the UK Government to deliver digital transformation programmes. Examples include DVLA, where you can now view driving license records online; updating the MOT system with a new online service; and the Register to Vote on-line system. The other strand to Kainos' business is its partnership with Workday Inc, a $70bn market cap. US-listed software company that provides a cloud-based software system for Finance and HR to large enterprises. With a forthcoming change in Government, investors seem concerned that fewer contracts will be awarded.

XP Power is one of the world's leading providers of power converter solutions that ensure critical electrical and electronic equipment is powered safely and reliably. There are three divisions: "Industrial Technology" includes analytical instrumentation, testing, industrial printing, smart manufacturing, warehousing and robotics; "Healthcare" includes end products going to patient monitoring and diagnostics, clinical labs, surgical robotics; and "Semi-Conductors", which can be highly cyclical. The normally defensive Healthcare division saw weak demand due to customer destocking. In addition to a profit warning, the company announced a fund raising of over £40 million to reduce gearing in which MUSCIT participated.

Watches of Switzerland, the international retailer of luxury Swiss watches such as Rolex, faced two unexpected disappointments in the year. In August, Rolex bought Bucherer, their distributor in Switzerland. Overnight, Rolex became a competitor for the first time as well as a key supplier, raising questions about Watches of Switzerland's long-term strategy. In addition, this year they surprised investors by announcing a poor Christmas selling season (the UK accounts for over half of sales).

Case Study – Dechra Pharmaceuticals ("Dechra")

Dechra resulted from a management buy-out from Lloyds Chemist in 1997 when they spun-off their veterinary business. Floated in September 2000 at £1.20 per share, it had a market capitalisation of £60 million and was too small for many of the larger financial institutions. It was perfect for MUSCIT. According to the first annual report, in September 2002 we held a stake of 5.3% and were the fourth largest institutional investor.

In November 2001, Ian Page was appointed Chief Executive having started his career as a van driver. Sadly, the Chairman Peter Redfern, who guided Dechra through the MBO to flotation, died in January 2002. I have long argued that investing in SmallCap is all about getting to know the people who manage the businesses. It is an honour and a privilege that Ian and his colleagues have given so much of their time to meeting us to share their ambitions and plans for Dechra. For our part, in a small way, we may have helped by supporting Ian in acquisitions and possibly at times in advice.

Ian and his team grew Dechra from a small company with sales of less than £150 million to an international veterinary pharmaceuticals company with sales of more than £750 million and almost 2,500 employees in 26 countries. They now offer a wide range of products and services to vets: 75% to dogs and cats; pigs and cows 11%; horses 7% and pet foods 5%. Dechra is ranked seventh in the world.

EQT made a bid on 23 June 2023 for £4.46 billion or £38.75 per share, a premium of around 45% and a multiple of 26x EBITDA (earnings before interest, taxes, depreciation, and amortisation). The take-over was completed on 16 January 2024.

If ever you wanted to find a reason for investing in SmallCap, Dechra is it. A small company with little research coverage at first, it was too small for major institutional investors. For many years it was largely unknown, an "undiscovered gem". With an outstanding management team, it became a global market leader and a FTSE-100 company. **This is why investing in SmallCap is so exciting.**

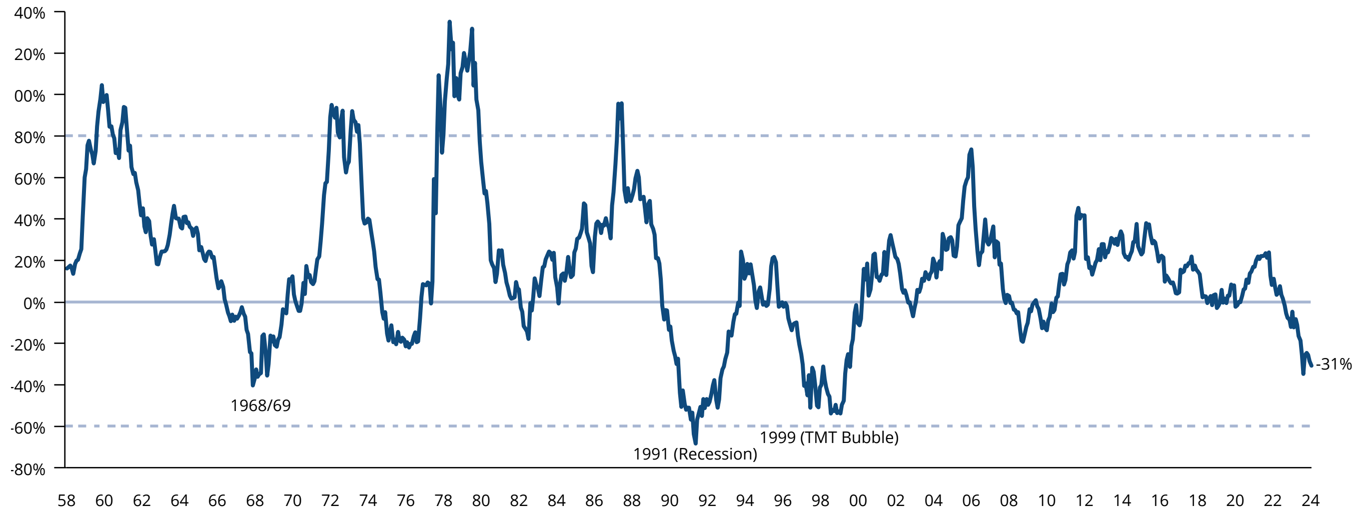
From the flotation in September 2000 to 12 April 2023, the FTSE-100 rose by 177% and the FTSE-250 by 425%. Dechra has delivered total shareholder returns of 3,471%. Thank you, Ian.

Outlook

The supply chain challenges of recent times appear to be normalising and companies are returning to their past ordering and stock patterns. The period of building up raw materials and finished goods "just in case" appears to be over as companies are coming to the end of a programme of destocking.

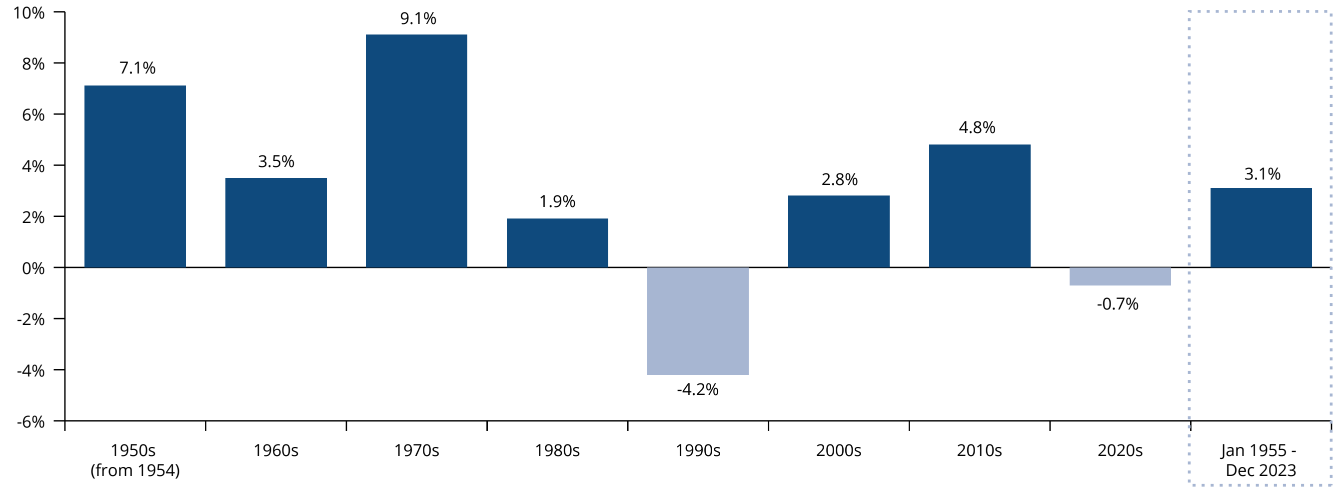
Nonetheless, it has been a difficult period for SmallCap as the chart below shows:

UK Small v. LargeCap – 3-year Rolling Returns
(Deutsche Numis Smaller Companies v. Deutsche Numis LargeCap, TR, GBP)



SmallCap has outperformed LargeCap in every decade after the Second World War with just one exception: the 1990s, which saw five crises over five years including LTCM, the Asian Crisis and a recession. In times of crisis, investors tend to sell SmallCap and seek refuge in cash and liquidity. Although it is still early days in this decade, already we have seen a pandemic and the Ukraine war with all its ramifications.

UK – Relative Performance by Decade (annualised)
(Deutsche Numis Smaller Companies v. Deutsche Numis LargeCap Index, Jan 1955 – Dec 2023)

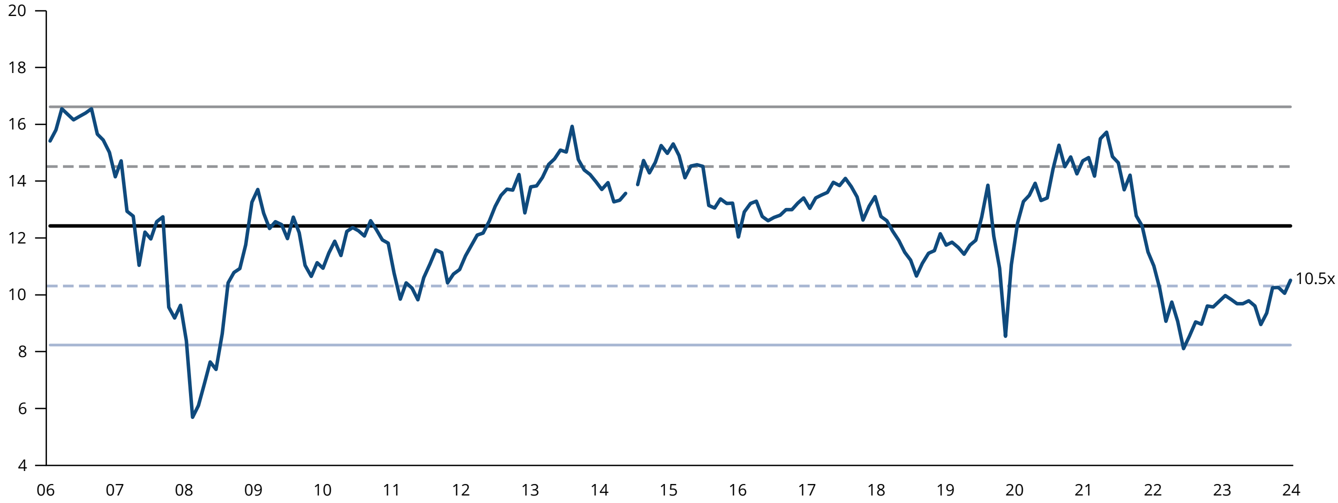


Assuming there are no more black swan events or geo-political crises, we may be entering a more "normal" period when SmallCap typically does well. If inflation and interest rates continue to fall, investor confidence should return. The big lesson of March 2003 and March 2009 is that sentiment is remarkably fickle and can improve both dramatically and quickly. It is important to be invested before the recovery.

Manager's Report continued

As the chart below shows, SmallCap appears attractively valued:

SmallCap – 12-month Forward P/E
(Deutsche Numis Smaller Companies ex-IC Index)



It is customary to write that we look forward to the "future with confidence". Actions speak louder than words: Montanaro Asset Management recently increased its investment in MUSCIT to over 6%, making us one of the larger investors.

CHARLES MONTANARO
14 June 2024

Twenty Largest Holdings
as at 31 March 2024

1. 4imprint
a supplier of promotional merchandise.

2. Big Yellow
a REIT focused on the self-storage market.

3. Games Workshop
the largest hobby miniatures company in the world and the owner of the Warhammer brand.

4. Clarkson
a leading shipping brokerage business.

5. Marshalls
the UK's leading provider of landscaping products.

6. discoverIE
a designer and manufacturer of components for electronic applications.

7. Greggs
the bakery chain.

8. Cranswick
the leading UK supplier of fresh pork meat products.

9. XPS Pensions
a leading pensions consulting and administration business fully focused on UK pension schemes.

10. Porvair
a specialist in industrial filtration and environmental technology.

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

12. LondonMetric Property
a REIT involved primarily in the logistics, healthcare and leisure sectors.

13. Tracsis
a provider of software and consulting services to UK rail and transportation markets.

14. Bytes Technology
a reseller of computer software in the UK.

15. Hilton Food
a leading food packing business.

16. Genuit
a manufacturer of plastic piping systems.

17. Boku
a mobile payments company.

18. XP Power
a provider of power solutions.

19. Globaldata
a data analytics and consulting company.

20. SThree
a staffing company specialising in life sciences, technology, engineering and data analytics.

Twenty Largest Holdings continued
as at 31 March 2024

Holding	Sector	Value £'000	Market cap £m	% of portfolio 31 March 2024	% of portfolio 31 March 2023
4imprint	Media	11,095	1,786	5.4	7.2
Big Yellow	Real Estate Investment Trusts	10,640	2,086	5.2	3.6
Games Workshop	Leisure Goods	10,040	3,305	4.9	4.8
Clarkson	Industrial Transportation	10,025	1,231	4.9	3.9
Marshalls	Construction and Materials	9,618	694	4.7	3.5
discoverIE	Electronic and Electrical Equipment	9,463	722	4.6	3.8
Greggs	Personal Care, Drug and Grocery Stores	9,341	2,939	4.6	4.5
Cranswick	Food Producers	8,192	2,207	4.0	2.6
XPS Pensions	Financial Services	8,085	477	3.9	2.0
Porvair	Industrial Engineering	7,775	288	3.8	3.0
Kainos	Software and Computer Services	7,241	1,214	3.5	3.8
LondonMetric Property	Real Estate Investment Trusts	7,112	2,220	3.5	0.9
Tracsis	Software and Computer Services	6,750	271	3.3	3.5
Bytes Technology	Software and Computer Services	6,388	1,228	3.1	–
Hilton Food	Food Producers	6,323	755	3.1	2.1
Genuit	Construction and Materials	5,513	1,099	2.7	1.7
Boku	Industrial Support Services	5,460	541	2.7	2.8
XP Power	Electronic and Electrical Equipment	5,450	258	2.7	2.0
Globaldata	Media	5,400	1,521	2.6	2.1
SThree	Industrial Support Services	5,375	580	2.6	2.1
Twenty Largest Holdings		**155,286**		**75.8**	

All investments are in ordinary shares.

As at 31 March 2024, the Company did not hold any equity interests comprising more than 3% of any company's share capital.

Analysis of Investment Portfolio by Industrial or Commercial Sector
as at 31 March 2024

	31 March 2024		31 March 2023	
Sector	**% of portfolio**	**% of NSCI**	**% of portfolio**	**% of NSCI**
Software and Computer Services	16.6	6.6	14.9	5.9
Technology Hardware and Equipment	–	1.2	–	0.9
Technology	**16.6**	**7.8**	**14.9**	**6.8**
Telecommunications Equipment	1.5	0.8	1.3	0.8
Telecommunications Service Providers	–	2.7	–	0.8
Telecommunications	**1.5**	**3.5**	**1.3**	**1.6**
Health Care Providers	1.8	3.0	1.4	0.8
Medical Equipment and Services	–	0.1	–	0.2
Pharmaceuticals and Biotechnology	–	0.7	5.7	0.8
Health Care	**1.8**	**3.8**	**7.1**	**1.8**
Banks	–	2.9	–	3.8
Finance and Credit Services	–	1.7	–	2.1
Investment Banking and Brokerage Services	7.0	12.2	7.2	11.1
Life Insurance	–	1.1	–	1.0
Non-life Insurance	–	2.0	–	1.7
Financials	**7.0**	**19.9**	**7.2**	**19.7**
Real Estate Investment and Services Development	–	3.0	–	2.6
Real Estate Investment Trusts	8.7	5.5	4.5	6.9
Real Estate	**8.7**	**8.5**	**4.5**	**9.5**
Automobiles and Parts	–	1.3	–	1.7
Consumer Services	–	0.1	–	0.3
Household Goods and Home Construction	–	0.8	–	2.1
Leisure Goods	5.2	0.4	5.4	0.3
Personal Goods	1.2	1.2	3.0	0.1
Media	10.2	2.8	11.6	3.7
Retailers	–	4.0	–	4.6
Travel and Leisure	–	7.3	–	8.8
Consumer Discretionary	**16.6**	**17.9**	**20.0**	**21.6**
Beverages	–	0.9	–	0.9
Food Producers	9.1	2.6	6.9	2.7
Personal Care, Drug and Grocery Stores	4.6	1.1	4.5	1.3
Consumer Staples	**13.7**	**4.6**	**11.4**	**4.9**
Construction and Materials	7.4	6.5	5.2	5.0
Aerospace and Defense	–	1.5	–	2.4
Electronic and Electrical Equipment	14.2	2.6	13.2	2.9
General Industrials	–	1.3	–	1.2
Industrial Engineering	–	2.2	–	2.2
Industrial Support Services	7.6	5.1	11.3	5.9
Industrial Transportation	4.9	3.6	3.8	2.2
Industrials	**34.1**	**22.8**	**33.6**	**21.8**
Industrial Materials	–	0.1	–	0.1
Industrial Metals and Mining	–	2.2	–	2.2
Precious Metals and Mining	–	1.5	–	2.5
Chemicals	–	3.1	–	3.0
Basic Materials	**–**	**6.9**	**–**	**7.8**
Oil, Gas and Coal	–	3.7	–	4.0
Alternative Energy	–	0.2	–	0.1
Energy	**–**	**3.9**	**–**	**4.1**
Electricity	–	0.1	–	0.1
Waste and Disposal Services	–	0.3	–	0.3
Utilities	**–**	**0.4**	**–**	**0.4**
Total	**100.0**	**100.0**	**100.0**	**100.0**

The investment portfolio comprises 35 traded or listed UK equity holdings.

Business Model and Strategy

The purpose of this report is to provide shareholders with details of the Company's strategy, objectives and business model as well as the principal and emerging risks and challenges the Company has faced during the year under review. It should be read in conjunction with the Chairman's Statement on pages 2 to 4 and the Manager's Report on pages 5 to 10, which provide a review of the Company's investment activity and a look to the future.

The Board is responsible for the stewardship of the Company, including overall strategy, investment policy, borrowings, dividends, corporate governance procedures and risk management. Biographies of the Directors can be found on pages 22 and 23.

PRINCIPAL ACTIVITY

The Company carries on business as an investment trust and its principal activity is portfolio management. Its Ordinary shares are traded on the Main Market of the London Stock Exchange.

The Company has no employees but contracts investment management and administration to appropriate external service providers, who are subject to oversight by the Board of Directors. The principal service providers during the year were:

- Montanaro Asset Management Limited ("Montanaro" or the "Manager"), which was appointed as Investment Manager and the Company's Alternative Investment Fund Manager ("AIFM").
- Juniper Partners Limited ("Juniper", the "Administrator" or the "Company Secretary"), which provided company secretarial and fund administration services from 1 July 2023. Prior to this, Link Company Matters provided company secretarial services and Link Alternative Fund Administrators provided fund administration services.
- Bank of New York Mellon (International) Limited which provided depositary and custodian services during the year.
- Link Group which provided registrar services during the year.

STATUS OF THE COMPANY

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

The Company has been approved by HMRC as an investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010, subject to continuing to meet eligibility requirements. The Directors are of the opinion that the Company has conducted its affairs in a manner compliant with the conditions for continued approval and intends to continue to do so.

As an investment company that is managed and marketed in the United Kingdom, the Company is an Alternative Investment Fund ("AIF") falling within the scope of, and subject to, the requirements of the Alternative Investment Fund Managers Directive ("AIFMD"). Further details are provided in the AIFMD Disclosures on page 61.

INVESTMENT OBJECTIVE

MUSCIT's investment objective is capital appreciation through investing in smaller 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 smaller 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 2024, this was any company below £1.68 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 40% of total investments at the time of investment, with Board approval required for exposure above 35%.

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

The Board is responsible for setting the Company's gearing strategy and approves the arrangement of any gearing facilities. The AIFM is responsible for determining the net gearing level within the parameters set by the Board. 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 will not invest more than 10%, in aggregate, of the value of its total assets at the time of investment in other investment trusts or investment companies admitted to the Official List of the UK Listing Authority.

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

KEY PERFORMANCE INDICATORS ("KPIs")

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

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

Performance to 31 March	**%**	
	2024[1]	2023[1]
NAV per share total return[1]	**8.3**	(12.2)
Share price total return[1]	**0.7**	(12.4)
Relative NAV per share performance vs benchmark	**(0.7)**	(4.3)
Discount to NAV[1]	**15.1**	8.3
Ongoing charges ratio[1]	**0.9**	0.9

[1] Alternative performance measures. Please see pages 62 and 63 for further information.

Performance

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

Share price discount or premium to NAV

The Board monitors the level of the Company's premium or discount to NAV on an ongoing basis. The share price discount to NAV as at 31 March 2024 was 15.1%. During the year, the shares traded at an average discount to NAV of 11.6%.

Further details setting out how the discount or premium at which the Company's shares trade is calculated is provided in the Alternative Performance Measures on page 62.

Ongoing charges ratio

The Board reviews the ongoing charges and monitors the expenses incurred by the Company on an ongoing basis. Full details of how the ongoing charges ratio is calculated is included in the Alternative Performance Measures on page 62.

THE MANAGER

Established in 1991, Montanaro is a highly experienced specialist investor in quoted smaller companies. It has one of the largest teams in the UK researching and investing exclusively in quoted smaller companies and currently manages circa £3.3 billion, mainly on behalf of leading financial institutions. Montanaro's investment philosophy and approach are set out in the Manager's Report on pages 5 to 10.

The Manager is a signatory to the Principles for Responsible Investment, the UK Stewardship Code, the Carbon Disclosure Project and the LGPS Code of Transparency. In June 2019, Montanaro became a "B Corporation", a business certified for meeting the highest verified standards of social and environmental performance, transparency and accountability. In 2021 Montanaro was invited to co-chair the B Corporation Investment & Working Group and attended the UN Climate Change Summit COP26 as a member of the Glasgow Financial Alliance for Net Zero taskforce. Further information is included in the ESG section of the Managers' Report on pages 6 and 7.

THE BOARD

At the date of signing this report, the Company has four Directors. Two are men and two are women.

Principal and Emerging Risks

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

The Board has carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

A summary of the Company's risk management and internal control processes can be found in the Corporate Governance Statement on pages 29 to 32. Details of the principal and emerging risks and how these are mitigated are set out below. The principal financial risks are summarised in Note 15 to the financial statements.

Principal Risks	**Mitigation**

Discount Management:
The Company's share price performance lags the NAV due to poor performance, or because SmallCap is out of favour.
The Company may be at risk from arbitrageurs or a sale from a sizeable shareholder.
Share buybacks could cause the size of the Company to become too small to be viable in terms of ongoing charges, or for thresholds of institutional investors.
Increased level of risk in the current year due to current market conditions and prevailing discounts across the investment trust sector
	The Board regularly reviews:
	• *the relative level of discount against the sector;*
	• *investment performance*
	  – *relative to the competition;*
	  – *the benchmark; and*
	• *the share register.*
	The Company may buy back shares when it considers it to be in shareholders' best interests.
	The dividend policy was amended in July 2018 with the intention of attracting new investors and reducing the discount.

Pandemics and other unforeseeable events: The AIFM and the Administrator are unable to manage or administer the portfolio. *No change in overall risk in the year*	*The AIFM and the Administrator have appropriate business continuity plans in place in order to operate effectively.*
Poor Investment Performance: Returns achieved are reliant primarily on the performance of the portfolio. Underperformance relative to the benchmark and/or peer group may result in a loss of capital together with dissatisfied shareholders. *No change in overall risk in the year*	*To manage the risk, a review is undertaken at each quarterly Board meeting with the Manager of portfolio performance against the benchmark and the peer group.* *The Board will seek:* • *to understand the reasons for any underperformance; and* • *comfort over the consistency of investment approach and style.* *Ultimately, the Board can terminate the Investment Management Agreement if unsatisfactory performance is considered irreversible and the causes cannot be rectified.* *The Company's NAV has underperformed relative to the benchmark during the year, due to value shares outperforming growth shares, with Montanaro being a growth manager. The Board is satisfied and accepts the reasons for this underperformance.*
Risk Oversight: The Manager is taking too much risk in the portfolio leading to unacceptable volatility in performance or excessive portfolio turnover. *No change in overall risk in the year*	*Risk oversight is primarily the responsibility of the AIFM, but the Board provides additional oversight through portfolio reviews at each Board meeting. Portfolio turnover is also reviewed at each Board meeting.*

Principal Risks	**Mitigation**
Gearing: One of the benefits of an investment trust is its ability to use borrowings, which can enhance returns to shareholders in a rising stock market. However, gearing exacerbates movements in the NAV both positively and negatively and will exaggerate declines in NAV when share prices of investee companies are falling. *No change in overall risk in the year*	*The AIFM is responsible for determining the net gearing level within the parameters set by the Board.*
Key Man Risk: A change in the key investment management personnel involved in the management of the portfolio could impact on future investment performance and lead to loss of investor confidence. *No change in overall risk in the year*	*The Manager operates a team approach in the management of the portfolio which mitigates against the impact of the departure of any one member of the investment team.* *There is an identified lead manager and designated co-manager within Montanaro offering continuity of communication with the Company's shareholders. The Board is in regular contact with Montanaro and its designated co-manager and will be asked for their approval to any proposed change in the lead manager.*
Operational Risk: The Company has no employees, in common with most other investment trusts, and relies on services provided by third parties. It is therefore dependent on the control systems of the AIFM, depositary, custodian and administrator who maintain the Company's assets, dealing procedures and accounting records. Key operational risks include: • transactions not subject to best execution; • counterparty risk; • errors in settlement, title and corporate actions; • misstatement of NAV; and • breach of the Investment Policy. *No change in overall risk in the year*	*The Board monitors operational issues and reviews them in detail at each Board meeting.* *All third party service providers are subject to annual review by the Audit and Management Engagement Committee as part of which their internal control reports are reviewed.* *The Company's assets are subject to a liability regime. Unless the depositary is able to demonstrate that any loss of financial assets held in custody was the consequence of an event beyond its reasonable control, it must return assets of an identical type or the corresponding amount.* *Business continuity plans are in place at all service providers, with disaster recovery tests taking place regularly.*
Cyber Risk: The threat of cyber attack is regarded as being as important as more traditional physical threats to business continuity and security. The Company has limited direct exposure to cyber risk. However, the Company's operations or reputation could be affected if any of its service providers suffered a major cyber security breach. *No change in overall risk in the year*	*The Board monitors the preparedness of its service providers and is satisfied that the risk is given due priority and consideration in Board meetings.* *The Manager provides a report to the Board at each meeting that covers cyber risk. The Company benefits from the network and information technology controls of the Manager around the security of data. A significant IT and cybersecurity programme took place in the previous reporting period with a migration of the Manager's systems to a cloud-based system. The Manager has appointed a specialist IT and cyber monitoring and management provider to provide continuous monitoring and access to a Cyber Information Security Officer.* *The annual review of service providers includes a consideration of cyber risk. As part of this review, external controls reports for each service provider are reviewed to ensure that suitable cyber security controls are in place.*

Principal and Emerging Risks continued

Principal Risks	**Mitigation**
Administrator: Daily NAV incorrectly stated. *No change in overall risk in the year*	*Daily logic checks of the NAVs are undertaken by the AIFM.* *Depositary checks are also undertaken daily.* *All financial information is reviewed by the Board at regular meetings.* *The AIFM conducts regular visits to the Administrator.*
Breach of Regulation: The Company must comply with the provisions of the Companies Act 2006, the Listing Rules and Disclosure, Guidance & Transparency Rules, the UK Market Abuse Regulation and the Alternative Investment Fund Manager's Directive. Any serious breach could result in the Company and/or the Directors being fined or the subject of criminal proceedings. The Company has been accepted by HM Revenue & Customs as an investment trust, subject to continuing to meet the relevant eligibility conditions and operates as an investment trust in accordance with the Corporation Tax Act 2010. As such, the Company is exempt from capital gains tax on profits realised from the sale of investments. Any breach of the relevant eligibility conditions could lead to the loss of investment trust status. *No change in overall risk in the year*	*The Company Secretary and the Company's professional advisers provide reports to the Board in respect of compliance with all applicable rules and regulations.* *Compliance with the accounting rules affecting MUSCIT is closely monitored.* *During the year under review, the Company complied with all applicable rules and regulations including AIFMD, the Packaged Retail and Insurance-based Products Regulation and the second Markets in Financial Instruments Directive.*
Financial: The Company's investment activities expose it to a variety of financial risks that include those relating to interest rate and liquidity risk. Events such as global pandemics could affect share prices in particular markets. *No change in overall risk in the year*	*The liquidity of the portfolio is monitored by the Manager and reported to the Board, and market conditions and their impacts are considered.* *Further details on these risks are disclosed in Note 15 to the financial statements.*
Environmental, Social and Governance ("ESG"): ESG in the context of investing continues to gain prominence, therefore a consideration of ESG factors when undertaking an investment is vital. Climate change and other ESG matters have had a significant impact on the performance of different sectors of the stock market and there is a risk of being invested in the wrong sectors. *No change in overall risk in the year*	*ESG considerations are fully embedded in the investment process and the Manager will aim to avoid investing in certain sectors.* *The Manager is a B Corporation which recognises its high ESG standards and has been awarded various industry awards recognising its commitment to ESG.*

Directors' Duties

SECTION 172 OF THE COMPANIES ACT 2006

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

Fulfilling this duty naturally supports the Company in achieving its Investment Objective and helps to ensure that all decisions are made in a responsible and sustainable way. Below, the Board explains how the Directors have individually and collectively discharged their duties under section 172 of the Act over the course of the reporting period.

To ensure that the Directors are aware of and understand their duties, they are provided with details of all relevant regulatory and legal duties as a Director of a UK public limited company when they join the Board and continue to receive regular and ongoing updates and training on relevant legislative and regulatory developments. They also have continued access to the advice and services of the Company Secretary and, when deemed necessary, the Directors can seek independent professional advice. The schedule of Matters Reserved for the Board, as well as the Terms of Reference of its Committees, are reviewed periodically and further describe Directors' responsibilities and obligations and include any statutory and regulatory duties.

CULTURE

During the year, the Directors also considered the Company's culture and values and have worked to incorporate these behaviours and processes into the annual review of the Manager, strategic planning, the annual evaluation of Board effectiveness and reporting to stakeholders – thus embedding consideration of stakeholders' interests, a long-term perspective, maintaining reputation for fairness and high standards of governance, corporate reporting and business conduct more generally in the Company's culture and processes. The Company's culture and values are aligned with ESG goals with further details outlined in the Manager's Report on pages 6 to 7 and Business Model and Strategy on pages 14 and 15.

DECISION-MAKING

The importance of stakeholder considerations, in particular in the context of decision-making, is regularly brought to the Board's attention by the Company Secretary and taken into account at every Board meeting. A paper reminding Directors of that is tabled at the start of every Board meeting. For example, the strategic planning discussions involve careful considerations of the longer-term consequences of any decisions and their implications on shareholders and other stakeholders.

COMMUNITY AND ENVIRONMENT

The Manager is a signatory to the Principles for Responsible Investment, the UK Stewardship Code, the Carbon Disclosure Project, the LGPS Code of Transparency and the Net Zero Asset Managers initiative. In June 2019, Montanaro became a "B Corporation", a business certified for meeting the highest verified standards of social and environmental performance, transparency and accountability. In November 2021, Montanaro attended COP26 as a member of the Glasgow Financial Alliance for Net Zero and has received several awards in recognition of its sustainable investing achievements.

The Board recognises that the Company has certain responsibilities to its shareholders, stakeholders and wider society. While the Company itself does not have employees or offices, the Board endorses the Manager's policy to invest the Company's funds in a socially responsible manner. ESG factors are an integral part of the investment process. In addition, the Manager does not invest in companies it deems to be harmful to society or the environment; this includes companies involved in; gambling, armaments, alcohol, high-interest-rate lending and fossil fuels. Similarly they do not invest in companies that conduct animal testing unless it is required by law for healthcare or regulatory purposes.

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

BUSINESS CONDUCT

The Matters Reserved for the Board, Board committees' terms of reference, the Share Dealing Code and other Board policies are all reviewed on at least an annual basis and the Directors ensure that they appropriately define obligations and correct procedures. The Report of the Audit and Management Engagement Committee, which can be found on pages 33 to 35 of this Report, further explains how the Committee reviews the risk management and internal controls of the Company. This includes satisfying itself that relevant systems and controls in place remain effective and appropriate.

Directors' Duties continued

STAKEHOLDERS

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

Stakeholders	Why they are important	Board engagement
Shareholders	Continued shareholder support and engagement are critical to the existence of the business and the delivery of the long-term strategy of the business.	The Company has a large and diversified shareholder base. Over the years, the Company has developed various ways of engaging with its shareholders in order to gain an understanding of the views of our shareholders. These include: • **Annual General Meeting** – The Company welcomes attendance from shareholders at its Annual General Meeting, which is held at the offices of the Manager. All shareholders have an opportunity to meet the Directors and put questions to the Manager. A presentation is shared with investors and made available on the Company's website for those who are not attending. The Board greatly values the feedback and questions it receives from shareholders and takes action or makes changes as and when appropriate; • **Company Information** – The annual and interim results, as well as monthly factsheets, are available on the Company's website. Feedback and/or questions the Company receives from the shareholders help the Company to evolve its reporting, aiming to render the reports and updates transparent and understandable; and • **Investor Relations updates** – The Manager's marketing team meet and speak to shareholders on a regular basis and from time to time, the Manager takes part in conferences and other webinars. At every Board meeting, the Directors receive updates on the share trading activity, share price performance and any shareholders' feedback, as well as any publications or comments in the press.
SERVICE PROVIDERS:		
The Manager (AIFM)	The Manager's performance is critical for the Company to successfully deliver its investment strategy and meet its objective.	Maintaining a close and constructive working relationship with the Manager is crucial as the Board and the Manager collectively aim to continue to achieve consistent, long-term returns in line with the Company's investment objective. Important components in the collaboration with the Manager, which are representative of the Board's culture, are: • Encouraging open discussion with the Manager; and • Recognising that the interests of shareholders and the Manager are for the most part well aligned, adopting a tone of constructive challenge.

Stakeholders	Why they are important	Board engagement
Other service providers including: the Company Secretary and Administrator, the Registrar, the Depositary, the Custodian and the Broker	In order to function as an investment trust with a premium listing on the London Stock Exchange, the Company relies on a diverse range of advisors to support it with meeting all of its relevant obligations.	The Board maintains regular contact with its key external providers, both through the Board and committee meetings, as well as outside of the regular meeting cycle. Their advice, as well as needs and views, are routinely taken into account. In addition, the Board would expect to meet with all service providers on a regular basis and the Audit and Management Engagement Committee assesses their performance at least on an annual basis.
Bank	Availability of funding and liquidity may be helpful to the Company's ability to take advantage of investment opportunities as they arise.	Considering how important the availability of funding is, the Company aims to demonstrate to lenders that it is a well-managed business. In particular, that the Board focuses regularly and carefully on the management of risk.
Institutional Investors and Proxy Advisors	The evolving practice and support of the major institutional investors and proxy adviser agencies are important to the Directors, as the Company aims to maintain its reputation and high standards of corporate governance, which contributes to the long-term sustainable success of the Company.	Recognising the principles of stewardship, as promoted by the UK Stewardship Code, the Board welcomes engagement with all our investors. The Board recognises that the views, questions from, and recommendations of many institutional investors and proxy adviser agencies provide a valuable feedback mechanism and play a part in highlighting evolving shareholder expectations and concerns.
Regulators	The Company can only operate with the approval of its regulators who have a legitimate interest in how the Company operates in the market and treats its shareholders.	The Company regularly considers how it meets various regulatory and statutory obligations and follows voluntary and best-practice guidance. The Company is also mindful of how any governance decisions it makes can have an impact on its shareholders and wider stakeholders, in the short and in the longer-term.
Community and Environment	The Board recognises that it has a responsibility to the wider environment and community.	Details of our engagement with the community and the environment can be found on page 19.

PRINCIPAL DECISIONS DURING THE YEAR ENDED 31 MARCH 2024

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

Principal decision	Stakeholder Considerations and Engagement
Board Composition	The Directors are aware that the Board and its committees should possess a blend of skills, expertise, and understanding. It is important to take into account the overall tenure of the board members and ensure regular renewal of membership. Following James Robinson's retirement at the AGM in 2023, in order to maintain an appropriate mix of skills and experience, the decision was made to appoint a new non-executive Director. The Board appointed Yuuichiro Nakajima as a non-executive Director of the Company. With a background in M&A and recent investment trust expericence, Mr Nakajima brings a wealth of experience to the Board.

On behalf of the Board

ARTHUR COPPLE
Chairman
14 June 2024

Board of Directors

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

Arthur Copple – Chairman of the Board

Date of Appointment: 1 March 2017

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

Relevant skills and experience and reasons for re-election: Arthur served on the Board of Temple Bar Investment Trust Plc for 12 years and has comprehensive experience of investment management and the wider investment company sector. This has provided a strong basis for assessing, and where appropriate challenging, the Manager on the Company's performance and in leading the Board in strategic discussions.

Following a rigorous Board evaluation process, the Board agreed that Arthur continues to be an effective member of the Board.

Barbara Powley – Senior Independent Director, Chair of the Audit and Management Engagement Committee, Nomination Committee and Remuneration Committee

Date of Appointment: 18 November 2020

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

Relevant skills and experience and reasons for re-election: Barbara has extensive experience within the investment trust sector, along with significant financial and accounting experience. Her diverse skill-set facilitates open discussion and allows for constructive challenge in the boardroom.

Following a rigorous Board evaluation process, the Board agreed that Barbara continues to be an effective member of the Board.

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

Catriona joined Meridiem Investment Management (formerly Veritas Investment Partners Limited) in 2013. In her current role as Deputy CIO, she manages client portfolios and sits on the firm's research and investment governance committees. She was appointed as a director of Meridiem Investment Limited in May 2022. Catriona started her career at Newton Investment Management where she managed a number of portfolios and private family unit trusts, with a particular focus on international clients.

She is a CFA Charterholder, a member of the Chartered Institute For Securities and Investment and holds a BA (Hons) in History from the University of Bristol.

Relevant skills and experience and reasons for re-election: Catriona's 17 years of experience as an investment manager brings valuable investment and portfolio analysis skills to the Board, which enables her to assess and challenge the Manager on Company strategy and performance.

Following a rigorous Board evaluation process, the Board agreed that Catriona continues to be an effective member of the Board.

Yuuichiro Nakajima – Non-Executive Director
Date of Appointment: 1 January 2024

Yuuichiro is founder and managing director of Crimson Phoenix, a specialist cross-border M&A advisory firm, providing advice on Japan-related transactions and a range of corporate strategy initiatives from offices in Tokyo, London and Frankfurt. He is a former member of the executive board of the British Chamber of Commerce in Japan and of the Council of the Japanese Chamber of Commerce and Industry in the UK. Yuuichiro spent ten years with S.G. Warburg (later SBC Warburg) and four years with PricewaterhouseCoopers. He is chairman of Japan H.L. Limited, which operates Japan House London. For nine years until July 2023, Yuuichiro was a non-executive director of JPMorgan Japan Small Cap Growth & Income plc.

Relevant skills and experience and reasons for election: Yuuichiro has extensive experience, knowledge and involvement in the investment trust sector.

Directors' Report

The Directors present the Annual Report and Accounts of the Company for the year ended 31 March 2024.

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

- Corporate Governance Statement – refer to pages 29 to 32 of this report;
- Strategy and relevant future developments – refer to the Chairman's Statement on pages 2 to 4, the Manager's Report on pages 5 to 10; and
- Financial risk management objectives and policies. An analysis of the portfolio along with further information about financial instruments and capital disclosures is provided in Note 15 on pages 57 to 60.

The outlook for the Company is set out in the Chairman's Statement on page 4. Principal and emerging risks can be found on pages 16 to 18, with further information on risk management objectives in Note 15 to the financial statements.

RESULTS AND DIVIDENDS

The results for the Company are set out in the Income Statement on page 47.

Details of dividends paid and declared in respect of the year, together with the Company's dividend policy, are set out in the Chairman's Statement on page 2 of the report. Further details can also be found in Note 7 on page 54.

CONTINUATION OF THE COMPANY

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

The next general meeting for the purpose of considering a voluntary winding up of the Company must be held on or before 16 July 2027. However, an Ordinary Resolution may be passed to release the Directors from the obligation to convene the general meeting and this meeting must be held not more than eighteen months before 16 July 2027.

DIRECTORS

Biographical details of the Directors, all of whom are independent and non-executive, can be found on pages 22 and 23. The Directors' interests in the shares of the Company are shown on page 38.

DIRECTOR INDEMNIFICATION AND INSURANCE

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

Indemnities are in force as at the date of this report, and were in force during the year, between the Company and each of its Directors under which the Company has agreed to indemnify each Director, to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out his or her role as a Director of the Company.

CONFLICTS OF INTEREST

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

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

DISCLOSURE OF INTERESTS

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

INVESTMENT MANAGEMENT AGREEMENT

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

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

CONTINUING APPOINTMENT OF THE MANAGER

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

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

In the opinion of the Board, the continuing appointment of Montanaro as Manager and AIFM, on the terms referenced above, is in shareholders' interests as a whole. Among the reasons for this view is the Company's long-term investment performance relative to that of the markets in which the Company invests and the depth and experience of the research capability of Montanaro.

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

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

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

DEPOSITARY AND CUSTODIAN

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

BNY Mellon Trust & Depositary (UK) Limited ("BNYMTD") was appointed as the Depositary with effect from 22 July 2014. However, with effect from 1 November 2017, the role of Depositary was transferred, by way of a novation agreement, from BNYMTD to its parent company, The Bank of New York Mellon (International) Limited ("BNYM" or the "Depositary"). The annual fee for depositary services is 0.034% per annum where gross assets are between £0 and £150 million, and 0.025% per annum of gross assets above a value of £150 million, subject to a minimum fee of £20,000 per annum.

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

COMPANY SECRETARY AND ADMINISTRATOR

Juniper Partners Limited was appointed as the Company Secretary and Administrator with effect from 1 July 2023. Prior to this Link Company Matters provided company secretarial services and Link Alternative Fund Administrators provided fund administration services. Juniper Partners Limited receives a base annual fee of £145,000 plus 0.002% per annum on Net Assets of upto £1 billion, and 0.001% per annum on Net Assets over £1 billion. The total fee is discounted by £30,000 in the first year of service, and by £15,000 in the second year.

The Company Secretarial and Administration Agereement is subject to six months' written notice.

REGISTRAR

Link Market Services has been appointed as the Company's registrar and receives an annual fee of £36,500. This agreement is in effect for a period of five years to July 2026 and is based on an agreed number of shareholders and transfers processed. The Registry Services Agreement may be terminated on not less than six months' notice. The Registrar is also entitled to reimbursement of all disbursements and out of pocket expenses.

SUBSTANTIAL SHAREHOLDINGS

At 31 March 2024, the Directors were aware of the following substantial shareholdings:

Shareholder:	**Ordinary shares**	**% of voting rights**
Clients of Hargreaves Lansdown	15,783,567	9.4%
Clients of Charles Stanley	14,187,216	8.5%
Clients of Rathbone Investment Management	14,125,652	8.4%
Derbyshire County Council	11,996,285	7.2%
Clients of A J Bell	11,487,199	6.9%
Border to Coast Pensions Partnership	11,605,000	6.9%
Clients of Interactive Investor	9,883,447	5.9%
Montanaro Asset Management	9,259,676	5.5%
West Yorkshire Pension Fund	8,242,500	4.9%

Directors' Report continued

On 3 April 2024, the Company was notified that Montanaro Asset Management now holds 10,075,000 (6.0%) shares in the Company.

GOING CONCERN

The financial statements of the Company have been prepared on a going concern basis. After reviewing the Company's forecast projections and actual performance on a regular basis throughout the year, the Directors believe that this is the appropriate basis. The Directors consider that the Company has adequate resources to continue in existence until at least 14 June 2025 (being 12 months from the date of signing this report).

In performing the assessment of the Company's ability to meet its liabilities as they fall due, the Directors took into consideration the following factors:

- cash and cash equivalents balances and the portfolio of readily realisable securities which can be used to meet short-term funding commitments;
- the ability of the Company to meet all of its liabilities and ongoing expenses from its assets;
- revenue, operating and finance cost forecasts for the forthcoming year;
- continued adherence to the loan covenants;
- the ability of third-party service providers to continue to provide services; and
- three potential scenarios including stress testing the Company's portfolio for a 30% fall in the value of the investment portfolio; a 50% fall in dividend income; and maintaining the current dividend policy. The cumulative impact of these three scenarios would leave the Company with a positive net cash position.

Based on this assessment, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and therefore have prepared the financial statements on a going concern basis.

The Company's current borrowing facilities are due to expire on 17 December 2024. It is the intention that these will be renewed. A further update will be provided in the Company's Interim Report to 30 September 2024.

VIABILITY STATEMENT

In accordance with the AIC Code of Corporate Governance, the Directors have assessed the prospects of the Company over a period longer than the twelve months required by the 'Going Concern' provision and reviewed the viability of the Company and its future prospects over the five-year period to 31 March 2029.

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

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

In its assessment, the Board took into account the Company's current financial position, its ability to meet liabilities as they fall due and the principal risks as set out on pages 16 to 18. In reviewing the financial position, the following factors were taken into consideration:

- the portfolio is comprised solely of cash balances and equity securities listed or traded on the London Stock Exchange;
- the current portfolio could be liquidated to the extent of 70% within five trading days and there is no expectation that the nature of the investments held within the portfolio will be materially different in future;
- future revenue and expenditure projections:
  - the expenses and interest payments of the Company are predictable and relatively small; and
  - there are no expected capital outlays.

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

- the Board and the Manager will continue to adopt a long-term view when making investments;
- it is reasonable to believe that the Company will be able to renew its credit facilities;
- 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;
- the next continuation vote will be in 2027. Further details are provided in the Directors' Report on page 24;
- regulation will not increase to a level that makes the running of the Company uneconomic; and
- the performance of the Company will be satisfactory.

Based on the results of their analysis and in the context of the consideration given to the Company's business model, strategy and operational arrangements, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period of the assessment.

CAPITAL STRUCTURE

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

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

The Company's current authorities to buyback and sell shares from treasury and issue shares will expire at the conclusion of the 2024 Annual General Meeting. The Directors are proposing that these authorities be renewed at the forthcoming Annual General Meeting.

GREENHOUSE GAS EMISSIONS

All of the Company's activities are outsourced to third parties. As such it does not have any physical assets, property, employees or operations of its own and does not generate any greenhouse gas or other emissions or consume any energy reportable under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 or the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, implementing the UK Government's policy on Streamlined Energy and Carbon Reporting. Under Listing Rule 15.4.29(R), the Company, as a closed ended investment fund, is exempt from complying with the Task Force on Climate related Financial Disclosures.

CRIMINAL FINANCES ACT 2017

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

DONATIONS

The Company made no political or charitable donations during the year (2023: nil) to organisations either within or outside of the EU.

LISTING RULE 9.8.4

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

LR 9.8.4(5)(6) Under the Company's Remuneration Policy, the SID is entitled to an additional fee of £1,250. However, Mrs Powley has waived her entitlement to the additional £1,250. This decision will be kept under review and the Remuneration Policy still allows the flexibility of this additional fee to be paid to the SID.

FINANCIAL INSTRUMENTS

The Company's financial instruments comprise its investment portfolio, cash balances, bank debt and debtors and creditors that arise directly from its operations, such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in Note 15 to the accounts.

ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting ("AGM") to be held on 25 July 2024 (the "Notice") is set out on pages 67 to 73.

Resolutions 1 to 10 will be proposed as Ordinary Resolutions and Resolutions 11 and 12 will be proposed as Special Resolutions. Please refer to pages 70 and 71 for a full explanation of all resolutions.

Recommendation

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

Directors' Report continued

INDEPENDENT AUDITOR

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

For and on behalf of the Board

Juniper Partners Limited
Company Secretary
14 June 2024

Corporate Governance Statement

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

STATEMENT OF COMPLIANCE

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

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

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

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

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

THE BOARD

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

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

Other than their letters of appointment, none of the Directors has a contract of service nor have there been any contracts or arrangements between the Company and any Director at any time during the year.

The Board has engaged external companies to undertake the Company's investment management, administrative and custodial activities. Clear, documented contractual arrangements are in place between the Company and its service providers that define the areas where the Board has delegated functions to them. Further details of the Investment Management Agreement are given on page 24. 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 resignations; and the membership of committees. Decisions regarding the capital structure of the Company (including share buybacks and treasury share transactions) are also taken by the Board, while the day-to-day investment of the portfolio is delegated to the Manager.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Company holds at least four Board meetings each year at which the Directors review portfolio investments and all other important issues in relation to the Company's affairs. The following table sets out the number of scheduled Board and Committee meetings held during the year ended 31 March 2024 and the number of meetings attended by each Director.

	Board		Audit and Management Engagement		Nomination and Remuneration	
	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended
Arthur Copple	4	4	3	3	1	1
Catriona Hoare	4	4	3	3	1	1
Yuuichiro Nakajima[1]	1	1	1	1	1	1
Barbara Powley	4	4	3	3	1	1

[1] appointed 1 January 2024

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

Corporate Governance Statement continued

INDEPENDENCE OF DIRECTORS AND TENURE

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

In line with the 2019 AIC Code, the Company has adopted a formal policy on tenure. The Board does not feel that it would be appropriate to set a specific tenure limit for individual Directors or the Chair of the Board or its Committees. Instead, under normal circumstances, the Board members, including the Chair, will be expected to serve a maximum tenure of 9 years, thus preserving the cumulative valuable experience and understanding of the Company, while benefitting from fresh perspectives and helping to promote diversity. The Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company where continuity and experience can significantly add to the strength of the Board.

PERFORMANCE EVALUATION

An annual review of the performance of the Board, its Committees and individual Directors is undertaken by the Directors. The Board evaluation process comprises a detailed questionnaire which assesses the performance and effectiveness of the Board and each of its committees. The objective of the evaluation is to obtain constructive feedback to improve the Board's effectiveness by highlighting individual and collective strengths as well as development areas. Arthur Copple, as Chairman, takes overall responsibility for the evaluation process and has selected a questionnaire methodology to achieve these objectives. This is followed by a feedback session that assesses the effectiveness of the process, identifying any areas for improvement. The appraisal of the Chairman is led by the Senior Independent Director.

Following review of the Directors' time commitment and duties, and their contributions and attendance at all Board and Committee meetings and discussions held outside these formal meetings, the Board believes that each Director continues to be effective and demonstrates the necessary commitment to the role.

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

The results of the Board evaluation process were reviewed and discussed by the Board. Following evaluation, the Board concluded that it had the appropriate balance of skills, experience, and knowledge and that the Board and its Committees continued to operate effectively.

No other areas of particular significance or concern were identified in the performance evaluation. The Board considered whether an external performance evaluation should be undertaken in the future and notes that this is not a requirement under the AIC Code given the Company is outside of the FTSE 350. The Board has taken into account the costs and benefits associated with such an exercise and does not consider the use of external consultants to conduct this evaluation is likely to provide any meaningful advantage over the process that has been adopted. However, the option of doing so will be regularly reviewed.

ELECTION/RE-ELECTION OF DIRECTORS

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

INTERNAL CONTROL AND FINANCIAL REPORTING

The Board has delegated responsibility to the Audit and Management Engagement Committee for establishing and maintaining the Company's risk management and internal control processes and for monitoring their effectiveness. Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed and by their very nature provide reasonable but not absolute assurance against misstatement or loss. The Directors have reviewed the effectiveness of the system of internal controls, including financial, operational and compliance controls and risk management. The Committee will take actions to remedy any significant failings or weaknesses identified or make recommendations to the Board, as appropriate. Information about the Company's financial risk management objectives and policies is set out in Note 15 of the Financial Statements on pages 57 to 60. The key procedures that have been established to provide effective internal controls are as follows:

- throughout the year under review and up to the date of this Annual Report, there has been an ongoing process for identifying, evaluating and managing the principal risks faced by MUSCIT, which complies with guidance supplied by the FRC on risk management, internal control and related financial and business reporting. This is reviewed on a regular basis by the Audit and Management Engagement Committee, on behalf of the Board. Details of the principal and emerging risks are set out on pages 16 to 18. The process involves reports from MUSCIT's Company Secretary and Manager as described below. In addition, the Audit and Management Engagement Committee receives internal control reports from all the third parties to which the Company delegates functions;

- in accordance with guidance issued to directors of listed companies, the Board has carried out a review of the effectiveness of the Company's risk management and internal control processes. There were no matters arising from this review that required further investigation and no significant failings or weaknesses were identified; and
- a risk register is maintained against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate them. The risk register is reviewed at each meeting of the Audit and Management Engagement Committee, and at other times as necessary.

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

- investment management is provided by Montanaro which is regulated by the FCA. The Board is responsible for setting the overall investment policy and monitors the activity of the Manager at regular Board meetings. Montanaro provides reports at these meetings, which cover investment performance and compliance matters;
- Juniper Partners Limited ("Juniper") is responsible for the provision of administration duties;
- company secretarial duties are undertaken by Juniper;
- depositary services and custody of assets are undertaken by BNY Mellon;
- the duties of investment management, accounting and the custody of assets are segregated;
- the procedures of the individual parties are designed to complement one another;
- the Board clearly defines the duties and responsibilities of its agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after due diligence involving consideration of the quality of the parties involved and the Audit and Management Engagement Committee monitors their ongoing performance and contractual arrangements;
- mandates for authorisation of investment transactions and expense payments are set by the Board; and
- the Board reviews financial information produced by the Administrator in detail on a regular basis.

RELATIONS WITH SHAREHOLDERS

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. Please refer to page 20 for details of engagement activity in the year to 31 March 2024.

EXERCISE OF VOTING RIGHTS IN INVESTEE COMPANIES

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

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

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

Meetings	
Number of meetings voted at:	48
Number of meetings voted against management or abstained:	4
Resolutions	
Number of resolutions where voted with management:	625
Number of resolutions where abstained:	–
Number of resolutions where voted against management:	5

BOARD COMMITTEES

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

Audit and Management Engagement Committee

This Committee is comprised of all Directors and is chaired by Barbara Powley, who is a Chartered Accountant. The Board is satisfied that Mrs Powley has recent and relevant financial experience to guide the Committee in its deliberations. The Board is also satisfied that other members of the Audit and Management Engagement Committee have relevant and recent financial experience to fulfil their role effectively and also have sufficient experience relevant to the closed ended investment company sector and UK listed companies.

The report from this Committee is set out on pages 33 to 35.

Corporate Governance Statement continued

Nomination and Remuneration Committee

This Committee is comprised of all Directors and is chaired by Barbara Powley. The Committee meets as required for the purpose of considering recruitment to, and removals from, the Board; levels of remuneration paid to the Directors; and reviews the Directors' Remuneration Report and Remuneration Policy.

The Committee is a joint Nomination and Remuneration committee. It is considered that all Directors offer valuable contributions to the Committee and therefore all directors are members of the Committee.

Further details on performance evaluation, tenure and independence are provided on page 30.

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 on the Company's website www.montanaro.co.uk/trust/muscit

DIVERSITY AND INCLUSION

The Board's policy on diversity is to ensure that the Directors on the Board have a broad range of experience, skills and knowledge, with diversity of thinking, background and perspective. Appointments to the Board are made on merit against objective criteria, having regard to the benefits of diversity and the current and future needs of the business and the other factors set out in the AIC Code.

Gender identity or sex	Number of Board members[1]	Percentage on the Board	Number of senior positions on the Board
Men	2	50%	1
Women	2	50%	1
Not specified/ prefer not to say	–	–	–

[1] The Company does not disclose the number of Directors in executive management as this is not applicable for an externally managed Investment Trust.

Ethnic background	Number of Board members	Percentage on the Board	Number of senior positions on the Board
White British or other White (including minority white groups)	3	75%	2
Asian / Asian British	1	25%	–
Not specified/ prefer not to say	–	–	–

The data in the above tables was collected through self-reporting by the Directors.

The Board is pleased to report that for the year ended 31 March 2024, the Company exceeded the requirement to have a minimum of 40% female representation on the Board, with two out of four Directors on the Board being women. Since July 2023, the role of Senior Independent Director has been held by Barbara Powley. Therefore the Company has fulfilled the requirement for a senior Board position to be held by a woman.

Yuuichiro Nakajima was appointed to the Board on 1 January 2024. Therefore the Company now meets the target of at least one member of the Board being from an ethnic minority background.

MODERN SLAVERY ACT 2015

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

RISK MANAGEMENT AND INTERNAL CONTROLS

Details of the principal risks and internal controls applied by the Board are set out on pages 16 to 18 and pages 30 and 31 respectively.

For and on behalf of the Board

ARTHUR COPPLE
Chairman
14 June 2024

Report from the Audit and Management Engagement Committee

As Chair of the Audit and Management Engagement Committee (the "Committee"), I am pleased to present its Report to shareholders for the year ended 31 March 2024.

COMPOSITION OF THE COMMITTEE

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

The Committee is chaired by Mrs Powley, a Chartered Accountant, who has recent and relevant financial experience.

The Committee operates within clearly defined terms of reference and comprises all the Directors. Given the size of the Board and Mr Copple's experience, it is felt appropriate for him to sit on the Committee. The Directors have a combination of financial, investment and business experience, specifically with reference to the investment trust sector.

ROLE OF THE COMMITTEE

The Committee's duties include considering and recommending to the Board for approval the contents of the half yearly and annual financial statements, and providing an opinion as to whether 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 performance, business model and strategy. The Committee also reviews the external Auditors' report on the Annual Report and Financial Statements and is responsible for reviewing and forming an opinion on the effectiveness of the external audit process and audit quality. The Committee is also responsible for reviewing the performance of the Investment Manager and other third party service providers, including the terms of their appointment. Other duties include reviewing the appropriateness of the Company's accounting policies and ensuring the adequacy of the internal control systems and standards. The terms of reference detailing the scope and duties of the Audit and Management Engagement Committee are available on the Company's website.

MATTERS CONSIDERED IN THE YEAR

The Committee meets at least three times a year. At the three meetings held during the financial year, the Committee has:

- reviewed the internal controls and risk management systems of the Company and its third party providers;
- reviewed the performance of the Company's third party service providers and ensured that they complied with the terms of their agreements and that the terms of their agreements remain competitive;
- agreed the audit fee and audit plan with the Auditor, including the principal areas of focus;
- received and discussed with the Auditor their report on the results of the audit;
- reviewed the Company's financial statements and advised the Board accordingly;
- reviewed the Manager's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters insofar as they affect the Company (no incidents were reported during the period);
- reviewed the Investment Management Agreement to ensure that the terms remain competitive;
- reviewed the performance of the Manager;
- satisfied itself that the continued appointment of the Manager was in the interests of shareholders as a whole;
- recommended to the Board that the Manager's appointment be continued;
- reviewed and, where appropriate, updated the Company's risk register; and
- reviewed its own performance as a Committee and its own Terms of Reference.

Report from the Audit and Management Engagement Committee continued

ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2024

Subsequent to discussion with the Manager and the Auditor, the Committee determined the following key areas of risk in relation to the financial statements of the Company for the year ended 31 March 2024 and how they were addressed:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	The Board reviews detailed portfolio valuations at each meeting. It relies on the Administrator and AIFM to use appropriate pricing in accordance with the accounting standards adopted by the Company. Ownership of listed investments is verified by reconciliation to the Custodian's records. In addition, the Depositary reports to the Committee in relation to its monitoring and oversight of the activities of the AIFM, Administrator and Custodian. No matters of significance were identified in their monitoring.
Maintenance of investment trust status	The Committee regularly considers the controls in place to ensure that the regulations for maintaining investment trust status are observed at all times and receives supporting documentation from the Manager and the Administrator.
Incomplete or inaccurate revenue recognition	Income received is accounted for in accordance with the Company's accounting policies as set out in Note 1 to these accounts. The Board receives income forecasts, including special dividends, and receives an explanation from the Manager for any significant movements from previous forecasts and prior year figures.
Ensuring the Annual Report and Accounts is fair, balanced and understandable	The Committee reviewed and discussed the Annual Report and Accounts and advised the Board that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

GOING CONCERN AND VIABILITY

The Committee assesses annually whether it is appropriate to prepare the Company's financial statements on a going concern basis and makes a recommendation to the Board.

The Board concluded that the going concern basis continues to be appropriate and further information regarding the going concern assessment is set out in the Directors' Report on page 26.

The Committee conducts an annual assessment to determine whether the evaluation of the Company's long-term viability remains valid

The Board concluded that the Company continues to remain viable and further information regarding the Company's viability is set out in the Directors' Report on pages 26 and 27.

INTERNAL CONTROL & RISK MANAGEMENT

The Committee is responsible for ensuring that suitable controls are in place to prevent and detect fraud, error and misstatement of financial information. As the Company outsources all of its functions to third parties, it requires these service providers to report on their internal controls. Further details of the Company's internal controls and risk management processes are given in the Corporate Governance report on pages 30 and 31. There were no significant matters of concern identified in the Committee's review of the internal controls of its third party suppliers.

INTERNAL AUDIT FUNCTION

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 at least annually.

EXTERNAL AUDIT, REVIEW AND APPOINTMENT

BDO, first appointed at the Company's AGM held on 31 July 2020, continues as Auditor. The Audit Committee reviews the re-appointment of the auditor every year. The Committee reviewed the effectiveness of the external audit process following the completion of the annual audit process for the year ended 31 March 2024, taking into consideration their standing, skills, experience, performance and objectivity of the firm and the audit team. The Committee has reviewed and accepted reports from BDO on its procedures for ensuring that its independence and objectivity are safeguarded and that it has complied with relevant auditing standards. The Committee, from direct observation and enquiry of the Administrator, is satisfied that BDO provides effective independent challenge in carrying out its responsibilities. Following this review, the Committee concluded that the audit process was effective.

BDO's fee in respect of the audit for the year ended 31 March 2024 is £44,000 (2023: £38,000). Following professional guidelines, the audit partner rotates after five years. The year ended 31 March 2024 is Peter Smith's fourth year as audit partner.

POLICY ON NON-AUDIT SERVICES

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

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

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

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

CONCLUSION

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

The Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements is on page 39.

By order of the Board

BARBARA POWLEY
Chair, Audit and Management Engagement Committee
14 June 2024

Directors' Remuneration Report

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

I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2024.

Having reviewed the current level of remuneration payable to Directors, in accordance with the Remuneration Policy, the Committee has determined that with effect from, 1 April 2024, Directors' Fees would be payable as set out in the Future Policy Remuneration Table on page 37.

In accordance with the Companies Act 2006, the Company is required to seek shareholder approval for its remuneration policy on a triennial basis. The Remuneration Policy was last approved by shareholders at the 2022 AGM. The Board has reviewed the Remuneration Policy and believes that it remains appropriate, with no changes required. Accordingly, it is expected that a resolution to approve the policy will next be put to shareholders at the 2025 AGM.

The Committee is chaired by Barbara Powley and is comprised of all Directors. The Committee meets as required for the purpose of considering levels of remuneration paid to the Board and any change in the Directors' remuneration policy.

All Directors are members of the Committee due to their experience and understanding of the Company. Given the size of the Board, and Mr Copple's experience and independence upon appointment as Chairman of the Board, it is considered appropriate that he sit on this Committee.

REMUNERATION POLICY

The Company's policy is that remuneration should:

Purpose and link to strategy	• be sufficient to attract and retain individuals of a high calibre with suitable knowledge and experience to promote the long-term success of the Company; • reflect the time spent by the Directors on the Company's affairs; • reflect the responsibilities borne by the Directors; and • recognise the more onerous roles of the Chairman of the Board and the Chairman of the Audit and Management Engagement Committee through the payment of higher fees. Directors are remunerated in the form of fees. The Committee reviews fees on an annual basis and makes recommendations to the Board. Reviews will take into account wider factors such as research carried out on the level of fees paid to the Directors of the Company's peers, any feedback from shareholders, the level of inflation and any change in the complexity of the Directors responsibilities.
Fixed fee element	Directors are not eligible to be compensated for loss of office, nor are they eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no performance related elements to the Directors' fees. None of the Directors has a service contract with the Company and their terms of appointment are set out in a letter provided when they join the Board. These letters are available for inspection at the Company's registered office,
Maximum	Total remuneration paid to the non-executive Directors is subject to an annual aggregate limit of £200,000 in accordance with the Company's Articles of Association. Any changes to this limit will require shareholder approval by Ordinary Resolution.
Taxable benefits	In accordance with the Company's Articles of Association, the Directors are also entitled to be reimbursed for out-of-pocket expenses and any other reasonable expenses incurred in the proper performance of their duties. Such expenses are treated as a benefit in kind and are subject to tax and national insurance.

FUTURE REMUNERATION POLICY TABLE

Following a review of the level of Directors' fees, the Nomination and Remuneration Committee concluded that commencing 1 April 2024, the Chairman's fee be increased to £43,500, the Audit and Management Engagement Committee Chair's fee be increased to £35,000 and Director fees be increased to £30,000. The additional fee which may be paid to the Senior Independent Director will be increased to £1,250. These changes have been made following consideration of Directors' remuneration in the context of its peers, the wider investment trust sector and inflation. Directors' fees were last increased in 2023.

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

	Fee for year ending 31 March 2025	Fee for year ending 31 March 2024
Chairman	**43,500**	41,500
Audit and Management Engagement Committee Chair	**35,000**	33,500
Director	**30,000**	28,500

DIRECTORS' EMOLUMENTS FOR THE YEAR (AUDITED)

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

	Fees £		**Taxable benefits £**		**Total £**		**Total fixed remuneration £**		**Total variable remuneration £**	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023
Arthur Copple	**41,500**	38,500	**–**	–	**41,500**	38,500	**41,500**	38,500	**–**	–
Catriona Hoare	**28,500**	26,500	**–**	–	**28,500**	26,500	**28,500**	26,500	**–**	–
Yuuichiro Nakajima[1]	**7,125**	–	**66**	–	**7,191**	–	**7,125**	–	**66**	–
Barbara Powley	**31,903**	26,500	**1,656**	1,376	**33,559**	27,876	**31,903**	26,500	**1,656**	1,376
James Robinson[2]	**10,738**	31,000	**–**	229	**10,738**	31,229	**10,738**	31,000	**–**	229
Total	**119,766**	122,500	**1,722**	1,605	**121,488**	124,105	**119,766**	122,500	**1,722**	1,605

1 Appointed to the Board on 1 January 2024.
2 Retired from the Board on 27 July 2023.

No sums are paid to any third parties in respect of Directors services, and no sums were paid to any third parties in respect of advice from remuneration advisors. There have been no payments to past Directors during the financial year ended 31 March 2024, whether for loss of office or otherwise.

ANNUAL PERCENTAGE CHANGE IN REMUNERATION OF DIRECTORS

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

	2024 £	Change %	2023 £	Change %	2022 £	Change %	2021 £	Change %	2020 £
Chairman	**41,500**	7.8	38,500	4.8	36,750	5.0	35,000	–	35,000
Audit and Management Engagement Committee Chair	**33,500**	8.1	31,000	5.1	29,500	5.4	28,000	–	28,000
Director	**28,500**	7.5	26,500	5.0	25,250	5.2	24,000	–	24,000

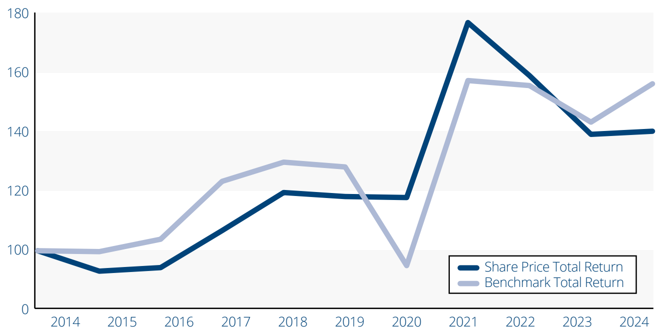
The requirements to disclose this information came into force for companies with financial years starting on or after 10 June 2019 and, as such, this is the fourth year the Company has disclosed this information. The comparison will be expanded in future annual reports until such time as it covers a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

Directors' Remuneration Report continued

COMPANY'S PERFORMANCE

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

Share Price and Benchmark* Performance (rebased to 100 on 31 March 2014)



* The Company's Benchmark is the Deutsche Numis Smaller Companies Index (excluding investment companies).

VOTING AT AGM

The Directors' Remuneration Report for the year ended 31 March 2023 was approved by shareholders at the AGM held on 27 July 2023. The Directors' Remuneration Policy was last approved by shareholders at the Company's Annual General Meeting, held on 27 July 2022. The proxy voting was as follows:

	Remuneration Report		Remuneration Policy	
	Number of votes cast	%	Number of votes cast	%
For*	79,020,613	99.87	83,266,732	99.89
Against	106,246	0.13	90,399	0.11
Total votes cast	**79,126,859**		**83,357,131**	
Number of votes withheld	577	0.00	22,405	0.03

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

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

RELATIVE IMPORTANCE OF DIRECTORS' FEES

The table below sets out, in respect of the financial year ended 31 March 2024 and the preceding financial year:

a) the remuneration paid to the Directors; and

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

	Year ended 31 March 2024 £	Year ended 31 March 2023 £	Change %
Total remuneration	**119,850**	124,105	(3.4)
Dividends paid	**7,699,471**	7,565,567	1.8

DIRECTORS' INTERESTS (AUDITED)

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

	As at 31 March 2024 No. of shares	As at 31 March 2023 No. of shares
Arthur Copple[1]	**275,000**	125,000
Catriona Hoare	**9,039**	9,039
Yuuichrio Nakajima	**–**	–
Barbara Powley	**13,026**	12,449

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

On 17 April 2024, Barbara Powley acquired 10,000 shares, and on 10 May 2024 acquired 254 shares in the Company and now holds 23,280 shares in total. There have been no other changes to the above holdings between 31 March 2024 and the date of this Annual Report. None of the Directors nor any persons connected with them had a material interest in any of the Company's transactions, arrangements or agreements during the year.

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN RESPECT OF THE FINANCIAL YEAR ENDING 31 MARCH 2025

Apart from the fee increases disclosed in this report which will take effect for the financial year ending 31 March 2025, no other changes are proposed. The Committee will, as usual, review Directors' fees during 2024/25 and consider whether any further changes to remuneration are required.

On behalf of the Board

BARBARA POWLEY
Chair, Nomination and Remuneration Committee
14 June 2024

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Directors' report, a strategic report and Directors' remuneration report which comply with the requirements of the Companies Act 2006.

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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the Annual Report and Accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for ensuring the Annual Report and Accounts are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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.

By order of the Board

ARTHUR COPPLE
Chairman
14 June 2024

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

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

- give a true and fair view of the state of the Company's affairs as at 31 March 2024 and of its *profit* for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Montanaro UK Smaller Companies Investment Trust PLC (the 'Company') for the year ended 31 March 2024 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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

Independence
Following the recommendation of the audit committee, we were appointed by The Board of Directors on 17 March 2020 and subsequently by the members at the AGM on 31 July 2020 to audit the financial statements for the year ended 31 March 2021 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is four years, covering the years ended 31 March 2021 to 31 March 2024. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

CONCLUSIONS RELATING TO GOING CONCERN
In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the appropriateness of the Directors' method of assessing the going concern in light of economic and market conditions by reviewing the information used by the Directors in completing their assessment;
- Assessing the appropriateness of the Directors' assumptions and judgements made by comparing the prior year forecasted costs to the actual costs incurred to check that the projected costs are reasonable;
- Assessing the appropriateness of the Directors' assumptions and judgements made in their base case and stress tested forecasts including consideration of the available cash resources relative to forecast expenditure;
- Challenging the Directors' assumptions and judgements made in their forecasts by performing an independent analysis of the liquidity of the portfolio; and
- Reviewing the loan agreements to identify the covenants and assessing the likelihood of them being breached based on the Directors' forecasts and our sensitivity analyses.

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

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

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

OVERVIEW

Key audit matters		**2024**	**2023**
	• Valuation and ownership of quoted investments	✓	✓
Materiality	*Company financial statements as a whole* • £1,990,000 (2023:£1,916,000) based on 1% (2023: 1%) of Net assets		

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

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

Key audit matters

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

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation and ownership of quoted investments Note 1 and 9	The investment portfolio at the year-end comprised of quoted equity investments held at fair value through profit or loss. We considered the valuation and ownership of investments to be a significant audit area as investments represent the most significant balance in the financial statements and underpins the principal activity of the entity. There is a risk that the bid price used as a proxy for fair vaue of investments held at the reporting date is inappropriate. Given the nature of the portfolio is such that it comprises solely of listed level 1 investments, we do not consider the use of bid price to be subject to significant estimation uncertainty. There is also a risk of error in the recording of investment holdings such that those recording do not appropriate reflect the property of the Company. For these reasons and the materiality to the financial statements as a whole, they are considered to be a key area of our overall audit strategy and allocation of our resources and hence a Key Audit Matter.	We responded to this matter by testing the valuation and ownership of the whole portfolio of quoted investments. We performed the following procedures: • Confirmed the year-end bid or SETS price was used by agreeing to externally quoted prices; • Assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value by considering the realisation period for individual holdings; • Recalculated the valuation by multiplying the number of shares held per the statement obtained from the custodian by the valuation per share; and • Obtained direct confirmation of the number of shares held per equity investment from the custodian regarding all investments held at the balance sheet date. **Key observations:** Based on our procedures performed we did not identify any matters to suggest the valuation or ownership of the quoted equity investments was not appropriate.

OUR APPLICATION OF MATERIALITY

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

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

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

	Company financial statements 2024 £	**Company financial statements 2023 £**
Materiality	1,990,000	1,916,000
Basis for determining materiality	1% of Net assets	1% of Net assets
Rationale for the benchmark applied	As an investment trust, the net asset value is the key measure of performance for users of the financial statements.	As an investment trust, the net asset value is the key measure of performance for users of the financial statements.
Performance materiality	1,493,000	1,440,000
Basis for determining performance materiality	75% of materiality	75% of materiality
Rationale for the percentage applied for performance materiality	The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.	The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £99,500 (2023: £96,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report & financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

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

OTHER COMPANIES ACT 2006 REPORTING

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

Non-compliance with laws and regulations

Based on:

- Our understanding of the Company and the industry in which it operates;
- Discussion with the Investment Manager and Administrator and those charged with governance;
- Obtaining and understanding of the Company's policies and procedures regarding compliance with laws and regulations; and
- we considered the significant laws and regulations to be Companies Act 2006, the FCA listing and DTR rules, the principles of the AIC Code of Corporate Governance, industry practice represented by the AIC SORP, the applicable accounting framework, and qualification as an Investment Trust under UK tax legislation as any non-compliance of this would lead to the Company losing various deductions and exemptions from corporation tax.

Our procedures in respect of the above included:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Enquiries of management and those charged with governance relating to the existence of any non-compliance with laws and regulations;
- Reviewing minutes of meeting of those charged with governance throughout the period for instances of non-compliance with laws and regulations; and
- Reviewing the calculation in relation to Investment Trust compliance to check that the Company was meeting its requirements to retain their Investment Trust Status. This included a review of other qualititatve factors and ensuring compliance with these.

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

Fraud

We assessed the susceptibility of the financial statement to material misstatement including fraud.

Our risk assessment procedures included:

- Enquiry with the Investment Manager, the Administrator and those charged with governance regarding any known or suspected instances of fraud;
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud; and
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;

Based on our risk assessment, we considered the areas most susceptible to be management override of controls.

Our procedures in respect of the above included:

- In addressing the risk of management override of control, we:
  - Performed a review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias;
  - Considered the opportunity and incentive to manipulate accounting entries and target tested relevant adjustments made in the period end financial reporting process;
  - Reviewed for significant transactions outside the normal course of business; and
  - Performed a review of unadjusted audit differences, if any, for indications of bias or deliberate misstatement.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, who were deemed to have the appropriate competence and capabilities, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

USE OF OUR REPORT

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

Peter Smith
For and on behalf of BDO LLP, Statutory Auditor
London, UK
14 June 2024

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

Income Statement
for the year to 31 March 2024

		Year to 31 March 2024			Year to 31 March 2023		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments designated at fair value through profit or loss	9	**–**	**11,137**	**11,137**	–	(29,891)	(29,891)
Investment income	2	**6,347**	**–**	**6,347**	4,986	–	4,986
Investment management fee	3	**(276)**	**(828)**	**(1,104)**	(287)	(858)	(1,145)
Other expenses	4	**(618)**	**–**	**(618)**	(643)	–	(643)
Net return before finance costs and taxation		**5,453**	**10,309**	**15,762**	4,056	(30,749)	(26,693)
Interest payable and similar charges	5	**(175)**	**(522)**	**(697)**	(134)	(402)	(536)
Net return before taxation		**5,278**	**9,787**	**15,065**	3,922	(31,151)	(27,229)
Taxation	6	**–**	**–**	**–**	–	–	–
Net return after taxation		**5,278**	**9,787**	**15,065**	3,922	(31,151)	(27,229)
Return per Ordinary share	8	**3.15p**	**5.85p**	**9.00p**	2.34p	(18.61p)	(16.27p)

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

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

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

No operations were acquired or discontinued in the year.

The notes on pages 50 to 60 form part of these financial statements.

Statement of Changes in Equity
for the year to 31 March 2024

Year to 31 March 2024	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 2023		**3,348**	**19,307**	**1,362**	**4,642**	**162,418**	**572**	**191,649**
Total comprehensive income:								
Fair value movement of investments	9	**–**	**–**	**–**	**–**	**11,137**	**–**	**11,137**
Costs allocated to capital					**–**	**(1,350)**	**–**	**(1,350)**
Net revenue for the year		**–**	**–**	**–**	**–**	**–**	**5,278**	**5,278**
		–	**–**	**–**	**–**	**9,787**	**5,278**	**15,065**
Dividends paid in the year	7	**–**	**–**	**–**	**–**	**(1,975)**	**(5,657)**	**(7,632)**
As at 31 March 2024		**3,348**	**19,307**	**1,362**	**4,642**	**170,230**	**193**	**199,082**

Year to 31 March 2023	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 2022		3,348	19,307	1,362	4,642	197,758	378	226,795
Total comprehensive income:								
Fair value movement of investments	9	–	–	–	–	(29,891)	–	(29,891)
Costs allocated to capital					–	(1,260)	–	(1,260)
Net revenue for the year		–	–	–	–	–	3,922	3,922
		–	–	–	–	(31,151)	3,922	(27,229)
Dividends paid in the year	7	–	–	–	–	(4,189)	(3,728)	(7,917)
As at 31 March 2023		3,348	19,307	1,362	4,642	162,418	572	191,649

* These reserves, excluding any unrealised capital reserve are distributable. As at 31 March 2024 distributable reserves totalled £157,133,000 (2023: £151,204,000).
** The special reserve can be used for the repurchase of the Company's own shares.

The notes on pages 50 to 60 form part of these financial statements.

Balance Sheet
as at 31 March 2024

		31 March 2024		31 March 2023	
	Notes	**£'000**	**£'000**	£'000	£'000
Fixed assets					
Investments at fair value	9		**204,694**		200,777
Currents assets					
Debtors	10	**312**		352	
Cash at bank		**14,627**		10,856	
		14,939		11,208	
Creditors: amounts falling due within one year					
Other creditors	11	**(551)**		(336)	
Fixed rate term loan	12	**(20,000)**		–	
		(20,551)		(336)	
Net current (liabilities)/assets			**(5,612)**		10,872
Total assets less current liabilities			**199,082**		211,649
Creditors: amounts falling due after more than one year					
Fixed rate term loan	12		**–**		(20,000)
Net assets			**199,082**		191,649
Share capital and reserves					
Called-up share capital	13		**3,348**		3,348
Share premium account			**19,307**		19,307
Capital redemption reserve			**1,362**		1,362
Special reserve			**4,642**		4,642
Capital reserve			**170,230**		162,418
Distributable revenue reserve			**193**		572
Total equity shareholders' funds			**199,082**		191,649
Net asset value per Ordinary share			**118.94p**		114.50p

These financial statements were approved and authorised for issue by the Board of Directors on 14 June 2024.

ARTHUR COPPLE
Chairman

Company Registered Number: 3004101

The notes on pages 50 to 60 form part of these financial statements.

Notes to the Financial Statements
at 31 March 2024

1 Accounting Policies

Montanaro UK Smaller Companies Investment Trust plc ("MUSCIT") is a company incorporated and registered in England and Wales. The principal activity of the Company is that of an investment trust company within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010. The registered office of the Company is 53 Threadneedle Street, London EC2R 8AR.

BASIS OF PREPARATION

The financial statements have been prepared under FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' 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"). The Company meets the requirements of FRS 102 section 7.1.A and therefore has elected not to present the Statement of Cash Flows for the year ended 31 March 2024. The principal accounting policies adopted in the preparation of these financial statements are set out below.

The financial statements have been presented in sterling, which is the Company's functional currency as the UK is the primary environment in which it operates, rounded to the nearest £'000, except where otherwise indicated.

GOING CONCERN

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

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has adequate resources to continue in business for the foreseeable future, being until at least 14 June 2025. Please refer to page 26 for full details of the Directors' going concern assessment.

The Company's current credit facilities are due to expire on 17 December 2024. It is the intention that these will be renewed. A further update will be provided in the Company's Interim Report to 30 September 2024.

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 12 August 2021, shareholders voted to remove the obligation to convene a General Meeting during 2023 for the purpose of voluntarily winding up the Company. The next Continuation Vote is scheduled to be held in 2027.

The Directors are not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern, having taken into account the liquidity of the Company's investment portfolio and the Company's financial position in respect of its cash flows, borrowing facilities and investment commitments (of which there are none of significance). Therefore, the financial statements have been prepared on the going concern basis.

SEGMENTAL REPORTING

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business. The Company primarily invests in listed companies.

INCOME RECOGNITION

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

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

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

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

1 Accounting Policies continued

EXPENSES AND FINANCE COSTS

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

Expenses directly incurred in relation to arranging debt and loan facilities have been amortised over the term of the finance.

INVESTMENTS

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

In accordance with FRS 102 sections 11 and 12, all investments held by the Company are classified upon initial recognition as financial assets at fair value through profit or loss and are measured at subsequent reporting dates at fair value, which is the bid price or the closing price for the Stock Exchange Electronic Trading Service – quotes and crosses ('SETSqx'). All transaction costs in relation to the purchase of an investment are included in the initial book cost. The Company derecognises a financial asset either when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of consideration received and receivable after transaction costs have been deducted, and the cumulative gain or loss that had been accumulated is recognised in profit or loss.

All investments for which fair value is measured in the financial statements are categorised within the fair value hierarchy in Note 9.

OTHER RECEIVABLES AND PAYABLES

Trade receivables and trade payables are measures at amortised cost.

TAXATION

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

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

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

DIVIDENDS PAYABLE TO SHAREHOLDERS

Interim dividends are recognised in the period in which they have been paid.

BANK LOANS AND BORROWINGS

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods. The area requiring the most significant judgement is recognition and classification of unusual or special dividends received as either revenue or capital in nature. The estimates and underlying assumptions are reviewed on an ongoing basis. There have been no other significant judgements, estimates or assumptions which have had a significant impact on the financial statements for the current or preceding financial year.

Notes to the Financial Statements continued
at 31 March 2024

1 Accounting Policies continued

RESERVES

Share premium
The share premium account represents the accumulated premium paid for shares issued in previous periods above their nominal value less expenses of issuance. This is a reserve forming part of the non-distributable reserves. The following items are taken to this reserve; costs associated with the issue of equity and premium on the issue of shares.

Capital redemption reserve
The capital redemption reserve represents non-distributable reserves that arise from the purchase and cancellation of shares.

Special reserve
The special reserve was created by the cancellation of the share premium account by order of the High Court in August 1998. The costs of share buybacks, including related stamp duty and transaction costs, are charged to the special reserve. This reserve can be distributed.

Revenue reserve
The revenue reserve represents the surplus of accumulated profits from the income derived from holding investment assets less the costs and interest on cash balances associated with running the Company. This reserve can be distributed.

Capital reserve
The following are accounted for in this reserve:

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

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

2 Income

	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
UK dividend income	**5,880**	4,497
Overseas dividend income	**36**	313
Income from investments	**5,916**	4,810
Bank interest	**431**	176
Total income	**6,347**	4,986
Total income comprises		
Dividends from financial assets designated at fair value through profit or loss	**5,916**	4,810
Interest received	**431**	176
Dividends	**6,347**	4,986

3 Management fee

	Year to 31 March 2024			Year to 31 March 2023		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**263**	**791**	**1,054**	274	821	1,095
AIFM fee	**13**	**37**	**50**	13	37	50
	276	**828**	**1,104**	287	858	1,145

The Manager received a monthly management fee equivalent to 1/12 of 0.50% (2023: 0.50%) of the gross assets of the Company valued at the close of business on the last business day of each month.

At 31 March 2024, £275,000 (2023: £111,000) was due for payment to the Manager.

The AIFM receives an annual fee of £50,000 (2023: £50,000).

4 Other Expenses

	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
Company secretarial fees	**158**	146
Directors' fees	**120**	123
Depositary fee	**42**	46
Registrar fee	**45**	55
Auditor's remuneration for:		
– audit	**44**	38
Custody and other bank charges	**21**	22
Legal fees	**14**	6
Other expenses (including VAT)	**174**	207
	618	643

† A breakdown of the Directors' remuneration is set out in the Directors' Remuneration Report on page 37.

The Company has no employees.

5 Interest Payable and Similar Charges

	Year to 31 March 2024			Year to 31 March 2023		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Interest payable on loan	**167**	**498**	**665**	124	372	496
Loan commitment fee	**8**	**24**	**32**	10	30	40
	175	**522**	**697**	134	402	536

Notes to the Financial Statements continued
at 31 March 2024

6 Taxation

	Year to 31 March 2024			Year to 31 March 2023		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Current tax:						
Withholding tax suffered	**–**	**–**	**–**	–	–	–
	–	**–**	**–**	–	–	–

The taxation charge for the year is different from the standard rate of Corporation Tax in the UK of 25% (2023: 19%). The differences are explained below.

	Year to 31 March 2024			Year to 31 March 2023		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Net return/(loss) before taxation	**5,278**	**9,787**	**15,065**	3,922	(31,151)	(27,229)
Theoretical tax at UK corporation tax rate of 25% (2023: 19%)	**1,319**	**2,447**	**3,766**	745	(5,919)	(5,174)
Effect of:						
– UK dividends that are not taxable	**(1,314)**	**–**	**(1,314)**	(799)	–	(799)
– Foreign dividends that are not taxable	**(9)**	**–**	**(9)**	(60)	–	(60)
– Non-taxable investment (gains)/losses	**–**	**(2,784)**	**(2,784)**	–	5,679	5,679
– Unrelieved excess expenses	**4**	**337**	**341**	114	240	354
Current tax charge for the year	**–**	**–**	**–**	–	–	–

Factors that may affect future tax charges
Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Company meets (and intends to continue for the foreseeable future to meet) the conditions for approval as an Investment Trust company. At 31 March 2024, based on current estimates and including the accumulation of net allowable losses, the Company had unrelieved losses of £56,346,000 (2023: £54,358,000) that are available to offset future taxable revenue. The potential deferred tax asset has been calculated using a corporation tax rate of 25% (2023: 25%). A deferred tax asset of £14,086,000 (2023: £13,590,000) has not been recognised because the Company is not expected to generate sufficient taxable income in future periods in excess of the available deductible expenses. Accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus losses.

7 Dividends

	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
In respect of the previous period:		
Paid		
2023 fourth quarter dividend of 1.15p (2023: 1.36p)	**1,925**	2,276
In respect of the year under review:		
Paid		
2024 first quarter dividend of 1.13p (2023: 1.15p)	**1,891**	1,925
2024 second quarter dividend of 1.10p (2023: 1.04p)	**1,841**	1,741
2024 third quarter dividend of 1.18p (2023: 1.18p)	**1,975**	1,975
Dividends distributed during the year	**7,632**	7,917
Declared:		
2024 fourth quarter dividend of 1.19p (2023: 1.15p)*	**1,991**	1,925

* The fourth quarter dividend was declared on 8 April 2024. The ex-dividend date was 18 April 2024 and it was paid on 9 May 2024.

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

Any dividends paid in excess of the Revenue Reserve are paid from the realised Capital Reserve.

8 Return per Ordinary Share

	Year to 31 March 2024			Year to 31 March 2023		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Ordinary share	**3.15p**	**5.85p**	**9.00p**	2.34p	(18.61p)	(16.27p)

Revenue return per Ordinary share is based on the net return after taxation of £5,278,000 (2023: £3,922,000) and 167,379,790 (2023: 167,379,790) Ordinary shares, being the weighted average number of Ordinary shares in issue, excluding any shares held in treasury.

Capital return per Ordinary share is based on net capital return after taxation of £9,787,000 (2023: losses of £31,151,000), and on 167,379,790 (2023: 167,379,790) Ordinary shares, being the weighted average number of Ordinary shares in issue, excluding any shares held in treasury.

9 Investments

	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
Total investments at fair value	**204,694**	200,777

The investment portfolio comprises 35 (2023: 40) traded and listed UK equity holdings.

	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
Opening book cost	**188,991**	189,741
Opening investment holding gains	**11,786**	46,746
Opening fair value	**200,777**	236,487
Movements in the year		
Purchases at cost	**40,675**	41,452
Sales – proceeds	**(47,895)**	(47,271)
– realised gains on sales against book cost	**9,633**	5,069
Increase/(decrease) in investment holding gains	**1,504**	(34,960)
Total movement in the year	**3,917**	(35,710)
Closing book cost	**191,404**	188,991
Closing unrealised appreciation	**13,290**	11,786
Closing fair value	**204,694**	200,777

FAIR VALUE HIERARCHY

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

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

- Level 1 – Valued using quoted prices, unadjusted in active markets for identical assets and liabilities.
- Level 2 – Valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included in level 1.
- Level 3 – Valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

Notes to the Financial Statements continued
at 31 March 2024

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

	31 March 2024		31 March 2023	
	Level 1 £'000	**Total £'000**	Level 1 £'000	Total £'000
Equity investments	**204,694**	**204,694**	200,777	200,777
	204,694	**204,694**	200,777	200,777

There were no level 2 or 3 investments.

	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
Net gains/(losses) on investments at fair value		
Gains on sales	**9,633**	5,069
Changes in fair value	**1,504**	(34,960)
	11,137	(29,891)

TRANSACTION COSTS

During the year, the Company incurred transaction costs of £187,000 (2023: £198,000) and £27,000 (2023: £30,000) 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.

The Company sold investments in the year with proceeds of £47,895,000 (2023: £47,271,000). The book cost of these investments when purchased was £38,262,000 (2023: £42,202,000). These investments have been revalued over time until they were sold, any unrealised gains or losses were included in the fair value of the investments.

10 Debtors

	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
Prepayments and accrued income	**87**	84
Dividends receivable	**225**	268
	312	352

11 Other Creditors

	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
Other payables	**134**	86
Accrued interest	**142**	139
Management fee payable	**275**	111
	551	336

12 Fixed Rate Term and Floating Rate Revolving Credit Facilities

	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
Falling due in 12 months or less	**20,000**	–
Falling due after more than one year	**–**	20,000

On 17 December 2021, the Company renewed its's agreement with ING Bank N.V. for a £20,000,000 Fixed Rate Term Loan and £10,000,000 Revolving Credit Facility.

Fixed Rate Term Loan: The Fixed Rate Term Loan (the "loan") is available for a three-year term to 17 December 2024. The interest is payable at a fixed rate of 2.49% (2023: 2.49%) and has been fully drawn down.

Revolving Credit Facility: The Revolving Credit Facility (the "facility") is available for a three-year term to 17 December 2024. Interest chargeable is the RFR plus a margin of 1.55% per annum. Undrawn balances are charged at 0.40% per annum. The the revolving credit facility was fully drawn down on the 7 November 2023 but was repaid in full on the 5 February 2024.

Under the terms of both the original and revised agreements, the covenant requires that total borrowing will not at any time exceed 30% of the adjusted NAV, which itself shall not fall below £80,000,000 in respect of both facilities. The Company remained compliant with these covenants throughout the year.

13 Share Capital

	31 March 2024 £'000	31 March 2023 £'000
Allotted, called-up and fully paid:		
167,379,790 Ordinary shares of 2p each (2023: 167,379,790)	**3,348**	3,348

Treasury shares

At the AGM on 27 July 2023, the Company was granted the authority to purchase 25,090,230 Ordinary shares. This authority is due to expire at the conclusion of the next AGM.

There were no shares held in treasury at any time during the year (2023: nil) and no shares purchased during the year (2023: nil).

14 Net Asset Value per Ordinary Share

The Net Asset Value per share of 118.94p (2023: 114.50p) is based on net assets of £199.1 million (2023: £191.6 million) and on 167,379,790 (2023: 167,379,790) Ordinary shares, being the number of Ordinary shares in issue at the year end.

15 Analysis of Financial Assets and Liabilities

Investment Objective and Policy

The Company's investment objective and policy are detailed on page 14.

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

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

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

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

Notes to the Financial Statements continued
at 31 March 2024

15 Analysis of Financial Assets and Liabilities continued

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

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

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

The maximum exposure to market price risk is the fair value of investments of £204,694,000 (2023: £200,777,000).

If the investment portfolio valuation fell by 10% from the amount detailed in the financial statements as at 31 March 2024, it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £20,469,000 (2023: £20,078,000). An increase of 10% in the investment portfolio valuation would have an equal and opposite effect on the net capital return before taxation. The analysis is based on closing balances only and is not representative of the year as a whole.

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

Interest rate risk
Changes in interest rates may cause fluctuations in the income and expenses of the Company. The Company has a Fixed Rate Term Loan Facility (see Note 12) so this would not be affected by any changes in interest rates. The Company also has a Floating Rate Revolving Credit Facility. This was undrawn at the year end so would not yet be affected by any changes in interest rates.

The Company received £431,000 interest on cash deposits in the year (2023: £176,000).

If interest rates had reduced by 1% from those paid as at 31 March 2024, it would have the effect, with all other variables held constant, of increasing the net revenue return before taxation on an annualised basis by £4,000 (2023: £nil). If there was an increase in interest rates of 1%, the net revenue return before taxation on an annualised basis would have decreased by £4,000 (2023: £nil).

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

The Company's liquidity risk is managed on a daily basis by the Manager in accordance with established policies and procedures in place. The Manager reviews daily forward-looking cash reports which project cash obligations. As the Company is a closed-ended fund assets do not need to be liquidated to meet redemptions and sufficient liquidity is maintained to meet obligations as they fall due.

Contractual maturities of the financial liabilities at undiscounted amounts at the year end, based on the earliest date on which payment can be required, are detailed on page 60.

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

The AIFM is responsible for determining the net gearing level within the parameters set by the Board, which is disclosed on page 62. The Directors receive financial information on a regular basis which is used to identify and monitor risk. The Company's current borrowing facilities are due to expire on 17 December 2024, it is the intention that these will be renewed, a further update will be provided in the Company's Interim Report to 30 September 2024.

15 Analysis of Financial Assets and Liabilities continued

Credit risk

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

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

The Board monitors the credit worthiness of Bank of New York, currently rated at Aa1 (Moody's).

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

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

The maximum exposure to credit risk at 31 March 2024 was:

	31 March 2024 £'000	31 March 2023 £'000
Cash at bank (held at Bank of New York Mellon)	**14,627**	10,856
Debtors	**312**	352
	14,939	11,208

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

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. All financial assets are in Sterling.

FINANCIAL LIABILITIES

The Company finances its operations through equity, retained profits and bank borrowings (see Note 12).

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2024 was as follows:

	Total £'000	**Weighted Average interest rate %**	**Period until maturity Years**
Amounts drawn down under Fixed Rate Term Loan Facility	**20,000**	**2.5**	**0.7**
Amounts drawn down under Floating Rate Revolving Credit Facility	**–**	**–**	**–**
Financial liabilities upon which no interest is paid	**551**	**–**	**–**

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2023 was as follows:

	Total £'000	Weighted average interest rate %	Period until maturity Years
Amounts drawn down under Fixed Rate Term Loan Facility	20,000	2.5	1.7
Amounts drawn down under Floating Rate Revolving Credit Facility	–	–	–
Financial liabilities upon which no interest is paid	336	–	–

Notes to the Financial Statements continued
at 31 March 2024

15 Analysis of Financial Assets and Liabilities continued
The maturity profile of the Company's financial liabilities at undiscounted amount is as follows:

	31 March 2024 £'000	31 March 2023 £'000
In three months or less	**660**	445
In more than three months but not more than one year	**20,249**	248
In more than one year but not more than three years	**–**	20,497
	20,909	21,190

16 Capital Management Policies
The structure of the Company's capital is described on page 27 and details of the Company's reserves are shown in the Statement of Changes in Equity.

The Company's capital management objectives are:

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

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

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

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

The Company is subject to externally imposed capital requirements:

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

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

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

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

17 Related Party Transactions
Under the Listing Rules, the Manager is regarded as a related party, owing to the Manager's controlling party being Charles Montanaro. Mr Montanaro is deemed to be Key Management Personnel of the Company. The amounts paid to the Manager are disclosed in Note 3.

The related party transactions with the Directors are set out in the Directors' Remuneration Report on pages 36 to 38.

AIFMD Disclosures – unaudited

In accordance with the AIFMD, Montanaro and the Company are required to make certain disclosures available to investors in relation to the Company's leverage and the remuneration of the Company's AIFM. In accordance with the Directive, the AIFM's remuneration policy is available from Montanaro on request. The Company's maximum and average actual leverage levels at 31 March 2024 are shown below:

Leverage exposure

	Gross method	Commitment method
Maximum limit	200%	200%
Actual	110.4%	104.8%

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

An explanation of the methods used can be found in the glossary of terms on page 64.

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

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

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

- pages 57 to 60 and Note 15 to the financial statements set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- information on the investment strategy, geographic and sector investment focus and stock exposures are included in the Manager's Report on pages 5 to 13; and
- none of the Company's assets are subject to special arrangements arising from their illiquid nature.

Alternative Performance Measures ("APMs") – unaudited

The Company uses the following APMs:

Discount (or Premium)

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

As at 31 March 2024, the Net Asset Value per share was 118.9p and the share price was 101.0p. The Discount is therefore calculated at 15.1% as shown in the highlights on page 1.

Gross Assets

Gross assets are calculated as net assets adding back borrowings.

	31 March 2024 £'000	31 March 2023 £'000
Net assets	**199,082**	191,649
Fixed rate term loans	**20,000**	20,000
Gross assets	**219,082**	211,649

Ongoing Charges (expressed as a percentage)

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

Ongoing charges calculation

	31 March 2024 £'000	31 March 2023 £'000
Total expenditure	**2,419**	2,324
Less interest payable and similar charges (see Note 5)	**(697)**	(536)
Total (a)	**1,722**	1,788
Average daily net assets (b)	**189,014**	199,390
Ongoing charges (c = a/b) (C)	**0.91%**	0.90%

Net Gearing

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

	31 March 2024 £'000	31 March 2023 £'000
Fixed rate term loans	**20,000**	20,000
Less: cash at bank	**(14,627)**	(10,856)
Net debt (a)	**5,373**	9,144
Shareholders' funds (b)	**199,082**	191,649
Net gearing (a/b)	**2.7%**	4.8%

Portfolio Turnover

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

	31 March 2024 £'000	31 March 2023 £'000
Purchases at cost	**40,675**	41,452
Sales proceeds	**47,895**	47,271
Total (a)	**88,570**	88,723
Average total (b) (b=a/2)	**44,285**	44,362
Average daily fair value of investments (c)	**189,014**	199,390
Portfolio turnover (b/c)	**23.4%**	22.2%

Total Return – NAV and Share Price Returns

Total returns measure the effect of any rise or fall in the share price or NAV, plus dividends paid, which are reinvested at the prevailing NAV or share price on the ex-dividend date. As at 31 March 2024, the 1 year NAV Total Gain was 8.3% and the 1 year Ordinary share price Total Gain was 0.6%, as shown in the highlights on page 1.

NAV Total Return calculation as at 31 March 2024

	£'000	
NAV per share as at 31 March 2024	118.94	(c)
NAV per share as at 31 March 2023	114.50	(d)
Dividend adjustment factor (+1)	1.042	(a)
Pre-dividend reinvestment factor	1.039	(b) (b=c/d)
NAV total return	**8.3%**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	**PPS**	**Dividend XD date**	**NAV at Dividend XD Date**	**NAV Multiplier**
Quarterly dividend 1	1.15	20 Apr 23	113.24	0.01
Quarterly dividend 2	1.13	20 Jul 23	115.39	0.01
Quarterly dividend 3	1.10	19 Oct 23	100.53	0.01
Quarterly dividend 4	1.18	18 Jan 24	111.98	0.01
				0.04

NAV Total Return calculation as at 31 March 2023

	£'000	
NAV per share as at 31 March 2023	114.50	(c)
NAV per share as at 31 March 2022	135.50	(d)
Dividend adjustment factor (+1)	1.039	(a)
Pre-dividend reinvestment factor	0.845	(b) (b=c/d)
NAV total return	**(12.2%)**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	NAV at Dividend XD Date	NAV Multiplier
Quarterly dividend 1	1.36	21 Apr 22	134.88	0.01
Quarterly dividend 2	1.15	21 Jul 22	121.11	0.01
Quarterly dividend 3	1.04	20 Oct 22	105.26	0.01
Quarterly dividend 4	1.18	19 Jan 23	120.15	0.01
				0.04

Share price Total Return calculation as at 31 March 2024

Share price as at 31 March 2024	101.00	(c)
Share price as at 31 March 2023	105.00	(d)
Dividend adjustment factor (+1)	1.047	(a)
Pre-dividend reinvestment factor	0.962	(b) (b=c/d)
Share price total return	**0.7%**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	Share price at Dividend XD Date	Share price Multiplier
Quarterly dividend 1	1.15	20 Apr 23	105.25	0.011
Quarterly dividend 2	1.13	20 Jul 23	101.00	0.011
Quarterly dividend 3	1.10	19 Oct 23	88.20	0.013
Quarterly dividend 4	1.18	18 Jan 24	98.20	0.012
				0.047

Share price Total Return calculation as at 31 March 2023

Share price as at 31 March 2023	105.00	(c)
Share price as at 31 March 2022	125.00	(d)
Dividend adjustment factor (+1)	1.043	(a)
Pre-dividend reinvestment factor	0.840	(b) (b=c/d)
Share price total return	**(12.4%)**	**((a*b)-1)**

(a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	Share price at Dividend XD Date	Share price Multiplier
Quarterly dividend 1	1.36	21 Apr 22	126.00	0.011
Quarterly dividend 2	1.15	21 Jul 22	109.00	0.011
Quarterly dividend 3	1.04	20 Oct 22	98.40	0.011
Quarterly dividend 4	1.18	19 Jan 23	118.50	0.010
				0.043

Glossary of Terms

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

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

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

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

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

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

Montanaro, AIFM or Manager
Montanaro Asset Management Limited.

MUSCIT
Montanaro UK Smaller Companies Investment Trust PLC.

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

NSCI
Deutsche Numis Smaller Companies Index (excluding investment companies).

PPS
Pence per share.

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

Shareholder Information

Sources of Further Information

Your Board is committed to shareholder engagement. To receive regular email news and updates about the Company please visit: www.montanaro.co.uk/trust/muscit.

Useful information on the Company, such as investor updates and half year and annual reports can also be found on the website.

Key Dates

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

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

Quarterly Dividend

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

NMPI Status

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

Share price and NAV

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

Registrar enquiries

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

Changes of name must be notified in writing to the registrar, whose address is: Link Group, Shareholder Services Department, PXS 1, Central Square, 29 Wellington Street, Leeds, LS1 4DL. Change of address can be updated online via www.signalshares.com.

Common Reporting Standard

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

Share dealing

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

Shareholder Information continued

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

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

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

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

Stocks and Shares Individual Savings Accounts (ISA)
ISAs are a tax-efficient method of investment and the Company's shares are eligible investments for inclusion in an ISA.

Packaged Retail and Insurance-Based Investment Products ("PRIIPs") Regulation (The "Regulation")
Shares issued by investment trusts fall within the scope of the European Union's PRIIPs Regulation. Investors should be aware that the PRIIPs Regulation requires the AIFM, as PRIIPs manufacturer, to prepare a key information document ("KID") in respect of the Company. This KID must be made available, free of charge, to EEA retail investors prior to them making any investment decision. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed. The PRIIPs KID in respect of the Company can be found at: www.montanaro.co.uk/trust/muscit

Warning to Shareholders – Beware of Share Fraud
Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or to buy shares at an inflated price in return for an upfront payment.

If you receive unsolicited investment advice or requests:

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

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

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

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about any aspect of the proposals referred to in this document or about the action which you should take, you should seek your own advice immediately from a stockbroker, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all of your shares, please pass this document, together with the accompanying documents, to the purchaser or transferee, or to the person who arranged the sale or transfer, so they can pass these documents to the person who now holds the shares.

Notice is hereby given that the Annual General Meeting of Montanaro UK Smaller Companies Investment Trust PLC (the "Company") will be held at 53 Threadneedle Street, London EC2R 8AR, on Thursday, 25 July 2024 at 12.00 noon for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 10 will be proposed as Ordinary Resolutions and resolutions 11 and 12 will be proposed as Special Resolutions.

ATTENDANCE AT THE MEETING

Shareholders intending to attend the Annual General Meeting, are asked to register their intention as soon as practicable by emailing the Company Secretary at the email address provided below.

SHAREHOLDER ENGAGEMENT

For shareholders unable to attend the AGM who wish to ask the Board or the Investment Manager any questions, we request that you do so by either email to: cosec@junipartners.com, or by post, by writing to: The Company Secretary, Juniper Partners, 28 Walker Street, Edinburgh EH3 7HR. Those questions which are submitted before Tuesday, 23 July 2024 will be answered ahead of the AGM, and we will endeavour to answer any questions subsequently received as soon as possible. Any presentation given by the Investment Manager at the AGM will be published on our website: www.montanaro.co.uk/trust/muscit.

PROXIES

Whether you intend to attend the AGM in person or not we encourage all shareholders to complete and submit a proxy form appointing "the Chair of the meeting", as their proxy. This will ensure that your vote will be counted if ultimately you (or any other proxy you might otherwise appoint) are not able to attend the meeting. You may request a hard copy form of proxy from the Company's registrars, Link Group (refer to the notes to the Notice of Meeting). To be valid, the form of proxy should be completed, signed and returned in accordance with the instructions printed thereon, as soon as possible, and in any event, to reach the Company's registrars, Link Group, no later than 48 hours before the time of the Annual General Meeting, or any adjournment of that meeting.

Notice of Annual General Meeting continued

ORDINARY RESOLUTIONS

RESOLUTION 1 – ANNUAL REPORT AND FINANCIAL STATEMENTS

To receive and, if thought fit, to accept the Strategic Report, the Directors' Report, the Auditor's Report and the audited financial statements of the Company for the year ended 31 March 2024.

RESOLUTION 2 – DIRECTORS' REMUNERATION REPORT

To receive and approve the Directors' Remuneration Report for the year ended 31 March 2024.

RESOLUTION 3 – DIVIDEND POLICY

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

RESOLUTION 4 – ELECTION OF DIRECTOR

To elect Yuuichiro Nakajima as a Director of the Company.

RESOLUTION 5 – RE-ELECTION OF DIRECTOR

To re-elect Arthur Copple as a Director of the Company.

RESOLUTION 6 – RE-ELECTION OF DIRECTOR

To re-elect Catriona Hoare as a Director of the Company.

RESOLUTION 7 – RE-ELECTION OF DIRECTOR

To re-elect Barbara Powley as a Director of the Company.

RESOLUTION 8 – RE-APPOINTMENT OF AUDITOR

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

RESOLUTION 9 – AUDITOR'S REMUNERATION

To authorise the Audit and Management Engagement Committee to determine the Auditor's remuneration.

RESOLUTION 10 – AUTHORITY TO ALLOT SHARES

THAT the Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any authorities previously granted to the Directors to the extent unused) pursuant to Section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot shares and to grant rights to subscribe for, or to convert any security into, shares in the Company ("Rights") up to an aggregate nominal amount of £334,759 (being approximately 10% of the issued share capital, excluding treasury shares, as at 13 June 2024) provided that the authorities conferred on the Directors shall, unless renewed, varied or revoked by the Company in a general meeting, expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares or grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired. The Directors will use this authority when it is in the best interests of the Company to issue Ordinary shares for cash and will only issue new shares at a price representing a premium to the NAV per share at the time of issuance.

SPECIAL RESOLUTIONS

RESOLUTION 11 – DISAPPLICATION OF PRE-EMPTION RIGHTS

THAT, subject to the passing of Resolution 10 (and in substitution for all subsisting authorities to the extent unused but without prejudice to the exercise of any such power prior to the date hereof), the Directors be and are hereby empowered pursuant to Section 570 and Section 573 of the Companies Act 2006 (the "Act") to allot equity securities (within the meaning of Section 560 of the Act) and to sell equity securities held by the Company as treasury shares (as defined in Section 724 of the Act) for cash pursuant to the authority conferred by Resolution 10 as if Section 561 of the Act did not apply to any such allotment and of sales of equity securities, provided that this power:

(a) shall expire at the conclusion of the Company's next Annual General Meeting after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired;

(b) shall be limited to the allotment of equity securities and/or sale of equity securities held in treasury for cash up to an aggregate nominal amount of £334,759 (being approximately 10% of the issued share capital (excluding treasury shares) as at 13 June 2024); and

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

RESOLUTION 12 – AUTHORITY TO BUY BACK SHARES

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

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

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

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

(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2025 unless such authority is renewed prior to such time; and

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

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

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

(ii) cancelled immediately upon completion of the purchase.

By order of the Board

JUNIPER PARTNERS LIMITED
Company Secretary
14 June 2024

28 Walker Street
Edinburgh EH3 7HR

Notice of Annual General Meeting continued

Explanation of Notice of Annual General Meeting

Resolution 1 – To receive the Annual Report and Financial Statements

The Directors are required to present the financial statements, Strategic Report, Directors' Report and Auditor's Report to the meeting. These are contained in the Company's Annual Report and Accounts for the year ended 31 March 2024 (the Annual Report). A resolution to receive the financial statements, together with the Strategic Report, Directors' Report and the Auditor's Report on those accounts is included as an Ordinary Resolution.

Resolution 2 – Remuneration

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

Resolution 3 – Dividend Policy

To approve the Company's dividend policy to continue to pay four quarterly interim dividends. Further details on the timings of each quarterly dividend can be found in the Shareholder Information section on pages 65 to 66.

Resolutions 4 to 7 – Election/Re-election of Directors

In line with the recommendations of the 2019 AIC Corporate Governance Code, all Directors of the Company are required to retire and offer themselves for re-election at each AGM. In accordance with this requirement, Mr Copple, Ms Hoare and Mrs Powley will retire and offer themselves for re-election as Directors. Mr Nakajima will be standing for election to the Board having been appointed as a Director since the last AGM.

All of the Directors seeking election are recommended by the Board for re-election. Full biographies of all of the Directors are set out in the Annual Report on pages 22 and 23 and are also available for viewing on the Company's website www.montanaro.co.uk/trust/muscit. The Nomination and Remuneration Committee considered the Directors' performance and recommended their re-election and the Board agrees that it is in the best interests of shareholders that each of the Directors be re-elected.

Resolutions 8 and 9 – Re-appointment and remuneration of Auditor

At each meeting at which the Company's financial statements are presented to its members, the Company is required to appoint an auditor to serve until the next such meeting. The Board, on the recommendation of the Audit and Management Engagement Committee, recommends the re-appointment of BDO LLP as Auditor to the Company. The Auditor's re-appointment will be proposed to the AGM as Resolution 8. Resolution 9 authorises the Audit and Management Engagement Committee to fix the Auditor's remuneration.

Resolution 10 – Authority to allot Ordinary shares

Resolution 10 authorises the Board to allot Ordinary shares generally and unconditionally in accordance with Section 551 of the Companies Act 2006 (the "Act") up to an aggregate nominal value of £334,759, representing approximately 10% of the issued Ordinary share capital at the date of the Notice. This authority shall expire at the next AGM when a resolution will be proposed to renew the authority.

Resolution 11 – Authority to disapply pre emption rights

Resolution 11 is a Special Resolution which is being proposed to authorise the Directors to disapply the pre emption rights of existing Shareholders in relation to issues of Ordinary shares under Resolution 10 (being in respect of Ordinary shares up to an aggregate nominal value of £334,759, representing approximately 10% of the Company's issued Ordinary share capital as at the date of the Notice). This authority shall expire at the next AGM.

The Directors will only allot new Ordinary shares pursuant to the authorities proposed to be conferred by Resolutions 10 and 11 if they believe it is advantageous to the Company's shareholders to do so and will only issue new shares at a price representing a premium to the NAV per share at the time of issuance.

Resolution 12 – Purchase of own shares

Resolution 12 is a Special Resolution which will grant the Company authority to make market purchases of up to 25,090,230 Ordinary shares, representing 14.99% of the Ordinary shares in issue as at the date of the Notice. The Ordinary shares bought back will either be cancelled or placed into treasury, at the determination of the Directors. There are currently no shares held in treasury. The maximum price which may be paid for each Ordinary share must not be more than the higher of (i) 105% of the average of the market value of an ordinary share for the five business days immediately preceding the day on which the purchase is made or (ii) the value of an Ordinary share calculated on the basis of the higher price quoted for: (a) the last independent trade of; and (b) the highest current independent bid for any number of Ordinary shares on the trading venue where the purchase is carried out. The minimum price which may be paid for each Ordinary share is £0.02.

It is the Board's intention that any shares bought back by the Company will be held in treasury and will only be re-issued from treasury either at a price representing a premium to the NAV per share at the time of re-issue, or at a discount to the NAV per share, provided that such discount is lower than the weighted average discount to the NAV per share when they were bought back by the Company. Any treasury shares re-issued must also be at an absolute profit. The Directors will only consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between supply and demand for the Company's shares. Any decisions regarding placing shares into treasury, or selling shares from treasury, will be taken by the Directors.

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

Notice of Annual General Meeting continued

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

1. To be entitled to vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on Tuesday, 23 July 2024. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
2. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different Ordinary share or Ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
3. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
5. You can vote either:
   (i) by logging on to www.signalshares.com and following the instructions; or
   (ii) you may request a hard copy form of proxy directly from the registrars, Link Group via email at shareholderenquiries@linkgroup.co.uk or Tel: 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday, excluding public holidays in England and Wales; and
   (iii) in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below. In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Group at PXS 1, Central Square, 29 Wellington Street, LEEDS, LS1 4DL by 12 noon on Tuesday, 23 July 2024.
6. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
7. The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in Note 8 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & International Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 12 noon on Tuesday, 23 July 2024. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & International Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
11. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the "2006 Act") to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.
12. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.
13. As at 13 June 2024 (being the latest practicable business day prior to the publication of this Notice), the Company's Ordinary issued share capital consists of 167,379,790 Ordinary shares of 2 pence each, carrying one vote each. Therefore, the total voting rights in the Company as at 13 June 2024 are 167,379,790.
14. Under Section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the Auditor's Report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstances connected with an Auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with Section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Meeting for the relevant financial year includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.
15. Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.
16. Copies of the Directors' letters of appointment are available for inspection during normal business hours at the registered office of the Company on any business day from the date of this Notice until the time of the Meeting and may also be inspected at the Meeting venue, as specified in this Notice, from 11.45 am on the day of the Meeting until the conclusion of the Meeting.
17. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
18. Personal data provided by shareholders at or in relation to the Meeting will be processed in line with the Company's privacy policy.

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

Advisers

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Administrator
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Edinburgh EH3 7HR
Tel: 0131 378 0500

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

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

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