

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 2023

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

Investment Objective

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

No unquoted investments are permitted.

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Highlights

for the year ended 31 March 2023

Performance

Total Returns	1 year	3 year	5 year	10 year	Since launch
Ordinary share price ¹	(12.4%)*	18.1%*	16.4%*	63.6%*	836.4% [†]
Net Asset Value ("NAV") ¹	(12.2%)*	12.8%*	4.0%*	43.1%*	801.3% [†]
Benchmark	(7.9%)**	50.8%**	10.4%**	80.7%**	501.3%***

* AIC

** NSCI

*** Composite sourced from NSCI and Bloomberg.

[†] Montanaro Asset Management

¹ Details provided in Alternative Performance Measures on page 65.

All returns are shown with dividends reinvested.

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

	2023	2022
For the year ended 31 March		
Revenue return per Ordinary share	2.3p	1.7p
Dividends per Ordinary share	4.5p	6.4p
Ongoing charges ¹	0.9%	0.8%
Portfolio turnover ¹	22.2%	23.3%

As at 31 March

Ordinary share price	105.0p	125.0p
NAV per Ordinary share ²	114.5p	135.5p
Discount to NAV ¹	8.3%	7.8%
Gross assets ¹	£211.6m	£246.8m
Net assets	£191.6m	£226.8m
Market capitalisation	£175.7m	£209.2m
Net gearing employed ¹	4.8%	4.3%

¹ Details provided in Alternative Performance Measures on page 65.

² Details provided in the glossary on page 67.

Chairman's Statement



I am pleased to present the twenty-eighth annual report of MUSCIT for the year ended 31 March 2023.

Results

In the year to 31 March 2023, the total return on the Net Asset Value ("NAV") and share price of MUSCIT was minus 12%. In comparison, the Numis Smaller Companies (excluding investment companies) Index was minus 7.9%. Please refer to the Performance Review section of the Manager's Report on page 6 for further details.

Since inception in 1995, the Company has delivered a cumulative NAV total return of 801% and a cumulative share price total return of 836%, significantly outperforming the composite benchmark which delivered a cumulative return of 501%.

Dividends

The Company's investment objective has always been to generate capital growth. This remains unchanged. A new dividend policy was introduced in July 2018. 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 declared four quarterly dividends amounting to a total of 4.5p, equivalent to 3.8% of the share price at the start of the year and 4.5% of the share price at the end of the period. MUSCIT remains

one of the highest yielding UK SmallCap investment trusts.

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

Discount

Over the last financial year, the discount of MUSCIT's share price to NAV, as shown in the graph on page 3, widened slightly, from 7.8% to 8.3%.

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; the new dividend policy; reducing costs and an increased focus on marketing. These initiatives continue to bear fruit as more and more retail investors appear on the share register. Hopefully this will help to reduce discount volatility in the shares of MUSCIT.

Share Buy Backs

The Board is responsible for the implementation of share buy-backs which are undertaken at arms' length from the Manager. No shares were bought back during the Financial Year.

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.

There were no changes to the Board during the Financial Year.

James Robinson, a Director for nine years, has indicated that he intends to retire at the Company's forthcoming AGM. James will hand over the chair of the Audit Committee to Barbara Powley and the Board will look to appoint a new director later this year. On behalf of the Board, I would like to thank James for his significant contribution to the Company during his tenure. He will be missed.

Administrator and Company Secretary

The Company has appointed, with effect from 1 July 2023, Juniper Partners Limited as Company Secretary and Administrator, in place of Link Company Matters Limited and Link Alternative Fund Administrators Limited respectively. On behalf of the Board and the Manager, I would like to thank the entire team at Link for their service and commitment to our Trust over almost three decades.

ESG

The Board and Montanaro believe there is a strong correlation between how well a business fares on Environmental, Social and Corporate Governance grounds and the value it creates for its shareholders. This is why ESG considerations 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 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 has held since 2019. Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency and legal accountability to balance profit and purpose.

An expanded report on ESG is provided in the Manager’s Report on pages 5 to 6.

AGM

The Annual General Meeting will be held on 27 July 2023 at 12 noon at the office of Montanaro Asset Management, 53 Threadneedle Street, London EC2R 8AR.

Shareholders are warmly invited to attend the Meeting where there will be an opportunity to meet and ask questions of the Board and the Manager.

Continuation Vote

At the AGM held on 12 August 2021, over 99% of shareholders voted in favour of the continuation of MUSCIT for a further five years. Unless brought forward, the next Continuation Vote will be held in 2027.

Outlook

As we move forward into the post-COVID era, there are two major factors that continue to influence and shape financial markets: the aftershocks of the pandemic and rising interest rates. Both these factors have significant implications for investors.

In addition to a global economic recession and unprecedented government interventions, the pandemic also brought about profound shifts in consumer behaviour, some permanent. These include, for example, the democratisation of remote working; a substantial increase in e-commerce and contactless payments; the growing

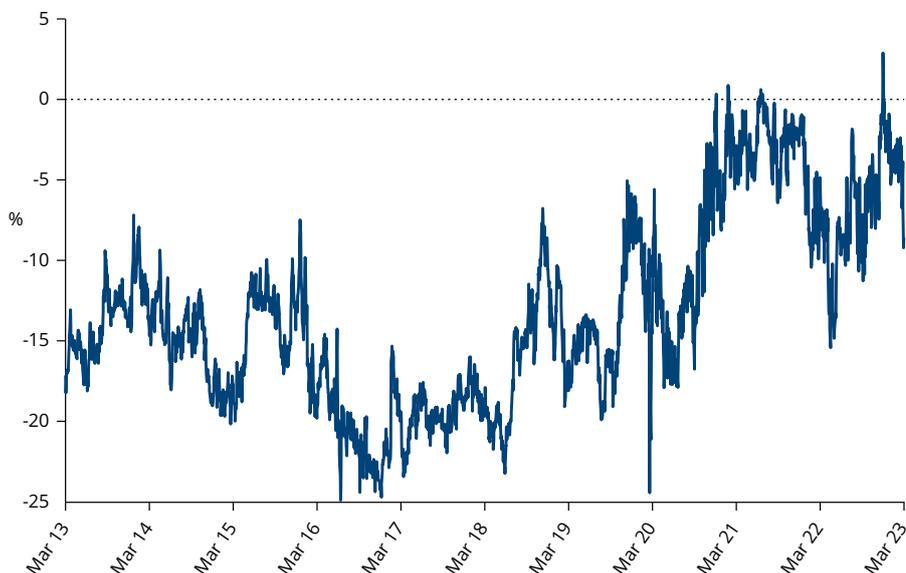
demand for digital entertainment and streaming services; a renewed focus on wellness, health and leisure; and a desire by companies to make their supply chains more resilient. In turn, these trends are resulting in new demand for an array of products and services ranging from cyber-security and digital payments to healthcare products.

The second factor that investors are having to wrestle with is rising interest rates. Fearing that inflation could get out of hand, the Bank of England has raised interest rates by more than 4% since December 2021 in its fastest rate-hiking cycle in three decades. This is already having an impact on consumer spending and residential property markets across the UK. Companies with fragile balance sheets and high amounts of debt may struggle to renew their loans on reasonable terms. Some will simply not survive this new reality.

Stock pickers such as Montanaro are well placed to capitalise on this new reality. Their large team of analysts can help to navigate the risks and opportunities arising from new consumer behaviours. Meanwhile, their focus on quality businesses with sound balance sheets is reassuring. The past three years have been dominated by a significant outperformance of Value stocks, but a renewed focus on corporate balance sheets could put an end to this. The Board believes that the Manager is well placed to make the most of this new environment and looks to the future with confidence.

ARTHUR COPPLE
Chairman
19 June 2023

Share Price Discount to NAV*



* Discount based on NAV over the last ten years.

Source: Montanro Asset Management, Bloomberg.

Manager’s Report

The Attractions of Quoted UK Smaller Companies (‘SmallCap’)

The key attraction of investing in quoted smaller companies is their long-term record of delivering higher returns to investors than large companies. In the UK, over the last 68 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 £1,255 whereas the same £1 invested in UK smaller companies would now be worth £8,326 – almost seven times more (see chart below).

The market for UK smaller companies is inefficient. While some large companies are analysed by more than 50 brokers, many smaller companies have little or no such coverage. Some have none at all. We believe that this makes it easier for those 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.

Montanaro

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

At 31 March 2023, we were looking after around £4 billion of assets.

Investment Philosophy and Approach

We specialise in researching and investing in quoted smaller companies.

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

When we consider that we have identified a good company, it must pass our stringent Quality and ESG Checklists and be approved by our Investment Committee before it can be added to 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.

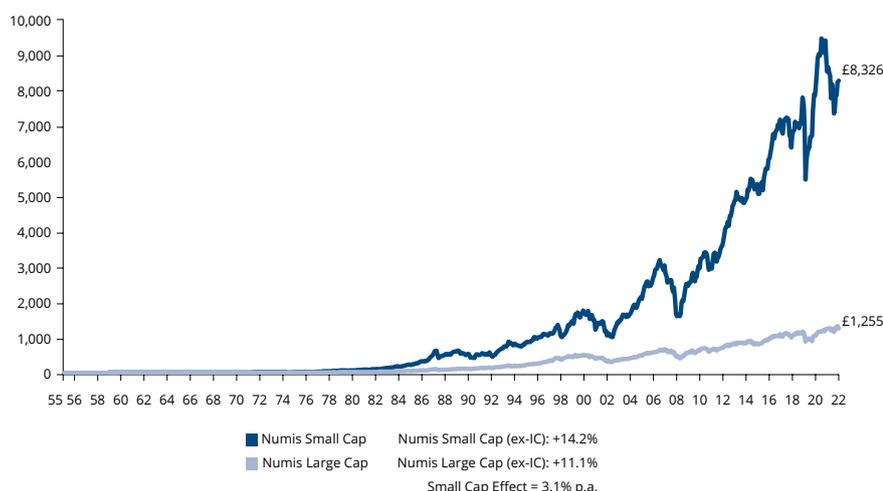
We have an in-house team of fourteen Analysts who are sector specialists. This is one of the largest such specialist teams in the country. Utilising their industry knowledge and a range of proprietary screens, they are continually searching for new ideas. With around 1,800 companies quoted in the UK 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 prefer focused companies that can deliver self-funded organic growth and remain focused on their core areas of expertise, rather than businesses that spend a lot of time on acquisitions.

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

We believe that a deep understanding of a company’s business model and the way it is managed are essential. In normal circumstances, we visit our investee companies on a regular basis, although this was not possible during the pandemic. Thankfully, these visits have now resumed and the team is busy.

Cumulative Nominal Return of £1 invested on January 1955 (to 31 December 2022)



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; 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 some 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 are happy to pay more for a higher quality, more predictable company that can be valued with greater certainty. Finally, we align ourselves with our investors by investing meaningful amounts of our own money alongside yours. We are significant shareholders in MUSCIT.

Environmental, Social and Governance ("ESG")

Montanaro became a 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 March 2022, Montanaro won the Best Small & Mid-Cap Sustainable Investment Boutique award from Ethical Finance. This recognised Montanaro's continuing commitment to sustainable investing within its own business, across

the investment industry and in our investment process.

Montanaro continued to achieve industry leading standards over the last year. In particular, we recently announced our commitment to becoming carbon negative and removing 100% of our historical emissions by 2030. In March 2023, we entered into a partnership with Klimate, a Danish carbon removal specialist. Together, we are building an innovative portfolio of carbon removal projects to achieve our targets. This will include projects such as direct air capture; deep storage bio-oil; ocean kelp; and restorative tree-planting. All will be verified independently to ensure their integrity. We believe that we are the first asset manager in the world to have publicly stated such ambitious goals.

These industry standards and our participation in collaborative initiatives allow us to stay abreast of an area of the investment world that is rapidly changing and ensure that our investment process evolves accordingly. We aim to be pioneers and to lead by example.

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

The analysis of 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.

An important research and engagement project conducted during the year focussed on biodiversity. The purpose of this Deep Dive Report was to gain a greater understanding of how companies are coping with the biodiversity crisis. One of the companies we were able to talk to about their ecological footprint and how they

measure their impact on nature was M.P. Evans, a company that owns, manages and develops sustainable palm oil estates in Indonesia. We spoke to the CEO about the company's approach to sustainability and nature preservation to find out more about the importance of biodiversity to the business and how they plan to protect it whilst managing their plantations in Indonesia.

We have engaged with several companies to discuss good governance practices. The Chairman of the Diploma Remuneration committee contacted us regarding proposals for their new Remuneration Policy. The company wished to increase executive salaries and the limits on variable pay. We discussed how pay had been considered in the context of the wider workforce. We were pleased with the increased focus on Earnings Per Share ("EPS") over Total Shareholder Returns ("TSR") as an indicator and expressed our preference for simple pay structures. We also heard about some of the ESG work being undertaken as part of the company's 'Delivering Value Responsibly' campaign. As a result, we opted to support management at the AGM and voted in favour of their proposals.

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 discussion 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 also joined FAIRR as part of an \$18 trillion investor coalition urging The Food and Agricultural Organization of the United Nations (the "FAO") to set a roadmap to 1.5°C for the global food sector. A letter was presented to the FAO ahead of a council meeting in June 2022. In response, in November 2022 at COP27, FAO Deputy Director, Zitouni Ould-Dada, confirmed work is underway to produce a roadmap for the

Manager's Report continued

Agriculture, Forestry and Other Land Use (AFOLU) sector to align with 1.5°C by 2050 and they are aiming for publication by COP28.

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

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

How to invest

We have dedicated a great deal of time to make MUSCIT readily available to all investors. We have continued to grow our presence across the UK's investment platforms and are delighted to see a steady increase, year after year, in MUSCIT's retail following.

Together with the Board, we have appointed Marten & Co to provide sponsored research. The latest report published in July 2022 is available here: <https://montanaro.co.uk/montanaro-uk-smaller-companies-selloff-provides-opportunities/>.

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

The Portfolio

At 31 March 2023, the Portfolio consisted of 40, high conviction investments of which the top ten holdings represented 42%. MUSCIT held 14 companies traded on AIM, representing 30% 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 Alternative Investment Fund Manager ("AIFM"), in consultation with the Board, is responsible for determining the net gearing level of the Company. At 31 March 2023, gearing stood at 4.8%.

Performance Review

The total return on NAV was minus 12% over the period, the benchmark total return was minus 7.9%. As the discount only slightly widened compared to a year ago, the share price also declined by 12%. The negative performance of UK SmallCap as an asset class can be attributed to the combined effect of rising interest rates coupled with investor concerns over a possible recession in the UK. According to the Investment Association, investors redeemed a record £1.3 billion from open-ended UK SmallCap funds in the 12 months to 31 March 2023. In addition to this, MUSCIT suffered from its exclusive focus on Quality and Growth companies, which as a whole underperformed, as detailed in the Review & Outlook section. In other words, the underperformance cannot be explained by a small number of large detractors. Pleasingly, MUSCIT posted the second strongest NAV and share price return of the peer group of eight investment trusts.

Since its launch in March 1995, MUSCIT has delivered an annualised NAV total return of 8.2%, which represents an outperformance of 1.6% p.a. compared to the benchmark.

Performance Attribution

The largest positive contributors over the period were:

4imprint, the supplier of promotional merchandise, saw its share price rise by more than 70% during the year as it benefited from a reopening of the US economy after the pandemic.

AIM-traded **Ideagen**, which develops compliance and risk software, received a bid from private equity firm Hg Pooled Management at 350p, valuing the business at £1.1 billion. The shares climbed by 46% on the day of the announcement. We were sorry to say farewell to a management team we like and admire.

Games Workshop, the designer of the hobby miniature creature behind Warhammer, reported strong earnings and announced a possible collaboration with Amazon to produce a movie.

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

Marshalls, the UK's leading hard landscaping manufacturer, fell on concerns about the outlook for the residential property market following a rapid increase in mortgage rates. The company has reduced its profit guidance three times since August 2022. Nonetheless, we regard the management team highly.

Treatt, the specialist in citrus oils and flavourings, declined as it suffered from the impact of lower US consumer demand on its range of tea products (and iced tea in particular).

NCC Group, a leading cyber security consultant, issued a profit warning, largely as a result of its tech-heavy US customer base reducing its business activity in a weak macroeconomic environment.

Review & Outlook

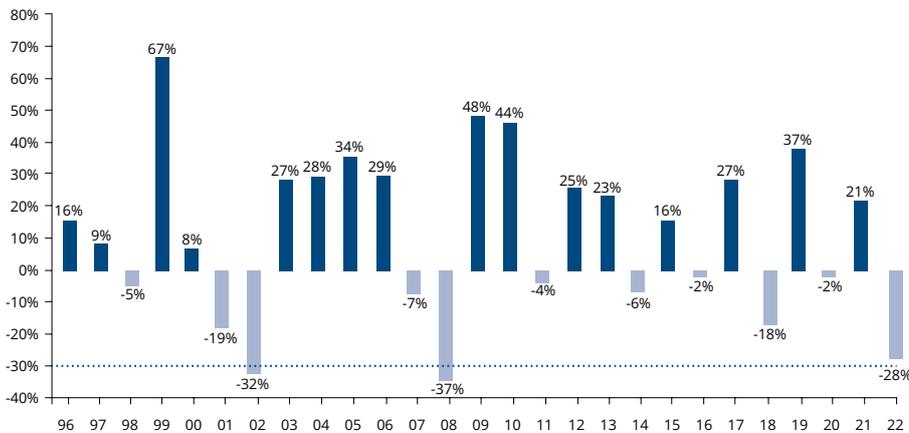
The IMF is forecasting that interest rates will return to “rock bottom” due to chronic low growth in the developed world, linked to low productivity and ageing populations. Such forecasts are

interesting insofar as they highlight just how unusual 2022 was. Interest rates soared as a result of the economic dislocation of COVID and the war in Ukraine, rather than underlying structural trends.

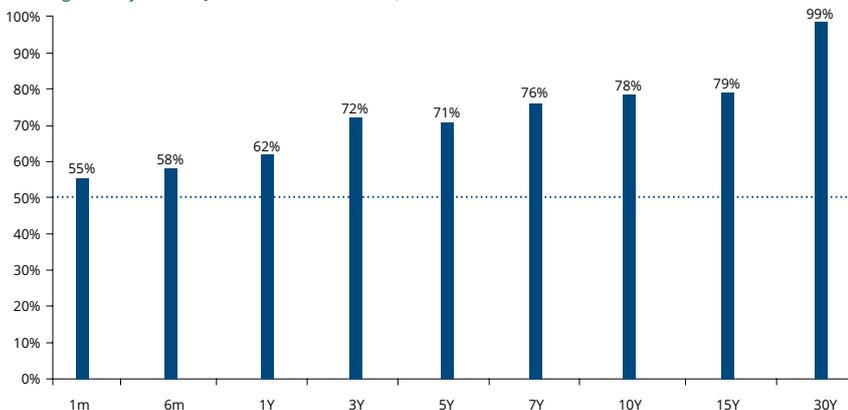
Unusually, the Quality and Growth styles significantly lagged the market last year. As Quality Growth, SmallCap investors, it will always be challenging when Quality, Growth and SmallCap all underperform – especially at such extreme levels. UK SmallCap posted its worst performance relative to LargeCap (21%) in 2022. It was MUSCIT’s third worst year ever in terms of NAV performance, in a calendar year (see chart below):

However, it is unwise to become too down-hearted by one year. We have long argued that UK SmallCap is an attractive asset for long-term investors. It is important to give companies time to grow over time and different cycles. Taking a longer perspective, since January 1955, UK SmallCap has outperformed in 78% of the 70 ten-year rolling periods since then and in 99% of the 30-year rolling periods (see chart below):

MUSCIT Calendar Year NAV Returns (TR, GBP)



% of Periods of Outperformance of UK SmallCap v. LargeCap (Numis Smaller Companies v. Numis Large Cap Index, rolling monthly returns, Jan 1955 – Feb 2023, GBP)



Manager’s Report continued

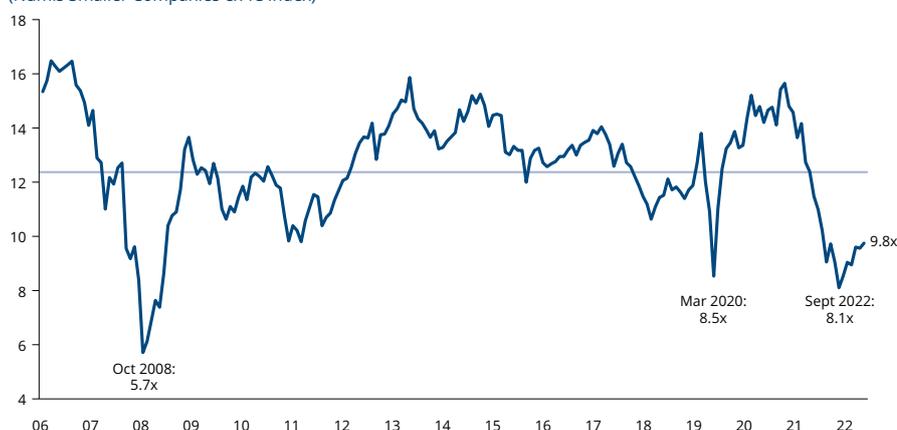
As time ticks by, the impact of the black swan events described above appears to be fading. Global inflation has largely stabilised and investors are now pricing in the first interest rate cut as early as September 2023 in the US and March 2024 in the UK. The headwinds of the past 18 months might soon turn into tailwinds. However, we claim no expertise in forecasting macro-economic developments and waste little time in trying to do so.

Instead, we talk to our companies. We continue to be reassured by their performance. Many (not all) have posted good numbers in the latest reporting season, giving us the confidence that in our quest for good companies with outstanding management, we have identified those that are not

only growing, but are doing so from a position of strength. History has shown us that it pays to invest in and back high quality companies with good pricing power, strong competitive positions in markets with high barriers to entry, robust balance sheets and highly motivated, entrepreneurial management with exemplary standards of corporate governance.

Although SmallCap remains out of favour as we write these lines, we cannot help but feel increasingly positive about what it holds in store for the coming years. At 31 March 2023, the Numis Smaller Companies (ex-IC) index was trading on 9.8x 12 months-forward earnings, 22% below its long-term average (see chart below):

UK SmallCap – 12 month Forward P/E (to 31 March 2023)
(Numis Smaller Companies ex-IC Index)



Note: The horizontal line is the average.

To put things into perspective, since 2006 the index has only traded on a P/E of below 10x in 23 of the 198 months, i.e. 11% of the time. Every single time this has happened, it was followed by a year where SmallCap outperformed significantly (averaging a remarkable 23%).

More importantly, as someone brought up to recognise that you cannot eat relative performance, when UK SmallCap has fallen then the following three years have seen strong absolute returns. Last year saw the sixth worst year of absolute returns as the chart below shows (we will have to wait to add the figures for the next three years).

It is hard to recall such indifference to the asset class. As someone with more grey hair than most who has lived through seven Bear markets, it is hard not to be excited about investment opportunities especially for long-term investors. To borrow the words of Andrew Jones, the highly regarded Chief Executive of LondonMetric Property PLC: *“when you invest in quality, time will help you to create wealth”*.

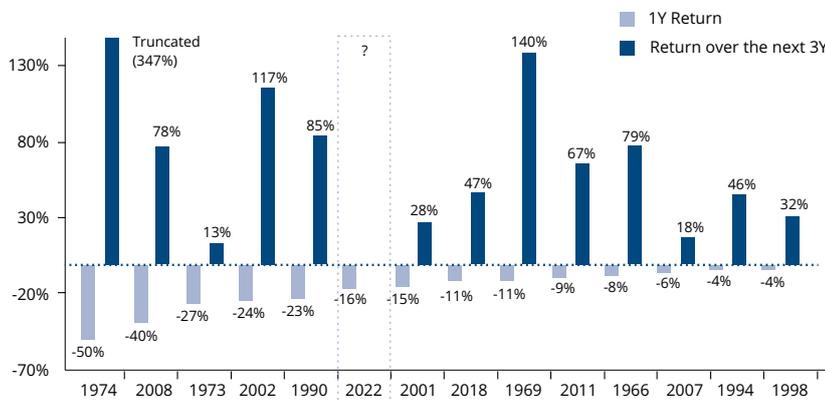
Since UK SmallCap appears to be cheap, you would expect take-over activity to pick up. Already there are signs that M&A activity is indeed rearing its head again (two of our holdings – Ideagen and Dechra – received bids in the past year).

As investors in Dechra since their float in January 2000, we consider the Chief Executive Ian Page to be one of the very best managers we have had the good fortune to meet. We hope that we do not have to part company. So, Private Equity seems to share our view that the pickings are as attractive as they have been for several years.

I am sorry, as a fellow shareholder, that MUSCIT has just suffered not only the worst three-year underperformance since launch in 1995 but also a decline in value. This is unprecedented. However, for those willing to close their ears to the noise and to ignore the doomsters at the Bank of England, opportunities abound.

CHARLES MONTANARO
19 June 2023

Numis Smaller Companies Index - Worst Returns since 1955 (GBR, TR)



Twenty Largest Holdings

as at 31 March 2023

1. 4imprint

a supplier of promotional merchandise.

2. Games Workshop

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

3. Greggs

the bakery chain.

4. Diploma

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

5. Clarkson

a leading shipping brokerage business.

6. discoverIE

a designer and manufacturer of components for electronic applications.

7. Kainos

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

8. Big Yellow

a real estate investment trust focused on the self-storage market.

9. Marshalls

the UK's leading provider of hard landscaping products.

10. Tracsis

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

11. Ergomed

a global full-service contract research organisation (CRO) with a core focus on the US and EU.

12. Watches of Switzerland

a British retailer of Swiss watches, with 16 stores in the United Kingdom.

13. Porvair

a specialist in industrial filtration and environmental technology.

14. Judges Scientific

a specialist in the acquisition and development of a portfolio of scientific instrument businesses.

15. Boku

a mobile payments company.

16. Liontrust Asset Management

a specialist asset manager launched in 1995.

17. Dechra Pharmaceuticals

an animal health specialist.

18. Cranswick

the leading UK supplier of fresh pork meat products.

19. Cerillion

a provider of billing, charging and customer management systems.

20. Yougov

an Internet-based market research and data analytics company.

Holding	Sector	Value £'000	Market cap £m	% of portfolio 31 March 2023	% of portfolio 31 March 2022
4imprint	Media	14,475	1,355	7.2	3.6
Games Workshop	Leisure Goods	9,640	3,173	4.8	1.4
Greggs	Personal Care, Drug and Grocery Stores	9,016	2,833	4.5	2.1
Diploma	Industrial Support Services	7,728	3,766	3.9	1.4
Clarkson	Industrial Transportation	7,725	946	3.9	3.5
discoverIE	Electronic and Electrical Equipment	7,710	743	3.8	3.3
Kainos	Software and Computer Services	7,601	1,722	3.8	3.4
Big Yellow	Real Estate Investment Trusts	7,306	2,154	3.6	3.6
Marshalls	Construction and Materials	7,047	792	3.5	3.6
Tracsis	Software and Computer Services	7,040	263	3.5	3.3
Ergomed	Pharmaceuticals and Biotechnology	6,132	515	3.1	3.0
Watches of Switzerland	Personal Goods	6,116	1,954	3.0	2.9
Porvair	Industrial Engineering	6,000	278	3.0	2.7
Judges Scientific	Electronic and Electrical Equipment	5,738	542	2.9	2.6
Boku	Industrial Support Services	5,695	399	2.8	1.8
Liontrust Asset Management	Finance and Credit Services	5,621	664	2.8	2.4
Dechra Pharmaceuticals	Pharmaceuticals and Biotechnology	5,300	3,017	2.6	0.9
Cranswick	Food Producers	5,257	1,610	2.6	2.6
Cerillion	Software and Computer Services	5,214	330	2.6	1.8
Yougov	Media	4,600	1,010	2.3	3.0
Twenty Largest Holdings		140,961		70.2	

All investments are in ordinary shares.

As at 31 March 2023, 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 2023

Sector	31 March 2023		31 March 2022	
	% of portfolio	% of NSCI	% of portfolio	% of NSCI
Software and Computer Services	14.9	5.9	16.9	5.4
Technology Hardware and Equipment	–	0.9	3.3	1.7
Technology	14.9	6.8	20.2	7.1
Telecommunications Equipment	1.3	0.8	–	0.2
Telecommunications Service Providers	–	0.8	–	0.9
Telecommunications	1.3	1.6	–	1.0
Health Care Providers	1.4	0.8	2.0	0.8
Medical Equipment and Services	–	0.2	–	0.4
Pharmaceuticals and Biotechnology	5.7	0.8	5.1	0.9
Health Care	7.1	1.8	7.1	2.2
Banks	–	3.8	–	1.4
Finance and Credit Services	–	2.1	–	2.1
Investment Banking and Brokerage Services	7.2	11.1	8.0	11.9
Life Insurance	–	1.0	–	1.0
Non-life Insurance	–	1.7	–	1.6
Financials	7.2	19.8	8.0	18.0
Real Estate Investment and Services Development	–	2.6	–	2.6
Real Estate Investment Trusts	4.5	6.9	3.6	4.9
Real Estate	4.5	9.5	3.6	7.5
Automobiles and Parts	–	1.7	–	1.5
Consumer Services	–	0.3	–	0.3
Household Goods and Home Construction	–	2.1	–	1.3
Leisure Goods	5.4	0.3	3.9	0.2
Personal Goods	3.0	0.1	2.9	0.3
Media	11.6	3.7	8.4	2.0
Retailers	–	4.6	–	3.7
Travel and Leisure	–	8.8	–	8.8
Consumer Discretionary	20.1	21.5	15.2	18.1
Beverages	–	0.9	–	1.0
Food Producers	6.9	2.7	8.2	3.1
Personal Care, Drug and Grocery Stores	4.5	1.3	2.1	0.7
Consumer Staples	11.4	4.9	10.2	4.7
Construction and Materials	5.2	5.0	4.6	6.4
Aerospace and Defense	–	2.4	0.7	3.8
Electronic and Electrical Equipment	13.2	2.9	10.8	2.5
General Industrials	–	1.2	–	1.2
Industrial Engineering	–	2.2	–	1.4
Industrial Support Services	11.3	5.9	9.0	8.1
Industrial Transportation	3.8	2.2	4.0	3.1
Industrials	33.6	21.9	29.1	26.4
Industrial Materials	–	0.1	–	0.1
Industrial Metals and Mining	–	2.2	–	2.0
Precious Metals and Mining	–	2.5	–	2.2
Chemicals	–	3.0	3.8	1.9
Basic Materials	–	7.8	3.8	6.1
Oil, Gas and Coal	–	4.0	–	6.5
Alternative Energy	–	0.1	–	0.2
Energy	–	4.0	–	6.8
Electricity	–	–	–	1.0
Waste and Disposal Services	–	0.3	2.7	1.1
Utilities	–	0.4	2.7	2.0
Total	100.0	100.0	100.0	100.0

The investment portfolio comprises 40 traded or listed UK equity holdings.

Business Model and Strategy

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.

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 2023 this was any company below £1.62 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 Alternative Investment Fund Manager ("AIFM"), in consultation with the Board, is responsible for determining the gearing levels of the Company and has determined that the Company's borrowings should be limited to 25% of shareholders' funds. Gearing is used to enhance returns when the timing is considered appropriate.

The Company will not invest more than 10%, in aggregate, of the value of its total assets at the time of investment in other investment trusts or investment companies admitted to the Official List of the UK Listing Authority.

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

TAXATION POLICY

The Company complies at all times with Section 1158 of the Corporation Tax Act 2010 ("Section 1158") such that it does not suffer UK Corporation Tax on capital gains, and ensures that it submits

correct taxation returns annually to HMRC and settles promptly any taxation due. The Board is fully committed to complying with applicable legislation and statutory guidelines, including the UK's Criminal Finances Act 2017, designed to prevent tax evasion in the jurisdictions in which the Company operates.

PRINCIPAL AND EMERGING RISKS

The Board carefully considers the Company's principal and emerging risks and seeks to mitigate these risks through regular review, policy setting, compliance with and enforcement of contractual obligations and active communication with the Manager, the Administrator and 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 30 to 33. 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

Discount Management:

The Company's share price performance lags 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 cause the size of the Company to become too small to be viable in terms of ongoing charges, or for thresholds of institutional investors.

No change in overall risk in the year

Mitigation

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.

Business Model and Strategy continued

Principal Risks	Mitigation
<p>Pandemics and other unforeseeable events: The AIFM and the Administrator are unable to manage or administer the portfolio.</p> <p><i>No change in overall risk in the year</i></p>	<p><i>The AIFM and the Administrator have appropriate business continuity plans in place in order to operate effectively.</i></p>
<p>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.</p> <p><i>No change in overall risk in the year</i></p>	<p><i>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.</i></p> <p><i>The Board will seek:</i></p> <ul style="list-style-type: none"> • <i>to understand the reasons for any underperformance; and</i> • <i>comfort over the consistency of investment approach and style.</i> <p><i>Ultimately, the Board can terminate the Investment Management Agreement if unsatisfactory performance is considered irreversible and the causes cannot be rectified.</i></p> <p><i>The Company's shares have underperformed relative to the benchmark during the year, due to value shares outperforming growth shares, with Montanaro being a growth manager. The Board is satisfied and accepts the reasons for this underperformance.</i></p>
<p>Risk Oversight: The Manager is taking too much risk in the portfolio leading to unacceptable volatility in performance or excessive portfolio turnover.</p> <p><i>No change in overall risk in the year</i></p>	<p><i>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.</i></p>
<p>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.</p> <p><i>No change in overall risk in the year</i></p>	<p><i>The AIFM, in consultation with the Board, is responsible for determining the gearing levels of the Company, which is monitored at each Board meeting.</i></p>
<p>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.</p> <p><i>No change in overall risk in the year</i></p>	<p><i>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.</i></p> <p><i>There is an identified lead manager within Montanaro offering continuity of communication with the Company's shareholders. The Board is in regular contact with Montanaro and its designated back-up Manager and will be asked for their approval to any proposed change in the lead manager. In January 2023 the Manager appointed a designated Co-Manager, Guido Dacie-Lombardo for the management of the portfolio.</i></p>

Principal Risks	Mitigation
<p>Operational Risk:</p> <p>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, depository, custodian and administrator who maintain the Company's assets, dealing procedures and accounting records.</p> <p>Key operational risks include:</p> <ul style="list-style-type: none"> • transactions not subject to best execution; • counterparty risk; • errors in settlement, title and corporate actions; • misstatement of NAV; and • breach of the Investment Policy. <p><i>No change in overall risk in the year</i></p>	<p><i>The Board monitors operational issues and reviews them in detail at each Board meeting.</i></p> <p><i>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.</i></p> <p><i>The Company's assets are subject to a liability regime. Unless the Depository 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.</i></p> <p><i>Business continuity plans at all service providers were implemented in response to the Covid-19 pandemic and services have continued with no disruption. The Manager has been in regular contact with the Board and has reported no matters of concern in the continuity of operations.</i></p>
<p>Cyber Risk:</p> <p>The threat of cyber attack is regarded as being as important as more traditional physical threats to business continuity and security.</p> <p>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.</p> <p><i>No change in overall risk in the year</i></p>	<p><i>The Board monitors the preparedness of its service providers and is satisfied that the risk is given due priority and consideration in Board meetings.</i></p> <p><i>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. During the current reporting period the Manager appointed a specialist IT and cyber monitoring and management provider to provide continuous monitoring and access to a Cyber Information Security Officer.</i></p> <p><i>The annual review of the Administrator's controls includes consideration of cyber risk. A letter confirming that appropriate cyber security controls are in place is requested on an annual basis from all third party service providers.</i></p>
<p>Administrator</p> <p>Daily NAV incorrectly stated.</p> <p><i>Risk rating decreased given the absence of NAV errors.</i></p>	<p><i>Daily logic checks of the NAVs are undertaken by the AIFM.</i></p> <p><i>Depository checks are also undertaken.</i></p> <p><i>All financial information is reviewed by the Board at regular meetings.</i></p> <p><i>The AIFM conducts regular visits to the Administrators.</i></p>
<p>Breach of Regulation:</p> <p>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.</p> <p>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.</p> <p><i>No change in overall risk in the year</i></p>	<p><i>The Company Secretary and the Company's professional advisers provide reports to the Board in respect of compliance with all applicable rules and regulations.</i></p> <p><i>Compliance with the accounting rules affecting MUSCIT is closely monitored.</i></p> <p><i>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.</i></p>

Business Model and Strategy continued

Principal Risks

Financial:

The Company's investment activities expose it to a variety of financial risks that include interest rate and liquidity risk.

Events such as global pandemics could affect share prices in particular markets.

No change in overall risk in the year

Mitigation

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.

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	%	
	2023 ¹	2022 ¹
NAV per share total return ²	(12.2)	(5.0)
Share price total return	(12.4)	(10.1)
Relative NAV per share performance vs benchmark	(4.3)	(3.9)
Discount to NAV ^{2,3,4}	8.3	7.8
Ongoing charges ratio ²	0.90	0.78

¹ Returns for both 2022 and 2023 are Total Returns, i.e. including dividends reinvested.

² Alternative performance measures. Please see page 65 for further information.

³ London Stock Exchange closing price.

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

Performance

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

Share price discount or premium to NAV

The Board monitors the level of the Company's premium or discount to NAV on an ongoing basis. The share price discount to NAV as at 31 March 2023 was 8.3%. During the year, the shares traded at an average discount to NAV of 6.2%.

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 65.

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 65.

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 2028.

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 13 to 16. 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 73% within five trading days and there is no expectation that the nature of the investments held within the portfolio will be materially different in future;
- future revenue and expenditure projections:
 - the expenses and interest payments of the Company are predictable and relatively small; and
 - there are no expected capital outlays.

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

- the Board and the Manager will continue to adopt a long-term view when making investments;
- it is reasonable to believe that the Company will maintain the credit facilities currently provided by ING Bank;
- 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 25;
- 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.

FUTURE PROSPECTS

The Board's main focus is the achievement of capital appreciation and outperformance of the benchmark. The future of the Company is dependent upon the success of the Company's investment strategy. The Company's outlook is discussed in the Chairman's Statement on page 3 and the Manager's Report on page 7.

MODERN SLAVERY ACT 2015

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

DIVERSITY AND INCLUSION

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.

Diversity, including, but not limited to, gender, social background, ethnicity, age, sexual orientation, disability and professional and industry specific knowledge, is an important consideration in ensuring that the Board and its Committees have the right balance of skills, experience, independence and knowledge necessary to discharge their responsibilities. The Board notes the new recommendations of the FTSE Women Leaders Review and the Parker Review on gender and diversity, as well as the new FCA rules on diversity and inclusion on company boards, namely, that from accounting periods starting on or after 1 April 2022:

- (a) At least 40% of individuals on the Board to be women;
- (b) At least one senior Board position to be held by a woman; and
- (c) At least one individual on the Board to be from a minority ethnic background.

The Board continues to develop its succession planning in line with these recommendations. In accordance with Listing Rule 9 Annex 2.1. The tables below, in prescribed format, show the gender and ethnic background of the Directors at the date of this Report.

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

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)	4	100%	100%
Not specified/ prefer not to say	NA	NA	NA

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

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

* Although not forming part of the FCA's definition of 'senior positions on the Board', Barbara Powley is Chair of the Nomination and Remuneration Committee and will replace James Robinson as SID when James steps down from the Board, effective 27 July 2023.

Business Model and Strategy continued

The Board is pleased to report that for the period ended 31 March 2023, 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 April 2021, the role of Nomination and Remuneration Committee Chair has been held by Barbara Powley. It is intended that Barbara Powley will succeed James Robinson both as Senior Independent Director ("SID") and Chair of the Audit and Management Engagement Committee when he steps down from the Board at the conclusion of the upcoming AGM. Therefore, the Company will fulfill the requirement for a senior Board position to be held by a woman from the conclusion of the forthcoming AGM.

The Company does not currently meet the target of at least one member of the Board from a minority ethnic background. Whilst the Board does not feel that it would be appropriate to set targets as all appointments must be made on merit, the Board supports the recommendation to seek candidates from a diverse pool and will consider ethnic representation within the wider context of objective criteria such as relevant skills during the recruitment process for a new director.

EMPLOYEES, HUMAN RIGHTS AND COMMUNITY ISSUES

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

Directors' Duties

SECTION 172 OF THE COMPANIES ACT 2006

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

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

To ensure that the Directors are aware of and understand their duties, they are provided with a tailored induction, including details of all relevant regulatory and legal duties as a Director of a UK public limited company when they 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 page 5 and Business Model and Strategy on page 16.

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 tobacco, fossil fuels, gambling, adult entertainment, weapons manufacturing, alcohol and high interest rate lending. Similarly, we do not invest in companies that conduct animal testing, unless it is required by law for healthcare 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 34 to 36 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.

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:

Directors' Duties continued

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.	<p>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:</p> <ul style="list-style-type: none"> • 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.	<p>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:</p> <ul style="list-style-type: none"> • 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.
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Stakeholders	Why they are important	Board engagement
Other service providers including: the Company Secretary, the Administrator, the Registrar, the Depositary, the Custodian and the Broker	In order to function as an investment trust with a premium listing on the London Stock Exchange, the Company relies on a diverse range of advisors 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.

Directors' Duties continued

PRINCIPAL DECISIONS DURING THE YEAR ENDED 31 MARCH 2023

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

Principal decision	Stakeholder Considerations and Engagement
To provide a live webcast facility at the Company's 2022 Annual General Meeting ("AGM") to enable shareholders to attend the AGM virtually.	<p>Following notification that rail strikes would take place on the day of the AGM, the Company put in place additional arrangements to ensure that shareholders were able to attend the AGM via a live audio webcast facility. An announcement was issued to the market on 20 July 2022 to inform shareholders of the alternative method of attending the AGM and encouraging them to vote in advance of the meeting to ensure their votes were counted. These details were also published on the Company's website. Shareholders were also encouraged to submit any questions to the Board ahead of the AGM.</p> <p>The decision to offer an additional method of attendance was taken in the context of fair and equal shareholder participation, to ensure that shareholders were not disadvantaged by travel implications.</p>
To put in place succession planning for the Audit and Management Engagement Chair and Senior Independent Director, James Robinson.	<p>During the year the Board considered succession planning for James Robinson, noting that he would complete a tenure of nine years as at September 2022. Following review and in light of her recent and relevant financial experience, it was agreed that Barbara Powley would succeed Mr Robinson as Audit and Management Engagement Chair and Senior Independent Director when he stood down from the Board.</p> <p>As a consequence of Mr Robinson's forthcoming resignation, the Directors considered their collective skills and used this exercise as a basis for identifying the criteria for a new Director appointment.</p>

The Chairman's Statement on pages 2 and 3, the Manager's Report on pages 4 to 9 and the portfolio analysis on page 12 all form part of this Strategic Report, which has been approved by the Board of Directors.

On behalf of the Board

ARTHUR COPPLE

Chairman
19 June 2023

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.



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

Date of Appointment: 30 September 2013

James is a Governor of Lord Wandsworth College. Until December 2022, James was a non-executive Director of JPMorgan Elect plc. A chartered accountant, he was previously chief investment officer (investment trusts) and director of hedge funds at Henderson Global Investors; and held non-executive director positions at Aberdeen New Thai Investment Trust plc, Invesco Asia Trust plc and Fidelity European Values plc. He was also formerly Chairman of Polar Capital Global Healthcare Trust plc and the investment committee of the British Heart Foundation.

Relevant skills and experience: James' experience as a chartered accountant brings valuable financial and risk management skills to the Board, which enables him to assess the financial position of the Company and to lead discussions regarding the Company's risk appetite. His experience helps inform his role as Chairman of the Audit and Management Engagement Committee. Additionally, he gained significant experience of investment trusts through his role as chief investment officer, investment trusts at Henderson Global Investors.

As the longest-serving director on the Board, James Robinson reached a tenure of nine years in September 2022 and has announced his intention to retire at the conclusion of the 2023 AGM. Accordingly, he will not be standing for re-election and his resignation from the Company will be effective from 27 July 2023.

Board of Directors continued



Catriona Hoare – Non-Executive Director

Date of Appointment: 19 November 2019

Catriona joined Veritas Investment Partners Limited in 2013. In her current role as an Investment Partner, she manages client portfolios and sits on the firm's research and investment governance committees. She was appointed as Director of Veritas Investment Management (UK) 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 experience as an investment partner at Veritas Investment Partners Limited brings valuable investment and portfolio analysis skills to the Board, which enables her to assess and challenge the Manager on Company strategy and performance.

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



Barbara Powley – Chair of the Nomination 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. Barbara has been Chair of the Nomination and Remuneration Committee since April 2021.

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

Barbara will succeed James Robinson as Chair of the Audit and Management Engagement Committee and SID when James steps down from the Board, effective 27 July 2023.

Directors' Report

MANAGEMENT REPORT

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

- Corporate Governance Statement – refer to pages 30 to 33 of this report;
- Strategy and relevant future developments – refer to the Chairman's Statement on pages 2 and 3, the Manager's Report on pages 4 to 9; 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 58 to 61.

The outlook for the Company is set out in the Chairman's Statement on page 3. Principal and emerging risks can be found on pages 13 to 16, with further information on risk management objectives in Note 15 to the accounts.

The Directors present the Annual Report and Accounts of the Company for the year ended 31 March 2023.

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 62.

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

RESULTS AND DIVIDEND

The results for the Company are set out in the Income Statement on page 48.

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 56.

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.

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 31 March 2025. In reaching this conclusion, the Directors had particular regard to the Company's ability to meet its obligations as they fall due and the liquidity of the portfolio. The Board also considered potential downside scenarios which could lead to a breach in the Company's loan covenants, including consideration of when total borrowings would exceed 30% of (adjusted) NAV and the required fall in net assets for the NAV to fall below £80m. Both scenarios were deemed unlikely and therefore there is not a material risk that the Company will breach its loan covenants. The Company is also able to meet all of its liabilities from its assets and the ongoing charges are approximately 0.9% per annum.

The Company's longer-term viability is considered in the Viability Statement on pages 16 and 17.

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, apart from that disclosed under Change of Control on page 28.

Directors' Report continued

The Company may cancel or hold Ordinary shares acquired by way of market purchases in treasury. It is the Board's intention that any shares bought back by the Company will be held in treasury and will only be re-issued from treasury either at a price representing a premium to the NAV per share at the time of re-issue, or at a discount to the NAV per share, provided that such discount is lower than the weighted average discount to the NAV per share when they were bought back by the Company. Any treasury shares re-issued must be at an absolute profit.

The Directors will only consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between supply and demand for the Company's shares. The Directors will only issue new shares at a price representing a premium to the NAV per share at the time of issuance.

The Company's current authorities to buy back and sell shares from treasury and issue shares will expire at the conclusion of the 2023 Annual General Meeting. The Directors are proposing that these authorities be renewed at the forthcoming Annual General Meeting.

Any decisions regarding placing shares into treasury, or selling shares from treasury, will be taken by the Directors. No shares were held in treasury, bought back, sold from treasury or issued during the financial year or during the period from 31 March 2023 to the date of this report.

DIRECTORS

The biographical details of the Directors in office at the date of this report are provided on pages 23 and 24 and their interests in the shares of the Company are shown on page 39. All Directors are independent and non-executive.

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

In accordance with the policy adopted by the Board, all Directors should submit themselves for re-election at each Annual General Meeting. Accordingly, Mr Copple, Ms Hoare and Mrs Powley will stand for re-election at the 2023 AGM. It is noted that Mr Robinson completed nine years on the Board in September 2022. Mr Robinson stood for re-election for the last time at the 2022 AGM and has announced that he intends to retire at the conclusion of the 2023 AGM.

As a consequence of Mr Robinson's upcoming departure, the recruitment process for a new independent Non-Executive Director is underway.

As set out on page 31, following a performance review, the Board believes that it is in the best interests of shareholders that each Director (with the exception of Mr Robinson) continue in their roles and believes that it would be in the Company's best interests for each of them to be proposed for re-election at the forthcoming AGM, given their material level of contribution, commitment to the role and for the reasons set out on page 31.

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

DIRECTOR INDEMNIFICATION AND INSURANCE

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

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.

SUBSTANTIAL SHAREHOLDINGS

At 31 March 2023, the Company had been informed of the following notifiable interests in its voting rights:

Shareholder:	Ordinary shares	% of voting rights
Rathbone Investment Management Limited	16,720,283	10.0
Border to Coast Pensions Partnership	14,892,000	8.9
Derbyshire County Council	13,174,285	7.9
Lazard Asset Management	8,353,320	5.0
Charles Stanley Group PLC	8,382,647	5.0
Montanaro Asset Management	8,375,000	5.0
Quilter Cheviot Limited	8,356,150	5.0
Newton Investment Management Limited	8,307,825	5.0
Brooks Macdonald Asset Management Limited	8,363,585	5.0
1607 Capital Partners LLC	7,899,099	4.7
Jupiter Asset Management Limited	7,825,000	4.7
Royal London Asset Management Limited	6,752,830	4.0
West Yorkshire Pension Fund	6,142,500	3.7

Since 31 March 2023, and as at 19 June 2023, being the latest practicable date prior to the publication of this annual report, the Company has received no notifiable interests in its voting rights.

INVESTMENT MANAGEMENT AGREEMENT (THE "AGREEMENT")

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

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

CONTINUING APPOINTMENT OF THE MANAGER

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

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

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

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

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

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

DEPOSITARY AND CUSTODIAN

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

BNY Mellon Trust & Depositary (UK) Limited ("BNYMTD") was appointed as the Depositary with effect from 22 July 2014. However, with effect from 1 November 2017, the role of Depositary was transferred, by way of a novation agreement, from BNYMTD to its parent company, The Bank of New York Mellon (International) Limited ("BNYM" or the "Depositary"). The annual fee for depositary services is 0.034% 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.

Directors' Report continued

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).

ADMINISTRATOR

Link Alternative Fund Administrators Limited is the appointed Administrator until 30 June 2023. They receive an annual fee of £88,890, which is subject to annual RPI increases. The agreement may be terminated by either party giving not less than six months' prior written notice.

The Company has appointed Juniper Partners Limited as Administrator with effect from 1 July 2023.

COMPANY SECRETARY

Link Company Matters Limited is the appointed Company Secretary until 30 June 2023. They receive an annual fee of £59,556, which is subject to annual RPI increases. The agreement may be terminated by either party giving not less than six months' prior written notice.

The Company has appointed Juniper Partners Limited as Company Secretary with effect from 1 July 2023.

JUNIPER PARTNERS

As noted in the Chairman's Statement, the Company has appointed, with effect from 1 July 2023, Juniper Partners Limited ("Juniper") as Company Secretary and Administrator, in place of Link Company Matters Limited and Link Alternative Fund Administrators Limited respectively. Juniper are entitled to receive a fixed fee of £145,000 per annum plus an amount equal to the aggregate of: (i) 0.02 per cent per annum of the value of Shareholders' Funds up to and including £1 billion; and 0.01 per cent per annum of the value of Shareholders' Funds over £1 billion. The Board and Juniper have agreed that the fees shall be discounted by £30,000 for the first 12 months following the appointment and by £15,000 for the 12 months thereafter.

The agreement may be terminated by either party giving not less than six months' prior 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.

CHANGE OF CONTROL

There are no agreements to which the Company is a party that might be affected by a change in control of the Company except for the agreement in relation to the Company's credit facility. The Company entered into an agreement with ING Bank N.V. on 17 December 2021 for a £20 million Fixed Rate Term Loan and a £10 million Revolving Credit Facility. This agreement could alter or terminate on the change of control of the Company. Further information is disclosed in Note 11 to the Financial Statements on page 58.

CORPORATE GOVERNANCE

The Corporate Governance Statement, which forms part of this Directors' Report, is set out on pages 30 to 33.

FUTURE DEVELOPMENTS OF THE COMPANY

The outlook for the Company is set out in the Chairman's Statement on page 3 and the Manager's Report on page 7.

GLOBAL GREENHOUSE GAS EMISSIONS

All of the Company's activities are outsourced to third parties. As such, it does not have any physical assets, property, employees or operations of its own and does not generate any greenhouse gas or other emissions or consume any energy reportable under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 or the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, implementing the UK Government's policy on Streamlined Energy and Carbon Reporting. Under listing rule 15.4.29(R), the Company, as a closed-ended investment fund, is exempt from complying with the Task Force on Climate related Financial Disclosures. The Company is aware that the UK's Climate Change Act places obligations on the UK Government to decarbonise the economy by 2050 and to manage the impacts of climate change. Recognising the significance of the climate crisis and our role in the UK's response, we have been developing a programme to address sustainability risks. Further details are provided in the ESG section of the Manager's Report on page 5.

DONATIONS

The Company made no political or charitable donations during the year (2022: 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 £1,200. However, Mr Robinson has waived his entitlement to the additional £1,200. This decision will be kept under review and the Remuneration Policy still allows the flexibility of this additional fee to be paid to the SID.

ARTICLES OF ASSOCIATION

Any amendments to the Company's Articles of Association must be made by Special Resolution.

ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting ("AGM") to be held on 27 July 2023 (the "Notice") is set out on pages 68 to 75.

Resolutions 1 to 9 will be proposed as Ordinary Resolutions and Resolutions 10 and 11 will be proposed as Special Resolutions.

Authority to Allot Shares (Resolution 9)

The Directors may only allot shares for cash if authorised to do so by shareholders in a general meeting. This resolution seeks to renew the authority of the Directors to allot Ordinary shares for cash up to an aggregate nominal amount of £334,759 which represents approximately 10% of the Company's issued Ordinary share capital (excluding any treasury shares) as at 19 June 2023.

This authority will expire at the conclusion of the AGM to be held in 2024 unless renewed prior to that date.

Disapplication of Pre-emption Rights (Resolution 10)

The Directors are required by law to seek specific authority from shareholders before allotting new shares or selling shares out of treasury for cash without first offering them to existing shareholders in proportion to their holdings.

Resolution 10 is a Special Resolution and authorises the Directors to allot new Ordinary shares for cash or to sell shares held by the Company in treasury, otherwise than to existing shareholders on a pro rata basis, up to an aggregate nominal amount of £334,759 which is equivalent to 16,737,979 Ordinary shares and represents approximately 10% of the Company's issued Ordinary share capital as at 19 June 2023. This authority will expire at the conclusion of the AGM to be held in 2024 unless renewed prior to that date.

The Directors will only allot new shares pursuant to the authorities proposed to be conferred by Resolutions 9 and 10 if they believe it is advantageous to the Company's shareholders

to do so and will only issue new shares at a price representing a premium to the NAV per share at the time of issuance.

Authority to Buy Back Shares (Resolution 11)

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

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

This authority will expire at the conclusion of the AGM to be held in 2024 unless renewed prior to that date.

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

RECOMMENDATION

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

INDEPENDENT AUDITOR

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

For and on behalf of the Board

LINK COMPANY MATTERS LIMITED

Company Secretary
19 June 2023

Corporate Governance Statement

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

STATEMENT OF COMPLIANCE

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

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

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

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

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

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Company holds at least four Board meetings each year at which the Directors review portfolio investments and all other important issues in relation to the Company's affairs. The following table sets out the number of scheduled Board and Committee meetings held during the year ended 31 March 2023 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
James Robinson	4	4	3	3	1	1
Catriona Hoare	4	4	3	3	1	1
Barbara Powley	4	4	3	3	1	1

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

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. These letters of appointment are available for inspection at the Company's registered office.

The Board has engaged external companies to undertake the Company's investment management, administrative and custodial activities. Clear, documented contractual arrangements are in place between the Company and its service providers that define the areas where the Board has delegated functions to them. Further details of the Investment Management Agreement are given on page 27. 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 buy backs and treasury share transactions) are also taken by the Board, while the day-to-day investment of the portfolio is delegated to the Manager.

PERFORMANCE EVALUATION

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. A key focus area arising from the evaluation concerned succession planning for James Robinson. Mr Robinson announced his retirement from the Board, effective 27 July 2023, in February 2023. The Board recognises the opportunity to recruit a new Non-Executive Director and will consider the updated diversity and inclusion Listing Rule guidance in this regard. The Board has completed a skills matrix exercise to reaffirm the existing skills of the Board as a collective and to identify the criteria for a suitable candidate.

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.

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. It is noted that James Robinson completed nine years on the Board in September 2022. Mr Robinson stood for re-election for the last time at the 2022 AGM and intends to retire at the conclusion of the 2023 Annual General Meeting. The Board is of the view that length of service will not necessarily compromise the independence or contribution of directors of an investment trust company where continuity and experience can significantly add to the strength of the Board.

ELECTION/RE-ELECTION OF DIRECTORS

Under the provisions of the Company's Articles, the Directors retire by rotation at least every three years. However, in accordance with corporate governance best practice as set out in the AIC Code, all Directors should put themselves forward for re-election every year. As such, each of the Directors is subject to annual re-election by the shareholders at the Annual General Meeting. All Directors have confirmed that they will be standing for re-election at the forthcoming Annual General Meeting, with the exception of James Robinson who has announced his intention to retire at the conclusion of the 2023 Annual General Meeting.

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.

Corporate Governance Statement continued

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

Meetings

Number of meetings voted at:	48
Number of meetings voted against management or abstained:	5

Resolutions

Number of resolutions where voted with management:	676
Number of resolutions where abstained:	1
Number of resolutions where voted against management:	8

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 James Robinson, who is a Chartered Accountant. The Board is satisfied that Mr Robinson has recent and relevant financial experience to guide the Committee in its deliberations. In light of Mr Robinson's upcoming resignation (effective 27 July 2023) it is intended that Barbara Powley will take over as Chair of the Audit and Management Engagement Committee as at the same date.

The report from this Committee is set out on pages 34 to 36.

Nomination and Remuneration Committee

The 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 31 of this Corporate Governance Statement.

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

The Company's Diversity and inclusion policy and required disclosures in accordance with Listing Rule 9.8.6R (9) can be found on page 17.

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

INTERNAL CONTROL AND FINANCIAL REPORTING

The Board has delegated responsibility to the Audit and Management Engagement Committee for establishing and maintaining the Company's risk management and internal control processes and for monitoring their effectiveness. Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed and by their very nature provide reasonable but not absolute assurance against misstatement or loss. The Directors have reviewed the effectiveness of the system of internal controls, including financial, operational and compliance controls and risk management. The Committee will take actions to remedy any significant failings or weaknesses identified or make recommendations to the Board, as appropriate. Information about the Company's financial risk management objectives and policies is set out in Note 15 of the Financial Statements on pages 58 to 61. 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 13 to 16. 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;
- Link Alternative Fund Administrators Limited ("LAFAs") is responsible for the provision of administration duties;
- company secretarial duties are undertaken by Link Company Matters Limited;
- depositary services and custody of assets are undertaken by BNY Mellon;
- the duties of investment management, accounting and the custody of assets are segregated;
- the procedures of the individual parties are designed to complement one another;
- the Board clearly defines the duties and responsibilities of its agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after due diligence involving consideration of the quality of the parties involved and the Audit and Management Engagement Committee monitors their ongoing performance and contractual arrangements;
- mandates for authorisation of investment transactions and expense payments are set by the Board; and
- the Board reviews financial information produced by the Administrator in detail on a regular basis.

DIALOGUE WITH SHAREHOLDERS

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

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

All shareholders have the opportunity to attend and vote at the AGM during which the Board and Manager are available to discuss issues affecting the Company. Engagement from all shareholders is welcomed by the Chairman of the Board. The Manager has signed up to the Stewardship Code and publishes its voting records on its website.

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

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

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

BRIBERY PREVENTION POLICY

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

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

CRIMINAL FINANCES ACT 2017

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

For and on behalf of the Board

ARTHUR COPPLE

Chairman
19 June 2023

Report from the Audit and Management Engagement Committee

As Chairman of the Audit and Management Engagement Committee (the "Committee"), I am pleased to present its Report to shareholders for the year ended 31 March 2023.

COMPOSITION OF THE COMMITTEE

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

The Committee is chaired by Mr James Robinson, a Chartered Accountant, who has recent and relevant financial experience. Having completed nine years on the Board in September 2022, Mr Robinson has announced his intention to retire at the conclusion of the 2023 Annual General Meeting and Mrs Barbara Powley will take over his role as Chair of the Committee as at the same date.

The Committee operates within clearly defined terms of reference and comprises all the Directors. Given the size of the Board and Mr Arthur 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 primary responsibilities of the Committee are to:

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

MATTERS CONSIDERED IN THE YEAR

The Committee meets 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.

ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2023

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 2023 and how they were addressed:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	<p>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.</p> <p>Ownership of listed investments is verified by reconciliation to the Custodian's records. In addition, the Depository 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.</p>
Maintenance of investment trust status	<p>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.</p>
Incomplete or inaccurate revenue recognition	<p>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.</p>
Ensuring the Annual Report and Accounts is fair, balanced and understandable.	<p>The Committee reviewed and discussed this Annual Report and Accounts and advised the Board that it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.</p>

GOING CONCERN

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 25.

INTERNAL CONTROL

The Committee is responsible for ensuring that suitable controls are in place to prevent and detect fraud, error and misstatement of financial information. As the Company outsources all of its functions to third parties, it requires these service providers to report on their internal controls. There were no significant matters of concern identified in the Committee's review of the internal controls of its third party suppliers. The Committee paid particular attention to the developing threat of cyber crime, the economic impact of Russian sanctions and any residual impact relating to COVID-19. Following a significant investment into IT cloud-based systems and security software during 2021, the Manager has continued to put in place additional mitigations against cyber security risks. These mitigations included the appointment of a specialist IT and cyber monitoring and management provider in 2022, providing continuous monitoring and access to a Cyber Information Security Officer.

It is considered that the Company does not require an internal audit function, principally because the Company delegates its day-to-day operations to third parties, which are monitored by the Committee and provide control reports on their operations annually.

EXTERNAL AUDIT, REVIEW AND APPOINTMENT

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 2023, 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.

Report from the Audit and Management Engagement Committee continued

BDO's fee in respect of the audit for the year ended 31 March 2023 is £38,000 (2022: £33,000). Following professional guidelines, the audit partner rotates after five years. The year ended 31 March 2023 is Peter Smith's third year as audit partner.

POLICY ON NON-AUDIT SERVICES

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

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

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

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 40.

By order of the Board

JAMES ROBINSON

Chairman, Audit and Management Engagement Committee
19 June 2023

Directors' Remuneration Report

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

The law requires the Company's Auditor, BDO LLP, to audit certain disclosures provided in this report. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in their report on pages 41 to 47.

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.

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 2023.

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 2023 Directors' Fees would be payable as set out in the Future Policy Remuneration Table on page 38. As disclosed on page 29, Mr Robinson has waived his entitlement to the additional £1,200 which the Remuneration Policy permits him to take for his role as Senior Independent Director.

In accordance with the Companies Act 2006, the Company is required to seek shareholder approval for its remuneration policy on a triennial basis. The Remuneration Policy was 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.

Remuneration Policy

The Company's policy is that remuneration should:

Purpose and link to strategy	<ul style="list-style-type: none"> • be sufficient to attract and retain individuals of a high calibre with suitable knowledge and experience to promote the long-term success of the Company; • reflect the time spent by the Directors on the Company's affairs; • reflect the responsibilities borne by the Directors; • recognise the more onerous roles of the Chairman of the Board and the Chairman of the Audit and Management Engagement Committee through the payment of higher fees.
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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
Description	Annual fees are set at a competitive level for the industry and also appropriate for the role, based on individual skills, time commitment and experience.
Maximum	Total remuneration paid to the non-executive Directors is subject to an annual aggregate limit of £200,000 in accordance with the Company's Articles of Association. Any changes to this limit will require shareholder approval by Ordinary Resolution.

Directors' Remuneration Report continued

Remuneration Policy continued

Taxable benefits	In accordance with the Company's Articles of Association, the Directors are also entitled to be reimbursed for out-of-pocket expenses and any other reasonable expenses incurred in the proper performance of their duties. Such expenses are treated as a benefit in kind and are subject to tax and national insurance.
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Future Remuneration Policy Table

Following a review of the level of Directors' fees, the Nomination and Remuneration Committee concluded that commencing 1 April 2023, the Chairman's fee be increased to £41,500, the Audit and Management Engagement Committee Chair's fee be increased to £33,500 and Director fees be increased to £28,500. The additional fee which may be paid to the Senior Independent Director will be increased to £1,200. 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 2022.

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

	Fee for year ending 31 March 2024	Fee for year ending 31 March 2023
Chairman	41,500	38,500
Audit and Management Engagement Committee Chairman	33,500	31,000
Director	28,500	26,500

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 £	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Arthur Copple	38,500	36,750	-	-	38,500	36,750	38,500	36,750	-	-
Catriona Hoare	26,500	25,250	-	-	26,500	25,250	26,500	25,250	-	-
James Robinson	31,000	29,500	229	-	31,229	29,500	31,000	29,500	229	-
Barbara Powley	26,500	25,250	1,376	694	27,876	25,944	26,500	25,250	1,376	694
Total	122,500	116,750	1,605	694	124,105	117,444	122,500	116,750	1,605	694

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 2023, whether for loss of office or otherwise.

Annual percentage change in remuneration of Directors

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

	2023 £	Change %	2022 £	Change %	2021 £	Change %	2020 £
Chairman	38,500	4.8	36,750	5.0	35,000	-	35,000
Audit and Management Engagement Committee Chairman	31,000	5.1	29,500	5.4	28,000	-	28,000
Director	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 third year the Company has disclosed this information. The comparison will be expanded in future annual reports until such time as it covers a five year period.

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

Your Company's Performance

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

Share Price and Benchmark Performance* (rebased to 100 on 31 March 2013)



Source: Link Alternative Fund Administrators Limited.

* The Benchmark is the NSCI since 1 April 2013. The NSCI was selected as the Benchmark because it is the most commonly used index by UK SmallCap investment trusts.

Voting at AGM

The Directors' Remuneration Report for the year ended 31 March 2022 and the Remuneration Policy were approved by shareholders at the AGM held on 27 July 2022. The proxy voting was as follows:

	Remuneration Report		Remuneration Policy	
	Number of votes cast	%	Number of votes cast	%
For*	83,279,364	99.90	83,266,732	99.89
Against	87,399	0.10	90,399	0.11
Total votes cast	83,366,763		83,357,131	
Number of votes withheld	12,773	0.02	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.

Directors' Beneficial and Family Interests (Audited)

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

	As at 31 March 2023 No. of shares	As at 1 April 2022 No. of shares
Arthur Copple ¹	125,000	125,000
Catriona Hoare	9,039	9,039
James Robinson ²	40,000	40,000
Barbara Powley	12,449	11,960

¹ Includes 25,000 shares held by Mrs Copple

² Held jointly by Mr and Mrs Robinson

On 11 May 2023, Barbara Powley acquired 132 shares in the Company and now holds 12,581 shares in total. There have been no other changes to the above holdings between 31 March 2023 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.

Relative Importance of Spend on Pay

The table below sets out, in respect of the financial year ended 31 March 2023 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 2023 £	Year ended 31 March 2022 £	Change %
Total remuneration	124,105	117,444	5.67
Dividends paid	7,565,567	10,779,258	(29.81)

Statement of implementation of Remuneration Policy in respect of the financial year ending 31 March 2024

Apart from the fee increases disclosed in this report which will take effect for the financial year ending 31 March 2024, no other changes are proposed. The Committee will, as usual, review Directors' fees during 2023/24 and consider whether any further changes to remuneration are required.

On behalf of the Board

BARBARA POWLEY

Chair, Nomination and Remuneration Committee
19 June 2023

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 the financial statements 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
19 June 2023

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 2023 and of its loss 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 2023 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 three years, covering the years ended 31 March 2021 to 31 March 2023. 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 market volatility and the present uncertainties in economic recovery;
- Assessing the appropriateness of the Directors' assumptions and judgements made by considering our knowledge of the entity obtained through the audit and comparing the prior year forecasted income and costs projected for the 12 months to 31 March 2023 to the actual income received and costs incurred to check that the projections are reasonable;
- Assessing the appropriateness of the Directors' assumptions and judgements made in their forecasts including consideration of the available cash resources and liquidity of the investment portfolio 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;
- 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.

Independent Auditor's Report continued

to the Members of Montanaro UK Smaller Companies Investment Trust PLC

OVERVIEW

Key audit matters	2023	2022
<ul style="list-style-type: none"> • Valuation and ownership of investments • Revenue recognition <p style="margin-left: 20px;">Revenue recognition is no longer considered to be a KAM given the Company has a capital objective.</p>	<ul style="list-style-type: none"> ✘ 	<ul style="list-style-type: none"> ✘ ✘
Materiality	<i>Company financial statements as a whole</i>	
	<ul style="list-style-type: none"> • £1,916,000 (2022: £2,300,000) based on 1% (2022: 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.

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
<p>Valuation and ownership of investments Note 1 and Note 9</p>	<p>The investment portfolio at the year-end comprised of quoted equity investments.</p> <p>There is a risk that the prices used for the quoted investments held by the Company are not reflective of fair value and the risk that errors made in the recording of investment holdings result in the incorrect reflection of investments owned by the Company.</p> <p>Therefore we considered the valuation and ownership of quoted investments to be the most significant audit area as the quoted investments also represent the most significant balance in the financial statements and underpin the principal activity of the entity.</p> <p>For these reasons and the materiality of the balance in relation to the financial statements as a whole, we considered this to be a key audit matter.</p>	<p>We responded to this matter by testing the valuation and ownership of the whole portfolio of quoted investments. We performed the following procedures:</p> <ul style="list-style-type: none"> • Confirmed the year-end bid 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. <p>Key observations: Based on our procedures performed we consider the valuation and ownership of the quoted equity investments to be appropriate.</p>

Independent Auditor's Report continued

to the Members of Montanaro UK Smaller Companies Investment Trust PLC

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 2023 £	Company financial statements 2023 £
Materiality	£1,916,000	£2,300,000
Basis for determining materiality	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.	
Performance materiality	£1,440,000	£1,730,000
Basis for determining performance materiality	75% of materiality	
Basis for determining 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.	

Lower testing threshold

We determined that for Revenue return before tax, a misstatement of less than materiality for the financial statements as a whole, could influence users of the financial statements as it is a measure of the Company's performance of income generated from its investments after expenses. As a result, we determined a lower testing threshold for those items impacting revenue return of £392,000 (2022: £284,000) based on 10% of Revenue return before tax (2022: 10% of Revenue return before tax).

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £96,000 (2022: £115,000). 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 and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> 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. <p>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.</p>
Directors' remuneration	<p>In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.</p>
Matters on which we are required to report by exception	<p>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:</p> <ul style="list-style-type: none"> 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.

Independent Auditor's Report continued

to the Members of Montanaro UK Smaller Companies Investment Trust PLC

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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 management and Those Charged with Governance; and
- Obtaining and understanding of the Company's policies and procedures regarding compliance with laws and regulations;

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.

Fraud

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

Our risk assessment procedures included:

- Enquiry with management and Those Charged With Governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to 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:

- The procedures set out in the Key Audit Matters section above;
- Recalculating investment management fees in total;
- Obtaining independent confirmation of bank balances; and
- Testing journals which met a defined risk criteria by agreeing to supporting documentation and evaluating whether there was evidence of bias by the Investment Manager and Directors that represented a risk of material misstatement due to fraud.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have 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 (Senior Statutory Auditor)

for and on behalf of BDO LLP

Statutory Auditor

London, UK

19 June 2023

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

Income Statement

for the year to 31 March 2023

	Notes	Year to 31 March 2023			Year to 31 March 2022		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments designated at fair value through profit or loss	9	-	(29,891)	(29,891)	-	(12,089)	(12,089)
Investment income	2	4,986	-	4,986	3,979	-	3,979
Management fee	3	(287)	(858)	(1,145)	(383)	(1,147)	(1,530)
Other expenses	4	(643)	-	(643)	(593)	-	(593)
Net return before finance costs and taxation		4,056	(30,749)	(26,693)	3,003	(13,236)	(10,233)
Interest payable and similar charges	5	(134)	(402)	(536)	(160)	(481)	(641)
Net return before taxation		3,922	(31,151)	(27,229)	2,843	(13,717)	(10,874)
Taxation	6	-	-	-	-	-	-
Net return after taxation		3,922	(31,151)	(27,229)	2,843	(13,717)	(10,874)
Return per Ordinary share: Basic and Diluted	8	2.34p	(18.61p)	(16.27p)	1.70p	(8.20p)	(6.50p)

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 51 to 61 form part of these financial statements.

Statement of Changes in Equity

for the year to 31 March 2023

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

Year to 31 March 2022	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 2021		3,348	19,307	1,362	4,642	219,814	193	248,666
Total comprehensive income:								
Fair value movement of investments	9	-	-	-	-	(12,089)	-	(12,089)
Costs allocated to capital		-	-	-	-	(1,628)	-	(1,628)
Net revenue for the year		-	-	-	-	-	2,843	2,843
		-	-	-	-	(13,717)	2,843	(10,874)
Dividends paid in the year	7	-	-	-	-	(8,339)	(2,658)	(10,997)
As at 31 March 2022		3,348	19,307	1,362	4,642	197,758	378	226,795

* These reserves, excluding any unrealised capital reserve are distributable. As at 31 March 2023 distributable reserves totalled £151,204,000 (2022: £151,390,000).

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

The notes on pages 51 to 61 form part of these financial statements.

Balance Sheet

as at 31 March 2023

	Notes	31 March 2023		31 March 2022	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments at fair value	9		200,777		236,487
Current assets					
Debtors	10	352		359	
Cash at bank		10,856		10,282	
		11,208		10,641	
Creditors: amounts falling due within one year					
Other creditors	12	(336)		(333)	
		(336)		(333)	
Net current assets			10,872		10,308
Total assets less current liabilities			211,649		246,795
Creditors: amounts falling due after more than one year					
Fixed rate term loan	11		(20,000)		(20,000)
Net assets			191,649		226,795
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			162,418		197,758
Distributable revenue reserve			572		378
Total equity shareholders' funds			191,649		226,795
Net asset value per Ordinary share: Basic and Diluted			114.50p		135.50p

These financial statements were approved and authorised for issue by the Board of Directors on 19 June 2023.

ARTHUR COPPLE

Chairman

Company Registered Number: 3004101

The notes on pages 51 to 61 form part of these financial statements.

Notes to the Financial Statements

at 31 March 2023

1 Accounting Policies

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

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 2023. 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 31 March 2025.

The Directors noted that the Company, with the current cash balance and holding a portfolio of listed investments, is able to meet its obligations as they fall due. The current cash balance plus available additional borrowing, through the revolving credit facility (extended for three years to December 2024), enables the Company to meet any funding requirements and finance future additional investments. The Company is a closed-end fund, where assets are not required to be liquidated to meet day to day redemptions. The Board considered potential downside scenarios which could lead to a breach in the Company's loan covenants, including consideration of when total borrowings would exceed 30% of (adjusted) NAV and the required fall in net assets for the NAV to fall below £80,000,000. Both scenarios were deemed unlikely and therefore there is not a material risk that the Company will breach its loan covenants.

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.

Notes to the Financial Statements continued

at 31 March 2023

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.

CASH AND CASH EQUIVALENTS

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

OTHER RECEIVABLES AND PAYABLES

Trade receivables and trade payables are measured 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.

1 Accounting Policies continued

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.

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 buy backs, including related stamp duty and transaction costs, are charged to the special reserve.

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;
- 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.

Notes to the Financial Statements continued

at 31 March 2023

2 Income

	Year to 31 March 2023 £'000	Year to 31 March 2022 £'000
UK dividend income	4,497	3,710
Overseas dividend income	313	269
Income from investments	4,810	3,979
Bank interest	176	–
Total income	4,986	3,979

Total income comprises

Dividends from financial assets designated at fair value through profit or loss	4,810	3,979
Interest received	176	–
Dividends	4,986	3,979

3 Management fee

	Year to 31 March 2023			Year to 31 March 2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Management fee	274	821	1,095	370	1,110	1,480
AIFMD fee	13	37	50	13	37	50
	287	858	1,145	383	1,147	1,530

The Manager received a monthly management fee equivalent to 1/12 of 0.50% (2022: 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 2023, £111,000 (2022: £120,000) was due for payment to the Manager.

The AIFMD receives an annual fee of £50,000 (2022: £50,000).

4 Other Expenses

	Year to 31 March 2023 £'000	Year to 31 March 2022 £'000
Administration	87	80
Company secretarial fees	59	57
Directors' fees [†]	123	117
Depositary fee	46	58
Registrar fee	55	55
Auditor's remuneration for:		
– audit	38	33
Custody and other bank charges	22	22
Legal fees	6	5
Other expenses (including VAT)	207	166
	643	593

[†] A breakdown of the Directors' remuneration is set out in the Directors' Remuneration Report on page 38.

The Company has no employees.

5 Interest Payable and Similar Charges

	Year to 31 March 2023			Year to 31 March 2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest payable on loan	124	372	496	154	461	615
Loan commitment fee	10	30	40	6	20	26
	134	402	536	160	481	641

6 Taxation

	Year to 31 March 2023			Year to 31 March 2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Current tax:						
Overseas tax suffered	-	-	-	-	-	-
	-	-	-	-	-	-

The taxation charge for the year is different from the standard rate of Corporation Tax in the UK of 19% (2022: 19%). The differences are explained below.

	Year to 31 March 2023			Year to 31 March 2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Net return/(loss) before taxation	3,922	(31,151)	(27,229)	2,843	(13,717)	(10,874)
Theoretical tax at UK corporation tax rate of 19% (2022: 19%)	745	(5,919)	(5,174)	540	(2,606)	(2,066)
Effects of:						
- UK dividends that are not taxable	(799)	-	(799)	(654)	-	(654)
- Foreign dividends that are not taxable	(60)	-	(60)	(51)	-	(51)
- Non-taxable investment losses	-	5,679	5,679	-	2,297	2,297
- Unrelieved excess expenses	114	240	354	165	309	474
Taxation 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 2023, based on current estimates and including the accumulation of net allowable losses, the Company had unrelieved losses of £54,358,000 (2022: £52,502,000) that are available to offset future taxable revenue. The potential deferred tax asset has been calculated using a corporation tax rate of 25% (2022: 25%). This rate has been enacted and will apply from 1 April 2023. A deferred tax asset of £13,590,000 (2022: £13,125,000) 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.

Notes to the Financial Statements continued

at 31 March 2023

7 Dividends

	Year to 31 March 2023 £'000	Year to 31 March 2022 £'000
In respect of the previous period:		
Paid		
2022 fourth quarter dividend of 1.36p (2022: 1.49p)	2,276	2,494
In respect of the year under review:		
Paid		
2023 first quarter dividend of 1.15p (2022: 1.65p)	1,925	2,762
2023 second quarter dividend of 1.04p (2022: 1.73p)	1,741	2,896
2023 third quarter dividend of 1.18p (2022: 1.70p)	1,975	2,845
Dividends distributed during the year	7,917	10,997
Declared:		
2023 fourth quarter dividend of 1.15p (2022: 1.36p)*	1,925	2,276

* The fourth quarter dividend was declared on 13 April 2023. The ex-dividend date was 20 April 2023 and it was paid 11 May 2023.

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 2023			Year to 31 March 2022		
	Revenue	Capital	Total	Revenue	Capital	Total
Ordinary share	2.34p	(18.61p)	(16.27p)	1.70p	(8.20p)	(6.50p)

Revenue return per Ordinary share is based on the net revenue after taxation of £3,922,000 (2022: £2,843,000) and 167,379,790 (2022: 167,379,790) Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in treasury.

Capital return per Ordinary share is based on net capital losses for the year of £31,151,000 (2022: £13,717,000), and on 167,379,790 (2022: 167,379,790) Ordinary shares, being the weighted average number of Ordinary shares, excluding any shares held in treasury.

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

9 Investments

	Year to 31 March 2023 £'000	Year to 31 March 2022 £'000
Total investments at fair value	200,777	236,487

The investment portfolio comprises 40 (2022: 50) traded and listed UK equity holdings.

	Year to 31 March 2023 £'000	Year to 31 March 2022 £'000
Opening book cost	189,741	183,696
Opening investment holding gains	46,746	78,740
Opening fair value	236,487	262,436
Movements in the year		
Purchases at cost	41,452	70,559
Sales – proceeds	(47,271)	(84,419)
– realised gains on sales against book cost	5,069	19,905
Decrease in investment holding gains	(34,960)	(31,994)
Total movement in the year	(35,710)	(25,949)
Closing book cost	188,991	189,741
Closing investment holding gains	11,786	46,746
Closing fair value	200,777	236,487

9 Investments continued

FAIR VALUE HIERARCHY

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

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

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

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

	31 March 2023		31 March 2022	
	Level 1 £'000	Total £'000	Level 1 £'000	Total £'000
Equity investments	200,777	200,777	236,487	236,487
	200,777	200,777	236,487	236,487

There were no level 2 or 3 investments.

TRANSACTION COSTS

During the year, the Company incurred transaction costs of £198,000 (2022: £227,000) and £30,000 (2022: £49,000) on purchases and sales of investments respectively. These amounts are deducted in determining gains on investments at fair value as disclosed in the Income Statement.

	Year to 31 March 2023 £'000	Year to 31 March 2022 £'000
Net gains/(losses) on investments at fair value		
Gains on sales	5,069	19,905
Changes in fair value	(34,960)	(31,994)
	(29,891)	(12,089)

The Company sold investments in the year with proceeds of £47,271,000 (2022: £84,419,000). The book cost of these investments when purchased was £42,202,000 (2022: £64,514,000). 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 2023 £'000	Year to 31 March 2022 £'000
Prepayments and accrued income	84	111
Dividends receivable	268	248
	352	359

Notes to the Financial Statements continued

at 31 March 2023

11 Fixed Rate Term and Floating Rate Revolving Credit Facilities

	Year to 31 March 2023 £'000	Year to 31 March 2022 £'000
Falling due after more than one year	20,000	20,000

On 17 December 2021, the Company entered into an 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% (2022: 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.

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.

12 Other Creditors

	Year to 31 March 2023 £'000	Year to 31 March 2022 £'000
Accruals	336	333
	336	333

13 Share Capital

	31 March 2023 £'000	31 March 2022 £'000
Allotted, called-up and fully paid:		
167,379,790 Ordinary shares of 2p each (2022: 167,379,790)	3,348	3,348

Treasury shares

At the AGM on 27 July 2022, 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 (2022: nil) and no shares purchased during the year (2022: nil).

14 Net Asset Value per Ordinary Share

The Net Asset Value per share of 114.50p (2022: 135.50p) is based on net assets of £191.6 million (2022: £226.8 million) and on 167,379,790 (2022: 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 13.

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.

15 Analysis of Financial Assets and Liabilities continued

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

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

Market risk

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

Market price risk

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

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

The maximum exposure to market price risk is the fair value of investments of £200,777,000 (2022: £236,487,000).

If the investment portfolio valuation fell by 10% from the amount detailed in the financial statements as at 31 March 2023, it would have the effect, with all other variables held constant, of reducing the net capital return before taxation by £20,078,000 (2022: £23,649,000). An increase of 10% in the investment portfolio valuation would have an equal and opposite effect on the net capital return before taxation. The analysis is based on closing balances only and is not representative of the year as a whole.

Foreign currency risk

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

Interest rate risk

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

The Company received £176,000 interest on cash deposits in the year (2022: £nil).

If interest rates had reduced by 1% from those paid as at 31 March 2023, it would have the effect, with all other variables held constant, of increasing the net revenue return before taxation on an annualised basis by £nil (2022: £nil). If there was an increase in interest rates of 1%, the net revenue return before taxation on an annualised basis would have decreased by £nil (2022: £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, in consultation with the Board, is responsible for determining the gearing level of the Company, which is disclosed on page 62. The Directors receive financial information on a regular basis which is used to identify and monitor risk.

Notes to the Financial Statements continued

at 31 March 2023

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 2023 was:

	31 March 2023 £'000	31 March 2022 £'000
Cash at bank (held at Bank of New York Mellon)	10,856	10,282
Debtors	352	248
	11,208	10,530

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. No fixed interest assets were held at 31 March 2023 (31 March 2022: £Nil) or at any time during the year. All financial assets are in Sterling.

FINANCIAL LIABILITIES

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

The interest rate risk profile of the financial liabilities of the Company as at 31 March 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	-	-

The interest rate risk profile of the financial liabilities of the Company as at 31 March 2022 was as follows:

	Total £'000	Weighted average interest rate %	Period until maturity Years
Amounts drawn down under Fixed Rate Term Loan Facility	20,000	2.6	2.7
Amounts drawn down under Floating Rate Revolving Credit Facility	-	-	-
Financial liabilities upon which no interest is paid	333	-	-

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 2023 £'000	31 March 2022 £'000
In three months or less	445	438
In more than three months but not more than one year	248	500
In more than one year but not more than three years	20,497	20,745
	21,190	21,683

16 Capital Management Policies

The structure of the Company's capital is described on pages 25 and 26 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 Commitments and Contingent Liabilities

At 31 March 2023, there were no capital commitments or contingent liabilities (2022: nil).

18 Related Party Transactions

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

The related party transactions with the Directors are set out in the Directors' Remuneration Report on pages 37 to 39.

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 2023 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 67.

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 13 to 40 and Note 15 to the financial statements set out the risk profile and risk management systems in place. There have been no changes to the risk management systems in place in the period under review and no breaches of any of the risk limits set, with no breach expected;
- information on the investment strategy, geographic and sector investment focus and stock exposures are included on pages 4 to 12; and
- none of the Company's assets are subject to special arrangements arising from their illiquid nature.

Shareholder Information

Sources of Further Information

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

Key Dates

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

June	Annual results for the year ended 31 March announced and the annual report and financial statements published
July	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 Asset Services. 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, PX1, 10th Floor, 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

Nominee Code

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

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

Website

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

AIC

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

Stocks and Shares Individual Savings Accounts (ISA)

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

Alternative Performance Measures (“APMs”) – 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 2023, the Net Asset Value per share was 114.5p and the share price was 105.0p. The Discount is therefore calculated at 8.3% as shown in the highlights on page 1.

Gross Assets

Gross assets are calculated as net assets adding back borrowings.

	31 March 2023 £'000	31 March 2022 £'000
Net Assets	191,649	226,795
Fixed rate term loans	20,000	20,000
Gross assets	211,649	246,795

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 2023 £'000	31 March 2022 £'000
Total expenditure	2,324	2,764
Less interest payable and similar charges (see Note 5)	(536)	(641)
Total (a)	1,788	2,123
Average daily net assets (b)	199,390	270,710
Ongoing charges (c = a/b) (C)	0.90%	0.78%

Net Gearing

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

	31 March 2023 £'000	31 March 2022 £'000
Fixed rate term loans	20,000	20,000
less: Cash at bank	(10,856)	(10,282)
Net debt (a)	9,144	9,718
Shareholders' funds (b)	191,649	226,795
Net Gearing (a/b)	4.8%	4.3%

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 2023 £'000	31 March 2022 £'000
Purchases at cost	41,452	70,559
Sales proceeds	47,271	64,514
Total (a)	88,723	135,073
Average total (b) (b=a/2)	44,362	67,537
Average daily fair value of investments (c)	199,390	289,578
Portfolio turnover (b/c)	22.2%	23.3%

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 2023, the 1 year NAV Total Loss was 12.2% and the 1 year Ordinary share price Total Loss was 12.4%, as shown in the highlights on page 1.

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

Alternative Performance Measures (“APMs”) continued

NAV Total Return calculation as at 31 March 2022

	£'000	
NAV per share as at 31 March 2022	135.50	(c)
NAV per share as at 31 March 2021	148.56	(d)
Dividend adjustment factor (+1)	1.042	(a)
Pre-Dividend Reinvestment Factor	0.912	(b) (b=c/d)
NAV Total Return	(5.0%)	((a*b)-1)

(a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	NAV at Dividend XD Date	NAV Multiplier
Quarterly dividend 1	1.49	22 Apr 21	160.31	0.01
Quarterly dividend 2	1.65	22 Jul 21	167.38	0.01
Quarterly dividend 3	1.73	21 Oct 21	171.00	0.01
Quarterly dividend 4	1.70	10 Feb 22	145.93	0.01
				0.04

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

Share price Total Return calculation as at 31 March 2022

Share price as at 31 March 2022	125.00	(c)
Share price as at 31 March 2021	145.00	(d)
Dividend adjustment factor (+1)	1.043	(a)
Pre-Dividend Reinvestment Factor	0.841	(b) (b=c/d)
Share price Total Return	(10.1%)	((a*b)-1)

(a) Dividend Adjustment Factor

Dividend	PPS	Dividend XD date	Share price at Dividend XD Date	Share price Multiplier
Quarterly dividend 1	1.49	22 Apr 21	156.50	0.010
Quarterly dividend 2	1.65	22 Jul 21	168.00	0.010
Quarterly dividend 3	1.73	21 Oct 21	168.00	0.010
Quarterly dividend 4	1.70	10 Feb 22	134.50	0.013
				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.

NAV

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

NSCI

Numis Smaller Companies Index (excluding investment companies).

PPS

Pence per share.

Relative NAV per share performance vs benchmark

This is the difference between the change in the NAV as a percentage over the year and the Benchmark as a percentage over the year.

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about any aspect of the proposals referred to in this document or about the action which you should take, you should seek your own advice immediately from a stockbroker, solicitor, accountant or other independent professional adviser 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, 27 July 2023 at 12.00 noon for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 9 will be proposed as Ordinary Resolutions and resolutions 10 and 11 will be proposed as Special Resolutions.

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 Friday, 21 July 2023 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 return a proxy form appointing "the Chair of the meeting", as their proxy. This will ensure that your vote will be counted if ultimately you (or any other proxy you might otherwise appoint) are not able to attend the meeting. To be valid, the form of proxy should be completed, signed and returned in accordance with the instructions printed thereon, as soon as possible, and in any event, to reach the Company's registrars, Link Group, no later than 48 hours before the time of the Annual General Meeting, or any adjournment of that meeting.

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 2023.

RESOLUTION 2 – DIRECTORS' REMUNERATION REPORT

To receive and approve the Directors' Remuneration Report for the year ended 31 March 2023.

RESOLUTION 3 – DIVIDEND POLICY

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

RESOLUTION 4 – RE-ELECTION OF DIRECTOR

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

RESOLUTION 5 – RE-ELECTION OF DIRECTOR

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

RESOLUTION 6 – RE-ELECTION OF DIRECTOR

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

RESOLUTION 7 – 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 8 – AUDITOR'S REMUNERATION

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

RESOLUTION 9 – 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 19 June 2023) provided that the authorities conferred on the Directors shall, unless renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares or grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired. 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.

Notice of Annual General Meeting continued

SPECIAL RESOLUTIONS

RESOLUTION 10 – DISAPPLICATION OF PRE-EMPTION RIGHTS

THAT, subject to the passing of Resolution 9 (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 9 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 19 June 2023); 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 11 – 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 2024 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

LINK COMPANY MATTERS LIMITED

Company Secretary
19 June 2023

65 Gresham Street
London EC2V 7NQ

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 2023 (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 page 63.

Resolutions 4 to 6 – Re-election of Directors

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

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 23 and 24 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 7 and 8 – Re-appointment and remuneration of Auditor

At each meeting at which the Company's financial statements are presented to its members, the Company is required to appoint an auditor to serve until the next such meeting. The Board, on the recommendation of the Audit 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 7. Resolution 8 authorises the Audit and Management Engagement Committee to fix the Auditor's remuneration.

Resolution 9 – Authority to allot Ordinary shares

Resolution 9 authorises the Board to allot Ordinary shares generally and unconditionally in accordance with Section 551 of the Companies Act 2006 (the "Act") up to an aggregate nominal value of £334,759, representing approximately 10% of the issued Ordinary share capital at the date of the Notice. This authority shall expire at the next AGM.

Resolution 10 – Authority to disapply pre-emption rights

Resolution 10 is a Special Resolution which is being proposed to authorise the Directors to disapply the pre-emption rights of existing Shareholders in relation to issues of Ordinary shares under Resolution 9 (being in respect of Ordinary shares up to an aggregate nominal value of £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 9 and 10 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.

Notice of Annual General Meeting continued

Resolution 11 – Purchase of own shares

Resolution 11 is a Special Resolution which will grant the Company authority to make market purchases of up to 25,090,230 Ordinary shares, representing 14.99% of the Ordinary shares in issue as at the date of the Notice. The Ordinary shares bought back will either be cancelled or placed into treasury, at the determination of the Directors. There are currently no shares held in treasury. The maximum price which may be paid for each Ordinary share must not be more than the higher of (i) 105% of the average of the market value of an ordinary shares for the five business days immediately preceding the day on which the purchase is made or (ii) the value of an Ordinary share calculated on the basis of the higher price quoted for: (a) the last independent trade of; and (b) the highest current independent bid for any number of Ordinary shares on the trading venue where the purchase is carried out. The minimum price which may be paid for each Ordinary share is £0.02.

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

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

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, 25 July 2023. 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 on Tel: 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday, excluding public holidays in England and Wales; 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, 10th Floor, Central Square, 29 Wellington Street, LEEDS, LS1 4DL by 12 noon on Tuesday, 25 July 2023.
6. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
7. The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in Note 8 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 12 noon on Tuesday, 25 July 2023. 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.

Notice of Annual General Meeting continued

10. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
11. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the '2006 Act') to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.
12. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.
13. Under Section 338 and Section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (a) to give to members of the Company entitled to receive notice of meeting, notice of any resolution which may properly be moved and is intended to be moved at the meeting and/or (b) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than 16 June 2022, being the date six weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
14. As at 19 June 2023 (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 19 June 2023 are 167,379,790.
15. Under Section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the Auditor's Report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstances connected with an Auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with Section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Meeting for the relevant financial year includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.
16. Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

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

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

Principal Advisers

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

MONTANARO ASSET MANAGEMENT LIMITED

53 Threadneedle Street

London EC2R 8AR

Tel: 020 7448 8600

Fax: 020 7448 8601

Website: www.montanaro.co.uk

Email: enquiries@montanaro.co.uk

Administrator

LINK ALTERNATIVE FUND ADMINISTRATORS LIMITED

Broadwalk House

Southernhay West

Exeter EX1 1TS

Tel: 01392 477500

Fax: 01392 498288

JUNIPER PARTNERS LIMITED (from 1 July 2023)

28 Walker Street

Edinburgh EH3 7HR

Tel: 0131 378 0500

Company Secretary and Registered Office

LINK COMPANY MATTERS LIMITED

6th Floor, 65 Gresham Street

London EC2V 7NQ

Tel: 0333 300 1950

Email: Muscit_Cosec@linkgroup.co.uk

Registered office from 1 July 2023

53 Threadneedle Street

London EC2R 8AR

JUNIPER PARTNERS LIMITED (from 1 July 2023)

28 Walker Street

Edinburgh EH3 7HR

Tel: 0131 378 0500

Email: cosec@junipartners.com

Registrar

LINK GROUP

Central Square,

29 Wellington Street,

Leeds LS1 4DL

Tel: 0371 664 0300

Calls are charged at the standard geographic rate and will vary by provider.

Email: shareholderenquiries@link.co.uk

Website: <https://www.linkgroup.eu/>

Depository

THE BANK OF NEW YORK MELLON

(INTERNATIONAL) LIMITED

160 Queen Victoria Street

London EC4V 4LA

Custodian

BANK OF NEW YORK MELLON SA/NV

160 Queen Victoria Street

London EC4V 4LA

Banker

ING BANK N.V.

London Branch

8-10 Moorgate

London EC2R 6DA

Broker

CENKOS SECURITIES PLC

Tokenhouse Yard

London EC2R 7AS

Auditor

BDO LLP

55 Baker Street

London W1U 7EU

Lawyers

GOWLING WLG

4 More London Riverside

London SE1 2AU

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

Montanaro UK Smaller Companies Investment Trust PLC
53 Threadneedle Street
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