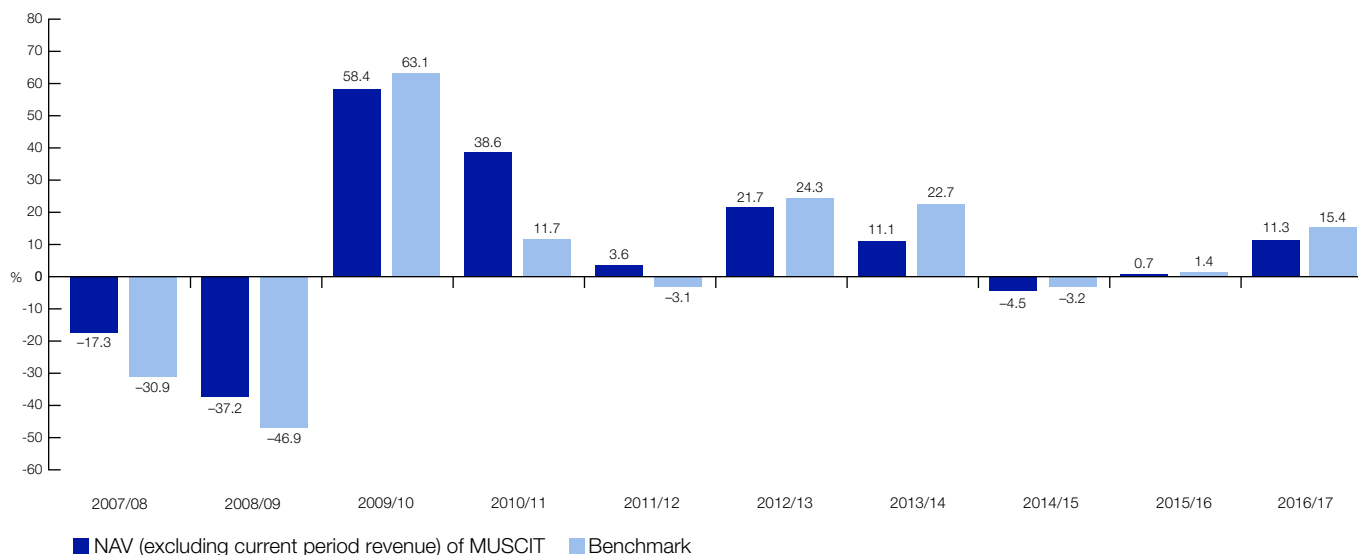


Strategic Report continued

Chairman's Statement continued

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



Source: Capita Sinclair Henderson Limited.

Management Fee

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

Share Buy Backs

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

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

Gearing

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

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

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

Dividend

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

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

Directors

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

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

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