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**MONTANARO ASSET MANAGEMENT LIMITED**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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## MONTANARO ASSET MANAGEMENT LIMITED

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### COMPANY INFORMATION

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<b>Directors</b>	C G B Montanaro C P R H Durant Des Aulnois D J Gamble J G Tregoning
<b>Company secretary</b>	Mrs G C Edwardes Ker
<b>Registered number</b>	03246931
<b>Registered office</b>	53 Threadneedle Street London EC2R 8AR
<b>Independent auditor</b>	Hillier Hopkins LLP Chartered Accountants & Statutory Auditor Radius House 51 Clarendon Road Watford Herts WD17 1HP

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**MONTANARO ASSET MANAGEMENT LIMITED**

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## **MONTANARO ASSET MANAGEMENT LIMITED**

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### **GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018**

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#### **Introduction**

Montanaro Asset Management Limited ("MAM") is an asset management company specialising in quoted Small and MidCap equities.

MAM provides the following services:

- Discretionary management of pooled investment vehicles (Investment Trusts and OEICs);
- Discretionary management of segregated mandates primarily for institutional clients.

MAM trades on an agency basis. It does not hold client assets or cash. All clients have independent custodians. It only invests in liquid equity securities traded on recognised stock exchanges.

#### **Business review**

The launch of the Montanaro Better World Fund in April 2018 was a seminal moment in the Company's history. For the first time, Montanaro began investing globally in quoted smaller companies.

At 31 December 2018, MAM's funds under management were £2 billion (2017: c.£2.6 billion).

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## MONTANARO ASSET MANAGEMENT LIMITED

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### GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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#### Principal risks and uncertainties

The main risks to MAM are a loss of client assets or a decline in Stock Markets (as most fee income is based on portfolio valuations), either or both of which would result in reduced revenues to MAM. This might impact the ability to invest in MAM as required and to retain staff.

MAM's ICAAP financial analysis shows that MAM could continue to operate with the existing fixed cost structure for at least 3 years with no revenue.

The Board monitors MAM's performance through the use of regular financial information and management reports. The Board particularly focuses on MAM's levels of profitability and financial strength.

*MAM is managed conservatively and has no bank debt or debt due to any external third parties. Furthermore, it maintains significant cash balances.*

MAM far exceeds its basic regulatory capital requirements which are necessary for the prudential running of the business. This is because of the following factors:

- MAM holds cash balances many times greater than its fixed overhead requirement;
- Within its regulated activities MAM assumes no market risk;
- MAM has a diverse and growing client base; and
- MAM's clients are geographically diversified.

There are no plans to change the broad nature of MAM's business in the future.

#### Objectives

MAM has remained a specialist manager in quoted Small and MidCap since its foundation in 1991. There are no plans to invest into other asset classes.

MAM aims to continue growing its funds under management by growing its Irish-domiciled open-ended funds and accepting a small number of additional segregated mandates. In addition, MAM is in the process of evaluating the benefits of launching an onshore fund range to cater to UK-based investors unable or unwilling to invest offshore.

The Board believes that the MAM has plenty of capacity left to grow.

#### Financial key performance indicators

During the year under review, turnover increased by 26% (2017: decreased by 10%). There were performance fees of £6.8 million (2017: £1.2m) on funds that outperformed their benchmarks in 2018.

The strength of the Balance Sheet of the Company improved with an increase in Net Asset Value of 5% (2017: 14%).

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## MONTANARO ASSET MANAGEMENT LIMITED

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### GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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#### Other key performance indicators

##### Employees

Staff retention and the stability of the team are important to MAM. Staff rotation was minimal in 2018 and the number of employees moved from 26 in 2017 to 27 in 2018.

The Company is looking to appoint two additional employees over the course of 2019.

##### Future Development

Over the coming years MAM will be focusing on winning assets in order to take advantage of its ability to invest globally and help offset the structural decline in fees. Management has devised a three-pronged strategy which has already been set in motion:

- 1) Launch of a UK onshore fund range – the aim is to launch mirror funds to the Irish-domiciled UK Income Fund, European Income Fund and Better World Fund. The appetite for onshore funds in the UK has further increased due to Brexit.
- 2) New markets – MAM has identified new geographies of interest from a distribution standpoint including Australia, Italy, Japan and New Zealand. The attractiveness of each market, together with the benefits of appointing a third-party distribution partner, will be carefully evaluated over the course of the year.
- 3) Launch of a second Global quoted Small & MidCap fund – this product will complement MAM's existing fund range by offering investors a traditional stock-picking Global SmallCap fund, a strategy that is of growing interest to institutional investors worldwide.

MAM's intention is to remain a specialist in Global quoted Small and MidCap with a strong ESG and Impact franchise.

This report was approved by the Board and signed on its behalf.



**C G B Montanaro**  
Director

Date: 25 March 2019

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## MONTANARO ASSET MANAGEMENT LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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The Directors present their report and the financial statements for the year ended 31 December 2018.

#### **Directors' responsibilities statement**

The Directors are responsible for preparing the Group Strategic Report, the Directors' Report and the consolidated 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 the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies for the Group's financial statements and then apply them consistently;
- make judgments and accounting 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 Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **RESULTS**

The profit for the year, after taxation, amounted to £5,184,759 (2017 - £8,994,866).

During the year, dividends paid totalled £3,146,000 (2017: £4,718,450).

#### **Directors**

The Directors who served during the year were:

C G B Montanaro  
C P R H Durant Des Aulnois  
D J Gamble  
J G Tregoning

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**MONTANARO ASSET MANAGEMENT LIMITED**

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**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**Disclosure of information to auditor**

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

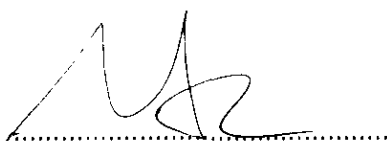
**Post balance sheet events**

There have been no significant events affecting the Group since the year end.

**Auditor**

The auditor, Hillier Hopkins LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board and signed on its behalf.



**C G B Montanaro**  
Director

Date: 25 March 2019



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## MONTANARO ASSET MANAGEMENT LIMITED

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### INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MONTANARO ASSET MANAGEMENT LIMITED

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#### Opinion

We have audited the financial statements of Montanaro Asset Management Limited (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018, which comprise the Group Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group Statement of Cash Flows, the Group and Company Statement of Changes in Equity and the related notes, 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).

*In our opinion the financial statements:*

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### 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 are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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## MONTANARO ASSET MANAGEMENT LIMITED

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### INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MONTANARO ASSET MANAGEMENT LIMITED (CONTINUED)

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In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

#### ***Opinion on other matters prescribed by the Companies Act 2006***

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Group 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 Group Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of directors**

As explained more fully in the Directors' Responsibilities Statement on page 4, 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 Group's and the parent 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 Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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**MONTANARO ASSET MANAGEMENT LIMITED**

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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MONTANARO ASSET  
MANAGEMENT LIMITED (CONTINUED)**

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**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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://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.

*Simon Speller*

Simon Speller FCA (Senior Statutory Auditor)

for and on behalf of  
**Hillier Hopkins LLP**

Chartered Accountants  
Statutory Auditor

Radius House  
51 Clarendon Road  
Watford  
Herts

WD17 1HP

Date: *25 March 2019*

**MONTANARO ASSET MANAGEMENT LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 £	2017 £
Turnover	4	22,188,801	17,575,566
Cost of sales		(3,944,749)	(4,006,851)
<b>Gross profit</b>		<b>18,244,052</b>	<b>13,568,715</b>
Administrative expenses		(9,168,121)	(12,027,495)
Fair value movements		(2,856,557)	5,571,560
<b>Operating profit</b>	5	<b>6,219,374</b>	<b>7,112,780</b>
Income from investments		523,288	395,414
Profit on disposal of investments		36,776	1,995,854
Interest receivable and similar income	10	111,953	95,831
<b>Profit before taxation</b>		<b>6,891,391</b>	<b>9,599,879</b>
Tax on profit	11	(1,706,632)	(605,013)
<b>Profit for the financial year</b>		<b>5,184,759</b>	<b>8,994,866</b>
Increase in share option reserve		536,987	3,195,000
<b>Other comprehensive income for the year</b>		<b>536,987</b>	<b>3,195,000</b>
<b>Total comprehensive income for the year</b>		<b>5,721,746</b>	<b>12,189,866</b>
<b>Profit for the year attributable to:</b>			
Owners of the parent Company		5,184,759	8,994,866
		5,184,759	8,994,866
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the parent Company		5,721,746	12,189,866
		5,721,746	12,189,866

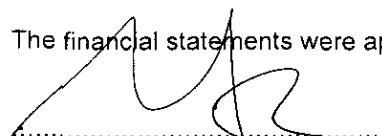
The notes on pages 15 to 29 form part of these financial statements.

**MONTANARO ASSET MANAGEMENT LIMITED**  
**REGISTERED NUMBER: 03246931**

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2018**

	Note	2018 £	2017 £
<b>Fixed assets</b>			
Tangible assets	13	38,221	134,002
		<u>38,221</u>	<u>134,002</u>
<b>Current assets</b>			
Debtors: amounts falling due within one year	15	11,890,784	10,729,574
Current asset investments	16	37,506,555	26,913,439
Cash at bank and in hand	17	20,643,766	31,594,385
		<u>70,041,105</u>	<u>69,237,398</u>
Creditors: amounts falling due within one year	18	(13,522,019)	(13,858,641)
<b>Net current assets</b>		<u>56,519,086</u>	<u>55,378,757</u>
<b>Total assets less current liabilities</b>		<u>56,557,307</u>	<u>55,512,759</u>
Creditors: amounts falling due after more than one year	19	(52,976)	(1,584,174)
<b>Net assets</b>		<u><u>56,504,331</u></u>	<u><u>53,928,585</u></u>
<b>Capital and reserves</b>			
Called up share capital	22	550,000	550,000
Other reserves	23	6,339,762	5,802,775
Profit and loss account	23	49,614,569	47,575,810
<b>Equity attributable to owners of the parent Company</b>		<u><u>56,504,331</u></u>	<u><u>53,928,585</u></u>
		<u><u>56,504,331</u></u>	<u><u>53,928,585</u></u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:

  
**C G B Montanaro**  
 Director

Date: 25 March 2019

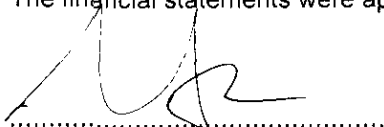
The notes on pages 15 to 29 form part of these financial statements.

**MONTANARO ASSET MANAGEMENT LIMITED**  
**REGISTERED NUMBER: 03246931**

**COMPANY BALANCE SHEET**  
**AS AT 31 DECEMBER 2018**

	Note	2018 £	2017 £
<b>Fixed assets</b>			
Tangible assets	13	38,221	134,002
Investments	14	50,000	50,000
		<u>88,221</u>	<u>184,002</u>
<b>Current assets</b>			
Debtors: amounts falling due within one year	15	11,890,784	10,729,574
Current asset investments	16	37,506,555	26,913,439
Cash at bank and in hand	17	20,638,877	31,589,466
		<u>70,036,216</u>	<u>69,232,479</u>
Creditors: amounts falling due within one year	18	(14,051,148)	(14,387,740)
<b>Net current assets</b>		<u>55,985,068</u>	<u>54,844,739</u>
<b>Total assets less current liabilities</b>		<u>56,073,289</u>	<u>55,028,741</u>
Creditors: amounts falling due after more than one year	19	(52,976)	(1,584,174)
<b>Net assets</b>		<u><u>56,020,313</u></u>	<u><u>53,444,567</u></u>
<b>Capital and reserves</b>			
Called up share capital	22	550,000	550,000
Other reserves	23	6,339,762	5,802,775
Profit and loss account	23	49,130,551	47,091,792
		<u><u>56,020,313</u></u>	<u><u>53,444,567</u></u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:



**C G B Montanaro**  
Director

Date: 25 March 2019

The notes on pages 15 to 29 form part of these financial statements.

**MONTANARO ASSET MANAGEMENT LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital £	Other reserves £	Profit and loss account £	Total equity £
<b>At 1 January 2017</b>	550,000	2,607,775	43,299,394	46,457,169
Profit for the year	-	-	8,994,866	8,994,866
Share option reserve movement	-	3,195,000	-	3,195,000
Dividends: Equity capital	-	-	(4,718,450)	(4,718,450)
<b>At 1 January 2018</b>	550,000	5,802,775	47,575,810	53,928,585
Profit for the year	-	-	5,184,759	5,184,759
Share option reserve movement	-	536,987	-	536,987
Dividends: Equity capital	-	-	(3,146,000)	(3,146,000)
<b>At 31 December 2018</b>	550,000	6,339,762	49,614,569	56,504,331

**MONTANARO ASSET MANAGEMENT LIMITED**

**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital £	Other reserves £	Profit and loss account £	Total equity £
<b>At 1 January 2017</b>	550,000	2,607,775	42,815,376	45,973,151
Profit for the year	-	-	8,994,866	8,994,866
Share option reserve movement	-	3,195,000	-	3,195,000
Dividends: Equity capital	-	-	(4,718,450)	(4,718,450)
<b>At 1 January 2018</b>	550,000	5,802,775	47,091,792	53,444,567
Profit for the year	-	-	5,184,759	5,184,759
Share option reserve movement	-	536,987	-	536,987
Dividends: Equity capital	-	-	(3,146,000)	(3,146,000)
<b>At 31 December 2018</b>	550,000	6,339,762	49,130,551	56,020,313



**MONTANARO ASSET MANAGEMENT LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 £	2017 £
<b>Cash flows from operating activities</b>		
Profit for the financial year	5,184,759	8,994,866
<b>Adjustments for:</b>		
Depreciation of tangible assets	103,061	243,965
Interest and dividends received	(635,241)	(491,245)
Taxation charge	1,706,632	605,013
(Increase) in debtors	(1,109,112)	(3,178,817)
(Decrease)/increase in creditors	(2,126,550)	7,046,700
Net fair value losses/(gains) recognised in P&L	2,856,557	(5,571,560)
Corporation tax (paid)	(1,500,000)	(1,301,616)
Share Option Movement	536,987	3,195,000
(Profit) on disposal of investments	(36,776)	(1,995,854)
<b>Net cash generated from operating activities</b>	<u>4,980,317</u>	<u>7,546,452</u>
<b>Cash flows from investing activities</b>		
Purchase of tangible fixed assets	(7,282)	(8,665)
Purchase of short term listed investments	(13,605,257)	(217,937)
Sale of short term listed investments	155,586	2,510,271
Interest received	111,953	95,831
Dividends received	523,288	395,414
Profit on disposal of investments	36,776	1,995,854
<b>Net cash from investing activities</b>	<u>(12,784,936)</u>	<u>4,770,768</u>
<b>Cash flows from financing activities</b>		
Dividends paid	(3,146,000)	(4,718,450)
<b>Net cash used in financing activities</b>	<u>(3,146,000)</u>	<u>(4,718,450)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>(10,950,619)</u>	<u>7,598,769</u>
Cash and cash equivalents at beginning of year	31,594,385	23,995,616
<b>Cash and cash equivalents at the end of year</b>	<u><u>20,643,766</u></u>	<u><u>31,594,385</u></u>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	20,643,766	31,594,385
	<u><u>20,643,766</u></u>	<u><u>31,594,385</u></u>

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## MONTANARO ASSET MANAGEMENT LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 1. General information

Montanaro Asset Management Limited is a company incorporated in the UK. Its registered office address and principal place of business is 53 Threadneedle Street, London, EC2R 8AR. The principal activity of the company is asset management.

#### 2. Accounting policies

##### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The following principal accounting policies have been applied:

##### 2.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

##### 2.3 Revenue

Revenue represents amounts receivable for investment management services provided net of VAT.

Revenue is recognised when the right to that income is earned.

##### 2.4 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in shares and units publicly available are remeasured to market value at each Balance Sheet date. Gains and losses on remeasurement are recognised in the Profit and Loss Account for the period.

##### 2.5 Tangible fixed assets

Tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

The estimated useful lives are as follows:

L/Term Leasehold Property	- Over 10 years
Fixtures & Fittings	- Over 4 years
Office Equipment	- 3 to 4 years

##### 2.6 Debtors

Short term debtors are measured at transaction price.

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## MONTANARO ASSET MANAGEMENT LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 2. Accounting policies (continued)

##### 2.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

##### 2.8 Financial instruments

The Group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans to related parties and investments in shares and units that are publicly available.

Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received.

Current asset investments in shares and units are either listed or publicly available and measured at fair value with changes recognised in the Profit and Loss Account.

##### 2.9 Creditors

Short term creditors are measured at the transaction price.

##### 2.10 Foreign currency translation

###### Functional and presentational currency

The company's functional and presentational currency is GBP.

###### Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account.

##### 2.11 Dividends

Equity dividends are recognised when they become legally payable.

##### 2.12 Operating leases: Lessee

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

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## MONTANARO ASSET MANAGEMENT LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 2. Accounting policies (continued)

##### 2.13 Pensions

###### Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Group in independently administered funds.

##### 2.14 Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

##### 2.15 Current and deferred taxation

*The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.*

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date in the countries where the Company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

##### 2.16 Share options

The company's unapproved share option scheme is accounted for in accordance with FRS102.

Benefits accruing are charged to the Profit and Loss Account each period and held within a share option reserve. The benefit charged is recognised where the fair value of the shares exceeds the exercise price payable, spread over the future term of the service period as set out in note 24. Deferred tax is recognised on the benefit charged in respect of the deferred tax relief available.

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## MONTANARO ASSET MANAGEMENT LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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#### 2. Accounting policies (continued)

##### 2.17 Loyalty bonus

A fully discretionary, deferred loyalty bonus can be awarded to certain employees in certain years. Amounts allocated under the loyalty bonus are charged to the Profit and Loss Account in the year that they are awarded. Payment of the loyalty bonus is dependent upon certain conditions being met. Once these conditions are met, the Company is required to make the payment to the employee or director. Should the conditions for payment not be met, the loyalty bonus ceases to be an obligation and it is recredited to the Profit and Loss Account.

#### 3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements in conformity with generally accepted accounting principles requires the Directors to make estimations and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results in the future could differ from those estimates. In this regard, the Directors believe that the critical accounting policies where judgements or estimations are necessarily applied are summarised below.

##### **Depreciation, amortisation and residual values**

The Directors have reviewed the asset lives and associated residual values of all fixed asset classes, and have concluded that asset lives and residual values are appropriate.

##### **Deferred taxation**

Deferred tax assets are raised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Assessment of future taxable profit is performed at every reporting date, in the form of future cash flows using a suitable growth rate.

##### **Valuation of share based payments**

The Directors estimate the expected value of equity settled share based payments and this is charged to the Profit and Loss Account over the vesting periods of the relevant payments. The cost is estimated using the Black-Scholes valuation model. The Black-Scholes model is based on a number of assumptions, and is amended to take account of estimated levels of share vesting and exercise. This method of estimating the value of the share based payments is intended to ensure that the actual value transferred to employees is provided in the share based payment reserve, disclosed within other reserves, by the time the payments are made.

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**MONTANARO ASSET MANAGEMENT LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**4. Turnover**

An analysis of turnover by class of business is as follows:

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Investment management services	22,188,801	17,575,566

Analysis of turnover by country of destination:

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
United Kingdom	3,452,619	3,259,065
Rest of Europe	12,362,612	13,898,849
Rest of the world	6,373,570	417,652
	<u>22,188,801</u>	<u>17,575,566</u>

**5. Operating profit**

The operating profit is stated after charging:

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Exchange differences	(66,530)	253,896
Operating lease rentals	289,810	287,817

**6. Auditor's remuneration**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Fees payable to the Group's auditor for the audit of the annual accounts	18,280	17,750
	<u>18,280</u>	<u>17,750</u>
All other services	12,580	12,300
	<u>12,580</u>	<u>12,300</u>

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**MONTANARO ASSET MANAGEMENT LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**7. Employees**

Staff costs, including Directors' remuneration, were as follows:

	<b>Group 2018 £</b>	<i>Group 2017 £</i>	<b>Company 2018 £</b>	<i>Company 2017 £</i>
Wages and salaries	6,510,896	8,785,119	6,510,896	8,785,119
Social security costs	612,594	691,667	612,594	691,667
Cost of defined contribution scheme	107,674	95,831	107,674	95,831
	<u>7,231,164</u>	<u>9,572,617</u>	<u>7,231,164</u>	<u>9,572,617</u>

During the year, Key Management personnel received remuneration of £2,747,000 (2017: £2,641,000).

The average monthly number of employees, including the Directors, during the year was as follows:

	<b>2018 No.</b>	<i>2017 No.</i>
Employees	<u>27</u>	<u>26</u>

**8. Directors' remuneration**

	<b>2018 £</b>	<i>2017 £</i>
Directors' emoluments	1,322,851	1,339,823
Company contributions to defined contribution pension schemes	13,731	14,000
	<u>1,336,582</u>	<u>1,353,823</u>

During the year retirement benefits were accruing to 1 Director (2017 - 1) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £851,697 (2017 - £866,626).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £13,731 (2017 - £14,000).

During the year Director fees of £33,000 (2017 - £33,000) were invoiced to a company under the control of a director.

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MONTANARO ASSET MANAGEMENT LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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9. Income from investments

	2018 £	2017 £
Income from current asset investments	523,288	395,414

10. Interest receivable

	2018 £	2017 £
Other interest receivable	111,953	95,831

11. Taxation

	2018 £	2017 £
<b>Corporation tax</b>		
Current tax on profits for the year	1,827,917	1,401,966
Adjustments in respect of previous periods	(69,187)	-
<b>Total current tax</b>	<b>1,758,730</b>	<b>1,401,966</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(52,098)	(796,953)
<b>Total deferred tax</b>	<b>(52,098)</b>	<b>(796,953)</b>
<b>Taxation on profit on ordinary activities</b>	<b>1,706,632</b>	<b>605,013</b>



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MONTANARO ASSET MANAGEMENT LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

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11. Taxation (continued)

**Factors affecting tax charge for the year**

The tax assessed for the year is higher than (2017 - lower than) the standard rate of corporation tax in the UK of 19% (2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	6,891,391	9,599,879
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	1,309,364	1,847,977
<b>Effects of:</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	28,217	23,513
Capital allowances for year in excess of depreciation	76	567
Adjustments to tax charge in respect of prior periods	(69,187)	-
Disallowable investment movements	532,261	(1,456,978)
Charitable donations	(131)	(942)
Capital gains	5,457	333,538
Changes in provisions leading to a decrease in the tax charge	-	(66,545)
Dividends from UK companies	(99,425)	(76,117)
<b>Total tax charge for the year</b>	<b>1,706,632</b>	<b>605,013</b>

**Factors that may affect future tax charges**

On 16 March 2016, the Chancellor of the Exchequer announced a reduction in the main rate of UK corporation tax to 17 percent with effect from 1 April 2020. These changes were substantively enacted on 6 September 2016.

12. Dividends

	2018 £	2017 £
Dividends on B Ordinary Shares	3,146,000	4,718,450

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**MONTANARO ASSET MANAGEMENT LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**13. Tangible fixed assets**

**Group and Company**

	L/Term Leasehold Property £	Fixtures, fittings and equipment £	Total £
<b>Cost or valuation</b>			
At 1 January 2018	475,978	1,378,404	1,854,382
Additions	-	7,282	7,282
At 31 December 2018	<u>475,978</u>	<u>1,385,686</u>	<u>1,861,664</u>
<b>Depreciation</b>			
At 1 January 2018	459,194	1,261,188	1,720,382
Charge for the year on owned assets	2,238	100,823	103,061
At 31 December 2018	<u>461,432</u>	<u>1,362,011</u>	<u>1,823,443</u>
<b>Net book value</b>			
At 31 December 2018	<u>14,546</u>	<u>23,675</u>	<u>38,221</u>
<i>At 31 December 2017</i>	<u>16,784</u>	<u>117,216</u>	<u>134,000</u>

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**MONTANARO ASSET MANAGEMENT LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**14. Fixed asset investments**

**Company**

	<b>Investments in subsidiary companies £</b>
<b>Cost or valuation</b>	
At 1 January 2018	50,000
At 31 December 2018	<u>50,000</u>

Investments in subsidiary companies included the following:

	<b>Class of shares</b>	<b>Holding</b>	<b>Principal activity</b>
<b>Direct subsidiary undertakings of the company</b>			
Montanaro Holdings Limited	Ordinary	100%	Dormant
<b>Indirect subsidiary undertakings of the company</b>			
Montanaro Investment Managers Limited	Ordinary	100%	Dormant

The aggregate of the share capital and reserves as at 31 December 2018 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

	<b>Aggregate of share capital and reserves £</b>
Montanaro Holdings Limited	534,018
Montanaro Investment Managers Limited	1

**MONTANARO ASSET MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**15. Debtors**

	<b>Group 2018 £</b>	<b>Group 2017 £</b>	<b>Company 2018 £</b>	<b>Company 2017 £</b>
Trade debtors	6,143,962	270,843	6,143,962	270,843
Other debtors	1,300,263	4,975,332	1,300,263	4,975,332
Prepayments and accrued income	2,946,610	4,035,548	2,946,610	4,035,548
Deferred taxation	1,499,949	1,447,851	1,499,949	1,447,851
	<u>11,890,784</u>	<u>10,729,574</u>	<u>11,890,784</u>	<u>10,729,574</u>

**16. Current asset investments**

	<b>Group 2018 £</b>	<b>Group 2017 £</b>	<b>Company 2018 £</b>	<b>Company 2017 £</b>
Shares and units publicly available	<u>37,506,555</u>	<u>26,913,439</u>	<u>37,506,555</u>	<u>26,913,439</u>

**17. Cash and cash equivalents**

	<b>Group 2018 £</b>	<b>Group 2017 £</b>	<b>Company 2018 £</b>	<b>Company 2017 £</b>
Cash at bank and in hand	<u>20,643,766</u>	<u>31,594,385</u>	<u>20,638,877</u>	<u>31,589,466</u>

**18. Creditors: Amounts falling due within one year**

	<b>Group 2018 £</b>	<b>Group 2017 £</b>	<b>Company 2018 £</b>	<b>Company 2017 £</b>
Trade creditors	16,396	9,133	16,396	9,133
Amounts owed to group undertakings	-	-	529,129	529,099
Corporation tax	1,002,939	744,209	1,002,939	744,209
Other taxation and social security	288,419	192,361	288,419	192,361
Other creditors	7,167,205	9,199,121	7,167,205	9,199,121
Accruals and deferred income	5,047,060	3,713,817	5,047,060	3,713,817
	<u>13,522,019</u>	<u>13,858,641</u>	<u>14,051,148</u>	<u>14,387,740</u>

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**MONTANARO ASSET MANAGEMENT LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**19. Creditors: Amounts falling due after more than one year**

	<b>Group 2018 £</b>	<i>Group 2017 £</i>	<b>Company 2018 £</b>	<i>Company 2017 £</i>
Accruals	52,976	1,584,174	52,976	1,584,174

**20. Financial instruments**

	<b>Group 2018 £</b>	<i>Group 2017 £</i>	<b>Company 2018 £</b>	<i>Company 2017 £</i>
<b>Financial assets</b>				
Financial assets measured at fair value through profit or loss	58,150,321	58,507,823	58,145,432	58,502,905
Financial assets that are debt instruments measured at amortised cost	10,115,279	9,042,248	10,115,279	9,042,248
	<u>68,265,600</u>	<u>67,550,071</u>	<u>68,260,711</u>	<u>67,545,153</u>

**Financial liabilities**

Financial liabilities measured at amortised cost	(5,116,432)	(8,786,077)	(5,645,561)	(9,315,176)
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Financial assets measured at fair value through profit or loss comprise current asset investments and cash at bank and in hand.

Financial assets that are debt instruments measured at amortised cost comprise trade and other debtors and accrued income.

Financial liabilities measured at amortised cost comprise trade and other creditors and accruals.

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**MONTANARO ASSET MANAGEMENT LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**21. Deferred taxation**

**Group**

	<b>2018 £</b>
At beginning of year	1,447,851
Charged to the profit or loss	52,098
<b>At end of year</b>	<b><u>1,499,949</u></b>

The deferred tax asset is made up as follows:

	<b>Group 2018 £</b>	<b>Group 2017 £</b>	<b>Company 2018 £</b>	<b>Company 2017 £</b>
Accelerated capital allowances	2,282	(18,155)	2,282	(18,155)
Provisions	1,497,667	1,466,006	1,497,667	1,466,006
	<b><u>1,499,949</u></b>	<b><u>1,447,851</u></b>	<b><u>1,499,949</u></b>	<b><u>1,447,851</u></b>

**22. Share capital**

	<b>2018 £</b>	<b>2017 £</b>
<b>Allotted, called up and fully paid</b>		
3,135,000 (2017 - 3,135,000) Deferred Ordinary shares of £0.10 each	313,500	313,500
1,375,000 (2017 - 1,375,000) B Ordinary shares of £0.10 each	137,500	137,500
990,000 (2017 - 990,000) Deferred 2024 shares of £0.10 each	99,000	99,000
	<b><u>550,000</u></b>	<b><u>550,000</u></b>

**23. Reserves**

**Other reserves**

Share option reserve represents the expected cost of share options which have not yet been exercised.

**Profit & loss account**

Profit and Loss Account includes all current and prior year retained profits and losses.

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**MONTANARO ASSET MANAGEMENT LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**24. Share based payments**

The expense recognised for employee services during the year, which is reflected in administrative expenses on the Profit and Loss Account. The expense arising from the unapproved share option scheme for the year was £536,987 (2017: £3,195,000).

	<b>Weighted average exercise price (pence) 2018</b>	<b>Number 2018</b>	<i>Weighted average exercise price (pence) 2017</i>	<i>Number 2017</i>
Outstanding at the beginning of the year	7355	254,375	6892	178,750
Granted during the year		-	8447	75,625
Forfeited during the year		-		-
Exercised during the year	5270	(13,750)		-
<b>Outstanding at the end of the year</b>	<b>7474</b>	<b>240,625</b>	<b>7355</b>	<b>254,375</b>

**25. Pension commitments**

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £107,674 (2017: £95,931). Contributions totalling £Nil (2017: £Nil) were payable to the fund at the balance sheet date.

**26. Commitments under operating leases**

At 31 December 2018 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	<b>Group 2018 £</b>	<i>Group 2017 £</i>	<b>Company 2018 £</b>	<i>Company 2017 £</i>
Not later than 1 year	299,206	289,810	299,206	289,810
Later than 1 year and not later than 5 years	1,194,922	1,159,240	1,194,922	1,159,240
Later than 5 years	455,005	724,525	455,005	724,525
	<b>1,949,133</b>	<b>2,173,575</b>	<b>1,949,133</b>	<b>2,173,575</b>

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**MONTANARO ASSET MANAGEMENT LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**27. Related party transactions**

There have been no related party transactions during the financial year other than group company transactions.

**28. Qualifying undertakings**

The name and registered office of the qualifying undertaking of which the Company is a member is as follows:

Montanaro Growth and Income Fund Limited Partnership No 3  
PO Box 118, Church Street, Goole, DN14 5YU

Copy of the latest accounts of the above undertaking is to be appended to a copy of the Company accounts sent to the Registrar under section 242 of the Companies Act 2006.

**29. Controlling party**

The Company is controlled by C G B Montanaro.



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# MONTANARO ASSET MANAGEMENT LIMITED

## Pillar 3 Risk Disclosure (Unaudited)

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### Disclosure Policy

The Pillar 3 rules in BIPRU 11 set out the need for firms to have a formal disclosure policy. In accordance with the rules of the Financial Conduct Authority ("FCA") Montanaro Asset Management Limited (MAM) will disclose the information set out in BIPRU 11 (the Pillar 3 rule) on at least an annual basis. The Pillar 3 disclosure will be made as part of the annual accounts.

MAM may omit information it deems as immaterial, in accordance with the rules. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Accordingly where MAM has considered an item to be immaterial it has not been disclosed.

In addition, if the required information is deemed to be proprietary or confidential then MAM may take the decision to exclude it from the disclosure. In MAM's view, proprietary information is that which, if it were shared, would undermine its competitive position. Information is considered to be confidential where there are obligations binding MAM to confidentiality with its customers, suppliers or counterparties. Where information is omitted for either of these reasons this is stated in the relevant section of the disclosure, along with the jurisdiction.

### Summary

MAM is authorised and regulated by the FCA.

Key points relevant to this statement are:

- MAM is involved in the business of investment management, specialising in quoted Global SmallCap and MidCap.
- MAM takes no positions in any securities but may invest in the funds it manages.
- MAM handles no client monies.

### Background

MAM was founded in 1996. In 2009 the investment management and advisory businesses of the Montanaro companies were absorbed into MAM to bring all the group businesses into one company.

### Capital Position

MAM is managed conservatively and has no bank debt or debt to external investors. Furthermore, it does not have, nor require, an overdraft facility and it maintains significant cash balances.

### Capital Adequacy

MAM believes that the basic regulatory requirements, although exceeded, are greater than those necessary for prudential running of its business. This is because of the following factors:

- MAM holds cash balances many times greater than its fixed overhead requirement;
- Within MAM's regulated activities it assumes no market risk;
- MAM has a diverse client base;
- MAM's clients are geographically diversified.

There are no plans to change the broad nature of MAM's business in the future.

### Credit and Counterparty Risk

There are no long-term loans outstanding nor does MAM currently trade in derivatives. It is not considered that there is exposure to counterparty risk as all security trading is undertaken on a Delivery vs Payment ("DVP") basis.

### Market Risk

MAM holds investments in funds it manages, which are invested in quoted companies with reasonable liquidity.

### Liquidity Risk

MAM has chosen to retain high levels of cash and liquid securities to ensure liquidity risk is immaterial.

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# MONTANARO ASSET MANAGEMENT LIMITED

## Pillar 3 Risk Disclosure (Unaudited)

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### Operational Risk

MAM has limited operational risk in its activities. Those that exist largely relate to continuity issues relating to infrastructure, including power and IT. MAM addresses these by using off-site back-up and disaster recovery services. Operational risk is significantly reduced by the use of Charles River IMS. MAM has both Professional Indemnity and Directors' & Officers' insurance with an excess of £25,000.

### Insurance Risk

MAM's insurance covers legal requirements.

### Wholesale and Unsecured Funding Risk

MAM uses no external funding.

### Concentration Risk

MAM specialises in Global SmallCap and MidCap which provides a broad geographical spread.

In addition, MAM now manages a broad range of products (open and closed-ended funds and segregated mandates; UK, Continental, Pan-European and Global) reducing risk to a single asset class and to a single revenue source.

### Currency Risk

MAM carries a small currency risk only to the extent that some of its cash balances may be in Euros or US dollars. This risk is modest in the context of its overall balance sheet.

### Securitisation Risk

Not relevant. MAM has no positions and is not involved in the bundling of securities.

### Interest Rate Risk

There are no long-term borrowings outstanding.

### Pension Obligation Risk

MAM had a defined contribution pension scheme during the year. The maximum contribution from MAM was 5% of base salaries. (6% from 1.1.19).

### Capital Requirement

The Pillar 1 Capital requirement for the coming year is £1,298,997. This has been determined by reference to MAM's fixed overhead requirement and calculated in accordance with the FCA's General Prudential Sourcebook ("GENPRU"). The fixed overhead requirement exceeded both the base and the sum of the market risk and credit risk capital requirement.

### Compliance with the rules in BIPRU and Pillar 2 Rule Requirements

MAM's overall approach to assessing the adequacy of its internal capital is set out in its Internal Capital Adequacy Assessment Process ("ICAAP").

The ICAAP involves separate consideration of risks to MAM's capital combined with stress testing analysis to determine whether any additional capital is required for Pillar 2.

MAM is a limited license €50k firm and as such its capital requirements are the greater of:

- Its base capital requirement of Euro 50k; or
- The sum of the market risk and credit risk capital requirements; or
- Its Fixed Overhead Requirement.

MAM has calculated its capital requirement in accordance with the relevant FCA rules and the final level of capital is calculated as the Fixed Overhead Requirement. On completion of the ICAAP it was concluded that no additional Pillar 2 capital is required.

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## MONTANARO ASSET MANAGEMENT LIMITED

### Remuneration Policy Disclosure

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Montanaro Asset Management Limited (MAM) is within scope of the FCA's Remuneration Code (the "Code") which governs the application of remuneration policies and practices within the firm in order to promote sound and effective risk management.

MAM adopts a conservative approach towards remuneration. The Remuneration Committee is responsible for overseeing and approving the remuneration of Code Staff within MAM. The Remuneration Policy is designed to avoid any conflicts of interest and to ensure alignment of the interests of investors in the funds managed by MAM.

The Remuneration Policy is reviewed and approved by the Remuneration Committee. Salaries are set at a level to attract and retain skilled staff. Bonuses are paid annually on a purely discretionary basis and are designed to reflect the performance of the individual, subject to the profitability of MAM. No bonuses will be paid unless there is sufficient retained profit, after bonuses, as determined by the Remuneration Committee.

MAM's Remuneration Policy is available at [www.montanaro.co.uk](http://www.montanaro.co.uk).

#### Aggregate Remuneration of Code Staff:

Within the scope of the UCITS Remuneration Code, there are seven Code Staff.

Year end 31.12.2018

	£000s	%
Total remuneration	3,081	100
Base salary	1,514	49
Variable remuneration	1,567	51

Of the variable remuneration, £206,000 (13%) is deferred for between 3 and 5 years.

**Registered number: LP009424**

**Montanaro Growth and Income Fund Limited  
Partnership No: 3**

**Report and Financial Statements  
31 December 2018**

## **Montanaro Growth and Income Fund Limited Partnership No: 3**

### **Independent Auditors' Report to the partners of Montanaro Growth and Income Fund Limited Partnership No: 3**

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#### **Opinion**

We have audited the financial statements of Montanaro Growth and Income Fund Limited Partnership No: 3 for the year ended 31 December 2018 which comprise the Income Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. 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).

In our opinion, the financial statements:  
give a true and fair view of the state of the limited partnership's affairs as at 31 December 2018 and of its profit/loss for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the provisions of the Limited Partnership Agreement.

#### **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 are independent of the limited partnership 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, and the provisions available for small entities, in the circumstances set out in notes to the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) requires us to report to you where:

- the partners' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the partners have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the limited partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The partners are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

#### **Responsibilities of partners**

As explained more fully in the partners' responsibilities statement, the partners 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 partners 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 partners are responsible for assessing the limited partnership'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 partners either intend to liquidate the limited partnership or to cease operations, or have no realistic alternative but to do so.

**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Independent Auditors' Report  
to the partners of Montanaro Growth and Income Fund Limited Partnership No: 3**

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**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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website. This description forms part of our auditor's report.

*Hillier Hopkins LLP*

**Hillier Hopkins LLP**

Chartered Accountants and Statutory Auditor

Radius House  
51 Clarendon Road  
Watford  
WD17 1HP

Date: 25 March 2014

## Montanaro Growth and Income Fund Limited Partnership No: 3

### Annual report

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The General Partner presents his report and financial statements for the year ended 31 December 2018.

#### Principal activities and review of the business

The principal activity of the limited partnership in the year under review continued to be that of investment.

The General Partner is of the opinion that the state of the limited partnership's affairs at 31 December 2018 was satisfactory.

#### Statement of responsibilities in respect of the financial statements

The Partnership Agreement dated 1 April 2004 among Montanaro Asset Management Limited ("the General Partner") and East Riding of Yorkshire Council ("The Limited Partner") requires the General Partner to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the income and expenditure and cash flows for the year. In preparing those financial statements, the General Partner is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the partnership will continue in business.

The General Partner is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Partnership and to enable that the financial statements comply with the Partnership Agreement. The General Partner is also responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The General Partner has exclusive responsibility for the management and control of the business and affairs of the Partnership and has the power and authority to do all that is necessary to carry out the objectives of the Partnership. The Limited Partner takes no part in the management or control of the business and affairs of the Partnership, but has access to and the right to inspect the partnership assets including all books and financial statements of the Partnership.

Each of the persons who are partners at the time when this Annual Report is approved has confirmed that

- so far as that Partner is aware, there is no relevant audit information of which the Partnership's auditors are unaware; and
- each Partner has taken all the steps that ought to have been taken as a partner in order to be aware of any information needed by the Partnership's auditors in connection with preparing their report and to establish that the Partnership's auditors are aware of that information.

On behalf of the General Partner



C G B Montanaro  
Director

Montanaro Asset Management Limited - General Partner

Date: 25 March 2019

**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Income Account  
for the year ended 31 December 2018**

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	<b>Notes</b>	<b>2018 £</b>	<b>2017 £</b>
<b>Income</b>			
Dividend income from listed investments		192,211	151,319
Interest income		42	-
Expenses	<b>2</b>	<u>(7,242)</u>	<u>(7,952)</u>
<b>Net income for the year</b>		<b>185,011</b>	<b>143,367</b>
<i>Realised gains/(losses) on sale of investments</i>		<u>-</u>	<u>910,671</u>
<b>Profit for the year</b>		<b><u>185,011</u></b>	<b><u>1,054,038</u></b>



**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Statement of total recognised gains and losses  
for the year ended 31 December 2018**

	Notes	2018 £	2017 £
<b>Non distributable gains and losses</b>			
Unrealised (losses)/gains on investments	3	<u>(1,097,960)</u>	<u>2,682,350</u>
<b>Distributable gains and losses</b>			
Profit for the year		185,011	1,054,038
Change in unrealised (losses) on sale of investments	3	-	(786,889)
Distribution to General Partner as Profit Share	7c	<u>(77,714)</u>	<u>(47,632)</u>
		<u>107,297</u>	<u>219,517</u>
<b>Total recognised (losses)/gains for the year</b>		<u><u>(990,663)</u></u>	<u><u>2,901,867</u></u>

**Note of historical cost profit and losses  
for the year ended 31 December 2018**

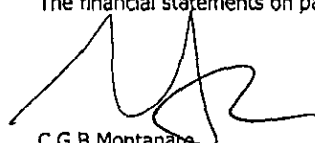
	2018 £	2017 £
Profit for the year before gains and losses on sale of investments	185,011	143,367
Realised gains on historical cost method	-	910,671
	<u>185,011</u>	<u>1,054,038</u>
Historical cost profit for the period	<u><u>185,011</u></u>	<u><u>1,054,038</u></u>

**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Balance sheet  
at 31 December 2018**

	Notes	2018 £	2017 £
<b>Fixed assets</b>			
Investments	3	13,857,773	14,765,680
<b>Current assets</b>			
Short term cash deposits	4	73,933	127,297
Sundry debtors	5	-	-
		<u>73,933</u>	<u>127,297</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	6	<u>(82,636)</u>	<u>(53,244)</u>
<b>Net current (liabilities)/assets</b>		<u>(8,703)</u>	<u>74,053</u>
<b>Total assets less current liabilities</b>		<u><u>13,849,070</u></u>	<u><u>14,839,733</u></u>
Represented by:			
Loan - Limited Partner	7a	7,249,477	7,249,477
Capital contributions	7b	7,257	7,257
Income accounts	7c	1,603,636	1,496,339
Unrealised movement in investments portfolio	7d	<u>4,988,700</u>	<u>6,086,660</u>
		<u><u>13,849,070</u></u>	<u><u>14,839,733</u></u>

The financial statements on pages 4 to 13 were approved by the General Partner on 25 March 2019.



C G B Montanaro  
Director  
Montanaro Asset Management Limited - General Partner

**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Cash flow statement  
for the year ended 31 December 2018**

	Notes	2018 £	2017 £
<b>Net cash inflow from operating activities</b>	<b>8</b>	<u>214,403</u>	<u>171,721</u>
<b>Capital expenditure and financial investment</b>			
Payments to acquire investments		(190,053)	(2,140,334)
Receipt from sales of investments		<u>-</u>	<u>2,034,608</u>
		(190,053)	(105,726)
<b>Financing</b>			
Drawings		<u>(77,714)</u>	<u>(47,632)</u>
		(77,714)	(47,632)
<b>Management of liquid resources</b>			
(Decrease)/increase in cash in year		<u>(53,364)</u>	<u>18,363</u>
<i>(Decrease)/increase in short term deposits</i>		<u>(53,364)</u>	<u>18,363</u>

## Montanaro Growth and Income Fund Limited Partnership No: 3

### Notes to the financial statements for the year ended 31 December 2018

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#### 1 Accounting policies

##### **Basis of accounting**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed asset investments and in accordance with applicable accounting standards.

##### **Investments**

The year-end market value of quoted investments is based on the middle market price quotation on the London Stock Exchange.

##### **Investment income**

Income from investments is accounted for on a receivable basis net of any tax credit.

Realised gains or losses on disposals of investments are included in the income account and the realisation of previously recognised unrealised gains or losses is reflected in the Partners' Income accounts.

#### 2 Expenses

	2018 £	2017 £
Auditors' remuneration - audit services	1,200	1,680
Custodian expenses	3,000	3,000
Accounts production and tax fees	2,750	3,182
Sundry	222	-
Bank charges	70	90
Total	<u>7,242</u>	<u>7,952</u>

## Montanaro Growth and Income Fund Limited Partnership No: 3

### Notes to the financial statements for the year ended 31 December 2018

#### 3 Investments

Investments at 31 December 2018 were as follows:

Share investment	Number of Shares	Cost £	Value 2018 £	Value 2017 £
Montanaro UK Income Seed GB Fund	2,473,642	3,869,383	4,316,506	4,996,424
Montanaro European MidCap Fund	4,090,653	2,930,868	7,216,637	7,250,456
Montanaro Select Fund GBP Dist Class	1,838,725	2,030,162	2,243,245	2,410,163
NCC Group Plc	46,426	38,660	81,385	108,637
		<u>8,869,073</u>	<u>13,857,773</u>	<u>14,765,680</u>

The movement on investments during the year was as follows:

	2018 £	2017 £
Market value at 1 January 2018	14,765,680	11,853,822
Purchases	190,053	2,140,334
Sale proceeds	-	(2,034,608)
Realised gains/(losses) on sales	-	910,671
Change in unrealised (losses)/gains	<u>-</u>	<u>(786,889)</u>
	190,053	229,508
Unrealised (losses)/gains for the year	<u>(1,097,960)</u>	<u>2,682,350</u>
	<u>(1,097,960)</u>	2,682,350
Market value at 31 December 2018	<u>13,857,773</u>	<u>14,765,680</u>

**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Notes to the financial statements  
for the year ended 31 December 2018**

**4 Short term cash deposits**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
At 1 January 2018	127,297	108,934
Net cash (outflow)/inflow	(53,364)	18,363
	<hr/>	<hr/>
At 31 December 2018	<u>73,933</u>	<u>127,297</u>

**5 Debtors**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Dividends receivable	-	-
	<hr/>	<hr/>
	<u>-</u>	<u>-</u>

**6 Creditors: amounts falling due within one year**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Accruals	82,636	53,244
	<hr/>	<hr/>
	<u>82,636</u>	<u>53,244</u>

## Montanaro Growth and Income Fund Limited Partnership No: 3

### Notes to the financial statements for the year ended 31 December 2018

#### 7 Partners' loan, capital, income and unrealised movement on investment accounts

The General Partner is entitled to receive a profit share equivalent to 0.85% per annum (plus VAT) on the NAV of the fund, calculated quarterly and paid semi-annually. The General Partner is also entitled to carried interest of 20% of any increase in NAV above that earned by the MSCI Europe Small Cap Index capped at 3%.

The total commitment of the Limited Partner is £7,256,734 (2017: £7,256,734) of which £7,249,477 (2017: £7,249,477) is in the form of a loan facility.

The loan is interest free and is repayable by distribution of partnership income and capital realisation subject to the prior payment of partnership expenses and the General Partner's profit share.

##### a) Loan accounts:

	2018 £	2017 £
East Riding of Yorkshire Council	<u>7,249,477</u>	<u>7,249,477</u>

##### b) Capital contribution accounts:

	2018 £	2017 £
East Riding of Yorkshire Council	<u>7,257</u>	<u>7,257</u>

##### c) Income accounts:

	Balance brought forward £	Income for year £	Drawings during the period £	31 December 2018 £
Montanaro Asset Management Limited	-	77,714	(77,714)	-
East Riding of Yorkshire Council	1,496,339	107,297	-	1,603,636
	<u>1,496,339</u>	<u>185,011</u>	<u>(77,714)</u>	<u>1,603,636</u>

##### d) Unrealised movement on investments

	Brought forward £	Realised in period £	Unrealised movement £	31 December 2018 £
East Riding of Yorkshire Council	<u>6,086,660</u>	<u>-</u>	<u>(1,097,960)</u>	<u>4,988,700</u>

## Montanaro Growth and Income Fund Limited Partnership No: 3

### Notes to the financial statements for the year ended 31 December 2018

#### 8 Reconciliation of operating income to net cash inflow from operating activities

	2018	2017
	£	£
Net profit for the year	185,011	143,367
Decrease in debtors	-	1,906
Increase in creditors	29,392	26,448
	<u>214,403</u>	<u>171,721</u>

#### 9 Related party transactions

The profit share paid to Montanaro Asset Management Limited is shown in note 7c to the financial statements.

Included in accruals is an amount of £77,714 (2017: £47,632) in respect of profit share due to Montanaro Asset Management Limited.

#### 10 Financial instruments

##### a) General

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

The Partnership has little exposure to credit, cash flow or interest rate risk. There are no borrowings or unlisted securities and no foreign currency translations or holdings and therefore little exposure to liquidity or foreign exchange risk. The main risk it faces arising from its financial instruments is market price risk being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate.

These risks are monitored by the General Partner. Adherence to the Partnership Agreement mitigates the risk of excessive exposure to any particular type of security or issuer. Further information on the investment portfolio is set out in note 3.

##### b) Interest Rate Risk Profile of Financial Assets and Liabilities

The interest rate risk profile of financial assets and liabilities at the balance sheet date was as follows:

	Total Market Value	Floating Rate *
	£	£
Short term cash deposits	<u>73,933</u>	<u>73,933</u>

\* Changes in the base rate will cause movements in the interest rate on cash balances.

The interest rate risk profile of financial assets and liabilities at 31 December 2017 was as follows:

	Total Market Value	Floating Rate *
	£	£
Short term cash deposits	<u>127,297</u>	<u>127,297</u>



**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Notes to the financial statements  
for the year ended 31 December 2018**

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**10 Financial instruments (continued)**

**c) Fair Value**

Fixed asset investments are included at middle market price quotation, which approximates to their fair value.

**d) Short Term Debtors and Creditors**

Short term debtors and creditors have been excluded from the disclosures of financial instruments, as permitted by FRS 102.

**Registered number: LP009424**

**Montanaro Growth and Income Fund Limited**  
**Partnership No: 3**

**Report and Financial Statements**  
**31 December 2018**

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## **Montanaro Growth and Income Fund Limited Partnership No: 3**

### **Independent Auditors' Report**

#### **to the partners of Montanaro Growth and Income Fund Limited Partnership No: 3**

---

#### **Opinion**

We have audited the financial statements of Montanaro Growth and Income Fund Limited Partnership No: 3 for the year ended 31 December 2018 which comprise the Income Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. 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).

In our opinion, the financial statements:  
give a true and fair view of the state of the limited partnership's affairs as at 31 December 2018 and of its profit/loss for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the provisions of the Limited Partnership Agreement.

#### **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 are independent of the limited partnership 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, and the provisions available for small entities, in the circumstances set out in notes to the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) requires us to report to you where:

- the partners' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the partners have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the limited partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The partners are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

#### **Responsibilities of partners**

As explained more fully in the partners' responsibilities statement, the partners 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 partners 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 partners are responsible for assessing the limited partnership'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 partners either intend to liquidate the limited partnership or to cease operations, or have no realistic alternative but to do so.

## **Montanaro Growth and Income Fund Limited Partnership No: 3**

### **Independent Auditors' Report**

#### **to the partners of Montanaro Growth and Income Fund Limited Partnership No: 3**

---

##### **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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website. This description forms part of our auditor's report.

*Hillier Hopkins LLP*

**Hillier Hopkins LLP**

Chartered Accountants and Statutory Auditor

Radius House  
51 Clarendon Road  
Watford  
WD17 1HP

Date: *25 March 2014*

## Montanaro Growth and Income Fund Limited Partnership No: 3

### Annual report

---

The General Partner presents his report and financial statements for the year ended 31 December 2018.

#### Principal activities and review of the business

The principal activity of the limited partnership in the year under review continued to be that of investment.

The General Partner is of the opinion that the state of the limited partnership's affairs at 31 December 2018 was satisfactory.

#### Statement of responsibilities in respect of the financial statements

The Partnership Agreement dated 1 April 2004 among Montanaro Asset Management Limited ("the General Partner") and East Riding of Yorkshire Council ("The Limited Partner") requires the General Partner to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the income and expenditure and cash flows for the year. In preparing those financial statements, the General Partner is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the partnership will continue in business.

The General Partner is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Partnership and to enable that the financial statements comply with the Partnership Agreement. The General Partner is also responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The General Partner has exclusive responsibility for the management and control of the business and affairs of the Partnership and has the power and authority to do all that is necessary to carry out the objectives of the Partnership. The Limited Partner takes no part in the management or control of the business and affairs of the Partnership, but has access to and the right to inspect the partnership assets including all books and financial statements of the Partnership.

Each of the persons who are partners at the time when this Annual Report is approved has confirmed that

- so far as that Partner is aware, there is no relevant audit information of which the Partnership's auditors are unaware; and
- each Partner has taken all the steps that ought to have been taken as a partner in order to be aware of any information needed by the Partnership's auditors in connection with preparing their report and to establish that the Partnership's auditors are aware of that information.

On behalf of the General Partner



C G B Montanaro

Director

Montanaro Asset Management Limited - General Partner

Date: 25 March 2019

**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Income Account  
for the year ended 31 December 2018**

---

	<b>Notes</b>	<b>2018 £</b>	<b>2017 £</b>
<b>Income</b>			
Dividend income from listed investments		192,211	151,319
Interest income		42	-
Expenses	<b>2</b>	<u>(7,242)</u>	<u>(7,952)</u>
<b>Net income for the year</b>		<b>185,011</b>	<b>143,367</b>
Realised gains/(losses) on sale of investments		<u>-</u>	<u>910,671</u>
<b>Profit for the year</b>		<b><u>185,011</u></b>	<b><u>1,054,038</u></b>

**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Statement of total recognised gains and losses  
for the year ended 31 December 2018**

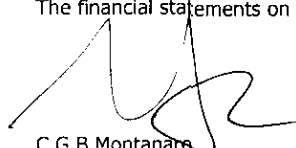
	Notes	2018 £	2017 £
<b>Non distributable gains and losses</b>			
Unrealised (losses)/gains on investments	3	<u>(1,097,960)</u>	<u>2,682,350</u>
<b>Distributable gains and losses</b>			
Profit for the year		185,011	1,054,038
Change in unrealised (losses) on sale of investments	3	-	(786,889)
Distribution to General Partner as Profit Share	7c	<u>(77,714)</u>	<u>(47,632)</u>
		<u>107,297</u>	<u>219,517</u>
<b>Total recognised (losses)/gains for the year</b>		<u><u>(990,663)</u></u>	<u><u>2,901,867</u></u>
<b>Note of historical cost profit and losses for the year ended 31 December 2018</b>			
		<b>2018 £</b>	<b>2017 £</b>
Profit for the year before gains and losses on sale of investments		185,011	143,367
Realised gains on historical cost method		-	910,671
Historical cost profit for the period		<u><u>185,011</u></u>	<u><u>1,054,038</u></u>

# **Montanaro Growth and Income Fund Limited Partnership No: 3**

## **Balance sheet at 31 December 2018**

	Notes	2018 £	2017 £
<b>Fixed assets</b>			
Investments	3	13,857,773	14,765,680
<b>Current assets</b>			
Short term cash deposits	4	73,933	127,297
Sundry debtors	5	-	-
		<u>73,933</u>	<u>127,297</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	6	<u>(82,636)</u>	<u>(53,244)</u>
<b>Net current (liabilities)/assets</b>		<u>(8,703)</u>	<u>74,053</u>
<b>Total assets less current liabilities</b>		<u>13,849,070</u>	<u>14,839,733</u>
Represented by:			
Loan - Limited Partner	7a	7,249,477	7,249,477
Capital contributions	7b	7,257	7,257
Income accounts	7c	1,603,636	1,496,339
Unrealised movement in investments portfolio	7d	<u>4,988,700</u>	<u>6,086,660</u>
		<u>13,849,070</u>	<u>14,839,733</u>

The financial statements on pages 4 to 13 were approved by the General Partner on 25 March 2019.



C G B Montanaro  
Director  
Montanaro Asset Management Limited - General Partner



**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Cash flow statement  
for the year ended 31 December 2018**

	Notes	2018 £	2017 £
<b>Net cash inflow from operating activities</b>	<b>8</b>	<u>214,403</u>	<u>171,721</u>
<b>Capital expenditure and financial investment</b>			
Payments to acquire investments		(190,053)	(2,140,334)
Receipt from sales of investments		<u>-</u>	<u>2,034,608</u>
		(190,053)	(105,726)
<b>Financing</b>			
Drawings		<u>(77,714)</u>	<u>(47,632)</u>
		(77,714)	(47,632)
<b>Management of liquid resources</b>			
(Decrease)/increase in cash in year		<u>(53,364)</u>	<u>18,363</u>
(Decrease)/increase in short term deposits		<u>(53,364)</u>	<u>18,363</u>

## Montanaro Growth and Income Fund Limited Partnership No: 3

### Notes to the financial statements for the year ended 31 December 2018

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#### 1 Accounting policies

##### Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed asset investments and in accordance with applicable accounting standards.

##### Investments

The year-end market value of quoted investments is based on the middle market price quotation on the London Stock Exchange.

##### Investment income

Income from investments is accounted for on a receivable basis net of any tax credit.

Realised gains or losses on disposals of investments are included in the income account and the realisation of previously recognised unrealised gains or losses is reflected in the Partners' income accounts.

#### 2 Expenses

	2018 £	2017 £
Auditors' remuneration - audit services	1,200	1,680
Custodian expenses	3,000	3,000
Accounts production and tax fees	2,750	3,182
Sundry	222	-
Bank charges	70	90
Total	<u>7,242</u>	<u>7,952</u>

## Montanaro Growth and Income Fund Limited Partnership No: 3

### Notes to the financial statements for the year ended 31 December 2018

#### 3 Investments

Investments at 31 December 2018 were as follows:

Share investment	Number of Shares	Cost £	Value 2018 £	Value 2017 £
Montanaro UK Income Seed GB Fund	2,473,642	3,869,383	4,316,506	4,996,424
Montanaro European MidCap Fund	4,090,653	2,930,868	7,216,637	7,250,456
Montanaro Select Fund GBP Dist Class	1,838,725	2,030,162	2,243,245	2,410,163
NCC Group Plc	46,426	38,660	81,385	108,637
		<u>8,869,073</u>	<u>13,857,773</u>	<u>14,765,680</u>

The movement on investments during the year was as follows:

	2018		2017	
	£	£	£	£
Market value at 1 January 2018		14,765,680		11,853,822
Purchases	190,053		2,140,334	
Sale proceeds	-		(2,034,608)	
Realised gains/(losses) on sales	-		910,671	
Change in unrealised (losses)/gains	<u>-</u>		<u>(786,889)</u>	
		190,053		229,508
Unrealised (losses)/gains for the year	<u>(1,097,960)</u>	<u>(1,097,960)</u>	<u>2,682,350</u>	2,682,350
Market value at 31 December 2018		<u>13,857,773</u>		<u>14,765,680</u>

**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Notes to the financial statements  
for the year ended 31 December 2018**

<b>4</b>	<b>Short term cash deposits</b>		
		<b>2018</b>	<b>2017</b>
		<b>£</b>	<b>£</b>
	At 1 January 2018	127,297	108,934
	Net cash (outflow)/inflow	(53,364)	18,363
		<hr/>	<hr/>
	At 31 December 2018	<u>73,933</u>	<u>127,297</u>
<b>5</b>	<b>Debtors</b>		
		<b>2018</b>	<b>2017</b>
		<b>£</b>	<b>£</b>
	Dividends receivable	-	-
		<hr/>	<hr/>
		<u>-</u>	<u>-</u>
<b>6</b>	<b>Creditors: amounts falling due within one year</b>		
		<b>2018</b>	<b>2017</b>
		<b>£</b>	<b>£</b>
	Accruals	82,636	53,244
		<hr/>	<hr/>
		<u>82,636</u>	<u>53,244</u>

## Montanaro Growth and Income Fund Limited Partnership No: 3

### Notes to the financial statements for the year ended 31 December 2018

#### 7 Partners' loan, capital, income and unrealised movement on investment accounts

The General Partner is entitled to receive a profit share equivalent to 0.85% per annum (plus VAT) on the NAV of the fund, calculated quarterly and paid semi-annually. The General Partner is also entitled to carried interest of 20% of any increase in NAV above that earned by the MSCI Europe Small Cap Index capped at 3%.

The total commitment of the Limited Partner is £7,256,734 (2017: £7,256,734) of which £7,249,477 (2017: £7,249,477) is in the form of a loan facility.

The loan is interest free and is repayable by distribution of partnership income and capital realisation subject to the prior payment of partnership expenses and the General Partner's profit share.

##### a) Loan accounts:

	2018 £	2017 £
East Riding of Yorkshire Council	<u>7,249,477</u>	<u>7,249,477</u>

##### b) Capital contribution accounts:

	2018 £	2017 £
East Riding of Yorkshire Council	<u>7,257</u>	<u>7,257</u>

##### c) Income accounts:

	Balance brought forward £	Income for year £	Drawings during the period £	31 December 2018 £
Montanaro Asset Management Limited	-	77,714	(77,714)	-
East Riding of Yorkshire Council	1,496,339	107,297	-	1,603,636
	<u>1,496,339</u>	<u>185,011</u>	<u>(77,714)</u>	<u>1,603,636</u>

##### d) Unrealised movement on investments

	Brought forward £	Realised in period £	Unrealised movement £	31 December 2018 £
East Riding of Yorkshire Council	<u>6,086,660</u>	<u>-</u>	<u>(1,097,960)</u>	<u>4,988,700</u>

## Montanaro Growth and Income Fund Limited Partnership No: 3

### Notes to the financial statements for the year ended 31 December 2018

#### 8 Reconciliation of operating income to net cash inflow from operating activities

	2018	2017
	£	£
Net profit for the year	185,011	143,367
Decrease in debtors	-	1,906
Increase in creditors	29,392	26,448
	<u>214,403</u>	<u>171,721</u>

#### 9 Related party transactions

The profit share paid to Montanaro Asset Management Limited is shown in note 7c to the financial statements.

Included in accruals is an amount of £77,714 (2017: £47,632) in respect of profit share due to Montanaro Asset Management Limited.

#### 10 Financial instruments

##### a) General

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

The Partnership has little exposure to credit, cash flow or interest rate risk. There are no borrowings or unlisted securities and no foreign currency translations or holdings and therefore little exposure to liquidity or foreign exchange risk. The main risk it faces arising from its financial instruments is market price risk being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate.

These risks are monitored by the General Partner. Adherence to the Partnership Agreement mitigates the risk of excessive exposure to any particular type of security or issuer. Further information on the investment portfolio is set out in note 3.

##### b) Interest Rate Risk Profile of Financial Assets and Liabilities

The interest rate risk profile of financial assets and liabilities at the balance sheet date was as follows:

	Total Market Value	Floating Rate *
	£	£
Short term cash deposits	<u>73,933</u>	<u>73,933</u>

\* Changes in the base rate will cause movements in the interest rate on cash balances.

The interest rate risk profile of financial assets and liabilities at 31 December 2017 was as follows:

	Total Market Value	Floating Rate *
	£	£
Short term cash deposits	<u>127,297</u>	<u>127,297</u>

**Montanaro Growth and Income Fund Limited Partnership No: 3**

**Notes to the financial statements  
for the year ended 31 December 2018**

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**10 Financial instruments (continued)**

**c) Fair Value**

Fixed asset investments are included at middle market price quotation, which approximates to their fair value.

**d) Short Term Debtors and Creditors**

Short term debtors and creditors have been excluded from the disclosures of financial instruments, as permitted by FRS 102.