

# Downing Strategic Micro-Cap Investment Trust



## June 2021 Commentary

In June, the Company's NAV increased by 0.7% and the share price decreased by 2.3%. This performance masked a reasonably active and positive month in terms of results and investing actively. We have several ideas in WIP which we hope to convert over the coming months pending positive diligence, notwithstanding a toehold added in June which was subsequently bid for (see below).

Volex (-0.1%) and Ramsdens (+2.6%) reported full year and interim results, respectively. Volex's were predictably strong and showed great progress on the strategic priority to achieve 10% operating margins. Looking forward, we think that the business continues to guide conservatively, particularly around electric vehicles and healthcare, where we calculate run rates which are well ahead of consensus. The latest acquisition, DE-KA, is performing extraordinarily well and the 25% capacity expansion and new large customer contract will be significantly accretive to earnings. We think that the business ought to continue its upgrade cycle through this year on an organic basis, while expanded debt facilities and organic free cash flow provide ample opportunity to continue inorganic growth. Ramsdens reported an encouraging set of interims in an otherwise tricky period, navigating country wide lockdowns with what is a predominantly physical retail-based model. We have previously mentioned that we expect the recovery here now to be in 2022, with the main catalyst being a return of the FX business. We are also encouraged by the potential to generate significant rent savings going forward, which ought to improve profitability.

Elsewhere, Hargreaves Services (-3.2%) reported a pre-close trading update which was in-line with previously upgraded earnings per share (EPS) guidance for this year from 20p to over 50p, and upgraded price target to 530p. We see scope for further catalysts over the next 12 months through the Services and Land divisions. Digitalbox (flat) announced the non-executive director appointment of Phil Machray who has worked for Reach – the largest commercial, national and regional news publisher in the UK – since 2004. This is a strategically important position as Phil brings significant M&A and digital experience, both highly relevant for Digitalbox's roll up, digital focused strategy.

In last month's factsheet we reported that we were progressing through the initial stages of diligence of a new investment. In the month, we took a toehold position in this company, having completed multiple rounds of calls with management, the board, investors, industry experts and competitors. The company was subject to a bid approach 15 days after we acquired our position and we fully exited based on risk weighted to the downside should the bid not be successful. The company was just over 3% of NAV pre-bid and was only a small premium (+14%) to our average cost. Given our small initial stake (<3% of the equity) and the shareholder structure, we were not able to push for an improved price. This is a disappointing outcome given the time invested and the long-term potential of the company, but does highlight that our approach can uncover quality assets which are strategically attractive.

*Opinions expressed in this document represent the views of the investment manager at the time of publication, are subject to change, and should not be interpreted as investment advice.*



Lead Investment Manager  
**Judith MacKenzie**

Judith is a Partner at Downing, having joined in 2009 and founding Downing Fund Managers.

Previously she was a partner at Acuity Capital managing AIM-quoted VCT and IHT investments and a small-cap activist fund. Prior to Acuity, Judith spent nine years as a senior investment manager with Aberdeen Asset Management Growth Capital as co Fund Manager of the five Aberdeen VCTs, focusing on technology and media investments in both the public and private arenas.

### Investment rationale

- ▶ The Company aims to generate a return of 15% p.a. compound over the long term. Please note that this is a target only and is not guaranteed.
- ▶ The Manager employs a value approach and seeks to be influential through taking strategic stakes.
- ▶ The Company seeks to hold a concentrated portfolio between 12-18 holdings.
- ▶ The Company will typically hold between 3 – 25% of the equity of investee companies, notwithstanding ability to use debt instruments alongside equity.
- ▶ Long-term investment horizon over three to seven years.
- ▶ Private equity approach to research and engagement seeks to unlock greater shareholder value over the long term
- ▶ We believe a strategic, proactive investment approach can help smaller companies realise their potential
- ▶ Buyback mechanism for up to 14.99% of the equity of the Company seeking to closely control discount (at the Board's ultimate discretion and subject to shareholders' annual approval).

Fund discrete performance (%)	Rolling 12-month period 38.57% (30/06/2020-30/06/2021)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	1.63	3.80	2.46	7.64	-0.62	0.69							16.42
2020	1.26	-10.64	-17.04	8.45	0.64	0.12	-2.09	6.44	-2.09	2.04	8.69	5.17	-2.36
2019	-1.81	-3.59	1.65	4.01	-3.93	-1.20	0.57	-3.75	-2.83	0.72	5.23	5.57	-0.02
2018	-0.98	-1.49	-1.76	-1.15	1.14	-2.24	-1.04	-0.19	-0.51	-7.23	1.07	-4.04	-17.18
2017*					-0.02	-0.12	-0.64	-1.31	-0.16	-1.02	-0.55	0.86	-2.94

\* From inception 09/05/2017 to 31/12/2017

Source: Downing LLP. Please note that past performance is not a reliable indicator of future results.

# Portfolio summary As at 30 June 2021

## Top five holdings

Holding	Sector	% of Company
Volex plc	Electrical Equipment	14.27
Real Good Food (incl. loan notes)	Food Producers	9.40
Hargreaves Services plc	Support Services	9.77
Fireangel Safety Technology Group	Electrical Equipment	7.79
Adept Technology Group plc	Telecommunications	7.46

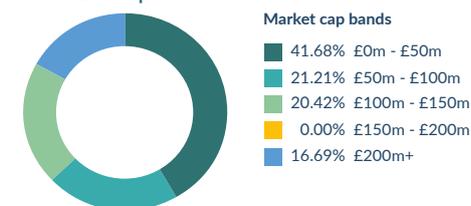
\*Holding includes a 9.06% loan note and 0.34% equity split

## Portfolio by sector



Source of holding and sector data is Downing LLP.

## Market Cap



Source of market cap data is Factset.

# Key facts As at 30 June 2021

### Launch date

9 May 2017

### Morningstar sector

UK Small Cap Equity

### Total market value

£39,321,899.16

### Total net assets

£46,341,460.59

### No of Ordinary Shares in issue

51,739,341

### NAV incl. income (starting NAV 98.04p)

89.57p

### Market Price of Ordinary Shares

76.00p

### Premium (Discount)

-15.15%

### Dividends

The company has no stated dividend target. Subject to approval by shareholders at the annual general meeting, a dividend of 0.8p has been proposed for the year ending 29 February 2021 and will be paid to shareholders on 9 July 2021.

Source of data: Downing LLP.

### Codes and fees

Ordinary Share ISIN: GB00BF0SCX52

Ordinary Share SEDOL: BF0SCX5

Ordinary Share Ticker: DSM

AMC on market cap: 1%

### Ongoing charges

The ongoing charges represent the company's management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average daily net assets during the year.

The ongoing charges for the year ending 28 February 2021 were 1.84%.

### Managers

Judith MacKenzie & Nick Hawthorn

### Directors

- » Hugh Aldous, Chairman
- » Linda Bell, Non-Executive Director
- » Robert Legget, Non-Executive Director
- » William Dawkins, Non-Executive Director

### Financial calendar

The company's annual financial statements will be prepared to 28 February in each year and will typically be sent to shareholders within four months of its financial year end.

The company also publishes an unaudited interim report covering the six months to 31 August each year, typically within two months of that date.

### Further information

#### Registered Office

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**Risk warning:** Your capital is at risk. Investments and the income derived from them can fall as well as rise and investors may not get back the full amount invested. Investments in smaller companies will normally involve greater risk or volatility than investments in larger, more established companies. Performance figures are taken from daily valuations provided by Downing LLP. Return is the total return (value of the investments plus cash including income after all expenses and charges), ignoring investor's taxation. Because shares in an investment Trust are listed on the London Stock Exchange their price is affected by supply and demand. This means that the share price may be different from the NAV. The Company's investment strategy may involve the use of leverage, which exposes the Company to risks associated with borrowings. Please note that past performance is not a guide to future performance.

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