

Downing Strategic Micro-Cap Investment Trust



April 2021 Commentary

In April, the Company's NAV returned 7.6% and the share price returned 5.5%. The discount widened slightly to 14.5% on the back of the strong NAV performance. The portfolio continues to benefit from improving sentiment with four holdings increasing by over 20% and only three detractors in the month. The company realised a significant portion of its Real Good Food investment in the month.

FireAngel Safety Technology Group (+46.0%) announced a significant partnership worth over €21 million to develop a next generation alarm. Subsequently, the company announced results which highlighted a challenging past year, but a much brighter future, aided by a fundraise to fund growth and efficiency investments. AdEPT Technology Group (+23.5%) announced the acquisition of Datrix, a supplier of cloud-based networking, communications and cyber security solutions. We think that Datrix fits nicely in AdEPT's portfolio and believe that 2021 looks increasingly positive for the group, with a raft of strategic progress made in the previous 12 months. Flowtech Fluidpower (+20.9%) also announced pleasing results which highlighted management's hard work through a challenging Covid year. We think that the business is in great position to, firstly, recover to pre-pandemic levels of profits, and secondly, grow, through exposure to a market with increasing tailwinds and through taking organic and inorganic market share. Our remaining toehold (+20.8%) also continues to perform well and is trading ahead of expectations post re-opening. It has generated over a 2x return since we began purchasing in January.

Detractors were mainly in the form of Duke Royalty (-5.9%) and Digitalbox (-6.6%). Duke Royalty announced the successful results of its placing which we talked about in the last factsheet. Digitalbox reported no new news in the period.

Arguably the most significant news in the period is the partial redemption of our investment in Real Good Food (RGD) loan notes. RGD sold Brighter Foods for £43 million, and RGD loan note holders will receive £23.1 million of these proceeds. DSM has received over £5.3 million and has now recovered more than the cost of its investment in the 10% loan notes while retaining £2.0 million in these notes, £1.2 million in 12% convertible notes, and a residual amount of RGD equity. As at 11 May, this reduces DSM exposure to RGD to below 10%. We think there is scope for the remaining RGD business, Renshaw, to recover and return value to RGD debt and equity holders.

Finally, DSM made a new investment in Tactus – a private business that provides multi-branded IT hardware to retailers and the public sector. Tactus had a transformational Covid year and DSM partially funded the acquisition of CCL Systems which provides Tactus an e-commerce platform and access to the fast-growing PC gaming space. Management's ambition is to create the premier gaming e-commerce platform. DSM invested £1.5 million split 50/50 in 10% yielding loan notes and equity.

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.

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



The Downing Strategic Micro-Cap Investment Trust [website](#) includes further information about the company including annual and half year reports, investor update letters, historic factsheets and video content from the manager.



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.

Company Objectives

- ▶ 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.
- ▶ 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 39.52% (30/04/2020-30/04/2021)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	1.63	3.80	2.46	7.64									16.34
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.

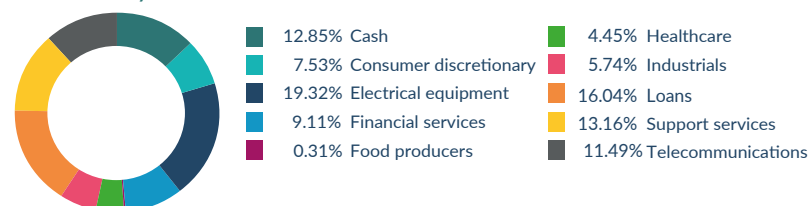
Portfolio summary As at 30 April 2021

Top five holdings

Holding	Sector	% of Company
Voilex plc	Electrical Equipment	12.99
Real Good Food (including loan notes)	Food Producers	16.35
Adept Technology Group plc	Telecommunications	8.22
Hargreaves Services plc	Support Services	7.59
Ramsdens Holdings plc	Financial Services	6.68

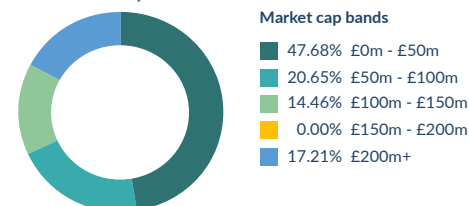
*Holding includes a 16.04% loan note and 0.31% equity split

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 April 2021

Launch date

9 May 2017

Morningstar sector

UK Small Cap Equity

Total market value

£39,763,323.77

Total net assets

£46,522,437.39

No of Ordinary Shares in issue

51,978,201

NAV incl. income (starting NAV 98.04p)

89.50p

Market Price of Ordinary Shares

76.50p

Premium (Discount)

-14.53%

Dividends

The company has no stated dividend target. A dividend of 1.6p for the year ending 29 February 2020 was paid to shareholders on 3 July 2020.

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

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www.downingstrategic.co.uk

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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