

Downing Strategic Micro-Cap Investment Trust



May 2022 Commentary

In May, the Company's NAV declined by 5.6%, underperforming the market (which declined by 4.6%), for the first time this year. However, year-to-date relative performance is reassuring, with the Company -0.3% versus the market at -19.8%. This outperformance is driven by our lack of highly rated businesses with valuations anchored far in the future, albeit our negative performance in the month has also been driven by a de-rating of several holdings which were already inexpensive.

Norman Broadbent (-15.4%) reported its first set of final results since a programme of significant change began, led by new management. The business is showing early signs of success as Q4 2021 reported strong Net Fee Income growth and the business has bolstered its fee earning talent by 50% in 2022. The results coincided with the Company's injection of new financing, alongside another major shareholder. The Company invested £0.2 million with a 10% coupon and 2.5% redemption premium in the first year. Both interest and redemption premium increase post the first anniversary of the instrument. **Venture Life (-13.5%)** reported in-line results and a wholesale change of the non-executive board, which we supported, on the back of poor trading and guidance by management. The business now must execute against re-based expectations and deliver modest revenue growth and margin expansion, but trades at a reasonable valuation with consensus pointing to almost a 15% free cash flow yield and less than 4x EV/ EBITDA. The change in board is a positive given the underperformance of the previous non-execs and we are encouraged by the new Chairman buying shares.

National World (-17.4%) announced a reassuring trading update with strong digital growth and robust print revenues. The business noted a challenging outlook impacted by consumer confidence which impacts marketing spend, yet there are significant strategic levers which the business can pull to grow earnings, including deploying the £21.5 million of net cash (versus a market cap of around £53 million). The shares have de-rated along with the entire sector which looks oversold to us, albeit NWOR's valuation is extreme at a little over 3x EV/ EBITDA, given its unencumbered model and strong balance sheet. **Digitalbox (-25.0%)** has de-rated on similar consumer concerns to NWOR, yet we think it continues to trade well. Management took a strategic step forward in the month with the conditional acquisition of the web and mobile platform assets of TV Guide.co.uk for £0.55 million (from £2.8 million of cash). TVG has a reach of over 1 million monthly users and has recently expanded to cover major streaming services. It is an underperforming asset, like Tab Media which DBOX acquired in October 2021 and rapidly turned around into a growing and profitable platform. We think that management can execute a similar playbook here. **Real Good Food (+25.0%)** announced the disposal of a small surplus property of £0.9 million with proceeds used to reduce debt.

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.

	Fund discrete performance													Rolling 12-month period -4.93% (31/05/2021 to 31/05/2022)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year													
2022	4.83	-3.90	2.61	2.15	-5.57																					
2021	1.63	3.80	2.46	7.64	-0.62	0.69	-1.02	5.73	-1.63	-1.51	-7.27	0.70	10.22													
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												

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

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



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 Manager
Nick Hawthorn

Nick began working on the buy side in 2013 and joined Downing in September 2015 from BP Investment Management. Prior to this, he worked for Aberdeen Asset Management. Nick holds an MSc in Finance and Investment from Durham University and a MA in Accounting and Economics from the University of Aberdeen.

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).

Portfolio summary

As at 31 May 2022

Top five holdings

Holding	Sector	% of Company
Real Good Food Company Plc (including loan notes)	Food Producers	12.34
Hargreaves Services Plc	Support Services	10.05
Ramsdens Holdings Plc	Financial Services	8.75
Flowtech Fluidpower Plc	Industrials	8.28
Volex Plc	Electrical Equipment	8.05

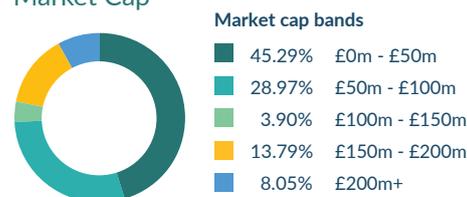
*Holding includes a 11.98% loan note and 0.36% equity split

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 31 May 2022

Launch date

9 May 2017

Morningstar sector

UK Small Cap Equity

Total market value

£33,921,119.17

Total net assets

£41,875,790.95

No of Ordinary Shares in issue

49,519,882

NAV incl. income (starting NAV 98.04p)

84.56p

Market Price of Ordinary Shares

68.50p

Premium (Discount)

-19.00%

Dividends

The company has no stated dividend target.

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 2022 were 1.75%.

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

St Magnus House
3 Lower Thames Street
London
EC3R 6HD
Telephone: +44 (0) 207 416 7780
Email: customer@downing.co.uk

Source of data: Downing LLP.

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.

Important notice: This document has been approved and issued by Downing LLP ("Downing"), St Magnus House, 3 Lower Thames Street, London EC3R 6HD. This document is for information only and does not form part of a direct offer or invitation to purchase, subscribe for or dispose of securities and no reliance should be placed on it. 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. You should only invest based on the information contained in the relevant product literature available from Downing. Downing does not offer investment or tax advice or make recommendations regarding investments. Please see the relevant product literature for details of charges; your attention is drawn to the risk factors contained therein. Downing is authorised and regulated by the Financial Conduct Authority (Firm Reference No. 545025). Registered in England No. OC341575.

DSM3082_Jun (May) 2022