

# Downing Strategic Micro-Cap Investment Trust



## March 2022 Commentary

In March, the Company returned 2.6%, which was materially ahead of the market which was broadly flat. It has been a strong first quarter for NAV per share which is up 2.6% versus the rest of the market which is up 0.2%. This has been driven by our value orientated style which has avoided much of the multiple compression across the top end of the market, coupled with strong underlying investment performance. Despite the strong NAV performance and encouraging trading from our companies, the share price continues to linger and the discount at month end was well over 20%, reflecting the negative sentiment of the market as a whole.

Almost half of the Company's holdings reported results in the month. **Flowtech's (+9.0%)** results were well trailed, with the business demonstrating a strong recovery and finishing the year just short of pre-Covid levels of revenue. We continue to believe that the company should fare well in this high inflationary environment as over 50% of the business is in essential MRO (maintenance, repair, and overhaul) spend thus **Flowtech** should have strong pricing power. The e-commerce rollout has been delayed, but we expect to begin seeing data from this at the half-year results and overall, this should allow the business to take market share at a faster rate as they begin selling directly to their customers rather than through local distributors. **Centaur Media (+9.1%)** generated a strong performance across all its titles and brands with only the events business continuing to lag, however we expect this to begin a recovery through 2022. We believe that the market proposition for Centaur's premium digital products remains very strong and should continue through 2022 as customers seek improving yields across their customer base. The overall financial targets of the MAP23 strategy seem well within reach - £45 million of revenue and 23% EBITDA margin – and these provide a pathway to a significant double-digit free cash flow margin. **National World (-0.8%)** reported maiden results under our ownership. The full year was a 10% upgrade versus consensus expectations which was pleasing. Both the print and digital business revenue performance was stronger than we expected. We continue to think that guidance is set conservatively here with cover price increases and stabilised ad revenues in print and the prospect of an exit run-rate of 200m average monthly page views. In addition, we expect the improved conversion and monetisation of digital subscribers to play out through 2022. There are also significant further operating and tax savings to come through and £22 million of net cash to inorganically grow the business. **FireAngel's (-5.0%)** results were in-line with expectations and with a strong outlook for this year with the margin enhancement plan progressing well. The business also provided greater clarity around the German Techem contract which could more than double the revenues of the business over the medium-term and without any significant investment risk to **FireAngel**. Results from **DigitalBox** (no move) were also in-line and we note a particularly strong outlook from management. The business upgraded earnings several times last year and we think that operating leverage could continue to drive earnings beats at the mobile-optimised publisher. Our single toehold position (+12.2%) also reported strong results and it is at an earnings inflection point as revenues continue to grow post Covid.

**Hargreaves Services (+18.7%)** released a trading update in the month which highlighted that the German joint venture continues to trade very strongly in the face of higher commodity prices.

*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 5.42% (31/03/2021 to 31/03/2022)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2022	4.83	-3.90	2.61										3.38
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 March 2022

## Top five holdings

Holding	Sector	% of Company
Real Good Food Company Plc (including loan notes)	Food Producers	11.65
Hargreaves Services Plc	Support Services	9.77
Flowtech Fluidpower Plc	Industrials	8.42
Volex Plc	Electrical Equipment	8.06
Ramsdens Holdings Plc	Financial Services	7.44

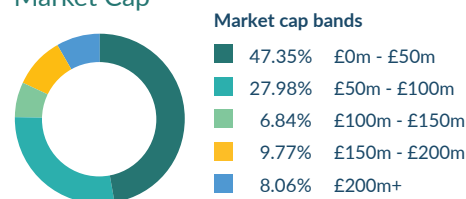
\*Holding includes a 11.31% loan note and 0.34% equity split

## 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 31 March 2022

### Launch date

9 May 2017

### Morningstar sector

UK Small Cap Equity

### Total market value

£33,502,468.95

### Total net assets

£43,833,920.29

### No of Ordinary Shares in issue

50,003,685

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

87.66p

### Market Price of Ordinary Shares

67.00p

### Premium (Discount)

-23.57%

### 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 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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Source of data: Downing LLP.

[www.downingstrategic.co.uk](http://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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