Downing Strategic Micro-Cap Investment Trust PLC

Half-Yearly Financial Report

31 August 2021

Downing

The investment objective of the Company is to generate capital growth for shareholders over the long term from active involvement in a focused portfolio of UK micro-cap companies (those whose market capitalisations are under £150 million at the time of investment) targeting a compound return of 15% per annum over the long term.

Strategy

We are value investors who seek to achieve the investment objective by making investments in listed micro-cap companies. We believe that this universe offers attractive investment opportunities and is highly inefficient, which will aid the realisation of the return target. Additionally, the Investment Manager seeks 'strategic' involvement in their investee companies – a process through which they have proved to be effective at delivering returns in the past.

Universe

- The Investment Manager considers the micro-cap universe to be companies with a market capitalisation of less than £150 million, at the time of investment.
- By definition, this comprises approximately 50% of UK listed companies.
- On average, there are fewer than three analysts covering any one of these companies, leading to pricing inefficiencies.
- The Investment Manager expects these inefficiencies to become greater due to regulatory change in the financial sector.

Portfolio

- The Company's portfolio of investments typically comprises between 12 and 18 holdings.
- The Company typically seeks to hold between 3% and 25% of the equity of these investee companies, notwithstanding the ability to use debt instruments alongside equity.
- Typically, investments are appraised over a three to seven-year investment horizon.

Process

- The Investment Manager's investment process is bottom up and value driven. This means that they focus on company fundamentals rather than macro-economic drivers, and that they aim to invest in line with value principles.
- Therefore, the Investment Manager focuses on cash generation and return on capital metrics.

Strategic involvement

- The Investment Manager seeks to invest in companies which are materially undervalued and where there is scope for strategic involvement going forward.
- Strategic mechanisms typically include, but are not limited to: providing funding for organic and inorganic growth; providing capital for restructuring operations; implementing incentive plans to align management over the long term; and rectifying sub-optimal corporate governance practices.

Discount control

- In normal markets, as permitted, the board of the company manages share buybacks so as to contain within an acceptable range the extent of the Company's share price discount to the underlying net asset value ('NAV') per share.

Contents

Financial highlights

Assets	(Unaudited) 31 August 2021	(Audited) 28 February 2021	Change %
Net assets (£'000)	**48,152**	42,524	13.23
Net asset value ('NAV') per Ordinary Share	**93.74p**	81.16p	15.50
Mid-market price per Ordinary Share	**76.00p**	72.00p	5.56
Discount	**18.92%**	11.28%	

Revenue	(Unaudited) Six months ended 31 August 2021	(Audited) Year ended 28 February 2021
Revenue return per Ordinary Share	**0.17p**	1.02p
Capital return per Ordinary Share	**12.96p**	9.56p
Total return per Ordinary Share	**13.13p**	10.58p

Performance from 9 May 2017 to 29 October 2021

Source: Downing LLP
Ordinary shares admitted to trading on 9 May 2017 at 100p per ordinary share. Starting NAV of 98.04p per ordinary share.
Dividends paid have been ignored in the above chart.

Operational highlights

The Company now holds positions in the following businesses:

AdEPT Technology Group PLC (AdEPT)	Ramsdens Holdings PLC (Ramsdens)
Digitalbox PLC (Digitalbox)	Real Good Food PLC (RGF)
Duke Royalty Limited (Duke Royalty)	Synectics PLC (Synectics)
FireAngel Safety Technology PLC (FireAngel)	Tactus Holdings Limited (Tactus)
Flowtech Fluidpower PLC (Flowtech)	Venture Life Group PLC (Venture Life)
Hargreaves Services PLC (Hargreaves)	Volex PLC (Volex)

Highlights

- NAV per share increase of 15.5% for the half-year period
- Partial loan note redemption from Real Good Food plc, generating proceeds of £5.3 million
- Partial exit from and valuation uplift to Tactus Holdings Limited, resulting in a NAV increase of 2.07p (0.85p realised and 1.22p unrealised)
- Continued reinvestment of portfolio gains, with several new toehold positions added during and after the half-year period
- Increase in cash over the half-year period, from 8.03% to 12.47% of NAV
- Aggregate unrealised gains of £3.4 million as at 31 August 2021
- Outperformance against the FTSE AIM All-Share Index over the half-year period (chart below)

Chairman's Statement

Overview

Over the last year or so, DSM has shown itself to be not only a beneficiary of a shift towards value investing, a theme in troubled times, but it has presented a robust, successful portfolio, oriented to growth as well as value, comprised of well-managed, well-financed companies. Meanwhile the market has had a slow summer, economically and politically, becoming edgier. There have been a few signs of 'better', but those have been amid troublesome issues inducing market rotation in their turn. The market has taken a recent 5% correction and currently remains cautious. Nevertheless, for the half-year the DSM NAV was up 15.5% and up 39.2% on the NAV of 31 August 2020.

The DSM portfolio has proved its value as part of the UK's economic future. Shareholders have not only enjoyed good returns, but they have invested in determined small companies building that future.

Performance

Your company's NAV per share on 31 August 2021 was 93.74p, an increase of 15.5% on the NAV per share on 28 February 2021 (81.16p) and an increase of 39.2% on the prior interim NAV per share of 31 August 2020 (67.36p). All companies in the portfolio have made good progress and, as you will see from the manager's report and my comments below, their prospects improve.

As to share price, discounts for investment companies tended to widen in late summer. That happened to DSM and, in addition, your board was briefly constrained from acting because we were 'inside' on a successful deal by the manager. Consequently, we ended the period for this report at a wider discount than normal with a mid-market share price of 76p, only 5.56% up on the company's year-end, but even so that was 49% up on the prior interim report. At the time of writing the discount has returned to some 12%, typical for the sector.

As to any view on dividends, they are not part of our objective, but the year-end results in February are likely to see a modest distribution proposed.

Looking forward

Although we can't call markets, we can say that there looks to be more uncertainty than there has been for a while, notwithstanding Covid. Inflation may be, but probably isn't, 'transitory', energy costs are current headlines, shortage of skills is too evident. Interest rates have been exceptionally low for a long time but how to raise them significantly if necessary? If there is an equilibrium, it may not be stable. Expect turbulent weather sooner or later.

Fortunately, soundly based, soundly financed, forward looking companies make up most of the DSM portfolio. The manager's investor letter for 31 August 2021 (and if you don't get those letters, you really must go on the website and register for them – they are clear and good) said of the portfolio, *'boards have been re-shaped, strategies re-focused and tough positions exited'*. The management team probes for companies that address the future needs of our economy and yet have been overlooked, in value terms, by the market. With what we think will be significant change in the UK, the challenge of revitalising earnings and productivity, and contributing to everyone's wealth (poorly expressed as 'levelling up') is critical; best achievable if somehow the central establishment can be further shaken (rather than stirred) into life. Opportunity waits for national change – not for White Papers. Governments have, sadly, tended to drain effort and local energy into its central mire of glumness; let's hope this time it will be different and UK entrepreneurism, generating regional economic and social wealth, will flourish.

Meanwhile, DSM is a small but proud player, injecting determination and support in backing companies focused on the future.

Strategy

Investing in small companies, that are materially undervalued and in need of some strategic involvement, is our core purpose. A paragraph on strategy is traditionally expected, but your company's strategy is summarised on the inside cover of the report and accounts and remains unchanged. It is time-consuming but rewarding, as recent results have shown.

Chairman's Statement (continued)

The portfolio

You have the manager's report, on pages 6 to 8, taking you through a portfolio of companies in good health, many quite leading edge, and which includes some private equity that has already caught valuable attention. Performance by all the investee companies has been sound – hence the considerable uplift in NAV. Despite that, the portfolio at NAV still stands at a considerable discount to intrinsic value: it comprises small companies unreasonably overlooked – even though each has a likely exit. Their worth should be realised nicely in time and they currently offer excellent value. To quote the 31 August investor letter to shareholders again, *'the DSM portfolio offers great value, great growth and lots of catalysts over the short and medium term'*. The injection of £40m by a large technology investment trust into Tactus, a DSM private equity IT investment, is an example of the last point. Meanwhile your board takes an active interest in the very considerable work in progress list on which the managers are focused.

Looking after shareholders - Discount management

I talk to the larger shareholders at least twice a year. As a board we look to buy-back if the discount drifts out beyond par for a company like DSM. The average for the period from 28 February 2021 to date is 14.8%. We take a view. We hope we shall be able to get the discount to single figures in a healthy market. As to redemptions, I have talked to shareholders and have expressed my view for some years now that it is damaging to start selling part of what is a small fund invested in undervalued and still developing companies in order to run a redemption programme when we can manage buy-backs more constructively. This autumn's discussions with larger shareholders will follow the release of these interims, but meantime, working with our brokers, we have enabled exits for those who had to manage changes in their mandates and we have looked after the retail investor.

Board and managers

Your board has a rapport with the managers that is open, direct, cheerfully respectful and healthy. We assess each other annually. I have sat on many boards; I think the culture here is exceptional. A credit to all. Judith MacKenzie and Nick Hawthorn are the right managers for this company's strategy, my fellow board members make a complementary team.

Doctors' Support Network

The non-executive directors agreed last year to allocate a proportion of their fees to launch a coaching scheme by Doctors' Support Network (DSN), a charity which provides support for medics with mental health problems. DSN has used this money to provide specialised coaches for doctors at all levels of seniority who need help to manage personal career concerns, including the stresses of treating Covid patients and the consequent burdens on the health service as a whole. Thus far, DSN has accepted nearly half of the 40 doctors for which it has capacity. The feedback has been extremely positive and the hope is that further such initiatives will build on DSN's experience.

Hugh Aldous
Chairman
1 November 2021

Investment Manager's Report

We have been unusually bullish on the prospects of DSM since the start of 2021 (see investor letters from August and February). These letters reiterate our progressive confidence in the portfolio of DSM. We don't use phrases like 'coiled spring' and 'best ever prospects for the portfolio' without conviction. As Managers, as soon as we were released from market constraints, we have been personal buyers of stock in DSM, as have other Downing related parties. These are material positions for us as individuals. More importantly, 9 of our 14 investments have evidenced management teams buying stock in their own companies.

This is because the prospects for the DSM investments are healthy. We are not blind to what are aggressive headwinds for UK PLC. At the current time it is pleasing to note that, of our 14 investment companies, all bar one are meeting or are ahead of our expectations, and capable of delivering earnings and cash-flows which should ultimately be better than pre-Covid times. They are now typically more efficient, better managed, and able (or will be very soon) to achieve better returns on invested capital than when we first invested. The one positive irony of companies coming through change, as many in the DSM portfolio have, is that they tend to be leaner when they emerge from these changes. Hence, we believe that the portfolio is as well positioned as it can be for rougher times, which now seem inevitable. The strength of the balance sheets of our portfolio companies is additionally reassuring. We are generally pessimistic on the equity markets, and the potential for headwinds given some lofty valuations, however we are cautiously optimistic for the prospects of our portfolio positions.

In many cases the prospects in this confusing time are still not understood by the market, and hence our job continues to be to ensure that these unique UK-based, but internationally operational companies, are recognised by the market - otherwise they will most likely be targets for international corporate activity. The positions in DSM are good value in terms of relative valuations in other UK markets, but extraordinarily cheap when compared to their international peers.

These Interim Results highlight our activity in greater detail than previously, hopefully allowing investors to draw their own conclusions as to the quantifiable upside in the portfolio. We won't pontificate on the macro-outlook, however, investors can be reassured that we discuss the challenges regularly with our investee companies, who are the best barometer for what is really happening in the world. We don't tend to trust economists to forecast the outlook for our portfolio.

Our investee companies typically have strong balance sheets, and the niche nature of their activities often allow them to prove a competitive edge, which in turn enables them to pass on inflationary costs to customers. Typically, our investments have demonstrated operational flexibility, especially through Covid. The strength of balance sheets has allowed many of our investments to finance demand through selectively investing in their inventories. Inevitably, we suspect that although some of the supply chain issues may find an equilibrium, inflation and interest rates will continue to be a feature of everyday life for some time. The honeymoon period is over, and we welcome a fairer equilibrium in our economy.

The safest place for investment we believe, continues to be in small, inexpensive cash generative businesses of which this portfolio has plenty. We believe that there remains significant pent-up recovery in a number of our holdings, and these are complemented by core positions in well priced and strongly growing enterprises. Meanwhile, having 12% of the NAV in cash (at the time of writing) provides an opportunity to capitalise on market turbulence and mispricing, as it allows us to invest in companies we know well and have undertaken diligence on.

Intrinsic discount

Although we often talk of the discount to the intrinsic value that sits within the portfolio, we understand that that is our own judgement, resulting from thorough reassessments of the values of our underlying businesses.

It is worth noting that, if our Covid 'laggard' investments (defined, in our view, as those where share prices have not responded to positive newsflow) get back to ***just*** our entry value, then there would be mid double digit upside on the current NAV. Whilst we accept that there are headwinds, including supply chain issues and wage inflation, we believe these investments are operationally more effective than when we first invested, and their share prices are not reflective of this. It is clearly subjective as to whether their share prices can return to their previous levels, however we feel that the fundamentals could justify this upside.

Still, this does not reflect our view on the true intrinsic values of these positions - which we believe to be at a significant premium to where they are now. These investments have matured after 3-4 years of strategic changes in their businesses. We are already evidencing these improvements, which we think will be valued by the market, or ultimately by trade or private buyers.

Portfolio Activity for the six months to August 2021

Total portfolio gains of £6.87 million, made up of:

- Total realised gains on disposal of £2.15 million; and
- Total unrealised valuation gains of £4.72 million.

The main drivers of these portfolio gains were;

Hargreaves Services Plc provided an unrealised gain of £2.3m during the period, resulting in a substantial holding (11.7% of NAV at the half-year date). There were no additions or disposals in the period. We remain confident in this position and are supportive of management in their strategic direction of the company, understanding that, due to commodity prices, 2021 may have provided some windfall profits.

In **Volex Plc** we made a net investment of £0.5 million during the period. This reflected our trading of this well-known holding, where we decided to increase our position when we believed that the market was not valuing it accurately. In aggregate, Volex generated realised gains of £0.94 million and unrealised gains of £1.31 million for the period (total gains of £2.25 million for the six months). We have unrealised gains of £6.16 million in total over our book cost, having already realised £7.23 million on the position, against a cost of £3.18 million.

Synectics recorded an unrealised loss of £0.77 million for the half-year period. This holding sits at an unrealised loss position of £1.96 million and we view it as one of the Covid laggards, where the market has not yet caught up with the positive initiatives taken through Covid. We expect the share price to reflect these initiatives and contract wins. If not, the M&A activity in the sector, where earnings multiples paid are way in excess of the 4x EBITDA that this company trades on, will surely be reflected in the valuation soon. Some of the highlights are below:

- Over £2.4 million p.a. of cost savings;
- 3 multi-million pound project wins in the interim period; and
- Significant improvement in prospects and cash generation.

Venture Life recorded an unrealised loss of £0.52 million for the period, with the carrying value being largely equal to cost at 28 February 2021. During the period we invested a further £0.67 million. Since the period end the shares have suffered as a result of a weak trading update, which highlighted the dependency on the second half earnings. As a result, Venture Life is currently trading behind our expectations and we are engaged with management regarding their remedial actions. We believe the company is capable of utilising its capacity through the effective distribution of the owned brands, but we need to see that management are able to execute on operational challenges, not just acquisitions.

Duke Royalty achieved an overall gain of £0.57 million during the period, however we continued to reduce this position from 3.3% of NAV to 2.9%. To the period end we had modest gains in this position which have continued since the period end. Our reduction in the position here is not based on the fundamentals of the company, but reflective of how we now believe it is being perceived by the market – which is inconsistent with our original investment case. In short, it is being valued as a venture capital firm on a NAV basis whilst we believed it should and could be valued on the basis of its future (annuity-like) cash flows.

Tactus, our only unquoted equity position, was a new investment in the period, where we invested £1.92 million, and subsequently undertook a partial exit as part of a significant new third party investment, disposing of £0.92 million of cost for £1.34 million, generating a realised gain of £0.42 million. DSM also received full interest repayment, of £0.04 million. Our continuing position was valued at £1.63 million on the remaining cost of £1.0 million, generating an unrealised gain of £0.63 million. This, as highlighted above, is still held at a discount to the third party investor in Tactus, who became involved in the business after we had invested.

Real Good Food made a substantial return of capital during the period, repaying £3.8 million of the 10% Loan Note principal, which, when it included interest and redemption premium, meant a repayment to DSM of £5.3 million and reflecting an IRR of 11.4% on this Loan Note. This reduced the Real Good Food exposure from 21.60% to 9.09% over the half-year period.

Investment Manager’s Report (continued)

Toeholds and Work in Progress

We make what we define as ‘toehold’ investments when we are most of the way through our investment and diligence process and believe a company has good potential. These toeholds allow us to take advantage of liquidity as it arises.

In the period we invested £0.70 million in three toeholds (two new and one existing). In one of the two new toeholds, we quickly exited at a gain of £0.15 million as a bid was made for the company. These positions generated total portfolio gains (total of realised and unrealised) of £0.53 million. Post-period end we have made another toehold investment, and have a strong pipeline of opportunities within our ‘WIP’ list.

ESG

Since the inception of DSM, we have championed good corporate governance as one of the most accurate indicators for future success. We have always taken the social aspect of being a proper custodian of shareholders money as ‘common sense’ or a ‘given’ for our investments. In simple terms for us as Managers, that means our investments look after employees, pay suppliers fairly, and invest for the long term. In our view, if you cannot do that then you don’t have a sustainable business. We didn’t have a name for that before – it was just part of our due diligence process. That is now the ‘S’ in the Environmental, Social and Governance (ESG) agenda.

Now climate, or the ‘E’ of ESG, is also part of the exam question. Here we are learning the questions to ask our investments, looking for appropriate disclosures to ensure that the investor community knows our investments are doing things responsibly. It’s a refreshed part of our investment process - to document these aspects of responsible investing; however, we feel we have embraced these principles since the inception of the company. Now we just need to make sure these are recorded for others to take the score! We don’t want to pretend we are 100% there on these matters. However, it is important to highlight our commitment to telling investors what we do and where there are weaknesses (in this regard) in our portfolio. Rest assured we are addressing any areas for improvement.

Judith MacKenzie
Head of Downing Fund Managers and Partner of Downing LLP
1 November 2021

Investments

As at 31 August 2021

	As at 31 August 2021		As at 28 February 2021
	Market Value (£'000)	% of Total Assets	% of Total Assets
Volex	8,253	17.13	15.17
Hargreaves Services	5,636	11.70	7.64
Flowtech Fluidpower	3,495	7.26	4.50
Ramsdens Holdings	3,454	7.17	7.04
Fireangel Safety Technology	3,407	7.08	6.07
AdEPT Technology Group	3,258	6.77	7.43
Real Good Food 10% Loan Note (19/05/2023)[1]	2,573	5.34	17.38
Venture Life Group	2,107	4.38	4.59
Synectics	2,017	4.19	6.55
Real Good Food 12% 'C' Secured Guaranteed Loan Note (19/05/2023)[1]	1,682	3.49	3.78
Tactus Holdings[2]	1,632	3.39	3.30
Duke Royalty	1,425	2.96	-
Digitalbox	1,298	2.70	3.46
Real Good Food	127	0.26	0.44
Other	2,021	4.20	4.88
Total investments	**42,385**	**88.02**	**92.23**
Cash	6,003	12.47	8.06
Other net current assets	(236)	(0.49)	(0.29)
Total assets	**48,152**	**100.00**	**100.00**

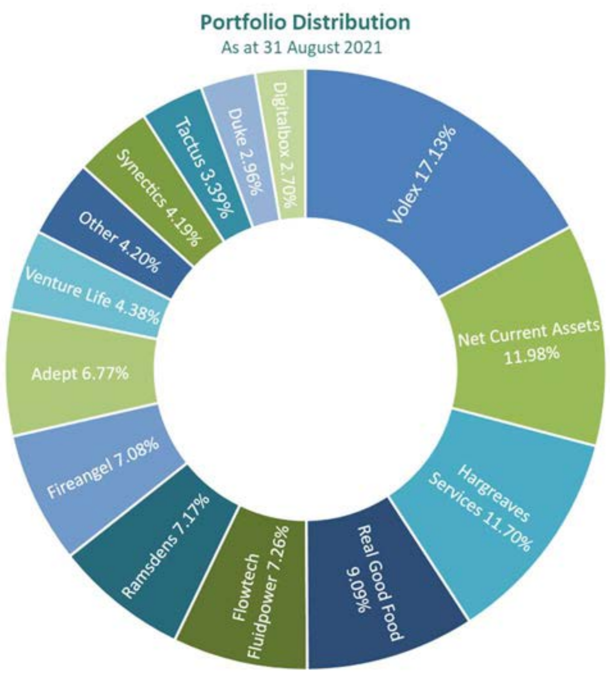
[1] Unquoted. Stated inclusive of the fair value of unpaid interest income.

[2] Unquoted equity.

All investments are in Ordinary Shares and traded on AIM unless indicated. As at 31 August 2021, DSM held investments in 14 companies (28 February 2021: 14). Details of the equity interests comprising more than 3% of any company's share capital are set out in note 9.

As at 31 August 2021, loan note principal represented 6.52% (28 February 2021: 16.24%) of total assets and the total of loan note principal and interest represented 8.83% (28 February 2021: 21.16%).

The table above includes net current assets of £5,767,000 (28 February 2021: £3,306,000) that are also disclosed in the statement of financial position.



Background to the investments

(unless otherwise stated all information provided as at 31 August 2021)

Key: **GREEN: Good** **RED: Negative** **ORANGE: Neutral**

AdEPT Technology Group PLC (AdEPT) (6.77% of net assets)
Cost: £3.83m. Value as at 31 August 2021, £3.26m

Background

AdEPT is one of the UK's leading independent providers of managed services for IT, unified communications, connectivity, and voice solutions. AdEPT's tailored services are used by thousands of customers across the UK and are brought together through the strategic relationships with tier-1 suppliers such as Openreach, Vodafone, Virgin Media, Avaya, Microsoft, Dell, and Apple.

AdEPT functions as an aggregator of telecoms services providing a smoother, integrated service to corporates and government organisations. We were attracted by the high operational gearing and recurring revenue streams at appealing margins. Communications and technology have converged over recent years and that trend is only set to accelerate into the future, and AdEPT is well placed to benefit from this trend.

Update to the investment case

- **Positive full year results - trading remained resilient despite Covid impacting trading**
- **Total revenue and gross profit down but recurring and managed services revenue increased**
- **New enlarged £50m banking facility to support investment in growth**
- **Cash generation remains strong**
- **Datrix, a strategically important acquisition, announced post reporting period end**

Progress against investment case

AdEPT reported a positive start to the year, with current trading in line with market expectations. Organic growth delivered improvements in recurring revenues for cloud centric services both ahead of Q1 FY21 and also ahead of Q4 FY21, a quarter which saw more normal business activity following the disruption caused by the pandemic.

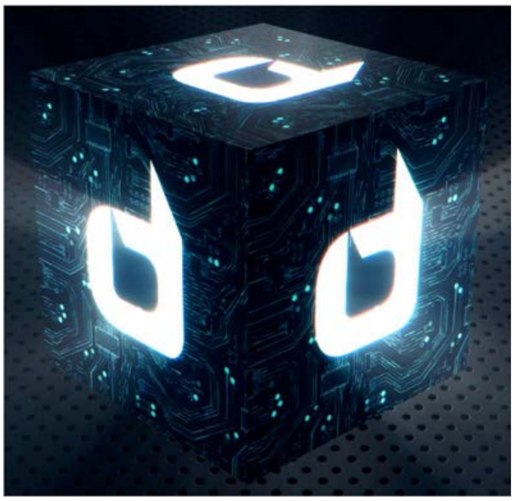
The pandemic temporarily interrupted the trajectory of the group's growth, although the board is pleased with the progress achieved under challenging circumstances. Given its strategic focus on cloud centric strategic services, organic growth of 9% in this aspect of the business gives confidence. Opportunities for AdEPT have remained strong, in a vibrant technology market where demand for effective ICT services is at an all-time high, and are likely to continue to do so.

The momentum gained in Q4 FY21 continued into Q1 FY22, with sales and margins in the new financial year to date firmly in line with market expectations. Management focus remains on the delivery of strong organic growth, whilst seeking further opportunities to consolidate the fragmented market, through complementary acquisitions which generate strong levels of recurring revenue and margin.

Background to the investments (continued)

(unless otherwise stated all information provided as at 31 August 2021)

Digitalbox PLC (Digitalbox) (2.70% of net assets)
Cost: £1.20m. Value as at 31 August 2021, £1.30m



Background

Digitalbox is a 'pure-play' digital media business with the aim of profitable publishing at scale on mobile platforms. The business generates revenue from the sale of advertising in and around the content it publishes. Its optimisation for mobile enables it to achieve revenues per session significantly ahead of market norms for publishers on mobile.

Update to the investment case

- **Significant improvement in revenue, profit and margin**
- **Positive results from The Tab**
- **Daily Mash weaker but showing signs of recovery**
- **Positive trend in the ad market**
- **FY results expected to be significantly ahead of market consensus**

Progress against investment case

Digitalbox announced its results for six months to 30 June 2021 and reported group revenue up 37%, gross profit up 61.5%, and gross margin of 84%. Management stated that trading has remained strong since the end of H1 2021, with the positive trend in the ad market continuing alongside some very strong traffic attached to some seasonal TV shows. Building on the strong trading in the first half of 2021, the group is optimistic regarding the continued trading momentum in the second half of the year. While uncertainties remain over the second half of 2021 due to the pandemic, the full year 2021 outcome is anticipated to be materially ahead of market consensus.

This performance provides evidence of the group's resilient operating model and strong management. The success is in part due to the latest addition to the stable, The Tab, which validates its buy and build strategy. A focus on mobile publishing has seen disproportionate growth in advertising revenues. With the excellent trading performance Digitalbox experienced in the first half of the year, we expect the shift in advertising budgets to mobile channels to continue and competition for audience share of voice on platforms such as Google and Facebook to intensify.

Background to the investments (continued)

(unless otherwise stated all information provided as at 31 August 2021)

Duke Royalty PLC (Duke) (2.96% of net assets)
Cost: £1.35m. Value as at 31 August 2021, £1.43m

Background

Duke Royalty provides alternative capital solutions to a diversified range of profitable and long-established businesses in Europe and North America. Duke's royalty investments are intended to provide robust, stable, long term returns to its shareholders and has the benefit of having first mover advantage in the European Royalty Finance market.

Update to the investment case

- **Positive FY results, reporting record revenues above pre-Covid levels**
- **Significant increase in net cash flow from operating activities**
- **Strong rebound in portfolio as the economy stabilised**
- **Further capital deployed into new and existing royalty partners**
- **Raised new capital in oversubscribed equity placing**
- **Reducing exposure following changes to original investment thesis**

Progress against investment case

Duke continued to navigate the challenges of the pandemic well, with its latest results showing that the business is in good health. The group delivered record revenues ahead of those pre-Covid and returned to a strong cash dividend. The positive financial performance is testament to both the resilience of its underlying royalty partners and the quick actions taken by Duke's investment team which lessened the pandemic's effects on the company.

The volatile macro environment presented by Covid continues to create opportunities for Duke, and demand for more flexible, alternative sources of capital remains very strong. In the UK, the effects of the Government's Coronavirus Business Interruption Loan Scheme (CBIL) on SMEs will be felt and better understood in the years ahead. The market opportunity is larger now than it was before the pandemic and Duke is well placed to take an important share of this, as demonstrated by the delivery of three additional royalty partners in the first five months of its current financial year. The group has a significant pipeline of deployment opportunities, consisting of both existing and potential new royalty partners, and it is well positioned to continue its growth trajectory.

Background to the investments (continued)

(unless otherwise stated all information provided as at 31 August 2021)

FireAngel Safety Technology Group PLC (FireAngel) (7.08% of net assets)
Cost: £5.73m. Value as at 31 August 2021, £3.41m

Background

FireAngel designs, sells and markets smoke detectors, carbon monoxide detectors and home safety products under the FireAngel, FireAngel Pro, FireAngel Connect, AngelEye and SONA brands.

We were attracted to the business because of its dominant share of the UK fire safety market, with products that are endorsed throughout Europe. We also saw an opportunity from changing legislation that we believe the group will benefit from. Legislative guidance is for the purchase of smoke alarms with a 7 to 10-year lifespan, and we are already beginning to see a replacement cycle on the installed base in more mature markets.

Update to the investment case

- **Recovery in revenue, gross profit and gross margin**
- **Reduction in inventory due to supply chain issues**
- **Balance sheet strengthened**
- **Strong trading performance in UK and Benelux**
- **Partnership with German client progressing**

Progress against investment case

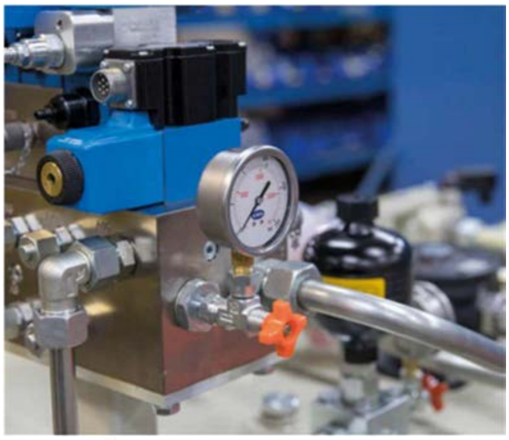
The group delivered positive performance in line with the board's expectations for the half year to 30 June, despite the challenges of Covid. The £9 million of funds raised in April are being deployed as planned, although ongoing supply chain issues have hampered the group’s ability to build inventory as intended.

FireAngel remains on track to meet market expectations for the year, albeit the board remains cautious on the H2 outlook given the current global supply chain challenges being felt across the industry.

Background to the investments (continued)

(unless otherwise stated all information provided as at 31 August 2021)

Flowtech Fluidpower PLC (Flowtech) (7.26% of net assets)
Cost: £2.60m. Value as at 31 August 2021, £3.50m



Background

Flowtech Fluidpower is a value-added distributor of hydraulic and pneumatic consumables into a wide array of sectors, predominantly in the UK and Ireland. The group is a leading UK player in this space, with pre-Covid revenues of over £110 million, and it sits between much larger global manufacturers and a highly fragmented and localised cohort of smaller distributors. The company's high service levels, broad stock offering and exposure to maintenance, repair and overhaul markets were key attractions, and these attributes facilitate Flowtech's relatively high gross margins, of over 35%.

Update to the investment case

- **Revenue recovering strongly post-Covid**
- **Sustained strong gross margin**
- **Savings achieved from restructuring activities**
- **Operating profit improvement directly linked to revenue recovery**

FLOWTECH FLUIDPOWER

Progress against investment case

Flowtech announced positive half-year results, which showed a strong recovery in trading in the period with group revenues of £55.3 million, up from £46.6 million for the comparative half-year period. The first part of our thesis is based around a post-Covid recovery, so we are encouraged to see the strong revenue performance. There was some caution around cost pressures in H2, particularly through supply chain and logistics, but we are confident that recovering demand, particularly in the OEM sector, can offset headwinds. Overall, we continue to believe that the company is guiding market estimates conservatively, and that there ought to be upside to current consensus over the course of the year.

Background to the investments (continued)
(unless otherwise stated all information provided as at 31 August 2021)

Hargreaves Services PLC (Hargreaves) (11.70% of net assets)
Cost: £3.65m. Value as at 31 August 2021, £5.64m

Background

Hargreaves is a diversified group delivering key projects and services to the industrial and property sectors. The Distribution and Services division aims to generate sustainable profitability through operations across the energy and infrastructure sectors in the UK, Europe and Asia. The Property and Land division aims to generate value through the development and/or disposal of the companies' significant land bank, which includes planning for residential, logistics and industrial space.

Hargreaves

Update to the investment case

- **Profit before tax improved materially, including from JVs**
- **Benefitted from strong commodity prices**
- **Sales of first plots at Blindwells delivered**
- **Bank debt eliminated and group refinanced, with a strong net cash position**

Progress against investment case

Hargreaves has recently enjoyed a highly profitable period of trading, with its German JV, Hargreaves Raw Materials Services GmBH (HRMS), driving significant EPS upgrades throughout the year to date. Profitability has been driven by very strong commodity prices, which has resulted in higher trading volumes and better margins, contributing to the current strength in this business.

Hargreaves' shareholders currently realise value in HRMS through distributions from this JV, which are then passed on by the group as dividends, most recently totalling £3.9 million for the 31 May 2021 year end. This is in addition to the group's more regular dividends, arising from cash generation.

Adding in the Services and Land value, we still believe that the intrinsic value sits comfortably above the current share price and there is considerable scope to generate shareholder value, through numerous catalysts.

Background to the investments (continued)

(unless otherwise stated all information provided as at 31 August 2021)

Ramsdens Holdings PLC (Ramsdens) (7.17% of net assets)
Cost: £3.08m. Value as at 31 August 2021, £3.45m

Background

Ramsdens is a growing, diversified, financial services provider and retailer, operating in the four core business segments of foreign currency exchange, pawnbroking loans, precious metals buying and selling and retailing of second hand and new jewellery. Ramsdens does not offer unsecured high-cost short term credit. Headquartered in Middlesbrough, the group operates from 157 owned stores within the UK and has a growing online presence.

Update to the investment case

- **Resilient performance despite Covid**
- **Optimistic of rebound in FX business as foreign travel restrictions are lifted**
- **Strong revenue growth**
- **Balance sheet remains strong**
- **Confident management team, positioning the business for growth**

Progress against investment case

Ramsdens most recent results highlight the resilience of the group's diversified business model. The group had been one of the Company's worst performing stocks through the Covid crisis, given its exposure to physical pawn broking stores which were closed during lockdown. International travel restrictions also had a material impact on the group's foreign exchange business. However, the company has delivered a robust performance, with its pre-tax loss limited to £0.1 million, representing a strong result under the circumstances.

Part of the initial attraction to Ramsdens for us was the strong balance sheet, which remains strong despite the challenges. The group has fared better than many other high street retailers, who often employ much more efficient balance sheets, and were less able to absorb the losses encountered during the pandemic disruption and lockdowns. Ramsdens' management team remains confident and is positioning the business for future growth. It has reported a pipeline of six new stores and is investing in the continued growth of the company's online presence. We believe that Ramsdens is well positioned to resume its growth trajectory as restrictions are lifted and outperform weaker competitors as trading conditions normalise.

(unless otherwise stated all information provided as at 31 August 2021)

Real Good Food PLC (RGD) (equity, loan notes and interest, 9.09% of net assets)
Cost: £5.00m. Value as at 31 August 2021 (including loan note interest), £4.38m

Background

Real Good Food ('RGD') is a food manufacturing business serving several market sectors, including retail (own label and private label), manufacturing and export. The company has two remaining divisions within its cake decoration business (Renshaw and Rainbow Dust Colours), each with a well-established brand.

Real Good Food plc
Cake Decoration • Food Ingredients • Premium Bakery

Update to the investment case

- **Disposal of Brighter Foods to The Hut Group**
- **Pension fund liabilities neutralised**
- **Continuing business (Cake Decoration) was profitable**
- **Central costs reduced significantly**
- **Revenues and profit in line with the board's expectations**

Progress against investment case

Real Good Food (RGD) disposed of its majority stake in Brighter Foods to The Hut Group (THG), for a gross consideration of £43 million. This has led to a neutralising of the pension fund liabilities, and a repayment of debt of £23.1 million to Loan Note Holders, of which DSM is one. The impact for DSM was a significant return of capital, interest and redemption premium, totalling £5.3 million. This payment greatly reduces exposure to RGD to around 9% and, importantly, provides a cash return on the investment, equating to an IRR of 11.4% on the 10% loan notes redeemed.

This repayment highlights the ability to drive strategic value from this investment, where Downing holds the right to a board position and has been highly engaged with the turnaround of the business. Going forward, the board of RGD has stated the intention to continue to drive value from the remaining assets - Renshaw and Rainbow Dust.

Background to the investments (continued)

(unless otherwise stated all information provided as at 31 August 2021)

Synectics PLC (Synectics) (4.19% of net assets)
Cost: £3.98m. Value as at 31 August 2021, £2.02m

Background

Synectics is a leader in the design, integration and support of advanced security and surveillance systems. The group has deep industry experience across gaming, energy, urban transport, public space and critical infrastructure projects. Its expert engineering teams work in partnership with customers to create integrated product and technology platforms, proven in the most complex and demanding operating environments.

Update to the investment case

- **Continued disruption to casino/gaming sector due to Covid impacted sales**
- **Success for latest technology and new contract wins**
- **Strong balance sheet with net cash and no bank debt**
- **Cost reduction actions delivering expected savings**
- **Company expects to trade profitably in H2**
- **Directors buying shares**

Progress against investment case

Synectics interim results for the six months ended 31 May 2021 highlighted the substantial continuing impact from Covid on customers' operations, especially in the gaming sector. However, the group continues to win significant business, with major successes for the latest synergy product in Berlin, and new contracts in the City of London, West Midlands and the Dos Bocas refinery in south-eastern Mexico.

Trading in the first half of the current financial year was generally as management expected, with significantly reduced operating losses before tax. New business wins have increased the group's firm order book by nearly 19% since the year end. We remain confident in the strong management team.

Background to the investments (continued)

(unless otherwise stated all information provided as at 31 August 2021)

Tactus Holdings Limited (Tactus) (3.39% of net assets)
Cost: £1.00m. Value as at 31 August 2021, £1.63m

Background

Tactus is an unquoted UK business which designs, markets, and sells IT hardware - mainly budget laptops and notebooks in the B2B channel. They do not manufacture themselves but outsource this to several Chinese partners within the China Technology Ecosystem. As a result, the Tactus business is capital light and generates exceptional returns on equity.

TACTUS GROUP

Update to the investment case

- **High quality unquoted new addition to DSM**
- **Executing growth strategy in education, budget IT and gaming verticals**
- **Completion of £40m funding round, including £10m of secondaries**
- **Several acquisitions completed since DSM investment**

Progress against investment case

Tactus performed exceptionally well through Covid, having won a large Department for Education tender, and this has put the business in the scopes of potentially much larger customers such as Best Buy in the US, where an initial order of GeoBooks is now on the shelves and selling well. There are plenty of other sizable customers behind Tactus, and we think the business is just at the beginning of its journey to becoming a household name in devices. Subsequent to our investment, Tactus completed a fresh funding round which has injected significant growth capital into the business.

Background to the investments (continued)

(unless otherwise stated all information provided as at 31 August 2021)

Venture Life Group PLC (Venture Life) (4.38% of net assets)
Cost: £2.64m. Value as at 31 August 2021, £2.11m

Background

Venture Life is a leader in developing, manufacturing and commercialising products for the self-care market, which we have followed for some time through our ownership in other funds. We think the business has reached an interesting juncture with significant growth prospects.

Update to the investment case

- **Two immediately earning enhancing acquisitions**
- **Revenues down over the year prior**
- **Revolving Credit Facility of up to £50m**
- **Supply prices have impacted H1 gross margin**
- **Continued growth in core business (ex China and HSG)**

Progress against investment case

Venture Life issued disappointing interims in September. As previously indicated, the drop off in hand sanitizer and international mouthwash sales resulted in reverse operational gearing due to lower volumes and a degree of mix affect. More positively, despite the large physical retail exposure the UK business held up robustly during the ongoing lockdown measures, hopefully demonstrating the more staple like characteristics of the underlying products.

In June, the company completed the acquisition of women's health, hypoglycemia and energy management provider, BBI Healthcare. In August, the group completed a further acquisition which will be immediately earnings enhancing, Helsinn Integrative Care Portfolio ("Helsinn"). Helsinn generated £1.3 million of gross profit last year. Since this is an asset purchase only, all of this ought to drop through to the group's earnings. Despite these acquisitions having a smaller effect on this financial year, we still think Venture Life presents good value on a worst-case basis. Taking pro-forma earnings from the recent M&A and writing down China Dentyl and hand sanitiser to zero, this is still a £10 million EBITDA business, with facility headroom and an operationally geared and capital light platform from which to continue consolidating.

Venture Life

Background to the investments (continued)

(unless otherwise stated all information provided as at 31 August 2021)

Volex PLC (Volex) (17.13% of net assets)
Cost: £2.09m. Value as at 31 August 2021, £8.25m

Background

Volex manufactures complex cable assemblies and power cords through a global manufacturing base for a wide variety of industries. Following a turnaround and portfolio repositioning, the business has shifted away from lower margin, commodity products and has been growing sales in high structural growth sectors such as electric vehicles and data centres.

Update to the investment case

- **Robust performance and resilient business model**
- **Underlying operating margin improved due to cost optimisation**
- **Shares trading at a discount to sector peers**
- **Completed strategic acquisition of DE-KA**
- **Acquisition of Irvine Electronics expands geographic coverage**

Volex

Progress against investment case

Volex reported an exceptional set of full year results which highlighted great progress across all divisions, although particularly within the electric vehicle division. The group generated $42.9 million of adjusted operating profit, compared to $11.5 million at the time of our initial investment in 2018. The electronics division grew strongly, aided by the acquisition of DE-KA which added $9.2 million of revenue and $1.8 million of adjusted operating profit, on a pro-forma basis this would have been $60.7 million and $12.2 million, respectively. Since the results, Volex has completed three further acquisitions adding over $5 million of operating profit. These add aerospace and defence exposure and deepen the value offering to North American customers.

While we remain cautiously aware of current uncertainty across global supply chains, we see a credible pathway to Volex achieving the targeted $65 million operating profit target on a pro-forma basis over the short-term. A lot must go right, but we think that the direction of travel here is strong. Management have proven themselves so far and we think that the market is still mispricing this compounding growth story.

Our expectations of the investee companies

When we invest in companies we expect, in return, rigorous and effective corporate governance; directors who understand their duties and who are familiar with the General Duties section of the Companies Act 2006 and the UK Corporate Governance Code from the Financial Reporting Council.

- **Directors' responsibilities:** in our view directors' responsibilities are demanding. They stand accountable for the culture, foresight and success of the company, to which they should apply the best of their knowledge and ability to enquire and act in the interests of the company as a whole for its current and future shareholders. A company's success depends on investment in its long-term, sustainable advantage as well as its financial strength and profitability. A company's return on investment underpins its shareholders' returns.

- **Constructive challenge:** we look for alert, questioning, competent boards that constructively challenge management, help develop strategy and long-term objectives, monitor performance, ensure the build-up of necessary assets, skills and capable management and lead in setting a culture of integrity. We will take action if we do not find that level of competence.

In particular, we would expect to find:

- **Leadership:** every investee company should be headed by an independent Chairman leading an effective, questioning, challenging board that sees itself as collectively responsible for the long-term success of the company. We will encourage that if it is missing. We will seek to take appropriate action if we do not think the Chairman is up to the job.

- **Effectiveness:** the board and its committees should be engaged with the business and have the skills, experience, independence and knowledge to enable them to challenge constructively and fully undertake their duties. It should be clear to investors why each director is on the board, what skills and contribution that director is there to provide and all directors and senior management should regularly update and refresh their skills and knowledge. There should be a rigorous process for the appointment of new directors.

- **The Chairman:** should lead the board, create the conditions for overall board and individual director effectiveness, ensure that the board gets information in a form and of a quality sufficient to discharge its duties and should undertake a formal annual evaluation of the board and each director's performance.

- **Accountability:** We expect all directors to appreciate that accountability for culture, integrity, the 'tone from the top', the creation of value, of corporate and shareholder value, and the company's success lies with them.

- **ESG:** We expect our investee companies to be familiar with the QCA's work on Corporate Governance and with their ESG Guide.

It is with those expectations of the boards of directors that we invest.

Interim Financial Statements

Condensed Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 31 August 2021

	(Unaudited) Six months ended 31 August 2021			(Unaudited) Six months ended 31 August 2020			(Audited) Year ended 28 February 2021		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments at FVTPL (**note 7**)	**-**	**6,873**	**6,873**	-	(1,563)	(1,563)	-	5,390	5,390
Investment income (**note 3**)	**326**	**-**	**326**	554	-	554	996	-	996
	326	**6,873**	**7,199**	554	(1,563)	(1,009)	996	5,390	6,386
Investment management fee (**note 4**)	**(39)**	**(155)**	**(194)**	(34)	(136)	(170)	(59)	(234)	(293)
Other expenses	**(198)**	**-**	**(198)**	(173)	-	(173)	(390)	-	(390)
	(237)	**(155)**	**(392)**	(207)	(136)	(343)	(449)	(234)	(683)
Profit/(loss) before taxation	**89**	**6,718**	**6,807**	347	(1,699)	(1,352)	547	5,156	5,703
Taxation	-	-	-	-	-	-	-	-	-
Profit/(loss) for the period	**89**	**6,718**	**6,807**	347	(1,699)	(1,352)	547	5,156	5,703
	Revenue (p)	**Capital (p)**	**Total (p)**	Revenue (p)	Capital (p)	Total (p)	Revenue (p)	Capital (p)	Total (p)
Earnings/(loss) per Ordinary Share (**note 5**)	**0.17**	**12.96**	**13.13**	0.64	(3.11)	(2.47)	1.02	9.56	10.58

The total column of this statement represents the Statement of Comprehensive Income of the company prepared in accordance with international accounting standards and in conformity with the requirements of the Companies Act 2006.

The supplementary revenue and capital return columns are prepared under guidance published by the Association of Investment Companies ('AIC').

The return/(loss) for the period disclosed above represents the company's total comprehensive income. The company does not have any other comprehensive income.

All items in the above statement are those of a single entity and derive from continuing operations. No operations were acquired or discontinued during the period.

Condensed Statement of Changes in Equity
for the six months ended 31 August 2021

	Note	Share capital £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Year ended 28 February 2021 (Audited)						
At 29 February 2020		56	54,473	(16,617)	1,184	39,096
Profit for the year		–	–	5,156	547	5,703
Buyback of Ordinary Shares into treasury		–	–	(1,390)	–	(1,390)
Transfers between reserves		–	1	(1)	–	-
Expenses for share buybacks		–	–	(11)	–	(11)
Dividends paid (note 8)		–	–	–	(874)	(874)
As at 28 February 2021		56	54,474	(12,863)	857	42,524
Six months ended 31 August 2021 (Unaudited)						
At 28 February 2021		**56**	**54,474**	**(12,863)**	**857**	**42,524**
Profit for the period		**–**	**–**	**6,718**	**89**	**6,807**
Buyback of Ordinary Shares into treasury		**–**	**–**	**(760)**	**–**	**(760)**
Expenses for share buybacks		**–**	**–**	**(4)**	**–**	**(4)**
Dividends paid	**10**	**–**	**–**	**–**	**(415)**	**(415)**
As at 31 August 2021		**56**	**54,474**	**(6,909)**	**531**	**48,152**

Condensed Statement of Financial Position

as at 31 August 2021

	Note	(Unaudited) 31 August 2021 £'000	(Unaudited) 31 August 2020 (restated) £'000	(Audited) 28 February 2021 £'000
Non-current assets				
Investments held at fair value through profit or loss	**7,8**	42,385	29,356	39,218
		42,385	29,356	39,218
Current assets				
Trade and other receivables		11	724	39
Cash and cash equivalents		6,003	6,860	3,428
		6,014	7,584	3,467
Total assets		48,399	36,940	42,685
Current liabilities				
Trade and other payables		(247)	(250)	(161)
		(247)	(250)	(161)
Total assets less current liabilities		48,152	36,690	42,524
Net Assets		48,152	36,690	42,524
Represented by:				
Share capital		56	56	56
Special reserve		54,474	54,473	54,474
Capital reserve		(6,909)	(18,496)	(12,863)
Revenue reserve		531	657	857
Equity shareholders' funds		48,152	36,690	42,524
Net asset value per Ordinary Share	**6**	93.74p	67.36p	81.16p

Hugh Aldous
Chairman
Downing Strategic Micro-Cap Investment Trust PLC
Registered in England and Wales, no. 10626295

Condensed Statement of Cash Flows
for the six months ended 31 August 2021

	Notes	(Unaudited) Six months ended 31 August 2021 £'000	(Unaudited) Six months ended 31 August 2020 (restated) £'000	(Audited) Year ended 28 February 2021 £'000
Operating activities				
Return/(loss) before taxation		**6,807**	(1,352)	5,703
(Gains)/losses on investments at fair value through profit or loss	7	**(6,873)**	1,563	(5,390)
UK fixed interest income		**(183)**	(360)	(738)
Receipt of UK fixed interest income		**1,162**	-	-
Decrease/(increase) in other receivables		**28**	(681)	4
Increase in other payables		**86**	153	64
Purchases of investments		**(7,733)**	(2,294)	(8,877)
Sales of investments		**10,460**	4,834	8,886
Net cash inflow/(outflow) from operating activities		**3,754**	1,863	(348)
Financing activities				
Buyback of Ordinary shares into treasury		**(760)**	(177)	(1,390)
Expenses of for share buybacks		**(4)**	(3)	(11)
Dividends paid		**(415)**	(874)	(874)
Net cash outflow from financing activities		**(1,179)**	(1,054)	(2,275)
Change in cash and cash equivalents		**2,575**	809	(2,623)
Cash and cash equivalents at start of period		**3,428**	6,051	6,051
Cash and cash equivalents at end of period		**6,003**	6,860	3,428
Comprised of:				
Cash and cash equivalents		**6,003**	6,860	3,428

Notes to the Interim Financial Statements

for the six months ended 31 August 2021

1. General information

Downing Strategic Micro-Cap Investment Trust PLC ('the company') was incorporated in England and Wales on 17 February 2017 with registered number 10626295, as a closed-end investment company limited by shares.

The company commenced its operations on 9 May 2017. The company intends to carry on business as an investment trust within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010.

2. Accounting policies

Basis of accounting

The unaudited financial statements for the six months ended 31 August 2021 have been prepared in accordance with the accounting policies set out in the statutory accounts for the year ended 28 February 2021, which were prepared in accordance with international accounting standards and in conformity with the requirements of the Companies Act 2006.

These Financial Statements are presented in Sterling (£) rounded to the nearest thousand. Where presentational guidance set out in the statement of recommended practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP'), issued by the Association of Investment Companies ('AIC') issued in October 2019 is consistent with the requirements of international accounting standards, the directors have sought to prepare the Financial Statements on a consistent basis compliant with the recommendations of the SORP.

The financial information presented in respect of the six months ended 31 August 2021 and the comparative half-year period ended 31 August 2020 has not been audited. The financial information presented in respect of the year ended 28 February 2021 has been extracted from the financial statements for that year, which have been delivered to the Registrar of Companies. The Auditor's report on those financial statements was unqualified and did not include a statement under sections 498(2) or 498(3) of the Companies Act 2006.

Prior period restatement

Within the Annual Report for the year ended 28 February 2021, the company changed its accounting treatment in respect of unpaid UK fixed interest income ('fixed interest income or interest income'), which is due to the company in connection with its loan note investments. Such amounts were previously recorded within the balance of trade and other receivables on the Statement of Financial Position and are now recorded as part of the balance of investments held at fair value through profit or loss ('FVTPL'). The comparatives for the year ended 28 February 2021 and the six months ended 31 August 2021 have been restated accordingly, with no impact on net assets.

3. Income

	(Unaudited) Six months ended 31 August 2021 £'000	(Unaudited) Six months ended 31 August 2020 £'000	(Audited) Year ended 28 February 2021 £'000
Income from investments			
UK dividend income	**82**	194	258
UK fixed interest income	**183**	360	738
Fee income	**61**	-	-
Total	**326**	554	996

UK fixed interest income represents loan note interest receivable from Real Good Food plc and Tactus Holdings Limited. During the period all contractual loan interest was received from Tactus Holdings Limited, as part of the partial exit. UK fixed interest income forms part of the overall fair value of the loan note instruments and are therefore included within investments held at fair value through profit or loss on the Statement of Financial Position.

Notes to the Interim Financial Statements (continued)

for the six months ended 31 August 2021

4. Investment management fee

In respect of its services provided under the Management Agreement, the Investment Manager is entitled to receive a management fee payable monthly in arrears calculated at the rate of one twelfth of 1% of the market capitalisation as at the relevant calculation date.

The Investment Manager has agreed that, for so long as it remains the company's Investment Manager, it will rebate such part of any management fee payable to it so as to help the company maintain an ongoing charges ratio of 2% or lower.

	(Unaudited) Six months ended 31 August 2021 £'000	(Unaudited) Six months ended 31 August 2020 £'000	(Audited) Year ended 28 February 2021 £'000
Investment management fee			
Revenue	**39**	34	59
Capital	**155**	136	234
Total	**194**	170	293

5. Basic and diluted return per Ordinary Share

Returns per Ordinary Share are based on the weighted average number of shares in issue during the period. As there are no dilutive elements on share capital, basic and diluted returns per share are the same.

	(Unaudited) Six months ended 31 August 2021		(Unaudited) Six months ended 31 August 2020		(Audited) Year ended 28 February 2021	
	Net return £'000	Per share Pence	Net return £'000	Per share Pence	Net return £'000	Per share Pence
Revenue return	**89**	**0.17**	347	0.64	547	1.02
Capital return	**6,718**	**12.96**	(1,699)	(3.11)	5,156	9.56
Total return	**6,807**	**13.13**	(1,352)	(2.47)	5,703	10.58
Weighted average number of Ordinary Shares[1]	**51,830,420**		54,626,242		53,908,480	

[1]Excluding treasury shares

6. Net Asset Value per Ordinary Share

NAV per Ordinary Share is based on net assets at the period end and 51,369,341 (31 August 2020: 54,467,002, 28 February 2021: 52,398,491) Ordinary Shares, being the number of Ordinary Shares in issue excluding treasury shares at the period end.

	(Unaudited) 31 August 2021		(Unaudited) 31 August 2020		(Audited) 28 February 2021	
	NAV per share Pence	NAV attributable £'000	NAV per share Pence	NAV attributable £'000	NAV per share Pence	NAV attributable £'000
Ordinary Shares:						
Basic and diluted	**93.74**	**48,152**	67.36	36,690	81.16	42,524

7. Investments

	(Unaudited) Six months ended 31 August 2021 £'000	(Unaudited) Six months ended 31 August 2020 (restated) £'000	(Audited) Year ended 28 February 2021 £'000
Opening book cost	38,425	42,138	42,138
Opening UK fixed interest income at fair value through profit or loss	2,093	1,355	1,355
Opening investment holding losses	(1,300)	(10,394)	(10,394)
Opening valuation	**39,218**	**33,099**	**33,099**
Movements in the year			
UK Fixed interest income at fair value through profit or loss (**notes 3,8**)	183	360	738
Receipt of UK fixed interest income	(1,162)	-	-
Investment purchases at cost	7,733	2,294	8,877
Disposals:			
Proceeds	(10,460)	(4,834)	(8,886)
Net realised gains/(losses) on disposals	2,153	(4,223)	(3,705)
Movement in investment holding gains/(losses)	4,720	2,660	9,095
Closing valuation	**42,385**	**29,356**	**39,218**
Closing book cost	37,851	35,375	38,425
Closing UK fixed interest income at fair value through profit or loss	1,114	1,715	2,093
Closing investment holding gains/(losses)	3,420	(7,734)	(1,300)
	42,385	**29,356**	**39,218**
Realised gains/(losses) on disposals	2,153	(4,223)	(3,705)
Movement in investment holding gains/(losses)	4,720	2,660	9,095
Gains/(losses) on investments held at fair value through profit or loss	**6,873**	**(1,563)**	**5,390**

8. Fair Value Hierarchy

Financial assets and financial liabilities of the company are carried in the statement of financial position at their fair value. The fair value is the amount at which the asset could be sold or the liability transferred in a current transaction between market participants, other than a forced or liquidation sale. For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices and Stock Exchange Electronic Trading Services ('SETS') at last trade price at the Statement of Financial Position date, without adjustment for transaction costs necessary to realise the asset.

The company measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Quoted prices provided by external pricing services, brokers and vendors are included in Level 1, if they reflect actual and regularly occurring market transactions on an arm's length basis.

8. Fair Value Hierarchy (continued)

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 2 inputs include the following:

- Quoted prices for similar (i.e. not identical) assets in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active. Characteristics of an inactive market include a significant decline in the volume and level of trading activity, the available prices vary significantly over time or among market participants or the prices are not current.
- Inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals).
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 August 2021 (Unaudited)				
Quoted on the Main Market	**1,122**	-	-	**1,122**
Traded on AIM	**35,376**	-	-	**35,376**
Unquoted Equity	-	-	**1,632**	**1,632**
Unquoted Loan Notes	-	-	**4,255**	**4,255**
	36,498	-	**5,887**	**42,385**
28 February 2021 (Audited)				
Quoted on the Main Market	1,018	-	-	1,018
Traded on AIM	29,201	-	-	29,201
Unquoted Loan Notes	-	-	8,999	8,999
	30,219	-	8,999	39,218
31 August 2020 (Unaudited) (restated)				
Quoted on the Main Market	-	-	-	-
Traded on AIM	20,735	-	-	20,735
Unquoted Loan Notes	-	-	8,621	8,621
	20,735	-	8,621	29,356

There were no transfers between Level 1 and Level 2 during the period.

8. Fair Value Hierarchy (continued)

A reconciliation of fair value measurements in Level 3 is set out in the table below.

	(Unaudited) Six months ended 31 August 2021 £'000	(Unaudited) Six months ended 31 August 2020 (restated) £'000	(Audited) Year ended 28 February 2021 £'000
Opening balance	**8,999**	8,261	8,261
Purchases	**1,920**	-	-
Sales proceeds	**(5,594)**	-	-
UK Fixed interest income at FVTPL (**notes 3, 7**)	**183**	360	738
Receipt of UK fixed interest income	**(1,162)**	-	-
Total gains/(losses) included in losses on investments in the Statement of Comprehensive Income:			
- on assets sold	**910**	-	-
- on assets held at the period end	**631**	-	-
Closing balance	**5,887**	8,621	8,999

9. Significant Interests

As at 31 August 2021, the Company held interests amounting to 3% or more of the equity in issue by the following investee companies.

	% of investee company
Digitalbox plc	21.05%
FireAngel Safety Technology plc	11.07%
Synectics plc	10.80%
Ramsdens Holdings plc	6.11%
Real Good Food Company plc	5.33%
AdEPT Technology Group plc	4.93%
Flowtech Fluidpower plc	4.51%
Hargreaves Services plc	3.24%

10. Dividends paid in the period

	Six months ended 31 August 2021 £'000	Year ended 28 February 2021 £'000
Dividends paid during the period	**415**	874

A final dividend of 0.8p per share, in respect of the year ended 28 February 2021, was paid on 9 July 2021.

Interim Management Report

The directors are required to provide an interim management report in accordance with the UK Listing Authority's Disclosure and Transparency Rules ('DTR'). They consider that the Chairman's Statement and the Investment Manager's Report on pages 4 to 8 of this Half-Yearly Financial Report, the following statements on principal risks and uncertainties; related party transactions; and going concern, together with the directors' Responsibilities Statement below together constitute the interim management report for the company for the period ended 31 August 2021.

The company is required to make the following disclosures in its Half-Yearly Financial Report.

Principal Risks and Uncertainties

The principal risks faced by the company fell into the following broad categories: investment performance; operational; financial; and legal and compliance. The board reported on the principal risks and uncertainties faced by the company in the annual report for the year ended 28 February 2021. Information on each of these areas can be found in the strategic report on pages 33 to 34 and in note 14 on pages 76 to 79 of the Annual Report available on the company's website at www.downingstrategic.co.uk.

Related Party Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position or performance of the company during the period.

Going Concern

The directors, having considered the company's investment objective, risk management policies, the nature of the portfolio and the company's income and expenditure projections, are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the accounts.

Directors' Responsibility Statement

The directors confirm that, to the best of their knowledge, the condensed set of financial statements contained within the Half-Yearly Financial Report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the half yearly financial report includes a fair review of the information required by:

- DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place during the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

Hugh Aldous
Chairman
1 November 2021

Shareholder information

Financial Calendar

Company's year end	28 February
Annual Results announced	May
Annual General Meeting	June
Company's half-year end	31 August
Half-yearly results announced	November

Share Price and NAV

The Company's Ordinary Shares are listed on the main market of the London Stock Exchange. The market price of these shares can be found in the London Stock Exchange Daily Official List and in the Financial Times. The Company's NAV is published daily and released through the London Stock Exchange's Regulatory News Service and is available through the AIC.

Registrar enquiries

The register for the Ordinary Shares is maintained by Computershare Investor Services PLC. In the event of queries regarding your holding, please contact the registrar on 0370 707 1358.

Changes of name and/or address must be notified in writing to the registrar, whose address is: Computershare

Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ.

Common Reporting Standard

Under the Common Reporting Standard financial institutions, including investment trust companies, are required to provide personal information to HMRC on investors who meet certain criteria set out in the legislation.

On an annual basis the company will provide information to the local tax authority on the tax residencies of non-UK based certificated shareholders and corporate entities. The local tax authority may exchange this information with the tax authorities of another country or countries in which the shareholder may be a tax resident, where those countries, or the tax authorities in those countries, have entered into agreements to exchange financial accountinformation.

New shareholders, excluding those whose shares are held in CREST, entered onto the company's share register, will be sent a certification form for the purposes of collecting this information.

Share dealing

Investors wishing to purchase more shares in the company or sell all or part of their existing holding may do so through their financial adviser, stockbroker or one of the platforms listed on the company's website: www.downingstrategic.co.uk

Nominee code

Where shares are held in a nominee company name, the company undertakes:

- to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance;
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available; and
- nominee companies are encouraged to provide the necessary authority to underlying shareholders to attend the company's general meetings.

Shareholder information (continued)

Website

Your board is committed to shareholder engagement. To receive regular news and updates about your company please visit: www.downingstrategic.co.uk.

Useful information on the company, such as investor updates and half year and Annual Reports can be found on the company's website.

Company information

Downing Strategic Micro-Cap Investment Trust PLC is an investment company as defined under Section 833 of the Companies Act 2006. The company is an investment company within the meaning of Section 833 of the companies Act 2006 and it has been approved by HM Revenue & Customs as an investment trust (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010) for the period ended 28 February 2018 and future years. The directors have no reason to believe that approval will not continue to be obtained. The company is not a close company for taxation purposes.

Country of incorporation: England. Company Number: 10626295.
Registered office: 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD

AIC

The company is a member of the Association of Investment Companies.

Contact details of the Advisers

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Linda Bell
William Dawkins
Robert Legget

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Company number: 10626295

November 2021

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Downing LLP is authorised and regulated by the Financial Conduct Authority

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