

Downing Strategic Micro-Cap Investment Trust



December 2020 Commentary

In the final month of the year, the company's NAV returned a pleasing 5.2%, contrary to the share price which declined by 1.6%. It is disappointing that the shares have not attracted more interest given the strong underlying performance of the majority of the companies and their combined prospects which, at the turn of this year, in our opinion, are brighter than at any time during 2020.

In the month, FireAngel's share price increased by 58.7% as it posted a [positive trading update](#), highlighting that monthly revenues continued to improve through November driven by the trade and retail sectors. This was followed by director buying towards the [end of December and early January](#). Volex also performed strongly, with the share price up 17.1%, but on no new news. We continue to think that the shares are undervalued given the exposure to structural growth markets and the consolidation opportunity across Volex's markets.

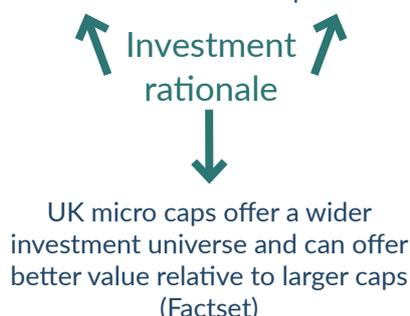
There were few significantly negative contributions. Digitalbox's share price declined by 6.0% on the [news of underperformance](#) driven by a change in Facebook's algorithm, however we remain confident that business can navigate this issue and generate significant shareholder value over the medium term.

With many strategic catalysts now implemented and much of the heavy lifting completed, we are confident going into 2021. Despite this, our portfolio companies and the company itself remain seriously undervalued and we are focused on driving positive sentiment through this year.

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

Private equity approach to research and engagement seeks to unlock greater shareholder value over the long term

We believe a strategic, proactive investment approach can help smaller companies realise their potential



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



Judith is a Partner at Downing, having joined in 2009 and founding Downing Fund Managers. She was named Small-Cap Fund Manager of the Year at the Small-Cap Awards in 2013 and 2015 for the Downing UK Micro-Cap Growth Fund.

Company Objectives

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

	Fund discrete performance (%)												Rolling 12-month period -2.36% (31/12/2019-31/12/2020)	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	
2020	1.26	-10.64	-17.04	8.45	0.64	0.12	-2.09	6.44	-2.09	2.04	8.69	5.17	-2.36	
2019	-1.81	-3.59	1.65	4.01	-3.93	-1.20	0.57	-3.75	-2.83	0.72	5.23	5.57	-0.02	
2018	-0.98	-1.49	-1.76	-1.15	1.14	-2.24	-1.04	-0.19	-0.51	-7.23	1.07	-4.04	-17.18	
2017*					-0.02	-0.12	-0.64	-1.31	-0.16	-1.02	-0.55	0.86	-2.94	

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

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

Portfolio summary As at 31 December 2020

Top five holdings

Holding	Sector	% of Company
Real Good Food*	Food producers	17.53
Volex plc	Electrical equipment	16.10
Hargreaves Services plc	Support services	6.66
Fireangel Safety Technology Group plc	Electrical equipment	6.61
Adept Technology Group plc	Telecommunications	6.57

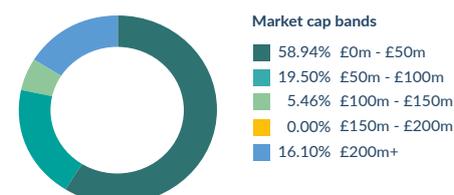
*Holding includes a 17.01% loan note and 0.52% equity split

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 December 2020

The company targets positive returns over the long term from a focused portfolio of UK micro-cap companies believed to be undervalued and could benefit from strategic and operational initiatives.

Launch date

9 May 2017

Morningstar sector

UK Small Cap Equity

Total market value

£31,127,999.39

Total net assets

£40,589,716.99

No of Ordinary Shares in issue

52,759,321

NAV incl. income (starting NAV 98.04p)

76.93p

Market Price of Ordinary Shares

59.00p

Premium (Discount)

-23.31%

Dividends

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

Codes and fees

Ordinary Share ISIN: GB00BF0SCX52

Ordinary Share SEDOL: BF0SCX5

Ordinary Share Ticker: DSM

AMC on market cap: 1%

Ongoing charges

The ongoing charges represent the company's management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average daily net assets during the year. The ongoing charges for the year ending 29 February 2020 were 1.83%.

Managers

Judith MacKenzie, James Lynch & Nick Hawthorn

Directors

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

Financial calendar

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

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

Further information

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Source of data: Downing LLP.

www.downingstrategic.co.uk

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