

Downing Strategic Micro-Cap Investment Trust



October 2021 Commentary

In October, the Company's NAV declined by 1.5%, which was slightly better than the market's performance. As we commented last month, we expect that Q4 and early 2022 will generate some attractive mispricings and we are keeping our powder dry for these opportunities. We did however scale up one of our toehold positions to a core position – Centaur Media – consuming £2.5 million of cash.

There were no results in the period but there were several other meaningful news items. **Volex** (+3.7%) completed two acquisitions building upon the Irvine Electronics acquisition earlier in the year. This deepens the customer value offering in North America which has the potential to drive significant revenue and margin opportunities. We think that the three acquisitions in total could contribute in excess of \$5.5 million of operating profit. **Real Good Food** (+40.6%) announced a positive AGM trading update, demonstrating a recovery to pre-Covid revenues and a positive EBITDA performance – an encouraging performance given the supply chain and labour headwinds across the business. Although the resolution to de-list the company was withdrawn from the AGM, we remain of the view that it is the best course of action to maximise value for all stakeholders. We note the commitment to a matched-bargain trading venue for shares is a commitment of any de-list. **Ramsdens** (-12.4%) reported a resilient pre-close trading update in pawnbroking and retail sales, though the market was disappointed by the lack of traction in the FX division. Management noted that currency exchanged remains at only 30% of pre-Covid levels, however, with travel restrictions having eased further since this ought to continue a slow recovery into 2022.

Centaur Media was introduced to the portfolio in August and we have been slowly adding to this position. In the month, we acquired £2.5 million of stock, facilitating the clearing of an overhang of stock alongside several other institutions. Centaur therefore has become 4.9% of NAV and is now a named core position.

Centaur operates across two divisions – The Lawyer is a well-known subscription-based title with 90+% renewal rates, concentrating on providing legal insights across the UK. XIEM combines several activities aimed at servicing marketeers through providing multi-product subscription offerings. This shift to subscription-based revenues has improved the earnings quality of the business and has thus far been underappreciated by the market. We also think that there is considerable value in the "MAP23" strategy, delivered by a credible management team, to generate £45 million of revenue and 23% EBITDA margin by 2023, at which point the business would be trading around a 10% free cash flow yield. Secondary to this earnings growth thesis, we think that the individual businesses have significant strategic value, underpinned by the quality subscription base. Trading momentum is strong in both divisions and management have reiterated their confidence in guidance for the full 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.



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 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).

Fund discrete performance (%)												Rolling 12-month period 34.93% (31/10/2020-31/10/2021)			
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year		
2021	1.63	3.80	2.46	7.64	-0.62	0.69	-1.02	5.73	-1.63	-1.51			18.04		
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 October 2021

Top five holdings

Holding	Sector	% of Company
Volex Plc	Electrical Equipment	18.46
Real Good Food (including loan notes)*	Food Producers	9.62
Hargreaves Services Plc	Support Services	9.53
Flowtech Fluidpower Plc	Industrials	7.98
Adept Technology Group Plc	Telecommunications	6.49

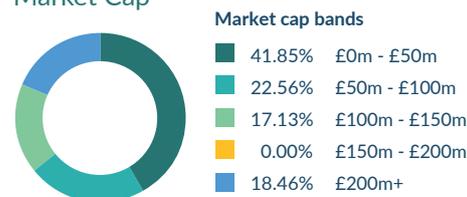
*Holding includes a 9.29% loan note and 0.32% equity split

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 October 2021

Launch date

9 May 2017

Morningstar sector

UK Small Cap Equity

Total market value

£40,724,880.60

Total net assets

£46,372,831.27

No of Ordinary Shares in issue

51,065,681

NAV incl. income (starting NAV 98.04p)

90.81p

Market Price of Ordinary Shares

79.75p

Premium (Discount)

-12.18%

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

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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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