Downing Strategic Micro-Cap Investment Trust PLC

Half-Yearly Financial Report

31 August 2020

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 over 70% of UK listed companies.
- On average, there are fewer than two 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 is expected to comprise between 12 and 18 holdings when fully invested.
- The Company will typically seek to hold between 3% and 25% of the equity of these investee companies, notwithstanding the ability to use debt instruments alongside equity.
- Typically, investments will be 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.
- 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

- The Company has a buyback procedure which is expected, in normal markets, to manage the discount of the Company's share price to the underlying net asset value ('NAV') per share.

Contents

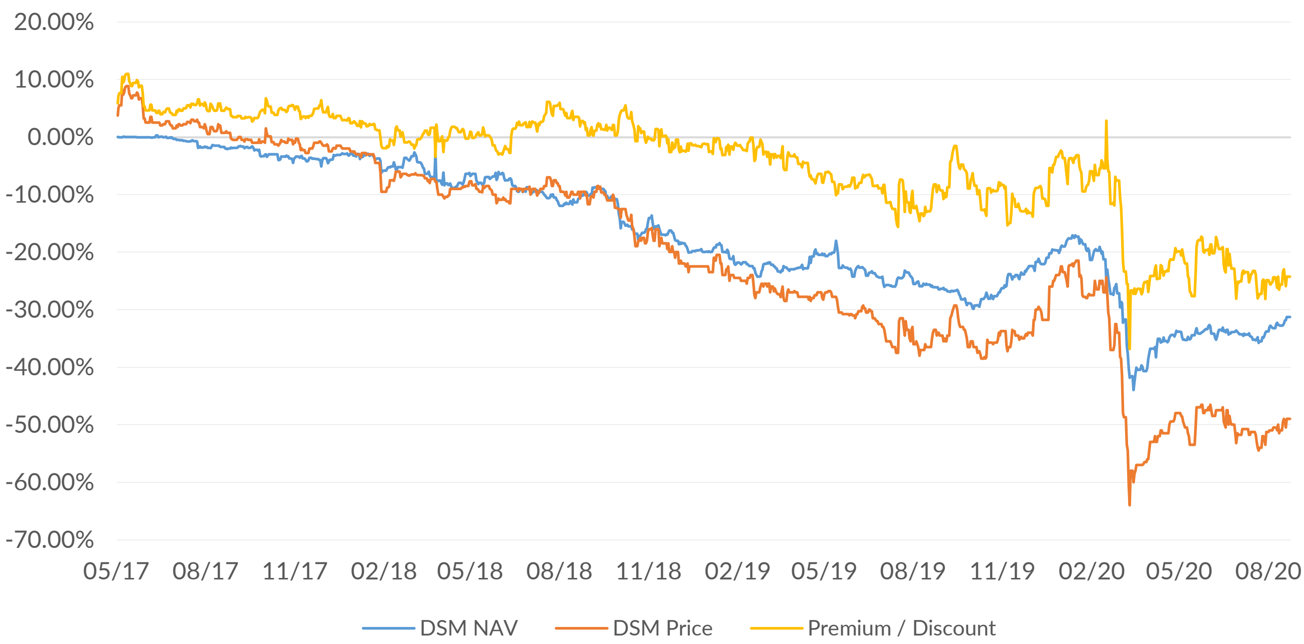
Financial highlights

Assets	(Unaudited) 31 August 2020	(Audited) 29 February 2020	Change %
Net assets (£'000)[1]	**36,690**	39,096	(6.15)
Net asset value ('NAV') per Ordinary Share	**67.36p**	71.30p	(5.53)
Mid-market price per Ordinary Share	**51.00p**	63.00p	(19.05)
Discount	**24.29%**	11.64%	

Revenue	(Unaudited) Six months ended 31 August 2020	(Audited) Year ended 29 February 2020
Revenue return per Ordinary Share	**0.64p**	1.91p
Capital return per Ordinary Share	**(3.11p)**	(4.01p)
Total return per Ordinary Share	**(2.47p)**	(2.10p)
	%	%
Decrease in NAV since admission[2]	**(32.64)**	(28.70)
Decrease in share price since admission[2]	**(49.00)**	(37.00)

[1] The change in net assets reflects market movements during the period.
[2] 9 May 2017.

Performance from 9 May 2017 to 31 August 2020



Source: Downing LLP
Performance figures are calculated on a bid-price basis.
Share prices and NAV at 9 May 2017 rebased to 100.

Operational highlights

The Company now holds positions in the following businesses:

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

Highlights

- NAV recovery during the half-year period, up 22.5% from the low point in March
- Discount managed and now reduced to below 20%
- Refocusing of portfolio, with three new toehold positions, two full disposals and one new investment since February
- Portfolio investments have largely demonstrated resilience to the impacts of COVID

Chairman's Statement

Overview
Your board's key message is that the portfolio is well-reserved and positioned for what look to be disruptive times ahead, whilst our focus continues on shareholder interest and keeping in touch with you (see shareholder contact, later). Oversight and shareholder interest are what we are here for.

Performance
At the end of February, pre-COVID, your company's NAV was 71.30p per share and the mid-market share price 63.00p. In mid-March, there was a massive market correction, taking the NAV to around 55.00p per share, followed by recovery. By the time of the last report, on 1 May, although COVID was rampant, the NAV was back to 64.15p per share, but the discount had widened to 22% with the mid-market share price at 50.00p. Over the summer the NAV remained relatively stable, but the discount initially widened still further as small shareholders sold when faced with uncertain markets. It exceeded 30% on occasion. Since then, the NAV has steadily improved, the discount has reduced significantly, and the spread narrowed.

The manager has been actively influencing and restructuring the portfolio, which is now more robust (see manager's report on page 6). Despite the continuing, draining impact of COVID, the NAV has grown to 68.31p per share and, with board action, the mid-market share price to 56.50p (see discount management section later). That's a reasonable 6.5% growth in NAV (22.5% from the bottom of the March correction) and 13% growth in the mid-market share price. The discount is now under 20%. Since the brokers have not found it necessary to use much of the buy-back authority given to them by your board, those improvements reflect increasing market interest in your company and its portfolio. COVID has been difficult for everyone, and still is, but your board is at least able to say that we have a better portfolio today and one fit for this inevitably changed world.

Looking forward
On 1 May we surmised about what changes, what recession, might be anticipated. What 'creative destruction' would be triggered? Will we see changes in social values, in the structure of employment and see more core unemployment? When we emerge, will we revert to much as we were, or will patterns of demand and supply, social expectations and opportunities have changed? Will there be continuing confidence in future funding or will the cost of recovery be taxation, inflation, doubt and constraint? Will that change our society and business conditions? Those thoughts were 6 months ago. It is now clear that the resurgence of COVID is going to make economic and social recovery longer and slower and those questions look to be all the more serious. Governments have an increasing social responsibility; good businesses are rethinking their markets and how to be run more efficiently. Others will fail. There could well be a tide of social and economic change ahead.

Strategy
DSM's active investment strategy remains appropriate for these difficult times. The managers have continued their close association with those companies that they respect and have divested from those that have not risen to expectations. That approach to portfolio stewardship is time consuming.

Perhaps such rigorous stewardship explains why so few other institutional investors take on such an active role, why the sector becomes disregarded and its market values unreasonably low. Small companies need the support of keen, active investment managers. Their funds, in turn, need shareholders who appreciate the value of that involvement.

The portfolio
DSM's portfolio has been constructively improved by the managers working with continuing investments, disposing of two, and bringing in four that are appropriate to the future economy. The rate of necessary change to investee boards and management has, thankfully, been less than in the past – itself an indication of better governance and management. All investee companies in the current portfolio are relevant to the future, have available cash reserves or adequate financing and/or asset backing, appear to have long-term sustainable growth with cash flow predictability and should be at a premium to their current market values. Kepler recently calculated DSM's look-through discount to fair value at 54%; there lies value. The portfolio is well reserved in valuations and has 37.5% in loan notes and cash. You will see from the manager's report that it is an interesting, lively, modern economy portfolio.

Shareholders will know of our concerns about corporate governance. DSM's managers play a leading role in the Quoted Company Alliance and together we continue to promote governance and take action when it is lacking. More investment companies should raise their heads and do that! One or two peer companies say they do so – but Judith MacKenzie and her team really roll their sleeves up. Shareholders can be proud of that distinction.

Chairman's Statement (continued)

Share price and discount management

Up to the company's year-end, your board was pleased to see the discount remaining mostly in single figures (2.13% in late February 2020).

I said in May that, in one of the worst stock market corrections ever, there was no point in trying to change the tide with buybacks – even though the discount became excessive. Those were just not times to stand against a draining market. Nevertheless, we talked frequently to the company's stockbrokers, to DSM's marketing team, to Kepler Partners and noted shareholder support.

We have now tested a structured buy-back programme with specific constraints and, fingers crossed, that has been complemented by wider market interest. With modest buybacks we have brought the discount down to below 20%. After the release of these half-year results and report, I shall be talking to shareholders again. We will have to take every market development as it comes. If this disrupted world can gain future strength, the intention is to go on managing the discount – but in more stable markets.

Redemption facility

I said in May that we would continue to consult with the major shareholders, use buybacks when the time was right, whilst trying to avoid shrinking the company, and have a plan for when we have calmer times. I shall be listening to shareholders on that. If, for now, we can get improving performance from our investee companies, recognition that they are undervalued and worth holding, keep continued interest in our shares and contain the discount, then we will be looking after shareholders. Whilst it is not in anyone's interests to sell good investments at a wide undervalue, just to create a redemption pool, we do have to do our best in maintaining fair values for shareholders.

Managers and board

We review the managers annually. Downing are diligent and doing what they said they would do and what is asked of them. The relationship between managers and board is frank, open and good. The board remains closely involved in its oversight and governance role, as you would expect.

COVID, the second wave and the Doctors' Support Network

The resurgence of COVID, with no sign that it is under control, is simply terrible. The darkened prospect for society is not for this report; but I can say that the personal gesture by your board in giving up 25% of all our directors' fees to make a grant to the Doctors' Support Network (DSN) has proved a good move. In summary, DSN, a registered charity, is the leading provider of peer support for doctors and medical students suffering from mental health concerns. Our donation is being used to fund a coaching service for front line medical staff experiencing severe stress while treating COVID sufferers in hospital wards. The hope is that early intervention of this type will prevent problems later down the line. DSN will be collecting data during the two-year life of this pilot project, seeking to test whether stress coaching really does produce the benefits intended and to learn any lessons that could be applied later. Perhaps other investment company boards might rise to similar, nationally supportive ideas? There are continuing tough times ahead.

Shareholder contact; Kepler online November 5th

We try to penetrate nominee holdings and reach shareholders. Platforms rarely cooperate (FCA please note). I urge shareholders to register on the DSM website for investor letters to be sent to them direct and to enable them and us to contact each other.

On November 5th, six well-respected investment companies, all from different management houses and including DSM, will be presenting on a Kepler devised day about their look-through discounts. Through the Kepler website (www.trustintelligence.co.uk) you can register, tune in, see and hear the DSM management team – and ask questions.

Best wishes and hopes for 2021.

Hugh Aldous
Chairman
2 November 2020

Investment Manager's Report

It seems a long time since our report for the full year was written in April this year. And it seems almost impossible to forecast what I will be writing in the full year report in April 2021. A Brexit needs to be delivered, and by the time you receive this report we will be on the eve of a US General Election. It is difficult to see which issue to put at the forefront, but surely the economic impact of COVID will inevitably command the centre of any stage. As governments spend their way out of the pandemic by printing money and incurring a deficit as large as it was in wartime, the current stock-market buoyancy doesn't feel sustainable.

I will stand by one prediction. The strong will grow stronger, consuming market share and margin, and the weakest will fail to survive. Over the next few years, we are likely to see the highest number of corporate failures for many decades. On that happy note, we turn to our investments – what we believe is a strong portfolio of fundamentally good companies with strong balance sheets and the crucial 'survivability' factor. All have and will continue to have a position in a COVID world. In terms of new investments into the portfolio, we intend to add to those positions that we are building, and perhaps introduce one or two other investments over time. Importantly, our focus is on driving the catalysts for value in our more mature portfolio.

How strong are our companies? It would be wrong to assume (as markets tend to), that being big means you are strong, or the reverse inference of that – that small equals weakness. We think that during the course of the coming months and years, companies that have a 'niche' (read the ability to maintain higher than sector average margins) and where there is a definable barrier to entry, will be the winners, either consolidating or being consolidated. Those companies with a tangible catalyst to get to that position, with the help of strong balance sheets and/or supportive shareholders, are in our view going to be the emerging winners. In March, we spent a lot of time looking at 'survivability' or the ability of our portfolio to navigate the consequences of lockdown.

We looked at balance sheets and costs. We looked at the agility of the management team to necessitate essential change. We tried to do a look through to a post COVID world. Most of our assumptions were sound; and on balance, we feel that our management teams made the correct decisions and 'cut their cloth'. We felt all our investments had a place in the post COVID world. But having faced that emergency 'survivability' question, where are we now in relation to the key aspects that we believe will be important for the future?

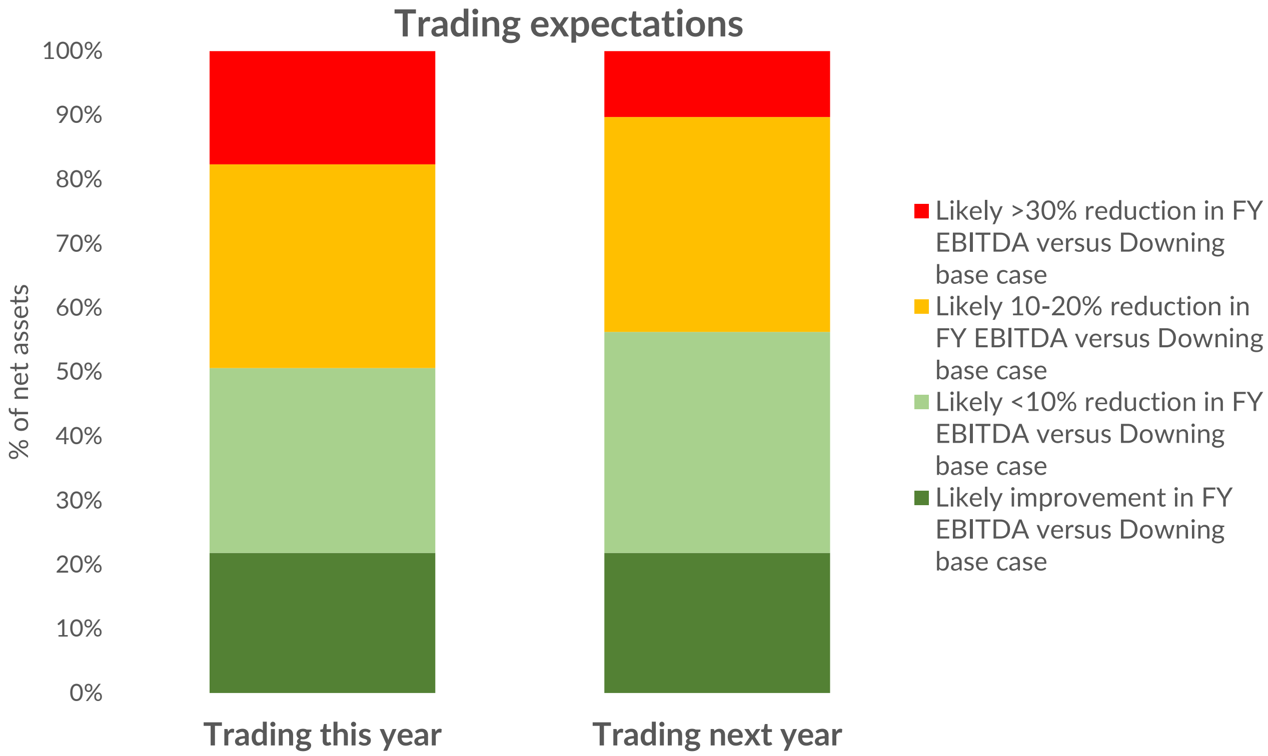
In analysing this, we looked at the KPIs referenced above, niche positions and barriers to entry – which were very often critical to our initial investment case. Given this is a 'strategic' portfolio; very frequently we made assumptions that investments were going to face a positive catalyst that would drive them to a point where it would look 'good'. Most needed some changes to get there. Or a market understanding of their value to necessitate a re-rating. As managers, our job is to find and identify essentially good businesses that have been overlooked or where management (or we) have the power and ability to facilitate change to achieve the better margins/de-gearing/earnings growth/multiple expansion.

COVID impact (figures as at 29 October 2020)

COVID has impacted all our investments to varying degrees. In this section, we try to make some useful observations around the prospects for our companies in the near term, as well as our overall expectations of expected returns versus our base case. We hope that this provides some greater insight on the portfolio's prospects.

We considered trading first and have categorised each company based on the expected impact to earnings this year and next year. We have made these estimations based on what we know from the initial hard lockdown and furlough schemes, and subsequently the localised lockdowns which are currently rolling across different countries. We haven't assumed any vaccine in 2021.

Investment Manager's Report (continued)



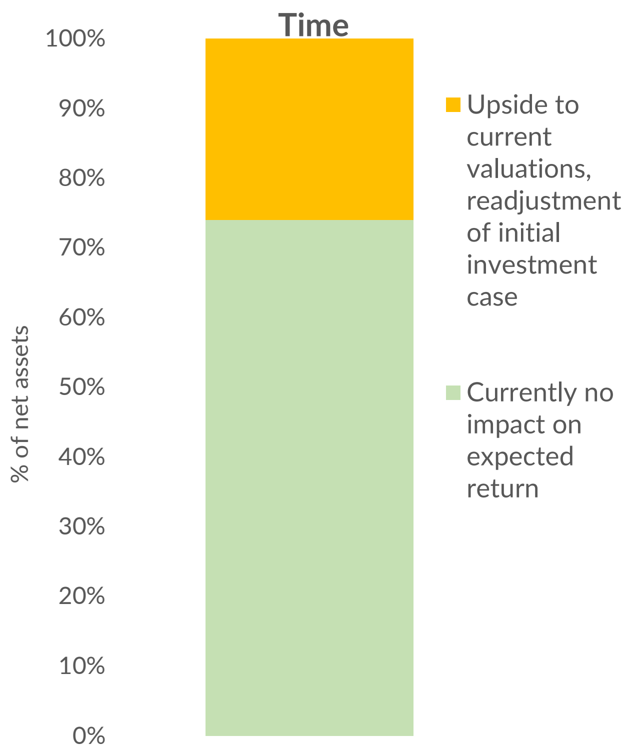
Trading outcomes differ significantly. For example, Synectics has been negatively affected by the closure of casino sites globally but has still managed to win new contracts in this sector during COVID. As casinos are experiencing low footfall, these deployments have been delayed. However, Synectics has managed to maintain a baseload of work in public sector monitoring and has won new rail infrastructure and transport, and oil and gas contracts during COVID. We do expect casinos to reopen, but we must take a view that a second wave could have a negative impact on next year's earnings.

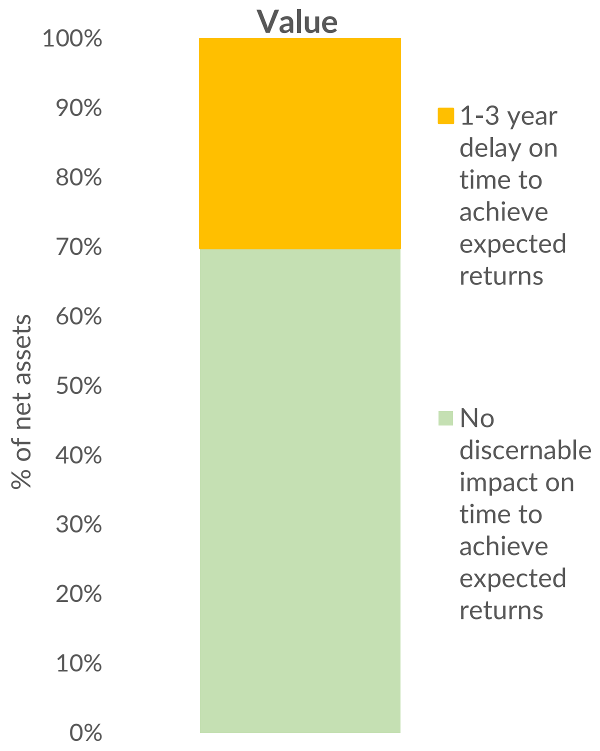
Similarly, Ramsdens suffered from the initial hard lockdown which closed all its stores, and the lack of travel over the summer reduced demand for its foreign exchange services. Stores have reopened, subject to local restrictions, and the business has made the most of the reduced level of footfall and demand for its services. We were pleasantly surprised to read that the business generated £3 million of profit before tax in its first half (March to September) which captured the worst of the lockdown. Cash also increased significantly to £16 million, a testament to its capital efficient operating model. We expect both businesses to trade at >30% below our base case EBITDA this year and next year, however, both have very strong balance sheets and are using this downtime productively to restructure costs and refocus certain segments. In these two cases we can demonstrate the resilience of the businesses, however our ability to forecast is challenging.

Those investments that sit in the 'yellow' ground include positions such as Adept Technologies, who are benefitting from the new world of remote working, but may suffer in a prolonged COVID world due to the inability of the workforce to get into the field and make physical instalments. The situation with FireAngel is not dissimilar.

Conversely, Volex, our largest position, has been a net beneficiary of COVID from a much stronger mix in higher margin parts of the business, such as electric vehicles and data centres. The business has vastly outperformed both our and the market's expectations and, bar a terrible Q4, should post organic earnings growth year on year.

Investment Manager's Report (continued)





We are pleased to say that at this point in time (end of October 2020), that we do not believe that any of our investments have a danger of significant risk to capital or more than a 3-year delay to their investment case.

We have made four new investments since the beginning of the COVID crisis, one of these is DigitalBox and the remainder are still toehold positions (those where we have taken an initial stake and intend to increase it). These positions were added with COVID already incorporated into the thesis. COVID hasn't affected our value expectations for Hargreaves, although it has delayed by over a year, which will consequently have an effect on our IRR. We have also reduced our value expectations against AdEPT, although this has not been greatly affected by COVID. Its low rating is persistent and we believe it requires strategic action in order to improve that.

The toeholds and portfolio activity

It has been important not to sit still during the last six months. We have disposed of Braemar Shipping and Gama Aviation since our last report. We had confidence in the management of Braemar to deliver long term value, but we felt it would take longer than we had initially anticipated.

In Gama we made a mistake re. our judgement of management and our belief that they had alignment with equity shareholders. We believe it is a good business managed badly, and despite our efforts we could not facilitate the change of management that we thought was necessary. It was therefore time to take the difficult decision to exit. We have reduced our position in Pennant post period end, although we think the company has great prospects, the lumpiness of contracts combined with COVID impact made us nervous with regard to balance sheet risk.

Meanwhile, we have now acquired 6.24% of the portfolio in three new toehold positions, where we have taken an initial stake with the intention to build. None are turnaround situations. One is a company where there are catalysts in place to improve margins. Another is a dominant player in a market that has demonstrated significant structural growth, and another is within the specialist healthcare products market. Hopefully we will be able to talk about these soon and provide further detail as to why we invested.

Investment Manager's Report (continued)

Outlook

We maintain a cash position in the region of 15%, allowing us the ability to be agile on bad days in the market in our positions. Corporate activity returned to the markets during the summer months and we are active where we think we can drive value and where opportunity permits, but we have a strong portfolio of essentially good companies with minimal balance sheet risk. All have a position in a COVID world, current and future. Our intention is to add to those positions that we are building, and perhaps introduce one or two other investments over time – but the focus is on driving the catalysts for value in our more mature portfolio.

Judith MacKenzie
Head of Downing Fund Managers and partner of Downing LLP
2 November 2020

Investments

As at 31 August 2020

	As at 31 August 2020		As at 29 February 2020
	Market Value (£'000)	% of Total Assets	% of Total Assets
Volex	5,742	15.65	15.29
Real Good Food 10% Loan Note (29/06/2020)[1]	5,674	15.46	14.52
AdEPT Technology Group	2,653	7.23	8.94
Synectics	2,402	6.55	7.13
Hargreaves Services	2,179	5.94	7.07
Ramsdens Holdings	2,153	5.87	7.57
Fireangel Safety Technology	1,917	5.23	2.35
Duke Royalty	1,286	3.51	4.86
Real Good Food 12% 'C' Secured Guaranteed Loan Note (16/05/2021)[1]	1,232	3.36	3.15
Science in Sport	510	1.39	2.52
Pennant International Group	280	0.76	1.61
Real Good Food	239	0.65	0.57
Other	1,374	3.74	5.62
Total investments	**27,641**	**75.34**	**81.20**
Cash	6,860	18.70	15.47
Other net current assets	2,189	5.96	3.33
Total assets	**39,690**	**100.00**	**100.00**

[1] Unquoted

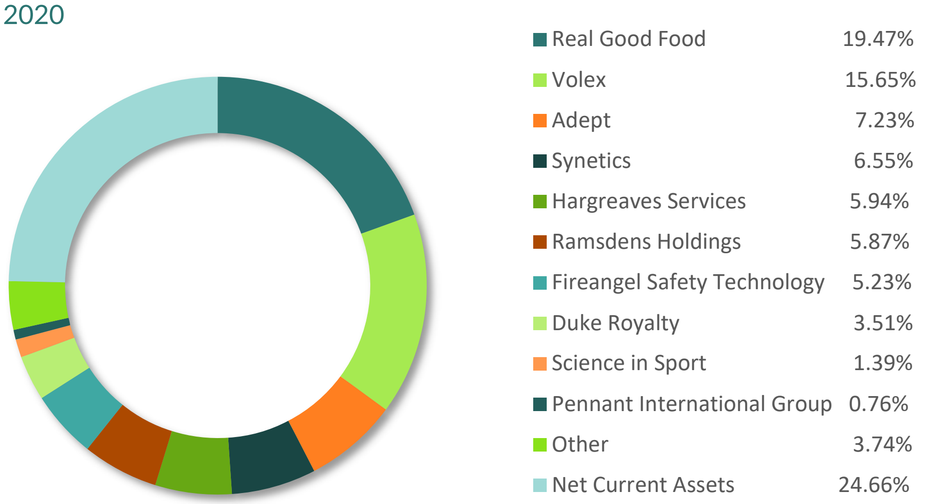
All investments are in Ordinary Shares and traded on AIM unless indicated. The total number of holdings as at 31 August 2020 was 13 (29 February 2020: 13). Details of the equity interests comprising more than 3% of any company's share capital are set out in note 9.

As at 31 August 2020, loan note principal represented 18.82% (29 February 2020: 17.67%) of the portfolio and the total of loan note principal and interest represented 23.41% (29 February 2020: 20.36%).

The table above includes net current assets of £9,049,000 that are also disclosed in the statement of financial position.

Portfolio Distribution

As at 31 August 2020

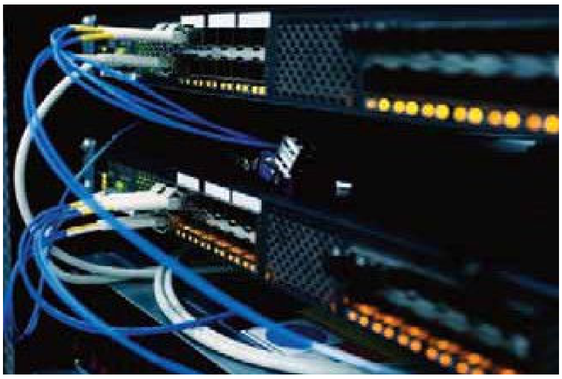


Background to the investments

(unless otherwise stated all information provided as at 31 August 2020)

Key: GREEN: Good RED: Negative ORANGE: Neutral

AdEPT Technology Group PLC (AdEPT) (7.23% of net assets)
Cost: £3.59m. Value as at 31 August 2020, £2.65m



Adept Technologies is an independent provider of unified communications and managed services for the communications and IT sector.

Update to the investment case

- **Positive trading update and FY results for year ended 31 March 2020**
- **Revenue increased by 20% to £61.7m**
- **Managed services revenue increased 30% year on year**
- **Managed services accounted for 81% of total revenue and EBITDA**
- **Acquisition integration "Project Fusion" nearing completion**
- **Net indebtedness**

Progress against investment case

AdEPT provided an encouraging COVID-19 trading update and positive FY results to 31 March 2020. Since the beginning of the pandemic, sales volumes have fallen significantly less than management's predictions, partly attributed to the group's beneficial public/ private split. While installations were lower, the group was heavily involved in the education sector where it worked on cloud migrations, helped by the Department for Education's provision of additional funding to assist schools in moving to the cloud to support remote working. Debtors and cash generation was strong through the period, with debtor days falling from 48 to 42 days, and the group repaid an £8 million term loan which it drew down at the beginning of the crisis for liquidity purposes.

Full year results were equally reassuring, with revenue up by 20%, EBITDA up by 9%, and margin increased to 19%, while cash conversion was much improved to 82%. Recurring revenues at 75% were also stable. AdEPT continues to be lowly rated given the quality of the underlying model which combines moderate growth with revenue visibility, high margins, and low capital intensity. We suspect that the biggest turn off for the market is its debt levels, and we are engaging regularly with management over the correct handling of this since it can provide a significant barrier for potential investors who are even more wary of indebtedness in the current climate. The appointment of N+1 Singer as new broker may begin to generate new interest in the shares which offer great value at the current price.

Duke Royalty PLC (Duke) (3.51% of net assets)
Cost: £2.08m. Value as at 31 August 2020, £1.29m

Duke Royalty is a diversified royalty investment company providing alternative capital solutions to a range of profitable businesses

Update to the investment case

- **Trading update confirmed recovery in trading of Royalty Partners**
- **Final results were positive; cash distributions from royalty partners increased by 91% and net cash inflow from operating activities up 65%**
- **Dividend per share of 2.95p – a 5% increase**
- **Increased revolving credit facility to £30m on improved terms**
- **Deployed £20.4m of further capital into existing royalty partners resulting in a more balanced portfolio**
- **The Group offers a 17.5% free-cash-flow yield at the current share price**

Progress against investment case

We were encouraged by the group's most recent trading update, issued post reporting period end, which covered its second financial quarter ending 30 September 2020. Management stated that the general upturn experienced in the underlying trading of its royalty partners had continued into Q2 FY21. Current expectations suggest that cash revenue for the quarter - cash distributions from its royalty partners and cash gains from sales of equity assets - will total £2.4 million versus £2.0 million in Q1 FY21. In context, the group reported record quarterly cash revenues in Q4 FY20, when it generated cash receipts of over £2.8m, representing a normalised pre-COVID trading environment.

Duke proactively entered into forbearance agreements in Q1 FY21 with those royalty partners which had been the most affected by the pandemic, in order to give them the flexibility to manage their way through the financial challenges that they were experiencing. These forbearance agreements initially covered the period from 1 April 2020 to 30 September 2020 and resulted in a short-term reduction in cash revenue, with the forgone revenue for the first six months of the pandemic either being accrued, capitalised or equitised. As these agreements expire, the group is cautiously optimistic that it will be able to announce a further increase in quarterly cash revenue for the period Q3 FY21. As its royalty partners return to normalised trading levels, the group aims to strengthen its portfolio through follow-on investments to existing partners who are seeing opportunity in the current environment, and in new royalty partnerships. Royalty finance businesses in North America have a proven track record of weathering economic cycles and Duke could emerge from the pandemic with an enhanced reputation in the UK market.

FireAngel Safety Technology Group PLC (FireAngel) (5.23% of net assets)
Cost: £4.90m. Value as at 31 August 2020, £1.92m

FireAngel is focused on providing smoke detectors, carbon monoxide detectors and other home safety products and solutions

Update to the investment case

- **Sales volumes returning to pre-COVID levels**
- **Reduction in sales has caused a short-term increase in stock levels**
- **Initial purchase order in excess of £1.0 million for connected home technology**
- **Appointment of new NED**
- **Directors buying shares**

Progress against investment case

FireAngel announced its final results for the year ended 31 December 2019 and reported that sales for the period were expected to be up 20% and the underlying operating loss is expected to be in line with market expectations. Exceptional charges have been incurred during the year, including increasing warranty provisions for increased product replacement costs, restructuring and fundraising costs, and a charge relating to stock provisions and the impairment of intangible development costs. This is a result of a complete review of product lines and future development plans in line with the group's evolved strategy to become a more technology-led connected home solutions provider.

The board believes that the company's connected home safety system strategy is now proving to be correct and proposes to narrow its focus to developing and promoting those products and services which give the highest and quickest returns. This focus should make the company less complex, less cash consumptive, and support its gross margin improvement plans in both the short and medium term. The board stated that FireAngel's results continue to be negatively impacted by legacy issues as a result of certain historically poor internal processes. However, the strategic decision to invest heavily in future technology is proving to be correct., with the investment made in connected technology now beginning to come through in successful real-world trials, the financial benefits of which are expected to be realised in the short, medium and longterm.

Hargreaves Services PLC (Hargreaves) (5.94% of net assets)
Cost: £3.65m. Value as at 29 February 2020, £2.18m

Hargreaves Services is a land a property company, and a specialist haulage business

Update to the investment case

- **Coal mining operations now ceased. Expected to result in a £30 cash inflow across FY21 and FY22**
- **£25m conditional contract exchanged at Unity Joint Venture for a 32-hectare commercial development**
- **German JV progressing and repatriation of dividends expected to be payable to Hargreaves' shareholders in FY22 equivalent to 12p per share**
- **Underlying performance in the Distribution and Services division was satisfactory despite a significant decrease in revenue following the expected completion of several large contracts and the delayed full mobilisation of HS2**
- **COVID delayed the completion of the sales of the Blindwells plots**

Progress against investment case

In the most recent results, Hargreaves reported net asset value of £130 million versus a market cap of around £65 million. Our intrinsic value estimation is centred around the net asset value, which presents considerable upside, and we continue to believe that this should grow over time as development opportunities add value. The business needs to demonstrate disposals and cash inflows, combined with the stabilisation and return to predictable operating profit of the Distribution and Services division to enjoy a re-rating. The pass through of the German associate dividend combined with the group's own free cash flow presents a tangible value opportunity at the current price and we would expect this also to drive a re-rating if this is realised.

Pennant International Group PLC (Pennant) (0.76% of net assets)
Cost: £0.96m. Value as at 31 August 2020, £0.28m

Pennant delivers integrated support solutions for the defence industry.

Update to the investment case

- **COVID has impacted some contract delivery**
- **Revenues down and EBITA loss of £2m in first half**
- **Strong cash position and a lean, realigned cost base**
- **Three-year order book remains strong at £36m**
- **Directors buying shares**

Progress against investment case

Pennant issued its interim results for the six months ended 30 June 2020 and reported that the period had been challenging for the business. COVID had a significant impact on revenues across the group, resulting in an operating loss being recorded at the end of the period. However, cash generated from operations was strong at £3.8 million and Pennant also secured increased borrowing facilities totalling £4 million which were undrawn at the period end. Management anticipate that trading will improve significantly in the second half, and the group now expects to make an EBITA profit of approximately £1.0 million (operating profit of circa £300,000) for the six months ending 31 December 2020. A loss for the year as a whole is still expected, but the group's prospects are positive, with a lean, optimised cost base, the full benefit of which will be realised in 2021. It has a contracted three-year order book of £36 million, including £14 million of revenues scheduled for delivery next year. Pennant has a sizeable and maturing active pipeline of prospects in domestic and international markets for potential contracts worth in excess of £40 million which include opportunities with long-standing customers, single-source contracts, major software licences and long-term services contracts.

Ramsdens Holdings PLC (Ramsdens) (5.87% of net assets) Cost: £2.61m. Value as at 31 August 2020, £2.15m

Ramsdens is a diversified financial services provider and retailer. Providing FX services, pawnbroking and the sale of jewellery.

Update to the investment case

- ▶ **Profitability maintained through COVID**
- ▶ **Strong net cash balance sheet and with high degree of precious metals within inventory**
- ▶ **All stores reopened as of 14 July 2020**
- ▶ **Shop closures and travel ban had severe impact**
- ▶ **Performance of FX business will depend on the status of international travel restrictions**

Progress against investment case

In the trading update of 14 October 2020, Ramsdens announced that it anticipates reporting a profit before tax figure of approximately £9 million for the 18 months ended 30 September 2020. This is a strong achievement given the significant headwinds the group faced in the wake of the pandemic, with the entire estate being closed for several weeks and a significant portion of staff furloughed. For context, Ramsdens generated profit before tax of £8 million in the 12 months to 31 March 2020. Prior to COVID, Ramsdens was performing exceptionally well. Underlying profit before tax was up 19% and all three segments – foreign currency exchange, jewellery retail and pawnbroking - grew by double digits in the 12 months to 31st March 2020. Free cash flow was also very strong, around £7.6 million.

Part of the initial attraction for us to Ramsdens was its strong balance sheet. We often look for tangible levers which companies can pull to release cash in times of stress. Ramsdens has a net cash position, which has been eroded somewhat through lockdown as it has burned cash through the period of closures. The group holds a significant quantity of precious metals on the balance sheet held within inventory. Management has prudently been able to liquidate some of this through the last few months in order to generate cash to fund operations. Not only that, but it is liquidating these metals at much more favourable prices – we estimate that the spot gold price has increased by 23.7% since the last balance sheet date. Ramsdens also carries a significant amount of float for its foreign currency business. We believe that Ramsdens has one of the strongest balance sheets on the high street. All stores have been open since July and any localised restrictions are only expected to reduce trading hours rather than force closures as occurred during the first wave. We believe that Ramsdens will weather the current crisis in the careful and measured way it dealt with those that came before it. Ramsdens emerged from the Global Financial Crisis with a stronger market position than it entered it and there is every chance for the same outcome as weaker competitors fail and markets consolidate.

Real Good Food PLC (RGD) (including loan notes) (19.47% of net assets)
Cost: £8.75m. Value as at 31 August 2020, £7.15m

Real Good Food manufactures sugar paste, icings and snack bars

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

Update to the investment case

- **Experienced mixed trading through COVID**
- **Sales down over period but business remained profitable and cash generative**
- **Demand is now recovering and sales for the remainder of the year expected to be at similar levels to last year for Brighter Foods**

Progress against investment case

Real Good Food has had a mixed trading period through the pandemic, however our expectations of an ultimate favourable outcome for this investment are unchanged. Up until the pandemic the turnaround was bearing fruit, with group revenues rising, trading improving, and a reduction in head office costs. The group delivered revenues to the end of August of £27.0 million, 28% lower than the first five months of last year. However, sales in August were only 7% lower than the same month of last year as the impact of COVID abated with the limited lifting of restrictions. To the end of August, pre-tax losses were £3.8 million compared to pre-tax losses of £1.9 million for the same period last year. It is worth noting that this period tends to be loss-making as inventories build, ahead of the peak trading period between September to December.

Brighter Foods sales for the first five months were down 32% compared to last year, but the business remained profitable and cash generative, which demonstrates its resilience and lean and flexible cost base. Revenues were impacted by the pandemic, however, the business has seen a recovery in demand and anticipates sales being c.5% ahead of prior year for the second half of the year and is expecting to be back to near full capacity by year-end, assuming no new major COVID set-back. Sales in Cake Decorations were 25% lower than last year through to the end of August. Demand is now recovering and the board expects that sales for the remainder of the year will be at similar levels to last year. While the outlook currently remains uncertain, it is encouraging that both businesses have gained new customers and agreed new product launches.

Science in Sport PLC (SiS) (1.39% of net assets)
Cost: £1.23m. Value as at 31 August 2020, £0.51m

SiS manufactures and distributes sport nutrition products

SiS
SCIENCE IN SPORT

Update to the investment case

- **COVID had only a small impact on revenue and run-rate in July and August has been ahead of prior years**
- **Improved channel mix and pricing underpinned significantly improved gross margins**
- **Strong balance sheet position, with £9.8 million of net cash, aided by a precautionary fundraise in the period**

Progress against investment case

Despite the effects of COVID, SiS maintained revenues at an acceptable level and made very strong gains in gross margin, helped by various mix effects and supply chain improvements. This bodes well for our thesis and the operational gearing which should be present in the business. Significant cost-cutting actions were taken in the period around non-core spend. SiS remains an attractive, high growth business with an improving margin and cash flow profile, which is trading at a significant discount to peers and other observable transactions in the space.

Synectics PLC (Synectics) (6.55% of net assets)
Cost: £3.98m. Value as at 31 August 2020, £2.40m

Synectics designs, integrates, controls and manages surveillance technology and network security systems

Update to the investment case

- **Substantial impact from COVID on customers' operations, especially in the gaming sector**
- **Four contract wins, the latest for 'next generation' Irish Buses**
- **Board expects a noticeably improved underlying trading result in second half**
- **Directors buying shares**

Progress against investment case

Synectics has won four new contracts since May - the latest win will see the group's Security division provide, install and maintain safety critical on-board surveillance systems for Irish-based bus operators Dublin Bus and Bus Eireann. It was also awarded a new contract with a value in excess of £1 million to provide surveillance systems for a major offshore oilfield development in the Middle East. Synectics' IMS division was awarded a new three-year framework agreement by Stagecoach, the UK's largest bus and coach operator. The contract is an extension of the group's 18-year relationship with Stagecoach, and covers the delivery of safety critical on-vehicle surveillance systems and maintenance support for its fleet of over 8,000 vehicles. Its Systems division was awarded a new five-year multi-million dollar support contract by a major casino operator for its flagship resort in Asia, further extending an existing long term relationship. These contracts underpin our belief in the scalability and flexibility of the Synergy platform to develop, and the group's proven ability to develop functionality as new requirements emerge.

The business is underpinned by a strong balance sheet, with £4.6 million of net cash as at 31 May 2020. It is interesting to note that there has been a considerable amount of corporate activity in the sector. A few years ago, Motorola Solutions had no video surveillance products. It has now acquired Aviglon, IndigoVision and most recently, Pelco, making the company one of the largest in video surveillance. This confirms our view that a 'solutions' approach to this sector will gain market share, as opposed to a traditional seller of boxes – Synectics should ultimately be a benefactor of the consolidation taking place in the sector.

Volex PLC (Volex) (15.65% of net assets)
Cost: £2.40m. Value as at 31 August 2020, £5.74m

Volex manufacturers and distributes power cords and cable assemblies.

Update to the investment case

- **Underlying operating margins of 8% continue to progress towards 10%**
- **Gaining traction in high growth sectors such as EV and data centres, offsetting temporary weakness in the healthcare business**
- **Cash balance continues to build, now over $30m, providing scope for additional M&A and organic investment**

Progress against investment case

Volex's most recent results and, latterly, the trading update in October, were impressive. COVID has impacted the businesses healthcare revenues, but this has been more than offset by strong trading in electric vehicles and data centres, coupled with similarly strong trading in the 'legacy' power cords business. As a result, earnings have been upgraded materially for FY2021 and FY2022. There is still significant scope for the business to grow organically through electric vehicle and data centre customers, which are highly margin accretive.

The cash balance opens up further opportunities for earnings enhancing acquisitions, likely in businesses which will improve Volex's competitive position and help to grow and sustain higher margins. Given the visibility on near term earnings, and the increasing likelihood of management achieving their 10%+ and $65 million operating profit target, we think that the shares are significantly undervalued.

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.

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 2020

	(Unaudited) Six months ended 31 August 2020			(Unaudited) Six months ended 31 August 2019			(Audited) Year ended 29 February 2020		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments at fair value through profit or loss (**note 7**)	**-**	**(1,563)**	**(1,563)**	-	(921)	(921)	-	(1,904)	(1,904)
Investment income (**note 3**)	**554**	**-**	**554**	793	-	793	1,505	-	1,505
	554	**(1,563)**	**(1,009)**	**793**	**(921)**	**(128)**	**1,505**	**(1,904)**	**(399)**
Investment management fee (**note 4**)	**(34)**	**(136)**	**(170)**	(39)	(155)	(194)	(76)	(303)	(379)
Other expenses	**(173)**	**-**	**(173)**	(193)	(2)	(195)	(378)	-	(378)
	(207)	**(136)**	**(343)**	**(232)**	**(157)**	**(389)**	**(454)**	**(303)**	**(757)**
Profit/(loss) before taxation	**347**	**(1,699)**	**(1,352)**	**561**	**(1,078)**	**(517)**	**1,051**	**(2,207)**	**(1,156)**
Taxation	-	-	-	-	-	-	-	-	-
Profit/(loss) for the period	**347**	**(1,699)**	**(1,352)**	**561**	**(1,078)**	**(517)**	**1,051**	**(2,207)**	**(1,156)**
	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**)	**0.64**	**(3.11)**	**(2.47)**	1.02	(1.96)	(0.94)	1.91	(4.01)	(2.10)

The total column of this statement represents the Statement of Comprehensive Income of the company prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

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

The profit/(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 2020

	Note	Share capital £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Year ended 29 February 2020 (Audited)						
At 28 February 2019		56	54,506	(13,911)	824	41,475
(Loss)/profit for the year		–	–	(2,207)	1,051	(1,156)
Buyback of Ordinary Shares into treasury		–	–	(496)	–	(496)
Cancellation of Ordinary Shares		–	(33)	–	–	(33)
Expenses for share buybacks		–	–	(3)	–	(3)
Dividends paid (note 8)		–	–	–	(691)	(691)
As at 29 February 2020		**56**	**54,473**	**(16,617)**	**1,184**	**39,096**
Six months ended 31 August 2020 (Unaudited)						
At 29 February 2020		**56**	**54,473**	**(16,617)**	**1,184**	**39,096**
(Loss)/profit for the period		**–**	**–**	**(1,699)**	**347**	**(1,352)**
Buyback of Ordinary Shares into treasury		**–**	**–**	**(177)**	**–**	**(177)**
Expenses for share buybacks		**–**	**–**	**(3)**	**–**	**(3)**
Dividends paid	**10**	**–**	**–**	**–**	**(874)**	**(874)**
As at 31 August 2020		**56**	**54,473**	**(18,496)**	**657**	**36,690**

Condensed Statement of Financial Position

as at 31 August 2020

	Note	(Unaudited) 31 August 2020 £'000	(Unaudited) 31 August 2019 £'000	(Audited) 29 February 2020 £'000
Non-current assets				
Investments held at fair value through profit or loss	**7,8**	27,641	34,286	31,744
		27,641	34,286	31,744
Current assets				
Trade and other receivables		2,439	1,529	1,398
Cash and cash equivalents		6,860	4,090	6,051
		9,299	5,619	7,449
Total assets		36,940	39,905	39,193
Current liabilities				
Trade and other payables		(250)	(134)	(97)
		(250)	(134)	(97)
Total assets less current liabilities		36,690	39,771	39,096
Net Assets		36,690	39,771	39,096
Represented by:				
Share capital		56	55	56
Special reserve		54,473	54,011	54,473
Capital reserve		(18,496)	(14,989)	(16,617)
Revenue reserve		657	694	1,184
Equity shareholders' funds		36,690	39,771	39,096
Net asset value per Ordinary Share	**6**	67.36p	72.47p	71.30p

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 2020

	Notes	(Unaudited) Six months ended 31 August 2020 £'000	(Unaudited) Six months ended 31 August 2019 £'000	(Audited) Year ended 29 February 2020 £'000
Operating activities				
Loss before taxation		(1,352)	(517)	(1,156)
Losses on investments at fair value through profit or loss	7	1,563	921	1,904
Increase in other receivables		(1,041)	(365)	(658)
Increase in other payables		153	39	2
Purchases of investments		(2,294)	(969)	(969)
Sales of investments		4,834	664	2,647
Net cash inflow/(outflow) from operating activities		1,863	(227)	1,770
Financing activities				
Buyback of Ordinary shares into treasury		(177)	(496)	(496)
Cancellation of Ordinary Shares		-	-	(33)
Expenses of for share buybacks		(3)	-	(3)
Dividends paid		(874)	(691)	(691)
Net cash outflow from financing activities		(1,054)	(1,187)	(1,223)
Change in cash and cash equivalents		809	(1,414)	547
Cash and cash equivalents at start of period		6,051	5,504	5,504
Cash and cash equivalents at end of period		6,860	4,090	6,051
Comprised of:				
Cash and cash equivalents		6,860	4,090	6,051

Notes to the Interim Financial Statements

for the six months ended 31 August 2020

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 2020 have been prepared in accordance with the accounting policies set out in the statutory accounts for the year ended 29 February 2020, which were prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and with International Accounting Standard 34, 'Interim Financial Reporting'.

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') in October 2019 is consistent with the requirements of IFRS, 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 2020 and the comparative half-year period ended 31 August 2019 has not been audited. The financial information presented in respect of the year ended 29 February 2020 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.

3. Income

	(Unaudited) Six months ended 31 August 2020 £'000	(Unaudited) Six months ended 31 August 2019 £'000	(Audited) Year ended 29 February 2020 £'000
Income from listed investments			
UK dividend income	**194**	417	749
UK fixed interest income	**360**	376	756
Total	**554**	793	1,505

UK fixed interest income represents Loan Note interest receivable from Real Good Food plc. As at 31 August 2020, trade and other receivables includes £1.7m of Loan Note interest which is owed to the Company by Real Good Food plc.

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 2020 £'000	(Unaudited) Six months ended 31 August 2019 £'000	(Audited) Year ended 29 February 2020 £'000
Investment management fee			
Revenue	**34**	39	76
Capital	**136**	155	303
Total	**170**	194	379

5. Earnings/(loss) per Ordinary Share

	(Unaudited) Six months ended 31 August 2020		(Unaudited) Six months ended 31 August 2019		(Audited) Year ended 29 February 2020	
	Net return £'000	Per share Pence	Net return £'000	Per share Pence	Net return £'000	Per share Pence
Revenue return	**347**	**0.64**	561	1.02	1,051	1.91
Capital return	**(1,699)**	**(3.11)**	(1,078)	(1.96)	(2,207)	(4.01)
Total return	**(1,352)**	**(2.47)**	(517)	(0.94)	(1,156)	(2.10)
Weighted average number of Ordinary Shares[1]	**54,626,242**		55,245,682		55,049,771	

[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 54,467,002 (31 August 2019: 54,880,002, 28 February 2020: 54,830,002) Ordinary Shares, being the number of Ordinary Shares in issue excluding treasury shares at the period end.

	(Unaudited) 31 August 2020		(Unaudited) 31 August 2019		(Audited) 29 February 2020	
	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	**67.36**	**36,690**	72.47	39,771	71.30	39,096

7. Investments

	(Unaudited) Six months ended 31 August 2020 £'000	(Unaudited) Six months ended 31 August 2019 £'000	(Audited) Year ended 29 February 2020 £'000
Opening book cost	42,138	48,498	48,498
Opening investment holding losses	(10,394)	(13,172)	(13,172)
Opening valuation	31,744	35,326	35,326
Movements in the year			
Purchases at cost	2,294	969	969
Disposals:			
Proceeds	(4,834)	(1,088)	(2,647)
Net realised loss on disposals	(4,223)	(303)	(4,682)
Movement in investment holding losses	2,660	(618)	2,778
Closing valuation	27,641	34,286	31,744
Closing book cost	35,375	48,076	42,138
Closing investment holding losses	(7,734)	(13,790)	(10,394)
	27,641	34,286	31,744
Realised loss on disposals	(4,223)	(303)	(4,682)
Movement in investment holding losses	2,660	(618)	2,778
Losses on investments held at fair value through profit or loss	(1,563)	(921)	(1,904)

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 2020 (Unaudited)				
Quoted on the Main Market	-	-	-	-
Traded on AIM	**20,735**	-	-	**20,735**
Unquoted Loan Notes	-	-	**6,906**	**6,906**
	20,735	-	**6,906**	**27,641**
29 February 2020 (Audited)				
Quoted on the Main Market	1,100	-	-	1,100
Traded on AIM	23,738	-	-	23,738
Unquoted Loan Notes	-	-	6,906	6,906
	24,838	-	6,906	31,744
31 August 2019 (Unaudited)				
Quoted on the Main Market	1,442	-	-	1,442
Traded on AIM	25,950	-	-	25,950
Unquoted Loan Notes	-	-	6,894	6,894
	27,392	-	6,894	34,286

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

Notes to the Interim Financial Statements (continued)

for the six months ended 31 August 2020

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 2020 £'000	(Unaudited) Six months ended 31 August 2019 £'000	(Audited) Year ended 29 February 2020 £'000
Opening balance	**6,906**	7,909	7,909
Purchases	-	36	-
Sales	-	(381)	(329)
Total gains or losses included in losses on investments in the Statement of Comprehensive Income:			
- on assets sold	-	30	26
- on assets held at the period end	-	(700)	(700)
Closing balance	**6,906**	6,894	6,906

9. Significant Interests

As at 31 August 2020, the Company held interests amounting to 3% or more of the equity in issue by the following investee companies.

	% of investee company
FireAngel Safety Technology plc	12.1%
Synectics plc	10.8%
Real Good Food Company plc	5.3%
Ramsdens Holdings plc	5.1%
AdEPT Technology Group plc	4.5%
Hargreaves Services plc	3.2%

10. Dividends paid in the period

	Six months ended 31 August 2020 £'000	Year ended 29 February 2020 £'000
Dividends paid during the period	**874**	691

A final dividend of 1.6p per share, in respect of the year ended 29 February 2020, was paid on 3 July 2020.

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 3 to 7 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 2020.

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 29 February 2020. Information on each of these areas can be found in the strategic report on pages 32 and 33 and in note 14 on page 75 to 77 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
2 November 2020

Shareholder information

Financial Calendar

Company's year end	28 February
Annual Results announced	May
Annual General Meeting	24 June (Provisional)
Company's half-year end	31 August
Half-yearly results announced	October/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

Directors
Hugh Aldous (Chairman)
Linda Bell
William Dawkins
Robert Legget

Company Secretary
Grant Whitehouse
Downing LLP
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD

Administrator
Downing LLP
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD
Telephone: 0207 416 7780

Solicitor
Dentons UK and Middle East LLP
One Fleet Place
London EC4M 7WS

Investment Manager
Downing LLP
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 707 1358

Custodian
The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

Broker
Shore Capital Stockbrokers Limited
57 St James's Street
London SW1A 1LD

Auditor
BDO LLP
150 Aldersgate Street
EC1A 4AB

Company number: 10626295

November 2020

St Magnus House
3 Lower Thames Street
London EC3R 6HD

020 7416 7780
contact@downing.co.uk
www.downing.co.uk