

Downing Strategic Micro-Cap Investment Trust



February 2021 Commentary

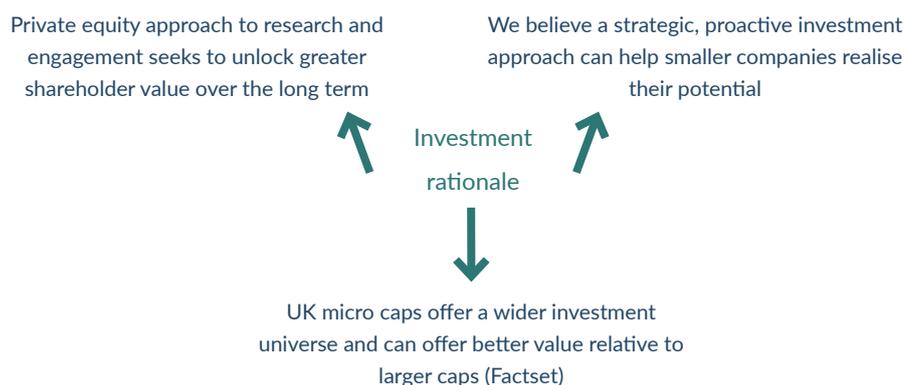
In February, the Company's NAV returned 3.8% and the share price increased 13.4%, significantly narrowing the discount to 11.3%. We have seen higher inbound interest from non-holders recently with the Brexit uncertainty lifting; a wider belief that a rotation from growth to value will be sustained; and the positive vaccine newsflow re-igniting interest in UK smaller companies. In our recently published [letter](#) we discussed these themes and highlighted the exposure the portfolio has to a 'return to normal' trade which we expect could play out over the next year.

Synectics (+27.7%) and Ramsdens (+16.9%) were the most significant contributors to performance in the month. [Synectics](#) reported a new contract in the Irish bus market on the back of a letter of intent for a multi-million-pound surveillance control system to be installed in London. We expect Synectics to continue to benefit from global economies exiting lockdowns, particularly in US and Asian gaming market. The business has used Covid-19 to reduce operating costs by £2.4 million, combined with stable gross margins, we see scope for significantly improved earnings and returns going forwards. Ramsdens reported no new news but continues to re-rate on prospects for a reopening of the UK high street and international travel. We remain positive on the investment case and have added to our holding in recent months.

The main detractors included Volex (-4.0%) and FireAngel (-10.0%). [Volex](#) completed the acquisition of DEKA in the month. We discuss this acquisition in more detail in our investor letter. We remain confident of Volex's prospects and the ability of management to identify and acquire value accretive businesses. [FireAngel](#) reported a Scottish Social Housing contract win. While small, this demonstrates the company's ability to execute in the social housing market which is a key element of our investment thesis.

We made a further new toehold investment in the month in a heavily discounted retailer which has a dominant market position and a compelling structural cost advantage which should allow it to continue to grind out market share from other players. It also has an exceptional ability to generate cash in normal operating periods. We began our work on this company in November when the vaccine news stimulated a re-rating in many businesses, except this one, which continued to trade lower. It is a business which we have held in other Downing funds in the past and our pre-investment diligence has included calls with the executive management team, non-executive directors, and the majority shareholder. Our stake priced the business at a zero-growth 'recovery' free cash flow to equity yield of around 30% and a strategic upside free cash flow yield of over 50%.

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.



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.



Lead Investment Manager
Judith MacKenzie

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 13.82% (28/02/2020-28/02/2021)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	1.63	3.80											5.49
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 28 February 2021

Top five holdings

Holding	Sector	% of Company
Real Good Food*	Food Producers	16.68
Volex plc	Electrical Equipment	15.17
Hargreaves Services plc	Support Services	7.64
Adept Technology Group plc	Telecommunications	7.43
Ramsdens Holdings plc	Financial Services	7.04

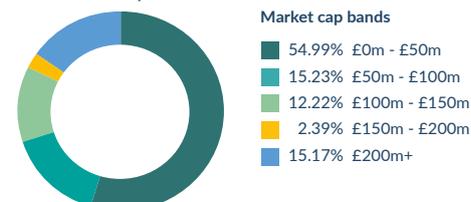
*Holding includes a 16.24% loan note and 0.44% equity split

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 28 February 2021

Launch date

9 May 2017

Morningstar sector

UK Small Cap Equity

Total market value

£37,726,913.52

Total net assets

£42,524,431.37

No of Ordinary Shares in issue

52,398,491

NAV incl. income (starting NAV 98.04p)

81.16p

Market Price of Ordinary Shares

72.00p

Premium (Discount)

-11.28%

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

Registered Office

St Magnus House
3 Lower Thames Street
London
EC3R 6HD
Telephone: +44 (0) 207 416 7780
Email: customer@downing.co.uk

Source of data: Downing LLP.

www.downingstrategic.co.uk

Risk warning: Your capital is at risk. Investments and the income derived from them can fall as well as rise and investors may not get back the full amount invested. Investments in smaller companies will normally involve greater risk or volatility than investments in larger, more established companies. Performance figures are taken from daily valuations provided by Downing LLP. Return is the total return (value of the investments plus cash including income after all expenses and charges), ignoring investor's taxation. Because shares in an investment Trust are listed on the London Stock Exchange their price is affected by supply and demand. This means that the share price may be different from the NAV. The Company's investment strategy may involve the use of leverage, which exposes the Company to risks associated with borrowings. Please note that past performance is not a guide to future performance.

Important notice: This document has been approved and issued by Downing LLP ("Downing"), St Magnus House, 3 Lower Thames Street, London EC3R 6HD. This document is for information only and does not form part of a direct offer or invitation to purchase, subscribe for or dispose of securities and no reliance should be placed on it. 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. You should only invest based on the information contained in the relevant product literature available from Downing. Downing does not offer investment or tax advice or make recommendations regarding investments. Please see the relevant product literature for details of charges; your attention is drawn to the risk factors contained therein. Downing is authorised and regulated by the Financial Conduct Authority (Firm Reference No. 545025). Registered in England No. OC341575.

DSM3053_Mar (Feb) 2021