

Downing Strategic Micro-Cap Investment Trust



March 2021 Commentary

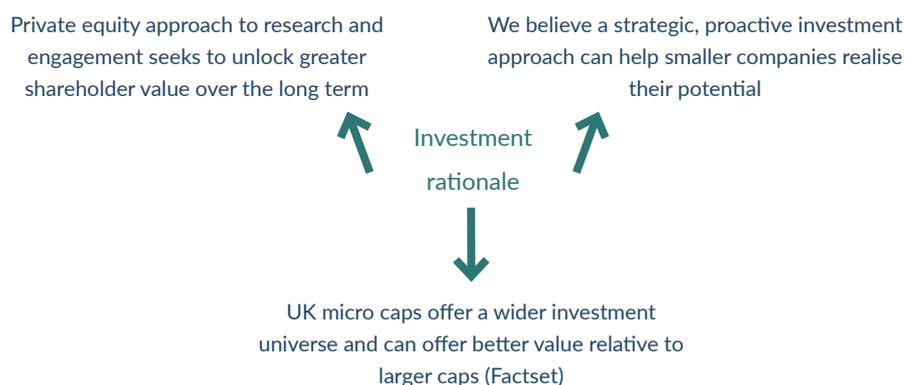
In March, the Company's NAV returned 2.5% and the share price returned 0.7%. The discount widened slightly to 12.8%. Despite this, there was reassuring news across a handful of companies in the period, and the portfolio remains well positioned with regards to an economic reopening from both an economic and sentiment perspective.

Volex (+13.7%) generated the most significant positive contribution but released no new news. The company is expected to announce a trading update in April on which we will provide fuller comment. Our newest toehold (+62.7%) generated a strong performance on the back of further clarity around the UK exiting lockdown as it is heavily geared towards an economic reopening. We continue our diligence on this position and will look to increase our position size when the price is right. Duke Royalty (+21.3%) launched a significantly oversubscribed placing, raising £32 million. This is positive for our thesis, providing the royalty financier with further capital to deploy at demonstrable mid-teen IRRs. Venture Life (+5.2%) reported a predictably strong set of results. Most significant for our thesis is the operating leverage the business demonstrated with revenues +49%, adjusted EBITDA +105%, and profit after tax +162%. The business retains £42 million of cash for use towards acquisitions which will be immediately earnings enhancing and likely generate further operating leverage as further excess capacity is utilised at the company's Italian manufacturing facility. Digitalbox (+7.5%), one of our newer investments, also reported robust results in the month. The latest acquisition, 'The Tab', is performing strongly, offsetting the volatility in the Daily Mash business which has been affected by algorithm changes through social media platforms which drive traffic to the site. The company retains almost £2 million of cash and we expect further accretive bolt-ons through this financial year, aided by the strategic direction from the new chairman.

The most negative contribution came from FireAngel (-19.4%) which announced a small initial order for its connected homes technology, and an update on its financing arrangements. Synectics (-10.0%) released results which were reflective of the challenging Covid-19 period. However, as outlined in last month's factsheet, we see much brighter prospects as economies begin unlocking, combined with operating cost savings. Hargreaves Services (-1.9%) share price also retreated, despite an HS2 related contract award. We are encouraged by the recent positive updates coming from the company and, as outlined in previous [investor letters](#), we think that this year should be transformational.

In the month, we fully exited a toehold investment which we had initiated in October last year. We continue to believe that the business has great long-term prospects and will monitor the situation for improving fundamentals. The investment generated a reasonable return.

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 40.58% (31/03/2020-31/03/2021)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	1.63	3.80	2.46										8.08
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.

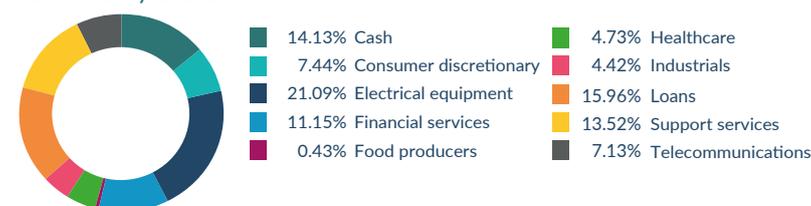
Portfolio summary As at 31 March 2021

Top five holdings

Holding	Sector	% of Company
Volex plc	Electrical Equipment	16.53
Real Good Food*	Food Producers	16.39
Hargreaves Services plc	Support Services	7.75
Adept Technology Group plc	Telecommunications	7.13
Ramsdens Holdings plc	Financial Services	7.10

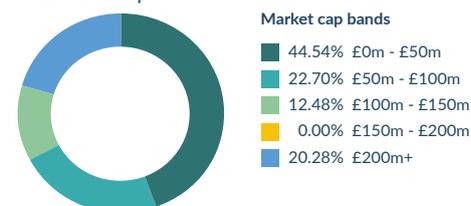
*Holding includes a 15.96% loan note and 0.43% equity split

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 March 2021

Launch date

9 May 2017

Morningstar sector

UK Small Cap Equity

Total market value

£37,724,963.20

Total net assets

£43,268,363.04

No of Ordinary Shares in issue

52,034,432

NAV incl. income (starting NAV 98.04p)

83.15p

Market Price of Ordinary Shares

72.50p

Premium (Discount)

-12.81%

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

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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