

Downing Strategic Micro-Cap Investment Trust



January 2022 Commentary

In January, the Company generated a very strong performance, with NAV increasing 4.8% against a market which declined by almost 10%. The share price was up only marginally, thus the discount has widened in the month, albeit this has been supported by modest buybacks. The value rotation has intensified in the first month of 2022, and with the expectation of numerous rate hikes, we think that this will only strengthen further throughout the year. This should benefit our companies as the market searches for value.

There were two sets of results in the month. **Hargreaves Services (+20.0%)** reported a very strong set of interims which drove >20% EPS upgrades across all forecast years. The German associate, which now won't be disposed of in the shorter term, was the primary driver of this, however the second half and outer years are set up strongly. HS2 is expected to ramp up to c£40m per annum, and two further contracts, Lower Thames Crossing and Sizewell, could be worth the same again. Blindwells has successfully disposed of a further phase, with eight still to go. The site at Westfields in Fife looks to have considerable optionality, with the Energy from Waste (EfW) valuation more than paying for the investment and development costs of the site, and with a further 80 acres of developable land. Finally, the renewables portfolio has very significant upside potential with low development and financial risk – we look forward to seeing this develop in the coming years. **Ramsdens (+9.9%)** posted a resilient trading performance in a significantly Covid affected period. There is good scope for an earnings recovery driven by a return of FX volumes – still only 40% of pre-pandemic volumes – which does appear to be playing out. Covid has also helped drive online traction in the jewellery retail segment and we expect that this will continue to increase given the strategic focus on this area.

Six companies reported trading updates in the month. **DigitalBox (+86.8%)** continued its upgrade cycle driven by a stronger than expected December. Ad rates continue to be very buoyant, with January 2022 approximately 25% higher than in January 2021, with January itself typically being the weakest month of the year. It would appear probable that they will make an acquisition in this financial year. **FireAngel (+9.2%)** reported a respectable year end trading update, albeit one which was also heavily Covid affected. Cash burn remains high, but with supply issues reducing and price rises successfully pushed through, we expect a return to profitability and much improved 2022. **Flowtech (-3.8%)** announced that revenues had almost returned to pre-pandemic levels and that results would be in line with expectations. Net debt was higher on well trailed working capital re-investment requirements, and the outlook was typically cautious for this management, which may have contributed to the slightly softer share price.

At the time of writing, the Company is completing a new investment into an attractively priced business which will absorb around 5% of the 13% cash balance. We will talk about the new investment in the next factsheet.

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.

Fund discrete performance	Rolling 12-month period 13.70% (31/01/2021 to 31/01/2022)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2022	4.83												4.83
2021	1.63	3.80	2.46	7.64	-0.62	0.69	-1.02	5.73	-1.63	-1.51	-7.27	0.70	10.22
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

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

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



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 Manager
Nick Hawthorn

Nick began working on the buy side in 2013 and joined Downing in September 2015 from BP Investment Management. Prior to this, he worked for Aberdeen Asset Management. Nick holds an MSc in Finance and Investment from Durham University and a MA in Accounting and Economics from the University of Aberdeen.

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).

Portfolio summary

As at 31 January 2022

Top five holdings

Holding	Sector	% of Company
Hargreaves Services Plc	Support Services	10.44
Real Good Food Company Plc (including loan notes)	Food Producers	10.18
Volex Plc	Electrical Equipment	10.16
Flowtech Fluidpower Plc	Industrials	8.01
Ramsdens Holdings Plc	Financial Services	7.37

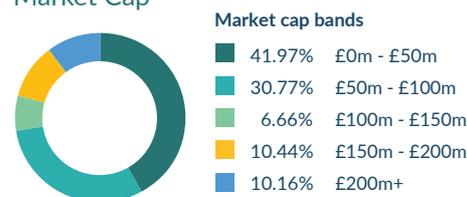
*Holding includes a 9.77% loan note and 0.42% equity split

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 January 2022

Launch date

9 May 2017

Morningstar sector

UK Small Cap Equity

Total market value

£35,453,896.80

Total net assets

£45,024,339.94

No of Ordinary Shares in issue

50,648,424

NAV incl. income (starting NAV 98.04p)

88.90p

Market Price of Ordinary Shares

70.00p

Premium (Discount)

-21.26%

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

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.

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