

# Downing Strategic Micro-Cap Investment Trust



## January 2023 Commentary

In January, the Company's NAV increased by 9.5%, approximately double the return of the UK smaller cap market. The strong performance was a result of positive reporting by our underlying holdings, including two new investments in the month – Journeo and Inspecs. We also retain one toehold which we are continuing to scale as liquidity allows. Cash finished the month just over 7% of NAV.

There were several sets of results in the month. **Ramsdens (+18.0%)** reported that trading continues to recover strongly from the Covid-19 pandemic. All divisions performed strongly yet some, like FX, still have room for growth, trading at only 70% of pre-pandemic levels. The group also opened several new stores in the period which will create new revenue opportunities in due course. There remains good scope to grow store and online contributions. **Hargreaves Services (+12.8%)** reported an in-line set of interim results. Some one-offs aided performance but overall, a strong performance from services and a robust performance from land are reassuring going forwards. The main catalyst will be a return of value from the German associate and potentially also the non-core renewables portfolio.

There were also several notable trading updates. **National World (+40.5%)** recovered strongly as its lean operating and cost structure shone through in a market which has been heavily affected by declining ad spend and higher newsprint and labour costs. The business beat guidance and also upgraded 2023 numbers, while the strong 2022 performance meant that year end cash finished at £27m. **Centaur Media (+32.4%)** also reported a strong trading update which indicated that its MAP23 plan was on track. The business also generated healthy free cash flows and finished the year with £16m of net cash. This will facilitate the payment of a £4.4m special dividend.

The Company participated in the **Journeo** fundraising to acquire IGL Limited. Journeo provides solutions for the transport industry, predominantly fleet management system solutions and passenger management. The addition of IGL brings additional exposure to the rail industry, with cross-selling opportunities. The valuation was particularly attractive, on an EV/EBITDA of c. 2.5x, and is expected to be earnings accretive. An investment was also made into **Inspecs**, a global designer, manufacturer and distributor of optical frames and lenses. Inspecs had a challenging 2022 which drove the shares down over 90% as market weakness and operational mis-steps indicated a headroom issue in Q4 last year. With an accommodative bank, a stronger Europe, lots of self-help and a well-incentivised management team, we think that Inspecs' earnings and rating will recover over the next 12-24 months. We will provide more detail on the new investments in the February Investor Letter.

*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 -13.11% (31/01/2022 to 31/01/2023)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2023	9.47												9.47
2022	4.83	-3.90	2.61	2.15	-5.57	-6.43	6.59	-5.53	-11.51	-0.78	1.72	-0.84	-16.79
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

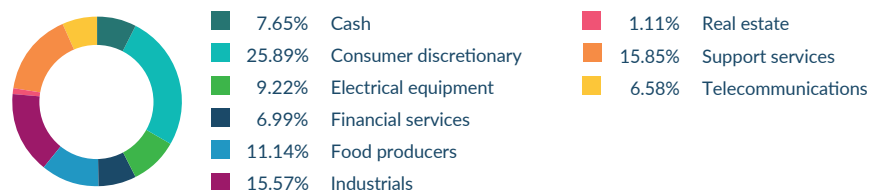
As at 31 January 2023

## Top five holdings

Holding	Sector	% of Company
Real Good Food Company Plc (including loan notes)*	Food Producers	11.14
Centaur Media Plc	Consumer Discretionary	8.63
Hargreaves Services Plc	Support Services	8.30
Flowtech Fluidpower Plc	Industrials	8.02
Ramsdens Holdings Plc	Financial Services	6.99

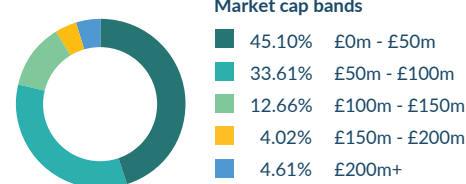
\*Holding includes a 10.88% loan note and 0.26% equity split

## 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 2023

### Launch date

9 May 2017

### Morningstar sector

UK Small Cap Equity

### Total market value

£30,301,521.71

### Total net assets

£38,058,706.98

### No of Ordinary Shares in issue

49,270,767

### NAV incl. income (starting NAV 98.04p)

77.24p

### Market Price of Ordinary Shares

61.50p

### Premium (Discount)

-20.38%

### 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 2022 were 1.75%.

### 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

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Source of data: Downing LLP.

[www.downingstrategic.co.uk](http://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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