Downing Strategic Micro-Cap Investment Trust PLC

Annual Report and Financial Statements

28 February 2021

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 typically comprises between 12 and 18 holdings when fully invested.
- The Company typically seeks to hold between 3% and 25% of the equity of these investee companies, notwithstanding the ability to use debt instruments alongside equity.
- Typically, investments are 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.

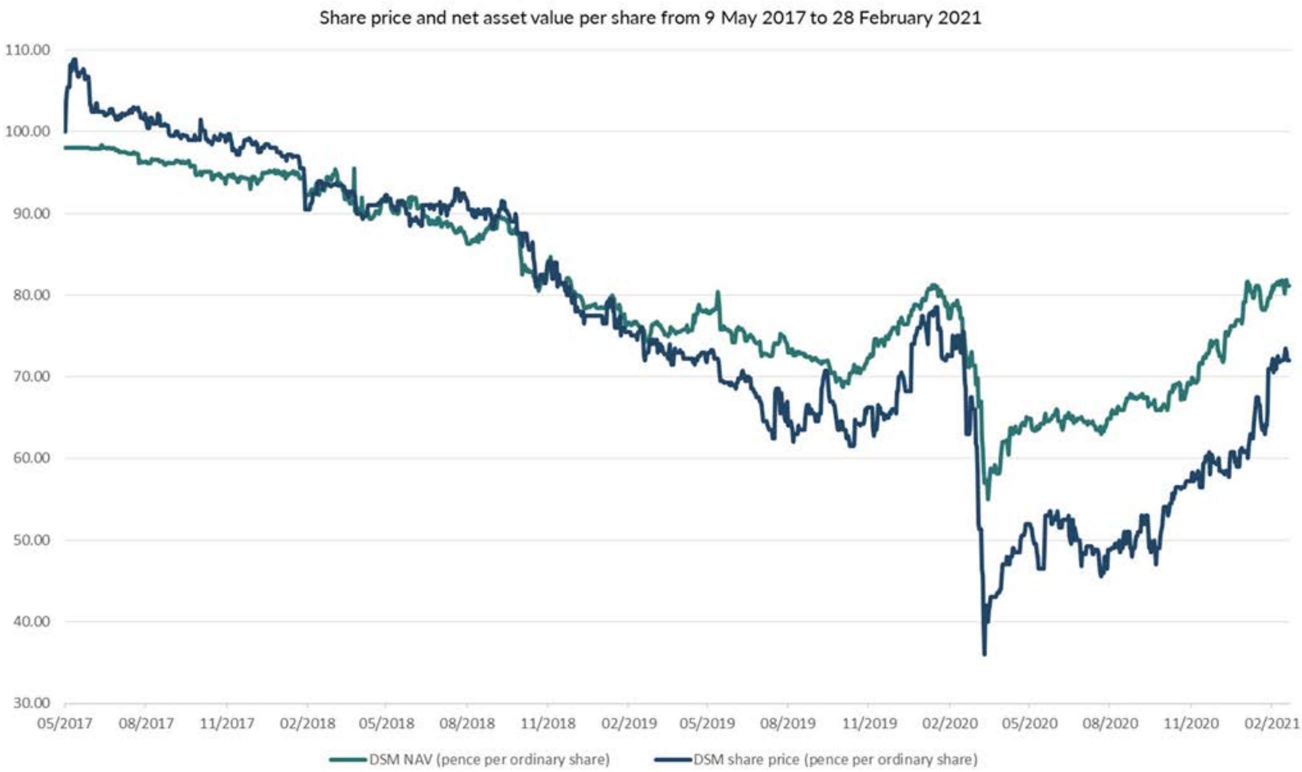
Contents

Financial highlights

Assets	28 February 2021	29 February 2020	Change %
Net assets (£'000)	**42,524**	39,096	8.77
Net asset value ('NAV') per Ordinary Share	**81.16p**	71.30p	13.82
Mid-market price per Ordinary Share	**72.00p**	63.00p	14.29
Discount	**11.28%**	11.64%	

Revenue	Year ended 28 February 2021	Year ended 29 February 2020
Revenue return per Ordinary Share	**1.02p**	1.91p
Capital return per Ordinary Share	**9.56p**	(4.01p)
Total return per Ordinary Share	**10.58p**	(2.10p)

Performance from 9 May 2017 to 28 February 2021



Source: Downing LLP

Ordinary shares admitted to trading on 9 May 2017 at 100p per ordinary share. Starting NAV of 98.04p per ordinary share.

Dividends paid have been ignored in the above chart.

Operational highlights

The Company now holds positions in the following businesses:

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

Highlights

- Management of the discount, down to pre-pandemic levels (11.28% as at 28 February 2021)
- Focused portfolio of actively managed investments with clear catalysts in place
- 26% increase in NAV and 22% increase in share price since the pre-Covid 29 Feb 2020 year end
- Investments are now all in either late stage turnaround or growth phase
- Portfolio still at 43% discount to the manager's base case intrinsic value
- Investee companies all well financed and should benefit from the end of lockdown
- Post period end a significant return of capital, interest and redemption premium, reducing the exposure to the turnaround of Real Good Food Plc (subject to shareholder approval by Real Good Food plc)
- Strong work in progress list of potential new investments which will be executed in the short term

Chairman's Statement

Overview

The recent pandemic, coupled with Brexit, caused a jolt sufficient to challenge some established ways of doing things and encouraged a rethink of the creation of social, economic and corporate worth. The best companies are now more focused, more innovative; society is more demanding, governments more responsive (well maybe….). Revised views on value generation could well leave many people better off and will leave good businesses stronger. To quote the FT on 22 April 2021 *"build back better could be what helps us achieve growth above what we were resigned to accept before the world changed" (Martin Sandbu).*

Through this difficult time, the companies in DSM's portfolio have taken up that challenge and become all the better. None of the companies in our portfolio have crashed, and, by and large, all have emerged better managed, thinking clearly and fixed on stronger and more profitable futures. That reflects well on DSM's style and stock selection.

The portfolio has performed robustly since March last year and should continue to do so. Shareholders can also see that by investing in DSM they have invested into the heart of the UK's productive economy and into companies that have yet to be fairly recognised.

Performance

At the time of this statement the NAV per share is 89.79p and the shares are 77.0p mid (74.0p bid/80.0p offer). The discount is 14.24%. 2020/21 was a volatile year, so how to look at performance? At last year end the NAV was 71.30p per share and mid-market price 63.0p, by this financial year end the NAV stood at 81.16p per share and the shares were 72.0p. In the midst we had the March 2020 market collapse. Following that collapse, confidence re-emerged; your portfolio continued to show its strength and value stocks came more into their own. The NAV grew from a nadir of 57.0p per share to today's 89.79p (an increase of 57.5%) and the share price grew from 36.0p (with other days around 40 to 42p) to 77.0p – over 100%. The strength of your company's portfolio has come through. I will highlight some examples in a moment. That has meant that the NAV more than recovered its 29 February 2020 level and now stands 25.9% higher than at that bullish moment; the share price, 22.2% higher. During settled markets your board has actively managed the discount and brought it back in again, despite the current closed period. Yet there continues to be a lot of intrinsic value in the portfolio still to be recognised by the market – the manager's view is 43% (see page 10). Those views on the look through discount are also expressed periodically in the manager's investor newsletters (which you can request from the DSM website).

DSM does not have a benchmark, but it has beaten the Numis Smaller Companies + AIM Index for the last two quarters.

Dividend

DSM is not an income investment company, but, because of some high yielding loan notes, we are proposing a dividend of 0.8p per share. Subject to shareholder approval at the AGM, the dividend will be paid on 9 July 2021 to shareholders on the register at 11 June 2021.

Attention to ESG

The manager's reports cover specific aspects. Shareholders should have noticed over the years that DSM is outspoken on its expectations of investee companies (see page 27 of our report and accounts) which reflects its activism and that Downing sponsors and contributes to the QCA's Corporate Governance and ESG Guides.

Some of the events of the past year

Shareholders will recall that Real Good Food ('RGD') turned out to be a bigger problem than we thought, once our manager joined the board and had unearthed corporate failings that needed immediate attention. Value was still there despite having to put in an interim CEO and new finance director. The pandemic curtailed realisation of value until this April, but you will see from the manager's report that a satisfactory price of £43m has been achieved for Brighter Foods (subject to shareholder approval) and that the remaining business, Renshaw, and the properties are also being prepared for sale. The Brighter transaction alone will repay £4.8m of loan notes and interest to DSM and release £0.5m of redemption premium. Our manager's assertion that the sum of the parts would repay invested time and capital looks to be correct.

Chairman's Statement (continued)

As to the rest of the portfolio, nearly all companies have managed the last year well. That is set out in the manager's report, but I would highlight some of the breakthroughs. Synectics reorganised internally and cut costs whilst securing some remarkable contracts. Its software and integrated analytics will provide a new, real time incident management and surveillance system for the City of London to make the City the safest city area in the world; a command and control platform for Deutsche Bahn is now operating for the Berlin S-Bahn. These are key inflection points for Synectics, never mind its surveillance system for casinos opening up after lockdown. FireAngel now has contracts for its unique fire management platform and has secured a fully funded research and development programme with a German partner for the next generation of smoke alarms working off the FireAngel platform. Ramsdens has come through the pandemic keeping most of their shops open with cash-positive trading and ready for the 'holidays' roadmap with their FX service. AdEPT has positioned itself in network delivery. Volex powers on. Hargreaves Services, as their broker puts it, 'has genuine momentum'. Hargreaves, trading property and German j.v. are performing nicely. The portfolio as a whole makes strides.

Portfolio construction

I leave the manager to tell you how the portfolio matches the changing future of the UK. Your board is content with its development and that the manager has disposed of some investments that really didn't fit that future. In one case we lost faith in the integrity of the management and in another we began to doubt whether shareholder interest was really on their agenda. You can't always assess management perfectly until you 'get in there'.

Looking forward

Personally, I welcome the increasing responsibility that the recent Government White Paper will place on directors. Competent, responsible, diligent, effective boards matter.

As to outlook, personally I have never been able to call markets (Who said, *'There are two types of investor: those who can't call markets and those who know they can't'?)* but developed markets outside the USA, such as ours, seem to have struggled for 20 years in a bearish world compared to the ever-vigorous America. Now more vigour, interest in corporate substance and value is growing in the UK and your portfolio has that energy amongst its well-driven companies. DSM has a portfolio for future national recovery.

Looking after our shareholders

This has not been an easy year for the smaller shareholder. In March 2020 markets fell dramatically. I said this time last year that there was no point in trying to stand against the tide and buy-back shares in that market; just sit tight. There was no value for the overall mix of shareholders in making a redemption offer and we did not exercise the facility. Once disorder had calmed, we stepped into the market and, from the end of September onwards, we worked with our brokers to generate some effective discount control which, with increasing interest in DSM, brought the discount in to less than 12% by its year end. That way we saw no market overhang and those who have wished to sell found that there were buyers – sometimes through buy-backs.

What we now need to do is to build this company, whilst looking after shareholders through marketing and maintaining liquidity – and doing that through discount management when necessary and as markets permit. That is what we will continue to do and, if it works well, that alone should be enough to look after shareholders without further shrinking the company through redemptions – whilst, of course, listening to shareholders as to their views.

Talking to shareholders, informing shareholders, quarterly investor letters

As chairman, I make a point of talking to the larger shareholders after each report and accounts, and sometimes more frequently if they wish. I am happy to talk to any shareholder. But how do you penetrate the nominee platforms to reach the smaller shareholders? The best we can do is invite you all to register on our website (**www.downingstrategic.co.uk**) to get our investor letters, Kepler research reports, useful articles about micro-caps generally and be invited to join webinars and shareholder engagement events.

Board and managers

We do our own assessments of the board and the managers, encouraging frankness. That builds teamwork and focuses the board's purpose and the work we do with the managers with whom we have an open, communicative, constructive relationship. That level of openness is quite unusual, and it makes for a good working relationship.

Chairman's Statement (continued)

The managers are the right activist team for this micro-cap market.

Doctors' Support Network

During the year, your board waived 25% of its fees - £28,750 – in order for the company to make a donation to the Doctors' Support Network, a leading charity which provides peer support to doctors and medical students who have concerns about their mental health. The aim of our donation is to assist those who have found that the challenge of working in the frontline of the Covid-19 pandemic began to question their career choice or even their future in medicine. Participants will receive free short-term one to one coaching. The service was launched in the week of 26 April to coincide with the International Conference on Physician Health.

AGM

This year's AGM will take place on 7 July 2021 at 2:15pm at Downing's office at St Magnus House, 3 Lower Thames Street, London EC3R 6HD. With indications that all social distancing restrictions will now end before that date, we are planning to hold an AGM in the traditional manner this year.

Last year's AGM worked well enough in the circumstances. Shareholders could 'attend' through Zoom and type in their questions which we then answered. We got some compliments and no complaints.

We are mindful that government guidance can change and so we request that any shareholders intending to attend the meeting register by sending an email to **dsmagm@downing.co.uk** saying you wish to register for the AGM. Further details regarding arrangements for the AGM will then be provided to you.

The notice of the AGM is set out on page 87 of this report and notes in respect of special business to be proposed at the meeting on page 86. We encourage shareholders to submit their proxy votes in advance of the deadline of 5 July 2021.

Please also register on DSM's website **(www.downingstrategic.co.uk)** for AGM news, manager presentations, webinars, the quarterly Investor Letter, broker and Kepler research and portfolio news.

As always, my thanks to colleagues both on the board, those supporting the company and to Judith MacKenzie, Nick Hawthorn and the manager's team.

Hugh Aldous
Chairman
7 May 2021

Investment Manager's Report

I said back at the time of the Interim Report in 2020 (issued in November) that I didn't know what I would be writing at the time of the full year report in May 2021. The complexities on the world stage at that point were multiple; a Brexit deadline was looming, the threat of a 2nd or even 3rd lock-down looked inevitable, vaccines were being validated but not rolled out, and of course we were on the eve of a tumultuous US General Election. At that point my fortune cookie had to forecast the outcome of these issues, whilst at the same time we had to evaluate their impact on our portfolio. Clearly this was challenging, but we had formed a view in early 2020 that we could only focus on what we know – which is our underlying investments.

Six months seems to have been a long time this year, but in other ways it seems surprisingly short. I am more relaxed about the US - or am I? Biden is creating fiscal stimulus through infrastructure commitment. But who is paying for it? We have a vaccine roll out program – so I should be less concerned about covid, surely. But who is paying for the fiscal support? Brexit – done and dusted aside from a couple of supply chain issues and a disgruntled Northern Ireland. But who is paying for the regulatory and operational change it has brought? Apparently, I need not worry, as markets are at all-time highs. But I am still left thinking, 'who is paying for it'?

I am clearly in a minority when it comes to questioning the fundamentals. US margin debt has risen to a record peak of $822bn in March, the popularity of SPACs and the fact that the cryptocurrency market is worth more than all listed US banks combined, would in normal times give reason for concern. However, as the year progresses, I suspect we will still be living the 1920s-like euphoria for some time, even if I am still asking who is paying for it.

If we therefore assume that there might be a stock market bubble looming, then we have to look at the impact it might have on our portfolio. Firstly, booms or bubbles are typified by 5 main stages:

1. **The theory of displacement**, or that the world will follow a new paradigm. We have seen the popularity of healthcare and technology stocks in the last 12 months, for example.
2. **Boom** – yes, we can tick that box. The US market is at all-time highs. The Leisure Sector in the UK is at the same rating as it was pre-covid; despite lockdowns.
3. **Euphoria** – yes, we can say there is evidence of this. The number of IPOs and fundraises in the EMEA market is at its highest level since 2000 (Q1 2021)
4. **Profit taking** – not seeing that yet.
5. **Panic** – still to come?

As managers, we have a belief that it is difficult for the central banks to step away from pushing money into the economy, and that the public could spend their way out of a recession. But at the same time, we have a conviction that the symptoms of a bubble, described above, are there. So, what do you do? Becoming too defensive means you miss out but electing to ride the momentum seems foolhardy.

Being a stock-picker in this environment is the most comfortable place to be. You are not buoyed by sector movements; you have the luxury of looking at fundamentals and taking a view as to how future cash flows and assets can be valued. Being able to hunt for the strategic catalysts that can drive value is a more comfortable place to be than trying to value the next IPO.

We have always tried to quantify the inherent value within the portfolio – based on our own judgement of current and future earnings. Thereby trying to cut through the 'market noise' against or for our type of investing. If we purport to understand our underlying investments better than anyone else then we should, theoretically understand how to value them better.

As we stand today, we believe that the portfolio sits at a 43% discount to its intrinsic value. Coupled with that there is a 14.24% discount to the net asset value reflected in the current share price.

So, we are focused, alongside strong management teams, on the catalysts in the portfolio. Meanwhile the sentiment towards value is improving, whilst there is a focus on UK small cap which has been an underdog for many years. We believe it is a good time to be an investor in this asset class.

Turning to the portfolio, the detail of our progress against the investment case is illustrated in the individual company reports, however here we seek to update readers on the tangible progress that this portfolio has made since the start of 2021. Over 60% of the underlying positions have seen management teams buy stock in their own business over the last 12 months (see table on page 11). All positions have reported positive trading updates, many having announced significant new contract wins.

Investment Manager's Report (continued)

Company	Insider Buying	2021 progress on catalysts
Real Good Food	No	Divestment and return of capital.
Volex	Yes	Achieved better than expected earnings.
AdEPT Technology	Yes	Earnings accretive acquisition.
Hargreaves Services	Yes	German joint venture trading well.
Ramsdens	Yes	Strong recovery play post lockdown.
FireAngel	Yes	Good news flow on Connected Home. Placing to secure growth initiatives are achieved.
Synectics	Yes	Significant margin improvement. Material Systems contract win.
Venture Life	No	Earnings ahead of expectations. Deal flow strong.
Flowtech Fluidpower	Yes	Cost savings executed. Strong recovery anticipated.
DigitalBox	No	New Chair, Board changes. Scope to improve monetisation rates and acquire.
Duke Royalty	No	Good underlying performance, fundraise.

Real Good Food ('RGD')

One of the main events in the portfolio since the period end is Real Good Food plc who disposed of their majority stake in Brighter Foods, to The Hut Group ('THG') plc for a gross consideration of £43m. The offer from THG broadly equates to 8.6 times annualized FY20 EBITDA and 11.7 times (unaudited) EBITDA for the last 12 months ended 31 March 2021.

This in turn has led to a neutralising of the pension fund liabilities, and a repayment of debt of £23.1m to Loan Note Holders, of which DSM is one.

The impact for DSM is a significant return of capital, interest and redemption premium, totalling over £5.3m. This payment greatly reduces exposure to RGD to c.9% (down from c.21% as at 28 February 2021) and importantly provides a return on the investment – repayment incorporates accrued interest accrued (to early May 2021) and a redemption premium payment representing 15% of the principal being redeemed (equivalent to 7.5% of DSM's full 10% loan note holding). A summary of the proceeds to be received by DSM is shown below. Please note that this repayment to loan note holders is subject to RGD shareholder approval.

	Capital (£m)	Interest (£m)	Redemption premium (£m)	Total (£m)
Split of proposed proceeds from RGD	**3.7**	**1.1**	**0.5**	**5.3**

This repayment highlights the ability to drive strategic value from this position, where Downing holds the right to a board position and have been highly engaged with the turnaround of the business. Going forward the board of RGD have stated the intention to continue to drive value from the remaining assets – predominantly Renshaw and Rainbow Dust.

Remaining net debt of RGD is £21.5m. These businesses, pre-Covid and during their turnaround year, generated turnover of c.£45m and EBITDA of £3.0m. This has historically been higher.

We continue to assess what the residual value of the remaining assets might be. The board has concluded that it remains appropriate to carry the remaining loan notes at the equivalent to their par value plus accrued interest.

A new holding – Tactus Holdings Limited ('Tactus')

DSM made an investment of £1.5m into Warrington-based Tactus at the end of April. Tactus is a technology expert providing multi-branded IT hardware to global retailers and the public sector. The investment from DSM was part of a £11.25m investment round which allowed Tactus to complete a recent landmark acquisition of PC gaming specialist, CCL computers, which sees the group become a GBP125 million turnover business.

This is a fantastic strategic acquisition for Tactus which further strengthens its position as a disruptive consumer tech expert. CCL is ideally placed to bolster Tactus' credentials in the gaming space, which has emerged as one of the world's fastest growing sectors in recent months.

Investment Manager's Report (continued)

Our investment will support Tactus in its organic and future acquisitions, and help it deliver its ambitious growth plan. The investment is structured by way of loan notes and equity, providing some downside protection in this private company investment. Given the strong growth profile of the company we would expect that realisation of our holding would come either through an IPO or trade exit.

DSM and responsible investing

In order to provide investors with further information on the work DSM has undertaken in the interests of sustainability and ESG, we have included a Sustainability Report on page 13.

Shareholder presentation

Nick Hawthorn and I will be hosting a live investor presentation via the Investor Meet Company platform on 18th May 2021 at 10.30am BST.

The presentation is open to all existing and potential shareholders. Questions can be submitted pre-event via your Investor Meet Company dashboard up until 9am the day before the meeting or at any time during the live presentation.

Investors can sign up to Investor Meet Company for free and register for the event using the Investor Meet Company website at:

www.investormeetcompany.com/downing-strategic-micro-cap-investment-trust-plc/register-investor

Outlook

The NAV of DSM is up 8.6p (10.6p) since the year end. Our portfolio has now gone through the challenges of change (and signs would say for the better). We have had a partial realisation through a corporate event partly driven by Downing, and our portfolio has survived the rigors of covid well. We believe investments are leaner, fitter and more capable than they were pre-covid. As I write, we have a strong pipeline of new opportunities, some of which we expect to execute within the coming weeks.

We have a clear focus, and we know what is expected of us.

Judith MacKenzie
Head of Downing Fund Managers and partner of Downing LLP
7 May 2021

Investment Manager's Sustainability Report

Although sustainable and ESG investing has been raised by many investors recently, it is reassuring to note that DSM has been following the basic principles of long-term investing since its inception.

We prefer to define our investment style as strategic long-term investing, with aligned management teams, providing catalysts for sustainable growth for shareholders.

By making this promise you cannot take short term bets. Investors must have a clear understanding of what the underlying business wants to achieve, and how they are doing it, but also whether their business model is sustainable and climate change resilient in the long term.

We exclude no business from initial consideration. Rather than taking a blanket negative screening approach, we may take holdings in businesses with known ESG risks provided we feel those risks are reflected in the current valuation and that we have sufficient visibility and influence on management teams to foster change and value creation through an active ownership approach.

In other sectors, with known ESG issues we may also decide to screen for best-in class investments, identifying and supporting management teams that we think are better placed than competitors today to foster successful and sustainable businesses in the future.

We believe that you cannot flick a switch and exclude industries that have been around for centuries – if you do so they will go underground and create more problems than they would in the public eye. As a diligent investor, we can help enhance disclosures and accountability and demonstrate the change from old economy to new economy.

Hargreaves Services is the 'headline' protagonist when it comes to a perceived negative ESG rating, given the recent increase on climate risk scrutiny. However, it has achieved a lot operationally, helped by our influence. It has ceased coal production and transformed the business. Management has been keen to engage with us on their disclosures, the impact of which is a direct change in the way they report in their annual accounts and website. This in itself is something that we think will improve their rating in the market.

Governance has always been key to our investment strategy. We have voted on 100% of our shareholder resolutions at an individual fund manager level. More detail on our levels of involvement in matters that are Governance related are clearly articulated in our quarterly Investor Letters.

Our due diligence has always included site visits, interviewing management and staff, checking wage and accident rates. This is further supported by ESG research and ratings provided by Sustainalytics, the leading provider of corporate sustainability research, or internally sourced. We do this not to tick an ethical box but because we believe that investing for the long term does not allow companies to take short cuts with employees.

Our commitment to long-term investing is core to the investment philosophy of DSM. In the future we commit to increase our disclosures in relation to the Trust, and the underlying positions on a regular basis. More details of the Downing Responsible Investment Policy, Downing Fund Managers ESG strategy and the Trust can be found on Downing's website (**www.downing.co.uk/responsible-investing**), along with our Voting and Engagement Policy.

Judith MacKenzie
Head of Downing Fund Managers and partner of Downing LLP
7 May 2021

Investments

As at 28 February 2021

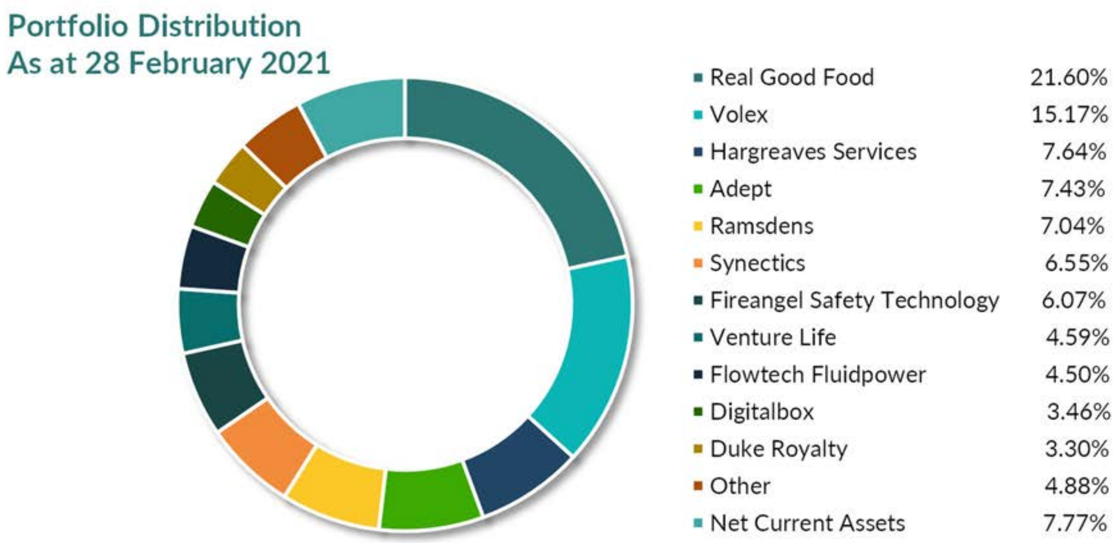
	As at 28 February 2021 Market Value (£'000)	As at 28 February 2021 % of Total Assets	As at 29 February 2020 (restated) % of Total Assets
Real Good Food 10% Loan Note (19/05/2022)[1]	7,392	17.38	17.40
Volex	6,451	15.17	15.29
Hargreaves Services	3,247	7.64	7.07
AdEPT Technology Group	3,159	7.43	8.94
Ramsdens Holdings	2,994	7.04	7.57
Synectics	2,786	6.55	7.13
Fireangel Safety Technology	2,580	6.07	2.35
Venture Life Group	1,950	4.59	-
Flowtech Fluidpower	1,913	4.50	-
Real Good Food 12% 'C' Secured Guaranteed Loan Note (19/05/2022)[1]	1,607	3.78	3.74
Digitalbox	1,469	3.46	-
Duke Royalty	1,405	3.30	4.86
Real Good Food	186	0.44	0.57
Science in Sport	-	-	2.52
Pennant International Group	-	-	1.61
Other	2,079	4.88	5.62
Total investments	**39,218**	**92.23**	**84.67**
Cash	3,428	8.06	15.47
Other net current assets	(122)	(0.29)	(0.14)
Total assets	**42,524**	**100.00**	**100.00**

[1] Unquoted. Stated inclusive of the fair value of unpaid interest income.

All investments are in Ordinary Shares and traded on AIM unless indicated. The total number of holdings as at 28 February 2021 was 14 (29 February 2020: 13). Details of the equity interests comprising more than 3% of any company's share capital are set out in note 17.

As at 28 February 2021, loan note principal represented 16.24% (29 February 2020: 17.68%) of total assets and the total of loan note principal and interest represented 21.16% (29 February 2020: 21.14%).

The table above includes net current assets of £3,306,000 that are also disclosed in the statement of financial position.



Background to the investments

(unless otherwise stated all information provided as at 28 February 2021)

Key: GREEN: Good RED: Negative ORANGE: Neutral

AdEPT Technology Group PLC (AdEPT) (7.43% of net assets)
Cost: £3.83m. Value as at 28 February 2021, £3.16m

Background

AdEPT functions as an aggregator of telecoms services providing a smoother, integrated service to corporates and government organisations. We were attracted by the high operational gearing and recurring revenue streams at appealing margins. Communications and technology have converged over recent years and that trend is only set to accelerate into the future, and AdEPT is well placed to benefit from this trend.

Update to the investment case

- **Positive interim results - trading remained resilient despite Covid-19**
- **Continued cash generation**
- **Net senior debt reduced by £6.7m**
- **New contract wins in DoE and NHS**
- **Total revenue down but recurring and managed services revenue increased**

Progress against investment case

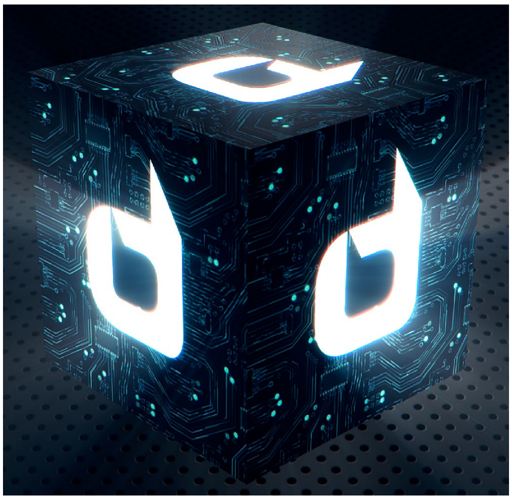
AdEPT has continued to trade robustly through the ongoing pandemic given that 78% of revenue is generated by recurring managed services. Reassuringly, the group continued to generate cash throughout the period, with underlying EBITDA conversion to free cash flow (including leases) of 97%. We believe that this demonstrates the cash generative nature of the underlying and core managed service business, along with essential nature of these services to customers, despite the global pandemic.

Given the high proportion of revenue visibility, low capital-intensity, and the cash generative nature of business, we believe that AdEPT is undervalued on both a relative and absolute basis. We continue to engage with management to pursue the exercise of deleveraging the balance sheet based on the cash generation within the business model. We think that given the robust trading through the pandemic this low valuation won't go unnoticed.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2021)

Digitalbox PLC (Digitalbox) (3.46% of net assets)
Cost: £1.20m. Value as at 28 February 2021, £1.47m



Background

Digitalbox, a new investment in the portfolio, is a 'pure-play' digital media business with the aim of profitable publishing at scale on mobile platforms. The business generates revenue from the sale of advertising in and around the content it publishes. Its optimisation for mobile enables it to achieve revenues per session significantly ahead of market norms for publishers on mobile.

Update to the investment case

- **Improving revenues and profits**
- **Positive integration of The Tab**
- **Audience growth across the portfolio**
- **Board strengthened by appointment of new Chair & NED**

Progress against investment case

We view Digitalbox's value creation opportunity across two buckets. Organically, we can see scope to continuously increase title monetisation. Combining improving monetisation with a largely fixed cost base leads to rapidly improved earnings. Inorganically, the opportunity is to continue to consolidate under-monetised titles and improve their earnings. There is a plethora of opportunities which have lacked investment to move online in the transition from print media, and Digitalbox is well capitalised to take advantage of these. Ultimately, we expect to crystalise value from our £1.2 million investment in the group through a trade sale. We view the recent board shuffle as positive in this regard with Marcus Rich having been appointed chairman in early February. Marcus was previously chief executive of TI Media where he led the sale of NME.com to Bandlab Technologies, and ultimately oversaw the company's sale to Future PLC.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2021)

Duke Royalty PLC (Duke) (3.30% of net assets)
Cost: £2.02m. Value as at 28 February 2021, £1.41m

Background

Duke Royalty provides alternative capital solutions to a diversified range of profitable and long-established businesses in Europe and North America. Duke Royalty's royalty investments are intended to provide robust, stable, long term returns to its shareholders and has the benefit of having first mover advantage in the European Royalty Finance market.

Update to the investment case

- **Positive trading update**
- **Follow-on investments into existing Royalty Partners**
- **Successful exit from Royalty Partner**
- **Appointment of new CIO**
- **Reinstated cash dividend**

Progress against investment case

The challenges of the last 12 months have been well navigated by Duke, with the period acting as a good test of the resilience of the business model. The royalty partner that gave the most cause for concern during the pandemic for us as investors was the River Boat Cruise operator Temarca. On 31 March 2021 Duke announced that this position had been exited for negative IRR of only -2%. This has been very reassuring for us and demonstrates management's ability to step in and rescue value under extreme circumstances.

Duke raised a further £32 million to continue deploying its strategy on 1 April 2021. This was well supported and has acted as a positive catalyst for the share price.

The volatile macro environment presented by the pandemic has created opportunity for Duke. Banks have tightened SME lending criteria whilst business cashflows have been put under more pressure, and demand for more flexible, alternative sources of capital remains very strong. As a first mover and leader in the UK and European corporate royalty space, the group has a significant opportunity to build and further diversify its portfolio. Importantly, it has significant liquidity available for new deployments, which adds to management's high level of confidence for 2021.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2021)

FireAngel Safety Technology Group PLC (FireAngel) (6.07% of net assets)
Cost: £4.85m. Value as at 28 February 2021, £2.58m

Background

FireAngel designs, sells and markets smoke detectors, carbon monoxide detectors and home safety products. We were attracted to the business because of its dominant share of the UK fire safety market, with products that are endorsed throughout Europe. We also saw an opportunity from changing legislation that we believe the group will benefit from. The move away from simple alarms to connected products is expected to drive improved economics for FireAngel, and we see scope to generate meaningful recurring revenue by gaining traction in the social housing space.

Update to the investment case

- **Reduced sales due to Covid**
- **Recovery in markets and improved trading**
- **Significant reduction in stock levels**
- **Social housing contract win**
- **Increasing traction of Connected Home product**
- **Post period end a significant Connected Home contract with a German client**
- **Post period end a successful £9m fundraising to support growth**

Progress against investment case

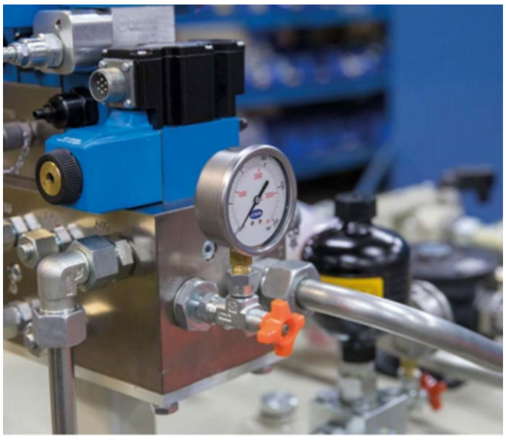
The Covid-19 pandemic had a detrimental effect on short term earnings, however these have now improved. The key to fulfilling the investment case in this position is the deliverability of cash earnings from the core historic business, whilst growing the new Connected Home opportunity – which is now being evidenced, and will likely to influenced by the growing attention on potential legislation post Grenfell.

The most recent announcement from the group of a major partnership with a client in Germany highlights the capability of the underlying IP, while also providing a meaningful economic benefit to the group. Post the period end FireAngel announced a £9m funding round to enable them to secure the growth opportunities in the Connected Home market.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2021)

Flowtech Fluidpower PLC (Flowtech) (4.50% of net assets)
Cost: £1.58m. Value as at 28 February 2021, £1.91m



Background

Flowtech Fluidpower is a value-added distributor of hydraulic and pneumatic consumables into a wide array of sectors predominantly in the UK and Ireland. The group is a leading UK player in this space, with pre-Covid revenues of over £110 million. It sits between much larger global manufacturers and a highly fragmented and localised cohort of smaller distributors. The company's high service levels, broad stock offering and exposure to maintenance, repair and overhaul markets were key attractions, and these attributes facilitate Flowtech's relatively high gross margins of over 35%.

Update to the investment case

- **Covid challenges led to 15% reduction in revenues**
- **Modest increase in market share**
- **Reduction in net debt**
- **Delivering on operational cost savings**
- **Cautious optimism – dividend policy and reinstatement of earnings guidance under review**

Progress against investment case

DSM invested in mid-2020 which seemed a reasonably de-risked entry point given the temporary effect that Covid-19 would have on the company's revenues, falling from a peak of £110 million to a little over £95 million, with a more significant fall in earnings due to operating leverage. We think that there is a strong natural recovery case, buoyed by macro spending tailwinds which should provide future growth. Coupled with the cost savings and better working capital which management has enacted, we think that the business has strong prospects to significantly exceed historic levels of earnings and generate healthy free cash flow.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2021)

Hargreaves Services PLC (Hargreaves) (7.64% of net assets)
Cost: £3.65m. Value as at 28 February 2021, £3.25m

Background

Hargreaves Services is a diversified group delivering key projects and services to the industrial and property sectors. The Distribution and Services division aims to generate sustainable profitability through operations across the energy and infrastructure sectors in the UK, Europe and Asia. The Property and Land division aims to generate value through the development and/or disposal of the companies' significant land bank which currently includes planning permission for 4,700 residential plots, and 4 million square feet of logistics and industrial space.

Update to the investment case

- **Lacklustre performance due to Covid-19 delays**
- **Further developments at Blindwells site**
- **FY results expected to be in line with board expectations**
- **New board appointment**
- **Sale of Speciality Coal to HRMS**

Progress against investment case

Hargreaves was heavily impacted by the pandemic - delays around land disposals affected the Land business, and delays in HS2 deployment affected the Services business. However, this has set up 2021 for a bumper year and the news flow from the company has been promising. There have been two further land sales announced at Blindwells. The German joint venture is trading ahead of expectations and the Unity joint venture within the Land business also completed a major sale of a 79 acre plot which will generate revenue for the JV of £25 million.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2021)

Ramsdens Holdings PLC (Ramsdens) (7.04% of net assets)
Cost: £3.08m. Value as at 28 February 2021, £2.99m

Background

Ramsdens is a growing, diversified, financial services provider and retailer, operating in the four core business segments of foreign currency exchange, pawnbroking loans, precious metals buying and selling and retailing of second hand and new jewellery. Ramsdens does not offer unsecured high cost short term credit. Headquartered in Middlesbrough, the group operates from 157 owned stores within the UK and has a growing online presence.

Update to the investment case

- **Resilient and profitable performance through Covid-19**
- **90%+ stores remained open through latest lockdown**
- **Strong revenue growth**
- **Robust cash position**
- **Final dividend not recommended by the board, reflects appropriate caution due to Covid-19**

Progress against investment case

Despite the challenges of the last year, Ramsdens has been able to continue developing its business. Whilst only one net store opening was completed, there was good progress in online sales, with 9% of all jewellery being through this channel.

Ramsdens is now on a very strong footing for the next phase of the economic cycle given its net cash balance sheet and desirable covenant for high street landlords that will allow for attractive terms to be negotiated. The online business is gathering pace and as soon as international travel is an option Ramsdens will benefit not only from a surge in demand, but a less competitive market.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2021)

Real Good Food PLC (RGD) (equity, loan notes and interest, 21.60% of net assets)
Cost: £8.76m. Value as at 28 February 2021 (including loan note interest), £9.19m

Background

Real Good Food ('RGD') is a food manufacturing business serving several market sectors including retail (own label and private label), manufacturing and export. The company has two businesses, cake decoration (Renshaw and Rainbow Dust Colours) and food ingredients (Brighter Foods), with leading brands in their chosen markets.

Update to the investment case

- **Experienced mixed trading through COVID-19**
- **Lower revenues partially mitigated by cost savings**
- **Credit facility increased to provide headroom**
- **75 new product launches**
- **Post period end the sale of Brighter Foods, a division of RGD, was sold for £43m meaning that a repayment of loan notes, interest and redemption premium will be made to DSM**

Progress against investment case

RGD has reached an inflection point in our thesis, with the disposal of Brighter Foods returning over £5.3 million to DSM by way of its portion of loan note investments. The group retains the Renshaw business which we think is a desirable asset and has good potential to grow through new sales initiatives coupled with some cost base rationalisation.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2021)

Synectics PLC (Synectics) (6.55% of net assets)
Cost: £3.98m. Value as at 28 February 2021, £2.79m

Background

Synectics is a leader in the design, integration and support of advanced security and surveillance systems. The group has deep industry experience across gaming, energy, urban transport, public space and critical infrastructure projects. Its expert engineering teams work in partnership with customers to create integrated product and technology platforms, proven in the most complex and demanding operating environments.

Update to the investment case

- **Disruption to gaming activity as casinos were shut across regions, impacted sales**
- **Restructuring programmes reduced operational costs**
- **Strong balance sheet**
- **Berlin S-Bahn goes live**
- **Significant contract wins in UK and Ireland**
- **Directors buying shares**

Progress against investment case

Synectics issued its final results for the year ended 30 November 2020 and reported that these have been significantly affected by the pandemic, particularly in its global Gaming markets. However, the board believe that the business is well placed to capitalise on recent landmark project wins, which utilise its latest technology developments.

Trading in the first quarter of the current financial year generally continued at the low levels experienced across 2020, with lockdowns and travel restrictions still affecting both the volume and sales cycle timing of new business. However, recent contract wins, most notably in the UK and Europe, have increased the group's firm order book by nearly 30% since the year end. We have been impressed with the reduction in costs and rationalisation of the group structure, which we think should have a payback period of c.12 months. This, combined with the larger contract wins already announced, puts the business in a good position to demonstrate profitable and sustainable earnings in a growth sector.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2021)

Venture Life Group PLC (Venture Life) (4.59% of net assets)
Cost: £1.96m. Value as at 28 February 2021, £1.95m

Background

Venture Life is a leader in developing, manufacturing and commercialising products for the self-care market, which we have followed for some time through our ownership in other funds. We think the business has reached an interesting juncture with significant growth prospects.

Update to the investment case

- **Significant growth in revenues across the business**
- **Step-change in profitability due to operational gearing**
- **Exclusive long-term distribution agreement in China**
- **Equity raise to fund acquisitions**
- **Capital allocation optionality**

Progress against investment case

Our investment case centred on increasing own-brand product diversification, utilising latent capacity within the manufacturing base which in turn should unlock significant operational gearing. Progression against this was most noticeable in the full year results, in which a 49% increase in revenue resulted in a 162% increase in profit after tax. Despite these impressive results, we believe that this is the beginning of the group's journey.

The company raised £36 million of equity in December 2020 to accelerate the progression to infilling underutilised manufacturing capacity. There haven't been any updates on potential acquisitions since then, which has halted momentum that was building in the investment story. However, it is believed the raise resulted in incremental inbound interest which could be creating a delay in outlining the optimal capital allocation.

We believe that once the proceeds are deployed, this will manifest into impressive returns on capital invested as the business scales to utilise excess capacity and can recycle capital into further growth on a self-funded basis.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2021)

Volex PLC (Volex) (15.17% of net assets)
Cost: £1.61m. Value as at 28 February 2021, £6.45m

Background

Volex manufactures complex cable assemblies and power cords through a global manufacturing base for a wide variety of industries. Following a turnaround and portfolio repositioning, the business has shifted away from lower margin, commodity products and has been growing sales in high structural growth sectors such as electric vehicles and data centres.

Update to the investment case

- **Robust performance and resilient business model**
- **Significant opportunity for share price appreciation**
- **Shares trading at a discount to sector peers**
- **Acquisition of DEKA creates European platform**

Progress against investment case

2020 was an inflection year for Volex and it enjoyed significant multiple expansion, aided by strong trading. We still believe that Volex is a great business and it warrants a high weighting in DSM, despite the markedly higher multiple than that which we paid at our initial investment. The business is now generating significant cash flows and has a hopper of potential acquisitions on which to deploy that capital. Alongside the significant growth in the consumer electronics space which we expect to continue for some time, and the structural tailwinds in the data, electric vehicle and healthcare markets, we think that the business has ample potential to continue compounding at a reasonable rate.

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.

- **ESG:** We expect our investee companies to be familiar with the QCA's work on Corporate Governance and with their ESG Guide.

It is with those expectations of the boards of directors that we invest.

Investment team

Judith MacKenzie
Partner and Head of
Downing Fund Managers

Judith joined Downing in October 2009. Previously she was a partner at Acuity Capital, a buy-out from Electra Private Equity, where she managed AIM-quoted IHT and VCT investments and a small-cap activist fund. Prior to Acuity, Judith spent seven years with Aberdeen Asset Management Growth Capital as Co-Fund Manager of the five Aberdeen VCTs, focusing on technology and media investments in quoted and unquoted sectors. She is a Non-Executive Director of the Quoted Companies Alliance and is an active member on Boards both in the public and private arenas.

Nicholas Hawthorn
Fund Manager

Nick joined Downing in September 2015 from BP Investment Management. Prior to this, he worked for Aberdeen Asset Management and has over eight years of experience in the investment management industry. Alongside day to day fund management duties, Nick fulfils observer right duties on portfolio companies. He holds a MSc. in Finance and Investment from Durham University and a MA in Accounting and Economics from the University of Aberdeen.

Josh McCathie
Fund Manager

Josh joined Downing as an analyst in 2018. Previously he had worked at BRI Wealth Management, where he worked in the UK Equities team, focusing on FTSE 350 companies. He is a CFA Charterholder, CISI Level 7 Chartered Wealth Manager and holds the Investment Management Certificate. Josh was named in the Citywire 2018 Top 30 under 30.

Cheryl Vickers
Portfolio Manager

Cheryl joined Downing in 2010 from Rathbones, where she gained over 12 years' experience working on VCT, EIS and IHT portfolio services. She provides portfolio support and oversight to all of the Downing Fund Managers portfolios. Cheryl graduated from Keele University and is a Chartered FCSI.

Directors' biographies

Hugh Aldous
Chairman, Chairman of the Management Engagement Committee

Hugh is currently a Director of two UK listed public companies and Chairman of the board of a Guernsey investment company. He has a wealth of experience, having held numerous Chairman and Executive Chairman positions over more than 20 years and his career includes 40 years as a Director of a wide selection of companies from nationalised industries to private equity and across a range of sectors. He recently retired from the board of a US NASDAQ listed chemicals company and from the board of Polar Capital Holdings, the UK fund management group. He spent 10 years as managing partner, and latterly head of Financial Services, of Robson Rhodes (now Grant Thornton), 16 years of various appointments as a DTI Companies Act Inspector and was a member of the UK Monopolies & Mergers and Competition Commissions.

Linda Bell
Director

Linda Bell has extensive management experience leading technically based companies serving global industrial markets. She is currently the CEO of MIRICO Ltd, a venture capital backed company commercialising novel laser dispersion spectroscopy into industrial applications, and a non-executive director of Fera Science Limited, a business focussed on safety, security and sustainability across the agri-food chain. Prior to her current roles she was the CEO of PhosphonicS Ltd (acquired by Carbosynth Holdings Ltd in January 2017), a former non-executive director of Tomra Systems ASA, with an earlier career at ICI, Servomex, part of Spectris Plc, Inca Digital Printers, part of Dainippon Screen, and DS Smith. She is an Oxford graduate in Natural Sciences (Chemistry) and a DPhil in Inorganic Chemistry with an MBA from the Open University and is a Fellow of the Royal Society of Chemistry.

William Dawkins
Director

Will is a Partner in the Board and CEO Practice of Spencer Stuart, a global executive search and leadership consulting firm, prior to which he spent 23 years in a variety of posts for the Financial Times, including foreign correspondent with postings in Brussels, Paris and Tokyo, deputy managing editor, foreign editor and later publishing editor. He is a Cambridge graduate with a master's degree in English literature from Trinity College and attended the Advanced Management Programme at INSEAD. Will also chairs and is a Trustee and Director of the Evelyn Trust, a medical research grant giving charity based in Cambridge, and is a Governor and Director of The Perse School, Cambridge.

Robert Legget
Senior Independent Director, Chairman of the Audit Committee

Robert has extensive industry experience, having co-founded Progressive Value Management Limited (PVML) in 2000. PVML specialises in creating value and liquidity for institutional investors out of holdings in underperforming companies. He remains as Chairman of PVML and is also Senior Independent Director of Sureserve Group plc. Robert was formerly a director of Quayle Munro Holdings plc and BMO Private Equity Trust PLC (formerly F&C Private Equity Trust plc). He is a member of the Institute of Chartered Accountants of Scotland and is well respected for his extensive experience in creating value for shareholders.

Strategic Report

The directors present the Strategic Report of the company for the year ended 28 February 2021. The aim of the Strategic Report is to provide shareholders with the information required to assess how the directors have performed their duty to promote the success of the company during the year.

Business model

The company invests in accordance with the investment objective. The board is collectively responsible to shareholders for the long-term success of the company. There is a clear division of responsibility between the board and the investment manager. Matters reserved for the board include setting the company's strategy, implementing the investment objective and policy, capital structure, governance and appointing and monitoring the performance of service providers, including the investment manager.

As the company's business model follows that of an externally managed investment company, it does not have any employees and outsources its activities to third-party service providers, including the Investment Manager, who is the principal service provider.

Status of the company

The company is registered as a public limited company in England and Wales (Registered Number 10626295) and is an investment company within the terms of Sections 832 and 833 of the Companies Act 2006. Its shares are listed on the premium segment of The Official List of the UK Listing Authority and traded on the main market of the London Stock Exchange, being a regulated market as defined in Section 1173 of the Companies Act 2006.

The company has been approved by HM Revenue & Customs as an investment trust company (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 this approval will be withdrawn. The company is not a close company for taxation purposes.

As an investment company managed and marketed in the United Kingdom, the company is an Alternative Investment Fund ('AIF') under the provisions of the Alternative Investment Fund Manager's Directive ('AIFMD'). The company was also registered by the FCA as a Small Registered UK Alternative Investment Fund Manager ('AIFM') with effect from 16 March 2017.

The company currently conducts its affairs so that the shares issued by the company can be recommended by independent financial advisers to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future.

Section 172 Statement - Directors duty to promote the success of the company

Companies are required to state how their directors have followed their duty to promote the success of the company, as set out in s.172 of the Companies Act 2006, and when making decisions for the long term have regard to a range of matters including:

- the likely consequences of any decisions in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the environment and community;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between shareholders of the company.

As part of its decision making, the board seeks to understand the views and requirements of the company's stakeholders. As the company has no employees, no customers in the traditional sense and delegates its day to day management and administration to third parties, the directors consider the key stakeholders of the company to be its current and potential shareholders, as well as third-party service providers and other advisers.

Section 172 Statement - Directors duty to promote the success of the company (continued)

In promoting the success of the company, the board's principal concern has been, and continues to be, portfolio management, which the board monitors in line with the company's objectives and the interests of current and potential shareholders. This is supported by the manager in regularly engaging with major shareholders, by producing quarterly newsletters and monthly factsheets and reporting back to the board on developments in the portfolio.

The chairman visits, or speaks with, the larger shareholders and the board encourages all shareholders to attend the AGM and welcomes any other communication from shareholders.

The board has a responsible governance culture that it seeks to impart to other stakeholders, such as its service suppliers and investee companies, and it gives due regard to the expectations of its regulators. The investment manager also promotes good corporate governance at the portfolio level and supports the investee companies in improving their own reporting on such matters.

In order to seek to manage the share price discount, the board will from time to time, subject to liquidity and other considerations, buy in the company's own shares as they become available in the market.

Investment policy

The company intends to invest in UK publicly quoted companies that are defined by the investment manager as micro-cap, reflecting a market capitalisation of under £150 million of the investee company at the time of investment. The investment manager intends to hold a concentrated portfolio of between 12 and 18 investments (when fully invested).

The investment manager:

- deploys a private-equity style diligence approach to investing, focusing on the future value of free cash flows, sustainability of margins and strength of the management team;
- takes advantage of the inefficiencies within the micro-cap market which include lack of analyst coverage;
- has the ability to invest up to 10% of the Gross Assets at the time of investment in unquoted or untraded companies, or in any one unquoted or untraded company;
- procures that the company invests where analysis indicates an ability to create shareholder value of 15% compound growth per annum over a 3–7 year investment horizon;
- favours a proactive style of engagement with management, aiming to maximise shareholder value over the long term, particularly where diligence highlights a strength of management, an entry value that is a discount to the investment manager's calculation of intrinsic value, and where active engagement is likely to mitigate some of the inefficiencies presented by the micro-cap market.

The investment manager believes that this is best achieved by the company taking strategic shareholdings between 3% and 25% of the equity of the investee company, although the company may hold larger or smaller stakes where it deems appropriate (including up to a maximum of 29% of the equity of any one company at the time of investment, but only where the company holds an additional right of conversion (e.g. option rights or convertible loan notes) that would, on exercise, result in the Company holding above 25% of the equity).

It is likely that the majority of the investments held in the company's portfolio will be quoted on AIM and will typically be drawn from the Numis Smaller Companies Index plus AIM (Excluding Investment Companies).

No single investment will represent materially more than 15% of the Gross Assets at the time of investment, save that the company may make a follow on investment into an existing investee company where such investment may result, due to fluctuation in market conditions, in a single investment representing up to 15.5% of Gross Assets at the time of investment, where this is likely to maximise the value of the company's existing investment for shareholders.

Investment policy (continued)

The company's portfolio is expected to be diversified by industry and market, but stock selection will be determined by the results of extensive due diligence rather than a weighting in any particular index. However, the investment manager will not invest on behalf of the company in early-stage technology, mining and extraction companies and early-stage biotech (unless the company can see a defined route to profitability) and does not intend to invest in initial public offerings, unless in exceptional circumstances where it has a historic relationship with and an in-depth knowledge of the investee company.

The company may use derivative instruments including index-linked notes, contracts for difference, covered options and other equity-related derivative instruments for efficient portfolio management, gearing and investment purposes. Any use of derivative instruments for investment purposes will be made on the basis of the same principles of risk spreading and diversification that apply to the company's direct investments, as described above, although the company would not hold more than 5% of Net Assets in a derivative of any single investee company. The company will not enter into uncovered short positions.

If companies in the portfolio achieve organic growth or grow through corporate activity such as acquisitions, and consequently have a market capitalisation that would place them outside the investable universe (described above), the investment manager will not be obliged to sell those holdings, but the proportion of the portfolio in such companies will be carefully monitored by the investment manager and the board so that the overall investment policy to invest in the smallest quoted or traded companies is not materially altered.

No material change will be made to the investment policy without the approval of shareholders by ordinary resolution.

Performance

Details of the company's performance are set out in the Financial Highlights section on page 5 and the Chairman's Statement on pages 7 to 9.

A review of developments during the year, as well as information on investment activity within the company's portfolio, are included in the Investment Manager's Report on pages 10 to 12.

Results and dividend

The results of the company are set out in the Statement of Comprehensive Income on page 64 and analysed in the Chairman's Statement in detail on page 7, along with an analysis of the company's investment portfolio and net asset position.

The return for the year after taxation was £5.7 million (2020: loss of £1.2 million), equivalent to 10.58pper share (2020: 2.10p per share). This comprised a revenue return of £0.5 million (2020: £1.0 million), equivalent to 1.02p (2020: 1.91p) per share, and a capital return of £5.2 million (2020: loss of £2.2 million) equivalent to 9.56p (2020: 4.01p) per share.

The directors are recommending the payment of a final dividend of 0.8p (2020: 1.6p) per share. Subject to shareholder approval at the forthcoming AGM, this will be paid on 9 July 2021, to shareholders on the register as at 11 June 2021.

Dividend policy

The company will only pay dividends on the Ordinary Shares to the extent that it has sufficient financial resources available for the purpose in accordance with the Companies Act 2006. The company has no stated dividend target.

Strategic Report (continued)

Key Performance Indicators ('KPIs')

A number of performance indicators are used to monitor and assess the company's success in achieving its objectives and to measure its progress and performance. The principal KPIs are described below:

- **Share price discount to NAV per share** – the board closely monitors the level of the company's share price discount to NAV. During the year ended 28 February 2021, the shares traded at a discount of between 36.84% and 6.91%, with the average discount being 21.10%. The discount peaked during the calendar year of 2020 following a severe market correction brought about by the coronavirus pandemic. However, through a programme of share buybacks, the discount has now been managed down to its pre-pandemic levels, such that the level of the discount decreased by 36 basis point during the year ended 28 February 2021, to 11.28% (29 February 2020: 11.64%). The board considers that the share price discount has been managed down to a satisfactory level during the year ended 28 February 2021.
- **Share price movements** – the company's Ordinary Share price increased by 14.29% over the period under review. This is largely attributable to the performance of the portfolio during the period, as well as the ongoing management of the share price discount.
- **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 ended 28 February 2021 were 1.84% (2020: 1.83%). The board considers this level to be satisfactory.

Principal risks

The company is exposed to a variety of risks and uncertainties. The Directors have carried out a robust assessment of the principal risks facing the company, as well as a review of emerging risks which may have arisen during the year, including those which could threaten its business model, future performance, solvency or liquidity.

Listed below is a summary of the principal and emerging risks identified by the board and the action taken to mitigate those risks.

Risk	Mitigation
Investment performance	
The investment objective of the company may not be achieved as returns are reliant on the performance of the portfolio.	The company is reliant on the investment manager's investment process. The board has set investment restrictions and guidelines which the investment manager monitors and regularly reports on. The board monitors the implementation and results of the investment process with the investment manager. The investment manager attends all board meetings and provides the board with information including performance data, an explanation of stock selection decisions, portfolio exposure and the rationale for the portfolio composition.
The company will invest primarily in the smallest UK quoted or traded companies, by market capitalisation. Smaller companies can be expected, in comparison to larger companies, to have less mature businesses, a more restricted depth of management and a higher risk profile.	The investment manager has significant experience in small-cap investing and deploys an approach that is designed to maximise the potential for the investment objective to be achieved over the longer-term.

Principal risks (continued)

Risk	Mitigation
Investment performance	
The lasting economic consequences of the coronavirus pandemic remain unclear, however lagging performance of the UK economy has the potential to impact market conditions and depress market prices.	The company has a small, focused portfolio which allows the investment manager to work closely with each portfolio company and provide active support where it can.
Operational	
The Company relies on external service providers. In the event that these parties are unable, or unwilling to perform in accordance with the terms of their appointment, this could have a detrimental impact on the Company's performance. Disruption to the accounting, payment systems or custody records could lead to inaccurate reporting and monitoring of the Company's financial position. The security of the company's assets, dealing procedures, accounting records and adherence to regulatory and legal requirements are reliant on the effective operation of the control systems of the service providers.	Due diligence is undertaken before contracts are executed with potential service providers. The board monitors the performance of service providers together with the associated costs. The board also reviews reports on the effective operation of the internal controls of service providers. The company's assets are subject to a strict liability regime and in the event of a loss of financial assets held in custody, assets of an identical type or the corresponding amount must be returned unless the loss was beyond the reasonable control of the custodian. The board also considers the business continuity arrangements of the company's key service providers. The board may terminate all key contracts on normal market terms.
Financial	
The company's investment activities expose it to a variety of financial risks that include market risk, liquidity risk, and credit and counterparty risk.	Further details of these risks are disclosed in Note 14 to the Financial Statements, together with a summary of the policies for managing these risks.
Legal and compliance	
The company has been accepted by HM Revenue & Customs as an investment trust, subject to continuing to meet the relevant conditions.	The investment manager monitors investment movements and the amount of proposed dividends, if any, to ensure that the relevant provisions of the Corporation Tax Act 2010 are not breached. A report is provided to the Board at each meeting.
The company is subject to the Companies Act 2006, the Alternative Investment Fund Manager's Directive ('AIFMD'), the UK Listing Rules and Disclosure & Transparency Rules and the Market Abuse Regulations, international accounting standards and the AIC SORP.	The company secretary and administrator, along and the company's professional advisers, provide reports to the board in respect of compliance with all applicable rules and regulations and ensure that the board is made aware of any changes to such rules and regulations. Compliance with applicable accounting standards and best practice reporting for investment trusts are also reviewed on an ongoing basis, with recommendations made to the board by the administrator.

Strategic Report (continued)

Coronavirus pandemic

A key feature of the investment manager's approach is in seeking to have a strategic involvement with all investee companies. This has allowed the manager to be closely involved with the developments in the investee companies in relation to the coronavirus pandemic and its consequences. The board and manager will continue to monitor such developments and the potential impact of the pandemic on the individual companies and the portfolio as a whole.

Brexit

The rules governing the new relationship between the EU and the UK took effect on 1 January 2021. The investment manager continues to monitor the impact of this new relationship on the company's portfolio, however expects that there will be no significant implications for the investee companies. Similarly, the board considers that the new relationship will have no significant impact on the company's business as an investment trust.

Gearing

The Company may deploy borrowing to enhance long-term capital growth. Gearing will be deployed flexibly up to 15% of the Net Asset Value, at the time of borrowing. In the event this limit is breached as a result of market movements, and the Board considers that borrowing should be reduced, the Investment Manager shall be permitted to realise investments in an orderly manner so as not to prejudice Shareholders. As at 28 February 2021 the company had no borrowings (29 February 2020: £nil).

Viability statement

The company is an investment trust with an objective of achieving long-term capital growth. Taking account of the company's current position, the principal risks that it faces and their potential impact on its future prospects, the directors have assessed the viability of the company, to the extent that they are able to do so, over the next five years. They have made that assessment by considering:

- the long-term nature of the company's investment objectives and strategy;
- the company's principal risks and uncertainties that are not expected to change materially, as set out on pages 33 and 34;
- the company's business model, which should remain attractive for longer than the period to 28 February 2026;
- the relative stability of the company's expenses and liabilities;
- the outlook for the value of the company's investment portfolio; and
- the potential impact of the coronavirus pandemic on the company and its investment portfolio.

In determining the appropriate period of assessment, the directors had regard to their view that, given the company's objective of achieving capital growth, shareholders should consider the company as a long-term investment proposition. This is consistent with the general view of financial advisers that investors should consider investing in equities for a minimum of five years. Accordingly, the directors consider five years to be an appropriate time horizon over which to assess the company's viability.

The directors confirm that they have a reasonable expectation, on the assumption that the principal risks identified on pages 33 and 34, are managed or mitigated effectively, that the company will be able to continue in operation and meet its liabilities as they fall due over the five-year period of assessment.

Strategic Report (continued)

Future prospects

The board's main focus is the achievement of capital growth and an attractive compound return over the long term. The future of the company is dependent upon the success of the company's investment strategy. The outlook for the company is discussed in both the Chairman's Statement on page 8 and the Investment Manager's Report on page 12.

Employees, social, community, human rights and environmental matters

The principal activity of the company is to invest in accordance with the Investment Policy set out on pages 31 and 32. The company has no employees and all of its directors are non-executive, the day-to-day activities being carried out by third parties. Therefore, there are no disclosures to be made in respect of employees, and accordingly it has no direct social, human rights or environmental impact from its operations. In carrying out its investment activities and relationships with suppliers the company aims to conduct itself responsibly, ethically and fairly.

Board diversity

When recruiting a new director, the board's policy is to appoint individuals on merit. The board believes diversity is important in bringing an appropriate range of skills, knowledge and experience to the board and gives that consideration when recruiting new directors. As at 28 February 2021, there were three male directors and one female director on the board.

The Chairman's Statement on pages 7 to 9, together with the investment manager's report and portfolio information on pages 10 to 14 form part of the Strategic Report.

The Strategic Report was approved by the board on 7 May 2021.

For and on behalf of the board

Hugh Aldous
Chairman
7 May 2021

Directors' Report

The directors present their report and the audited Financial Statements of the company for the year ended 28 February 2021.

Directors

Hugh Aldous was last re-elected at the 2018 AGM and will therefore stand for election by shareholders at the forthcoming AGM, in accordance with the provisions of the company's Articles of Association.

Linda Bell will next stand for election at the 2022 AGM and Robert Legget and William Dawkins will next stand for election by shareholders at the 2023 AGM, also in accordance with the provisions of the company's Articles of Association.

There were no contracts subsisting during the year under review or up to the date of this report in which a director of the company is or was materially interested and which is or was significant in relation to the company's business.

None of the directors is entitled to compensation for loss of office on the takeover of the company. None of the directors has a service contract with the company.

The board accordingly recommends the re-election of the Hugh Aldous.

Conflicts of interest

The company's Articles of Association permit the board to consider and, if appropriate, to authorise situations where a director has an interest that conflicts, or might possibly conflict, with the company. The board has a formal system in place for the directors to declare situations for authorisation by those directors not interested in the situation. Any situations considered and any authorisations subsequently given are appropriately recorded.

The board believes that the system it has in place for reporting, considering and recording situations where a director has an interest that conflicts, or might possibly conflict, with the company operates effectively and operated effectively during the period under review.

Directors' remuneration report and policy

The directors' remuneration report is set out on pages 51 to 54. An advisory ordinary resolution to approve this report will be put to shareholders at the company's forthcoming AGM. The company is also required to put the director's Remuneration Policy to a binding shareholder vote every three years. The company's Remuneration Policy was last put to shareholders at the AGM in 2018, therefore, an ordinary resolution to approve the policy will be put to shareholders at the forthcoming AGM.

Directors' responsibilities

The directors' responsibilities in preparing these Financial Statements are noted on page 55.

Investment management and administration

Management

The company's investment manager is Downing LLP ('the investment manager'). The investment manager is responsible for providing management services to the company in accordance with the company's investment policy and the terms of the management agreement dated 23 March 2017. The management fee is payable monthly in arrears and is equal to one twelfth of 1% of the market capitalisation of the company, calculated on the last business day of each month. Further details are provided in note 4 on page 73. Downing LLP has agreed to rebate any management fee payable in order for the company to maintain an ongoing charges ratio of 2% or lower. The board believes that the current fee structure is appropriate for an investment company in this sector.

The Investment Management Agreement is for a minimum term of three years and is terminable by the company, or the investment manager, providing not less than six months' written notice, such notice not to expire prior to the expiry of the three-year minimum term.

Directors' Report (continued)

Investment management and administration (continued)

Company secretarial and administration

Downing LLP was appointed as administrator under an administration agreement ('the Downing LLP Administration Agreement') with effect from 1 April 2020. Grant Whitehouse, a Downing LLP partner, was appointed as Company Secretary on the same date.

The administrator provides general fund valuation, accounting and investment operation services to the Company, AIFM support services and company secretarial services for a total minimum annual fee of £75,000 (exclusive of VAT where applicable) plus 0.01% of net assets.

The Downing LLP Administration Agreement is terminable by the company, or the administrator, providing not less than six months' written notice.

Custodian

The Northern Trust Company has been appointed as custodian pursuant to the Custody Agreement. The Custody Agreement may be terminated by either party giving 30 days' written notice.

The custodian receives a safe-keeping fee and transaction fees which vary by market, subject to a minimum fee of £7,500 per annum.

Registrar

Computershare Investor Services PLC has been appointed as registrar to the company under the Registry Services Agreement. The Registrar is entitled to a fee calculated on the basis of the number of shareholders and the number of transfers processed. The Registry Services Agreement may be terminated on not less than six months' notice.

The Registrar is also entitled to reimbursement of all disbursements and out of pocket expenses.

Appointment of the investment manager

The board, through the Management Engagement Committee, considers arrangements for the provision of investment management and other services to the company on an ongoing basis, and a formal review is conducted annually. As part of this review, the board considers the quality and continuity of individuals responsible for the company's affairs, the investment process and the performance achieved. The specialist nature of the company's investment remit is, in the board's view, best served by Downing LLP, who have a proven track record in small cap investing.

It is the opinion of the directors that the continued appointment of the investment manager is in the interests of shareholders as a whole.

Change of control

There are no agreements to which the company is a party that might be affected by a change in control of the company.

Exercise of voting rights in investee companies

The exercise of voting rights attached to the company's portfolio has been delegated to the investment manager, whose voting policy states:

- We intend to vote at all shareholder meetings of companies in which our clients are invested. In cases where there are significant obstacles to voting such as share-blocking or requirements for a power of attorney, we will review the resolutions to assess the extent of the restrictions on voting against the potential benefits.
- We will vote in favour of proposals which we expect to enhance shareholder value, and on routine issues where we are supportive of a company's management.

Exercise of voting rights in investee companies (continued)

- We will vote against proposals which we believe may damage shareholders' rights or economic interests.
- We will abstain on proposals where we wish to indicate to the company issues over which we have some concerns.

In all situations the economic interests of our clients will be paramount.

Further details of the investment manager's Proxy Voting and Engagement Principles may be found at **www.downingstrategic.co.uk**.

Results and dividends

	£'000	Pence per share
Return for the year ended 28 February 2021	5,703	10.58
Dividends paid during the year ended 28 February 2021: 3 July 2020	874	1.60

Your board is proposing to pay a final dividend of 0.8p per share on 9 July 2021 to shareholders on register at 11 June 2021, subject to shareholder approval at the forthcoming AGM.

Going concern

The Financial Statements of the company have been prepared on a going concern basis.

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. This resulted in significant correction in global markets in Q1 2020, followed by a gradual recovery in many markets over the remainder of 2020 and into 2021. Whilst the lasting economic impact of the pandemic remains unclear, the board and investment manager are pleased with how the investee companies have dealt with the challenges brought about pandemic, during what is now believed to have been its worst period in the UK. Good performance from the portfolio during this challenging year has resulted in an 8.77% increase in the company's net asset position.

The market volatility observed during the course of the pandemic has been taken into account, in addition to the board's more routine considerations, in reviewing the company's budget, including the current financial resources and projected expenses for the next 12 months, together with its medium-term plans.

The directors consider that the company is financially sound and has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date on which these Financial Statements are approved. In reaching this conclusion, the directors have given particular regard to the company's ability to meet its obligations as they fall due and the liquidity of the portfolio.

As a result of the going concern review noted above, the directors consider that it is appropriate to adopt the going concern basis for these financial statements.

The board's review of the company's longer-term viability is also set out in the viability statement, on page 35.

Share capital

Details of the company's issued share capital are given in note 12 on page 76. The Ordinary Shares carry the right to receive dividends and have one voting right per Ordinary Share. There are no restrictions on the voting rights of the Ordinary Shares. There are no shares which carry specific rights with regard to the control of the company.

Directors' Report (continued)

Substantial share interests (continued)

As at 28 February 2021 the company had received notification, in accordance with the FCA's Disclosure and Transparency Rule 5.1.2R, of the following interests in 3% or more of the voting rights attaching to the company's issued share capital.

	Number of Ordinary Shares	% of issued share capital
EQ Investors Limited	7,857,654	14.1
Premier Miton Group plc	5,740,000	10.3
Downing ONE VCT plc	5,300,000	9.5
Downing FOUR VCT plc	5,100,250	9.2

Discount management

The directors recognise that taking steps to ensure discount of the company's share price to its underlying NAV (per Ordinary Share) is as small as possible, is in the best interest of the company's shareholders. The directors closely monitor the level of the discount and take steps to manage it through share buybacks, subject to liquidity and other considerations.

Share issues

The company issued no new shares during the year.

The current authority to issue new Ordinary Shares or sell Ordinary Shares from treasury for cash was granted to the directors on 1 July 2020. The directors are proposing that their authority to issue new Ordinary Shares or sell shares from treasury for cash be renewed at the forthcoming AGM. The company will be seeking to renew the authority to allot new Ordinary Shares or sell from treasury ordinary shares representing up to 5% of the company's issued Ordinary Share capital (excluding those shares held in treasury).

Share repurchases

The directors will consider repurchasing Ordinary Shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between the supply and demand for Ordinary Shares. Purchases of Ordinary Shares will be made at the discretion of the board within guidelines established from time to time and regularly reviewed by the board. Any such purchases will be made out of the available cash resources of the company at prices below the relevant prevailing NAV (cum-income) per Ordinary Share. Ordinary Shares purchased by the company may be held in treasury or cancelled.

During the year, the company purchased 2,431,511 of its own shares at an average price of 57.2p per share. All shares repurchased during the year are now held in Treasury.

Treasury shares

The company may hold Ordinary Shares acquired by way of market purchases in treasury. The company may hold up to 10% of the issued Ordinary Shares at any time in this way. As at 28 February 2021, the company held 3,151,511 Ordinary Shares in treasury, or 5.67% of the company's Ordinary Shares in issue.

Ordinary Shares held in treasury may subsequently be cancelled or sold for cash. No Ordinary Shares will be sold at a price less than the NAV (cum income) per existing Ordinary Share at the time of their sale.

Directors' Report (continued)

Redemption facility

The directors of the company have discretion to implement a redemption facility through which shareholders will be entitled to request the redemption of all or part of their holding of Ordinary Shares on a biennial basis.

The board has exercised its discretion and decided not to offer the redemption facility at the first redemption date in May 2020 as a result of the market condition arising from the coronavirus pandemic.

Streamlined Energy and Carbon Reporting (the 'SECR')

As the company has no employees and primarily conducts its business at the London office of the investment manager and administrator, Downing LLP, the company is not directly responsible for the consumption of electricity and gas in the UK, nor is the company directly responsible for greenhouse gas emissions related to transport in the UK. As the company did not consume more than 40,000 kWh of energy during the year ended 28 February 2021, it has nothing to report under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Global greenhouse gas emissions

As the company has no employees, does not own or lease property and delegates its day to day management and administration to third parties, the company has no greenhouse gas emissions to report from its operations, nor does it have direct responsibility for other emission producing sources. As a result, the company has nothing to report under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Modern Slavery Act 2015 ('the MSA')

The MSA requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation.

As an investment vehicle, the company does not have any employees or provide goods and services in the normal course of business. Accordingly, the directors consider that the company is not required to make a slavery and human trafficking statement under the MSA.

Articles of Association

Any amendments to the company's Articles must be approved by special resolution.

Annual General Meeting

This year's AGM will take place on 7 July 2021 at 2:15pm at Downing's office at 6th Floor, St Magnus House, 3 Lower Thames Street, London EC3R 6HD. Shareholders intending to attend the meeting are requested to register by sending an email to **dsmagm@downing.co.uk** stating that you wish to register for the AGM.

The notice of the AGM is set out on page 87 of this report and notes in respect of special business to be proposed at the meeting on page 86.

Corporate governance

Full details are given in the Corporate Governance Statement on pages 43 to 47. The Corporate Governance Statement forms part of this Directors' Report.

Audit information

As required by Section 418 of the Companies Act 2006 each of the directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit informationof which the company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Directors' Report (continued)

Auditor

The Auditor, BDO LLP, has indicated its willingness to continue in office. Resolutions to reappoint BDO LLP and to authorise the Audit Committee to determine their remuneration for the year ended 28 February 2022 will be proposed at the forthcoming AGM.

Statement as to disclosure of information to Auditor

The directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant audit information of which the Auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditor.

Listing Rule 9.8.4

Listing Rule 9.8.4 requires the company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The directors confirm that there are no disclosures to be made in this regard.

By order of the board

Grant Whitehouse
Company Secretary
7 May 2021

Corporate Governance Statement

This report, which is part of the Directors' Report, explains how the board has addressed its responsibility, authority and accountability during the year under review.

The board has considered the principles and recommendations of the 2019 Association of Investment Companies Code of Corporate Governance ("AIC Code"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2018 UK Corporate Governance Code ("UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

The AIC Code has been endorsed by the Financial Reporting Council (FRC), meaning that by reporting against the AIC Code, the company is able to meet its obligations in respect of the UK Code (and associated disclosure requirements under paragraph 9.8.6 of the Listing Rules).

As investment trust companies differ in many ways from other listed companies, the board considers that reporting against the principles and recommendations of the AIC Code will provide better information to shareholders.

Statement of compliance

The board has made the appropriate disclosures in this report to ensure that the company meets its continuing obligations. It should be noted that, as an investment trust, most of the company's day-to-day responsibilities are delegated to third parties, the company has no employees and all of the directors are non-executive. Therefore, not all of the provisions of the UK Code are directly applicable to the company.

The board considers that the company has complied with the provisions and recommendations of the AIC Code for the year ended 28 February 2021.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

Information on how the company has applied the principles of the AIC Code is set out below.

The board

The board is collectively responsible for the success of the company. It is accountable to shareholders for the direction and control of all aspects of the company's affairs and is ultimately responsible for framing and executing the company's strategy and closely monitoring risks.

The board aims to run the company in a manner that is responsible and ensures engagement with investors. The directors are committed to maintaining high standards of financial reporting, transparency and business integrity.

The board currently consists of four non-executive directors and all directors are considered to be independent of the investment manager. The directors' biographies, including details of their other significant commitments, are provided on page 29. The biographical details demonstrate that the directors possess a breadth of investment, commercial and professional experience, and a wide range of business and financial expertise relevant to the stewardship of the company.

As stated in the AIC Code, the chair of an investment company presides over a board which does not have a chief executive or other executive directors. The directors consider that the chairman was independent on appointment and continues to be independent.

Corporate Governance Statement (continued)

Delegation of responsibilities

The Investment Management Agreement between the company and Downing LLP sets out the matters delegated to the investment manager, which include the management of the company's assets and the exercise of voting rights attached to the securities held in the portfolio. Further details of the terms of the agreement are set out on pages 37 and 38. The review of the investment manager's performance is an ongoing duty and responsibility of the board which is carried out at every board meeting. In addition, a formal review is undertaken annually, details of which are set out in the section concerning the company's Management Engagement Committee, on page 38.

The provision of accounting, company secretarial and administration services has been delegated to Downing LLP under the terms of the Administration Agreement, with effect from 1 April 2020. The terms of the agreement are summarised on page 38.

The assets of the company have been entrusted to the custodian for safekeeping. The custodian is The Northern Trust Company. The address at which the business of the custodian is conducted is given on page 85.

A formal schedule of matters reserved to the board for decision has been approved. This includes monitoring of the company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third-party service providers, review of key investment and financial data and the company's corporate governance and risk control arrangements.

Internal control

The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the company. The process conforms to the recommendations of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and is subject to regular review by the board. The board is responsible for the company's system of internal controls and for reviewing its effectiveness. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material misstatement or loss.

The board maintains a risk matrix, which provides a detailed risk and internal control assessment and is the basis for the Audit Committee and the board to regularly monitor the effective operation of the controls. The risk matrix is updated on and ongoing basis, with new risks added as they are identified. The risk matrix covers all material financial, operational and legal and compliance controls and risk management systems.

Investment management, custody of assets and all administrative services are provided to the company by the investment manager, custodian and administrator respectively. The company monitors the services provided by these service providers and the operating controls established by them.

The board, through the Audit Committee, has reviewed the effectiveness of the company's system of internal controls for the period under review and to the date of this report. During the course of this review, no significant failings or weaknesses were identified.

As the company's investment management, administration and custodial activities are carried out by third party services providers, the board does not consider it necessary to have an internal audit function or whistleblowing procedures. The Audit Committee reviews annually the whistleblowing procedures of the investment manager and the administrator.

Financial reporting

The statement of directors' responsibilities in respect of the Annual Report and Financial Statements is set out on page 55, the report of the Independent Auditor on pages 56 to 63 and the statement of going concern on page 39.

Corporate Governance Statement (continued)

Board structure and management

The board meets on a quarterly basis to review investment performance, financial reports and other reports of a strategic nature. Board or board committee meetings are also held on an ad hoc basis to consider matters as they arise. Key representatives of the investment manager and the company secretary attend each board meeting. The investment manager, company secretary and the board have a constructive and co-operative relationship. Communication between meetings is maintained between the board, investment manager, company secretary and other service providers.

The attendance record for each scheduled meeting held during the period under review is set out below.

	Year ended 28 February 2021					
	Meetings of the Board		Audit Committee Meetings		Management Engagement Committee Meetings	
Director	Number held	Number attended	Number held	Number attended	Number held	Number attended
Hugh Aldous	5	5	4	3	1	1
Robert Legget	5	5	4	4	1	1
Linda Bell	4	4	4	3	1	1
William Dawkins	4	4	4	3	1	1

Role of the Chairman

With the support of the company secretary, the chairman sets the agenda for meetings, manages the meeting timetable and facilitates open and constructive dialogue both during and between meetings.

Directors' appointment, retirement and succession

Details on the appointment, retirement and rotation of directors are set out in the Directors' Report on page 37.

The board's individual independence, including that of the chairman, has been considered and all directors are considered independent in both character and judgement. This independence allows all of the directors to sit on the company's various committees.

The board's view on tenure is that length of service is not necessarily an impediment to independence or good judgement and does not therefore have a formal policy requiring directors to stand down after a fixed period. It considers that a long association with the company and experience of a number investment cycles is valuable and does not compromise a director's independence.

Appointments will be reviewed as part of the regular board performance evaluations. Directors must be able to demonstrate their commitment, including in terms of time, to the company. The board will seek to ensure that it is well balanced and refreshed regularly by the appointment of new directors with relevant skills and experience.

The board has appointed Robert Legget as Senior Independent director in accordance with the provisions of the AIC Code. He leads the evaluation of the performance of the chairman and is available to shareholders if they have concerns that cannot be resolved through discussion with the chairman.

Directors' induction training and development

When a director is appointed, he or she will be offered an induction programme organised by the investment manager and will be provided with key information on the company's policies, regulatory and statutory requirements, internal controls and the responsibilities of a director.

Corporate Governance Statement (continued)

Board structure and management (continued)

Directors' induction training and development (continued)

Directors are encouraged to keep up to date with industry developments and attend training courses on matters directly relevant to their involvement with the company. The directors receive regular briefings from the company secretary regarding any proposed developments or changes in applicable laws and regulations which could impact the company.

Provision of information and support

There is an agreed procedure for directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the company's expense. All directors have access to the company secretary, who is responsible for ensuring compliance with applicable laws and regulations.

The chairman, with the assistance of the company secretary, ensures that the directors receive accurate, timely and clear information. All directors receive appropriate documentation in advance of each board and committee meeting, including detailed briefings on all appropriate matters, to support the directors in discharging their duties effectively.

The appointment and removal of the company secretary is a matter for the whole board.

Performance evaluation

The board undertook a self-evaluation of its performance, that of its committees and individual directors, including the chairman, in February 2021. The reviews were led by the chairman, in the case of the board, and the relevant chair for each committee. Each committee chair, assisted by the company secretary, determined the scope and format for the review, which was predominantly through questionnaires and focused discussions. There were no significant actions arising from the evaluation process and it was agreed that the composition of the board, at that time, reflected a suitable mix of skills and experience, and that the board as a whole, the individual directors and its committees were functioning effectively.

Directors' liability insurance

The company provides director's and officer's liability insurance, giving appropriate cover for legal action brought against its directors, and has also agreed to indemnify directors in circumstances where they are not considered to be culpable. The indemnity, which is a qualifying third-party indemnity provision for the purpose of the Companies Act, is for the benefit of all of the company's current directors.

Board committees

The board has delegated authority to the committees detailed below and has put in place terms of reference for each committee, which are available on the company's website and from the registered office.

Remuneration committee

The company's policy on directors' remuneration, as well as the details of the remuneration of each director, are set out in the Directors' Remuneration Report on pages 51 to 54. As stated in the Directors' Remuneration Report, the fullboard determines the level of directors' fees and accordingly there is no separate remuneration committee.

Nomination Committee

As the board is small and all of the directors are non-executive, a separate nomination committee has not been established. The full board will review its structure and composition. Appointments of new directors will be made on a formalised basis, with the board agreeing the selection criteria and the method of selection, recruitment and appointment, board diversity, including gender, will be taken into account in establishing the criteria.

Audit Committee

The Audit Committee, which is chaired by Robert Legget, consists of all the directors of the company. Further details are provided in the Report of the Audit Committee on pages 48 to 50.

Corporate Governance Statement (continued)

Board committee (continued)

Management Engagement Committee

The company's Management Engagement Committee comprises all directors and is chaired by Hugh Aldous. The Committee considers the performance, terms, fees and other remuneration payable to the investment manager, the administrator and other service providers. Annually, it reviews the appropriateness of the investment manager's continued appointment, together with the terms and conditions of the Investment Management Agreement.

Shareholder relations

The board is committed to ensuring that there is open and effective communication with the company's shareholders. The investment manager and the company's broker maintain regular dialogue with major shareholders and provide the board with reports and feedback.

All shareholders are encouraged to attend and vote at the company's Annual General Meeting. The board and the investment manager will be available at the Annual General Meeting to discuss issues affecting the company and to answer any questions. The Notice of Annual General Meeting and any related papers are sent to shareholders at least 20 business days before the meeting.

Shareholders may contact the board through the investment manager or the office of the company secretary.The contact details are given on page 85.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 7 to 9, the Investment Manager's Report on pages 10 to 12, the Strategic Report on pages 30 to 36 and the Directors' Report on pages 37 to 42.

The financial position of the company, its cash flows, liquidity position and borrowing facilities are shown in the Statement of Financial Position on page 66 and the Statement of Cash Flows on page 67. In addition, note 14 to the financial statements includes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The board is satisfied that the company has adequate resources to continue in operation for at least twelve months from the date of approval of these financial statements. For this reason, the board believes that the company continues to be a going concern and that it is appropriate to continue to apply the going concern basis in preparing its financial statements.

Bribery Prevention Policy

The company has zero tolerance towards bribery and is committed to carrying out business fairly, honestly and openly. The board takes its responsibility to prevent bribery seriously and its service providers are contacted in respect of their anti-bribery policies.

Criminal Finances Act 2017

The board has a zero-tolerance approach to the facilitation of tax evasion.

For and on behalf of the board

Hugh Aldous
Chairman
7 May 2021

Report of the Audit Committee

The company has established a separately chaired Audit Committee that meets at least twice a year and operates within written terms of reference detailing its scope and duties.

Composition

Given that the board is small, it is considered appropriate for all of the directors to sit on the Audit Committee, including the Chairman of the company. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee. The Chairman of the Audit Committee, Robert Legget, and Chairman of the Board, Hugh Aldous, both have recent and relevant financial experience and the Audit Committee as a whole has experience relevant to the sector.

Role of the Audit Committee

The role of the Audit Committee is to assist the board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the Auditors. The Audit Committee formally reports to the board.

Responsibilities

During the period, the principal activities of the Audit Committee included:

- considering and recommending to the board for approval the contents of the half-yearly and Annual Report and Financial Statements and considering the quality of the Independent Auditor's Report thereon;
- reviewing the appropriateness of the company's accounting policies;
- following the completion of the audit, the committee will review the effectiveness of the external audit process, the quality of the audit engagement partner, the audit team and based on the review will make a recommendation to the board on the re-appointment of the auditor;
- reviewing and approving the external auditor's plan for the financial period, with a focus on areas of audit risk and the consideration of the appropriateness of the level of audit materiality;
- considering the audit and non-audit services fees payable to the external Auditor and the terms of their engagement; and
- reviewing the adequacy of the internal control systems and evaluating the need for an internal audit function as set out in the Corporate Governance Statement on page 43.

The fees paid to the external Auditor are set out in note 5 on page 73.

Non-audit services

All requests for services to be provided by the external Auditor will be submitted to the Committee in order to ensure that the scope and nature of the proposed work does not affect the Auditor's independence or objectivity and will be determined on a case-by-case basis.

The Auditor did not provide any non-audit servicesduring the year.

Change of auditor, auditor appointment and tenure

The Committee reviews the scope and results of the external audit, its effectiveness and cost effectiveness and the independence and objectivity of the external Auditor. In the opinion of the Committee, the Auditor is independent of the company. The Committee also has primary responsibility for making recommendations to the board on the re-appointment and removal of the external Auditor.

Following a formal audit tender process, the appointment of BDO LLP as Auditor was formalised in November 2019, with notification being sent to all shareholders in accordance with the Companies Act. Including the audit of the company's financial statements for the year ended 28 February 2021, BDO LLP have acted as external auditor for two accounting periods.

Change of auditor, auditor appointment and tenure (continued)

BDO LLP will be required to re-tender, at the latest, by 2030. Due to the short period since the appointment of the Auditor, it is not considered appropriate to review the Auditor's succession at this juncture. The audit partner for the year under review is Neil Fung-On, who is in the role for the second year of a maximum five-year term.

Representatives of the company's auditor attend the Audit Committee meeting at which the draft Annual Report and Financial Statements are considered, in addition to engaging with the directors as and when required.

Having reviewed the performance of BDO LLP, including assessing the quality of work, timing of communications and work with the investment manager, the Committee has considered it appropriate to recommend the Auditor's reappointment. The board is in support of this recommendation and a resolution will be put to shareholders at the forthcoming AGM.

Significant matters considered in preparing the Annual Report and Financial Statements

During the year, the Audit Committee considered a number of significant matters and key audit areas in respect of the Annual Report and Financial Statements. The Audit Committee reviewed the external audit plan at an early stage and concluded that the key audit areas had been identified and that suitable procedures had been put in place to obtain reasonable assurance that the Financial Statements as a whole would be free of material misstatements. The table below sets out the areas identified, and the steps taken to minimise the audit risk in each area.

Significant matter/key audit area	Mitigation
Valuation, existence and ownership of investments	The valuation of investments is undertaken in accordance with the accounting disclosed in Note 2, on pages 68 to 72. Controls are in place to ensure that quoted prices are accurately reflected in the company's records on a daily basis. In the case of unquoted investments, valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation ('IPEV') Guidelines and detailed valuation assessments are provided to the auditor on a timely basis. Existence of the portfolio is verified through regular reconciliations to the custodian's records. The custodian remains responsible for the oversight of the custody of the company's assets.
Recognition of investment income	The board relies on the administrator and the investment manager to accurately calculate and record income and takes comfort from both the control environment in respect of income recognition and the fact that the information required in order for income to be calculated correctly is made public by the investee companies. The board reviews income forecasts and receives explanations from the investment manager for any variations or significant movements from previous forecasts. The board also considers the recoverability of accrued income. Subjective elements of income such as special dividends have been reviewed by the board to agree the accounting treatment.

Significant matters considered in preparing the Annual Report and Financial Statements (continued)

Significant matter/key audit area	Mitigation
Maintenance of investment trust status	The investment manager and administrator have reported to the Audit Committee to confirm continuing compliance with the requirements for maintaining investment trust status. Compliance is also discussed with the Auditor as part of the audit process.
Impact of coronavirus pandemic	The impact of the coronavirus pandemic on global markets was first observed in March 2020. During the remainder of 2020 there were a number of challenges for business in the UK and around the world, as governments sought to contain rising infection numbers. The UK Government now has a roadmap towards a position where, during the summer, social distancing may no longer be required. Shortages in vaccine supply or a further spike in infections as restrictions are lifted could result in a delay to the timelines specified in the UK Government's roadmap. The investment manager has reported to board and Audit Committee regularly and in detail during the year, with additional consideration of the challenges brought about by the pandemic and how the investee companies have adapted their plans and operations. The Audit Committee has worked with the Investment and Administration Manager to ensure that appropriate disclosures have been made in the Annual Report in respect the risks faced by the company and how these could impact its outlook and prospects.

Conclusions in respect of the Annual Report and Financial Statements

Having taken all available information into consideration and having discussed the content of the Annual Report and Financial Statements with the investment manager, company secretary and other third-party service providers, the Audit Committee has concluded that the Annual Report and Financial Statements for the year ended 28 February 2021 as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy, and has reported these findings to the board. The board's conclusions in this respect are set out in the statement of directors' responsibilities on page 55.

Robert Legget
Chairman of the Audit Committee
7 May 2021

Directors’ remuneration report

The board presents the directors’ remuneration report for the year to 28 February 2021, which has been prepared in accordance with the requirements of Sections 420-422 of the Companies Act 2006 (‘the Act’) and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended (‘the Regulations’).

By law, the company’s auditors are required to audit certain disclosures made in its Annual Report. Where disclosures have been audited it is indicated as such. The Auditor’s opinion is included in the Independent Auditor’s report on pages 56 to 63.

As the company has no employees and all of the directors are non-executive, the board has not established a separate remuneration committee. The board as a whole fulfils the function of the remuneration committee and may amend the level of remuneration paid to individual directors within the parameters of the remuneration policy.

The Directors' Remuneration Report is subject to an annual advisory vote and an ordinary resolution to approve this report will be put to shareholders at the forthcoming AGM.

Directors’ Remuneration policy

There have been no changes to the remuneration policy during the financial year under review and no changes are proposed for the year ending 28 February 2022. The Remuneration Policy was approved by shareholders at the AGM in 2018 in accordance with Section 439A of the Companies Act 2006. The law requires that the Remuneration Policy is subject to a triennial binding vote, therefore an ordinary resolution to approve the policy will be put to shareholders at the forthcoming AGM.

Directors’ Remuneration Policy terms

1) Remuneration consists of a fixed fee each year and the directors of the company are entitled to such rates of annual fees as the board at its discretion determines.
2) In accordance with the company’s Articles of Association, if a director is requested to perform extra or special services, they will be entitled to receive such additional remuneration as the board considers appropriate.
3) In accordance with the company’s Articles of Association the directors are also entitled to be reimbursed for out-of-pocket expenses and any other reasonable expenses incurred in the proper performance of their duties. Such expenses are treated as a benefit in kind and are subject to tax and national insurance.
4) Directors’ fees are set to:
   - be sufficient to attract and retain individuals of a high calibre with suitable knowledge and experience to promote the long-term success of the company;
   - reflect the time spent by the directors on the company’s affairs;
   - reflect the responsibilities borne by the directors;
   - recognise the more onerous roles of the Chairman of the board and the Chairman of the Audit Committee through the payment of higher fees.
5) Fees payable to the directors will be reviewed annually. A number of factors will be considered to ensure that the fees are set at an appropriate level. These will include the average rate of inflation during the period since the last fee increase, the level of directors’ remuneration for other investment trusts of a similar size and complexity of the directors’ responsibilities.
6) Total remuneration paid to the non-executive directors is subject to an annual aggregate limit of £150,000 in accordance with the company’s Articles of Association. Any changes to this limit will require shareholder approval by ordinary resolution.

Directors' remuneration report (continued)

Directors' Remuneration policy (continued)

There are no performance-related elements to the directors' fees. Directors do not receive bonus payments or pension contributions from the company or any option to acquire shares. There is no entitlement to exit payments or compensation on loss of office. None of the directors has a service contract with the company and their terms of appointment are set out in a letter provided on joining the board. These letters are available for inspection at the company's registered office.

Consideration of shareholders' views

In accordance with the requirements of the Companies Act 2006, shareholder approval for the remuneration report will be sought at the forthcoming AGM. Shareholders will have the opportunity to express their views and raise any queries on the policy at this meeting.

At the AGM held on 1 July 2020, of votes cast, 99.52% were in favour of (or granted discretion to the Chairman who voted in favour of) the resolutions to approve the Directors' Remuneration Report. Of the votes cast 0.48% were against the resolutions.

Details of voting on the Remuneration Report at the 2021 AGM will be provided in the Annual Report for the year ending 28 February 2022.

Remuneration Policy Implementation Report (Audited)

The single total remuneration figure for each director who served during the year ended 28 February 2021 is set out below.

		Year ended 28 February 2021				Year ended 29 February 2020		
Director	Percentage change in gross fee[5]	Gross fees £	Fees waived £	Taxable benefits £	Total £	Gross fees £	Taxable benefits £	Total £
Hugh Aldous	-	35,000	(8,750)	–	26,250	35,000	–	35,000
Robert Legget[1]	68%	30,000	(7,500)	–	22,500	17,853	–	17,853
Linda Bell	-	25,000	(6,250)	–	18,750	25,000	–	25,000
William Dawkins[2]	225%	25,000	(6,250)	–	18,750	7,692	–	7,692
Andrew Griffiths[3]	(100%)	–	–	–	–	15,449	–	15,449
Stephen Yapp[4]	(100%)	–	–	–	–	15,000	–	15,000
		115,000	(28,750)	–	86,250	115,994	–	115,994

[1] appointed 22 July 2019
[2] appointed 7 November 2019
[3] resigned 11 October 2019
[4] resigned 31 August 2019
[5] between the years ending 28 February 2021 and 29 February 2020

During the year ended 28 February 2021, the directors waived 25% of their annual fees, in order for the Company to make a donation of £28,750 to Doctors' Support Network ("DSN"). The fees waived by each of the directors are shown as a deduction from the gross fee amount in the table above.

No discretionary payments were made during the year ended 28 February 2021.

The board's remuneration was last reviewed in February 2021 and it was agreed that there would not be any changes to the directors' fees for the year ending 28 February 2022. Any feedback from shareholders is taken into account by the board when setting remuneration levels.

Directors' remuneration report (continued)

Remuneration Policy Implementation Report (Audited) (continued)

In the year under review directors' fees were maintained at the following rates:

- Chairman - £35,000
- Chair of the Audit Committee - £30,000; and
- all other directors - £25,000.

As the company has no employees, the total remuneration costs and benefits paid by the company are those set out in the table on the previous page.

Relative importance of spend on remuneration

The following table shows the proportion of the company's income spent on remuneration during the year ended 28 February 2021.

	Year ended 28 February 2021	Year ended 29 February 2020	Change %
Management fees payable for the year	292,800	378,800	(22.70)
Total remuneration payable to the directors	115,000	115,994	(0.86)
Return/(loss) on ordinary activities after tax	5,703	(1,156)	593.34

Performance

The company does not have a specific benchmark against which performance is measured. The graph below compares the company's NAV and share price on a total return basis (with dividends reinvested) with the total return on an equivalent investment in the Numis Smaller Companies Index plus AIM (excluding investment companies), where the majority of the investments held in the company's portfolio are drawn from and which is therefore considered the closest broad index against which to measure the company's performance.

Performance from 9 May 2017* to 28 February 2021

*The Company commenced trading on the main market of the London Stock Exchange on 9 May 2017.
Source: Downing LLP. Index: Numis Smaller Companies Index Plus AIM Ex. Investment Companies.
All figures rebased to 100 pence as at 9 May 2017.

Directors' remuneration report (continued)

Directors' interests in shares (Audited) (continued)

There are no requirements for the directors to own shares in the company.

The director's interests and those of their connected persons in the Ordinary Shares of the company are set out in the table below. All of the holdings are beneficial and all of the directors held office during the full period under review.

Directors' holdings in the company's Ordinary Shares of 0.1 pence per share		
Director	**28 February 2021**	**29 February 2020**
Hugh Aldous[1]	200,000	200,000
Linda Bell	20,386	20,386
William Dawkins[2]	37,000	37,000
Robert Legget	12,500	12,500

[1] includes 19,791 shares held by Mrs Aldous
[2] includes 7,300 shares held by Mrs Dawkins

There were no changes in the above holdings between the company's year end and the date of this report.

The Directors' Remuneration Report was approved by the board on 7 May 2021.

For and on behalf of the board

Hugh Aldous
Chairman
7 May 2021

Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors have prepared the Company's Financial Statements in accordance with international accounting standards and in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing these Financial Statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether international accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company, and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for preparing the Strategic Report, Directors' Report, Directors' Remuneration Report, the Corporate Governance Statement and the Report of the Audit Committee in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

The directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Each of the directors, who are listed on page 29, confirms that, to the best of his or her knowledge:

- the Financial Statements, which have been prepared in accordance with international accounting standards and on a going concern basis, give a true and fair view of the assets, liabilities, financial position and profits of the company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the board

Hugh Aldous
Chairman
7 May 2021

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 February 2021 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Downing Strategic Micro-Cap Investment Trust plc (the 'Company') for the year ended 28 February 2021 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs

(UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 6 January 2020 to audit the financial statements for the year ended 29 February 2020 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 2 years, covering the years ending 28 February 2021. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the appropriateness of Directors' method of assessing the going concern in light of market volatility and the present uncertainties due to the Covid-19 pandemic;
- Assessing the liquidity position available to meet the future obligations and operating expense cover for the next twelve months by considering the liquidity of the investment portfolio and cash position; and
- Challenging Directors' assumptions in relation to the cash flow forecast prepared to incorporate the worst case scenario by checking the minimum dividend payments, investment realisations and ongoing expenses.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

(continued)

Conclusions relating to going concern (continued)

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

		2021 (£m)	2020 (£m)
Key audit matters	Valuation and ownership of investments	39.2	33.1
Materiality	£0.42m (2020: £0.39m) based on 1% (2020: 1%) of Net Assets		

An overview of the scope of our audit

Our Company audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

(continued)

Key audit matters (continued)

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation and ownership of investments (**note 9** and **note 15**)	The investment portfolio is the most significant balance in the financial statements and is the key driver of performance. The Investment Manager's fee is based on the value of the net assets of the fund. As the investment manager is responsible for valuing investments for the financial statements, there is a potential risk of overstatement of investment valuations. Further, the valuations of unquoted investments involve a high degree of estimation uncertainty and also subject to the Investment Manager's judgement. Therefore, there is a risk of potential Investment Manager's bias in determining the fair value of the unquoted investments. Investments is the key item on the balance sheet. There is a risk that the Company does not have ownership rights to the investments.	We responded to this matter by testing the valuation and ownership of 100% of the portfolio of investments. We performed the following procedures: In respect of quoted investment valuations (81% of the total portfolio by value) we have: ➟ Agreed the year end bid price to externally quoted prices and for a sample of investments, assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value. ➟ Obtained direct confirmation from the custodian regarding the ownership of all of investments held at the year end date. In respect of unquoted investment valuations, we have: ➟ Obtained direct confirmation of ownership from the custodian at the balance sheet date. ➟ Considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines. ➟ Verified and benchmarked key inputs and estimates to independent information and our own research. ➟ Reviewed the historical financial statements and recent management information available to support assumptions about maintainable revenue and earnings used in the valuations. **Key observations:** Based on our procedures performed we did not identify any material exceptions with regards to valuation or ownership of investments.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

(continued)

Our application of materiality (continued)

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	How the scope of our audit addressed the key audit matter	
	2021 **£m**	**2020** **£m**
Materiality	0.42	0.39
Basis for determining materiality	1% of Net Assets	1% of Net Assets
Rationale for the benchmark applied	As an investment trust, the net asset value is the key measure of performance.	As an investment trust, the net asset value is the key measure of performance.
Performance materiality	0.32	0.27
Basis for determining performance materiality	Performance materiality was deemed to be 75% of total materiality. The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.	Performance materiality was deemed to be 70% of total materiality because of the first year audit.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £8,500 (2020: £19,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

(continued)

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	➡ The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and ➡ The Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate.
Other Code provisions	➡ Directors' statement on fair, balanced and understandable; ➡ Board's confirmation that it has carried out a robust assessment of the emerging and principal risks; ➡ The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and ➡ The section describing the work of the audit committee.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: ➡ the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and ➡ the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

(continued)

Other Companies Act 2006 reporting (continued)

Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Chapter 3 Part 6 of the Income Tax Act 2007, the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the AIC SORP and International Accounting Standards. We also considered the company's qualification as an Investment Trust under UK tax legislation.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

(continued)

Auditor's responsibilities for the audit of the financial statements (continued)

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- testing of journal postings made during the year to identify potential management override of controls;
- review of minutes of board meetings throughout the period; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our audit report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Fung-On (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

7 May 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Making investment more rewarding.

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 28 February 2021

	Year ended 28 February 2021			Year ended 28 February 2020		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments at fair value through profit or loss (**note 9**)	**-**	**5,390**	**5,390**	-	(1,904)	(1,904)
Investment income (**note 3**)	**996**	**-**	**996**	1,505	-	1,505
	996	**5,390**	**6,386**	**1,505**	**(1,904)**	**(399)**
Investment management fee (**note 4**)	**(59)**	**(234)**	**(293)**	(76)	(303)	(379)
Other expenses (**note 5**)	**(390)**	**-**	**(390)**	(378)	-	(378)
	(449)	**(234)**	**(683)**	**(454)**	**(303)**	**(757)**
Return/(loss) before taxation	**547**	**5,156**	**5,703**	**1,051**	**(2,207)**	**(1,156)**
Taxation (**note 7**)	-	-	-	-	-	-
Return/(loss) for the year after taxation	**547**	**5,156**	**5,703**	**1,051**	**(2,207)**	**(1,156)**
	Revenue (p)	**Capital (p)**	**Total (p)**	Revenue (p)	Capital (p)	Total (p)
Basic and diluted return per Ordinary Share (**note 6**)	**1.02**	**9.56**	**10.58**	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 accounting standards and in conformity with the requirements of the Companies Act 2006.

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

The return/(loss) for the year 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.

The notes on pages 68 to 81 form an integral part of these Financial Statements.

Condensed Statement of Changes in Equity

for the year ended 28 February 2021

	Note	Share capital £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Year ended 29 February 2020						
At 28 February 2019		56	54,506	(13,911)	824	41,475
(Loss)/return 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**
At 29 February 2020		**56**	**54,473**	**(16,617)**	**1,184**	**39,096**
Return for the year		**–**	**–**	**5,156**	**547**	**5,703**
Buyback of Ordinary Shares into treasury		**–**	**–**	**(1,390)**	**–**	**(1,390)**
Transfers between reserves		**–**	**1**	**(1)**	**–**	**-**
Expenses for share buybacks		**–**	**–**	**(11)**	**–**	**(11)**
Dividends paid	**8**	**–**	**–**	**–**	**(874)**	**(874)**
As at 28 February 2021		**56**	**54,474**	**(12,863)**	**857**	**42,524**

Statement of Financial Position

as at 28 February 2021

	Note	28 February 2021 £'000	29 February 2020 (restated) £'000	1 March 2019 (restated) £'000
Non-current assets				
Investments held at fair value through profit or loss	**9,15**	39,218	33,099	36,021
		39,218	33,099	36,021
Current assets				
Trade and other receivables	**10**	39	43	45
Cash and cash equivalents		3,428	6,051	5,504
		3,467	6,094	5,549
Total assets		42,685	39,193	41,570
Current liabilities				
Trade and other payables	**11**	(161)	(97)	(95)
		(161)	(97)	(95)
Total assets less current liabilities		42,524	39,096	41,475
Net Assets		42,524	39,096	41,475
Represented by:				
Share capital	**12**	56	56	56
Special reserve		54,474	54,473	54,506
Capital reserve		(12,863)	(16,617)	(13,911)
Revenue reserve		857	1,184	824
Equity shareholders' funds		42,524	39,096	41,475
Net asset value per Ordinary Share	**13**	81.16p	71.30p	74.59p

The Financial Statements were approved by the board on 7 May 2021 and were signed on its behalf by:

Hugh Aldous
Chairman
Downing Strategic Micro-Cap Investment Trust PLC
Registered in England and Wales, no. 10626295

The notes on pages 68 to 81 form an integral part of these Financial Statements.

Statement of Cash Flows
for the year ended 28 February 2021

	Notes	Year ended 28 February 2021 £'000	Year ended 29 February 2020 (restated) £'000
Operating activities			
Return/(loss) before taxation		5,703	(1,156)
(Gains)/losses on investments at fair value through profit or loss	9	(5,390)	1,904
UK fixed interest income	3	(738)	(756)
Receipt of UK fixed interest income		-	96
Increase in other receivables		4	2
Increase in other payables		64	2
Purchases of investments		(8,877)	(969)
Sales of investments		8,886	2,647
Net cash (outflow)/inflow from operating activities		(348)	1,770
Financing activities			
Buyback of Ordinary shares into treasury		(1,390)	(496)
Cancellation of Ordinary Shares		-	(33)
Expenses of for share buybacks		(11)	(3)
Dividends paid		(874)	(691)
Net cash outflow from financing activities		(2,275)	(1,223)
Change in cash and cash equivalents		(2,623)	547
Cash and cash equivalents at start of period		6,051	5,504
Cash and cash equivalents at end of period		3,428	6,051
Comprised of:			
Cash and cash equivalents		3,428	6,051

The notes on pages 68 to 81 form an integral part of these Financial Statements.

Notes to the Financial Statements

for the year ended 28 February 2021

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 company within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010.

2. Accounting policies

Basis of accounting

The annual Financial Statements of the company have been prepared in accordance with international accounting standards and in conformity with the requirements of the Companies Act 2006.

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') issued in October 2019 is consistent with the requirements of international accounting standards, the directors have sought to prepare the Financial Statements on a consistent basis compliant with the recommendations of the SORP.

Going concern

The Financial Statements have been prepared on a going concern basis and on the basis that approval as an investment trust company will continue to be met.

The directors have made an assessment of the company's ability to continue as a going concern and are satisfied that the company has the resources to continue in business for the foreseeable future, being a period of 12 months from the date these Financial Statements were approved. Furthermore, the directors are not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern, having taken into account the liquidity of the company's investment portfolio and the company's financial position in respect of its cash flows and investment commitments. Therefore, the Financial Statements have been prepared on the going concern basis.

Presentation of statement of comprehensive income

In order to better reflect the activities of an investment trust and in accordance with guidance issued by the AIC, supplementary information which analyses the income statement between items of revenue and capital nature has been presented alongside the income statement. The revenue profit for the year is the measure the directors believe is appropriate in assessing the company's compliance with certain requirements set out in the Investment Trust (Approved Company) (Tax) Regulations 2011.

Segmental reporting

The directors are of the opinion that the company is engaged in a single segment of business, being investment business. The company only invests in companies quoted in the UK.

Accounting developments: new standards, interpretations and amendments adopted from 1 January 2020

The following amendments to standards came into effect this accounting period, although they have no impact on the Financial Statements:

- IAS 1 and 8 (Amendments regarding the definition of material)
- IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 (Amendments to References to the Conceptual Framework)
- Interest Rate Benchmark Reform – IBOR 'phase 1' (Amendments to IFRS 9, IAS 39, and IFRS 7)
- IFRS 16 (Covid-19-Related Rent Concessions, immediate adoption as of issuance date of 28 May 2020)
- IFRS 3 (Business Combinations)

Accounting developments: new standards, interpretations and amendments not yet effective

- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16) (effective 1 January 2021)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) (effective 1 January 2022)
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 & IAS 41 (effective 1 January 2022)

2. Accounting policies (continued)

Accounting developments: new standards, interpretations and amendments not yet effective (continued)

- References to Conceptual Framework (Amendments to IFRS 3) – effective 1 January 2022
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) – effective 1 January 2022

Critical accounting estimates and judgements

The preparation of financial statements in conformity with international accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and the amounts reported in the balance sheet and the income statement. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The Directors have made the following judgements and estimates that have had the most significant impact on the carrying values of assets and liabilities stated in these financial statements:

- ***Valuation and classification of unquoted loan notes:*** unquoted loan note investments, comprising loan note principal, interest and any amounts of redemption premium, are held at fair value through profit or loss and are valued using a discounted cash flow methodology. Key contractual inputs, as well as assumptions regarding the nature, timing and amount of future cash flows are assessed as part of the discounted cash flow approach. The directors use judgement in selecting and applying the assumptions used, although such assumptions are based upon all available information which the directors deem to be reliable and are stress tested under a range of scenarios. The directors consider all loan note investments to be non-current assets, as such investments are entered into in conjunction with a strategic equity holding in the same portfolio company.

There were no other significant accounting estimates or significant judgements applied in the current period.

Correction of prior period error

During the year ended 28 February 2021, the company identified that unpaid UK fixed interest income ('fixed interest income' or interest income') in respect of loan note investments had been incorrectly recorded within the balance of trade and other receivables on the Statement of Financial Position, rather than as part of the balance of investments held at fair value through profit or loss ('FVTPL'). Fixed interest income had historically been recognised at the fair value of the consideration receivable at the time of recognition, and subsequently held at amortised cost and assessed for any Expected Credit Losses ('ECLs') in accordance with IFRS 9. However, the company now considers that unpaid fixed interest income should be held at fair value through profit or loss for the following reasons:

- The company's loan note investments comprise elements of loan principal, interest and redemption premium. Therefore, the fair values of the instruments are assessed using a discounted cash flow methodology which considers all possible future cash flows which either have or may become due to the company;
- UK fixed interest income cannot be easily separated from the instrument to which it relates and is only due to be repaid when a corresponding redemption of loan note principal takes place.

The correction of the prior period error principally impacts two financial statement line items on the Statement of Financial Position, being investments held at fair value through profit or loss (**note 9**) and trade and other receivables (**note 10**).

The error has been corrected by restating each of the affected financial statement line items for prior periods. The tables on page 70 summarise the impacts on the company's financial statements.

Statement of Comprehensive Income

No adjustments have been made to the Statement of Comprehensive Income.

2. Accounting policies (continued)

Correction of prior period error (continued)

Statement of Financial Position

	As at 29 February 2020			As at 1 March 2019		
	Previously reported £'000	Adjustment £'000	**Restated £'000**	Previously reported £'000	Adjustment £'000	**Restated £'000**
Investments held at fair value through profit or loss	31,744	1,355	**33,099**	35,326	695	**36,021**
Trade and other receivables	1,398	(1,355)	**43**	740	(695)	**45**
Others	6,051	-	**6,051**	5,504	-	**5,504**
Total assets	**39,193**	-	**39,193**	41,570	-	**41,570**
Total liabilities	**(97)**	**-**	**(97)**	(95)	-	**(95)**
Net assets	**39,096**	**-**	**39,096**	41,475	-	**41,475**

Statement of Cash Flows

	Year ended 29 February 2020		
	Previously reported £'000	Adjustment £'000	**Restated £'000**
UK fixed interest income	-	(756)	**(756)**
Receipt of UK fixed interest income	-	96	**96**
Increase in trade and other receivables	(658)	660	**2**
Others	2,428	-	**2,428**
Net cash inflow/(outflow) from operating activities	1,770	-	**1,770**
Net cash outflow from financing activities	(1,223)	-	**(1,223)**
Change in cash and cash equivalents	547	-	**547**

Investments held at fair value

All investments held by the company (quoted equity investments and unquoted loan notes) are classified at 'fair value through profit or loss' as the investments are managed and their performance evaluated on a fair value basis in accordance with the investment strategy and this is also the basis on which information about the investments is reported to the board. Investments are initially recognised at book cost, being the fair value of the consideration given, including any transaction fees. After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments recognised in the statement of comprehensive income and allocated to capital. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and the book cost.

For investments actively traded in organised financial markets, fair value is generally determined on a daily basis, with reference to quoted market bid prices at the close of business on the balance sheet date, without adjustment for transaction costs necessary to realise the asset.

When a purchase or sale is made under a contract, the terms of which are required to be delivered within the time frame of the relevant market, the investments concerned are recognised or derecognised on the trade date.

Unquoted investments are valued by the directors at the balance sheet date based on recognised valuation methodologies, in accordance with International Private Equity and Venture Capital Valuation ('IPEV') Guidelines, such as dealing prices or third-party valuations where available, net asset values and other information as appropriate.

All investments for which fair value is measured or disclosed in the Financial Statements will be categorised within the fair value hierarchy in the notes of the Financial Statements, described as follows, based on the lowest significant applicable input:

2. Accounting policies (continued)

Investments held at fair value (continued)

- Level 1 reflects financial instruments quoted in an active market;
- Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets; and
- Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data. For investments that are recognised in the Financial Statements on a recurring basis, the company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest significant applicable input) at the date of the event that caused the transfer.

Income

Dividends receivable on quoted equity shares are taken into account on the ex-dividend date. Where no ex-dividend date is quoted, they are brought into account when the company's right to receive payment is established. Special dividends will be taken to revenue or capital account depending on their nature. In deciding whether a dividend should be regarded as a capital or revenue receipt, the company will review all relevant information as to the reasons for and sources of the dividend on a case-by-case basis.

UK fixed interest income is recorded on a daily basis and in the revenue column of the Statement of Comprehensive Income. Where the terms of loan note investments require interest or a redemption premium to be paid on redemption, the fair values of any previously unpaid amounts are assessed as part of the total fair values of the loan note instruments, under the company's discounted cash flow methodology.

Dividend receivable are initially recognised at the fair value of the consideration receivable by the company. This is subsequently measured at amortised cost using the effective interest method less any provision for impairment. The company recognises an annual loss allowance for expected credit losses ('ECL allowances'), in accordance with IFRS 9. ECL allowances are calculated on a specific basis and are deducted from the gross carrying values of the dividend receivables carried at amortised cost. ECL allowances are recognised in the Statement of Comprehensive Income, designated as revenue or capital in accordance with the categorisation of the income to which the allowance relates.

Expenses

All expenses are accounted for on an accruals basis and gross of Value Added Tax ('VAT') where charged to the company. All expenses are charged to revenue within the statement of comprehensive income, with the exception of the following:

- expenses which are incidental to the acquisition or disposal of an investment as an element of the purchase of sales consideration respectively, and therefore charged to capital. Details of transaction costs are given in note 9.

All other expenses are allocated to revenue, with the exception of 80% of the investment manager's fee which is allocated to capital. This is in line with the board's expected long-term split of returns from the investment portfolio in the form of income and capital gains respectively.

Taxation

The charge for taxation is based on revenue profit for the year. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Investment Trusts which have approval under Section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains. Any tax relief obtained in respect of investment management fees and other capital expenses charged or allocated to the capital column of the Statement of Comprehensive Income is reflected in the capital reserve and a corresponding amount is charged against the revenue column of the Statement of Comprehensive Income. The tax relief is the amount by which corporation tax payable is reduced as a result of these capital expenses.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

2. Accounting policies (continued)

Operating cash flows

As the principal activity of the company is to invest in accordance with the Investment Policy, the directors consider all cash flows relating to the portfolio, including purchases and sales of investments, to be operating cash flows. Operating cash flows also includes cash movements relating to investment income and the settling of investment management fees and other expenses.

Share issue costs

Share issue costs relating to Ordinary Shares issued by the company are charged to the share premium account.

Repurchase of Ordinary Shares for cancellation or to be held in Treasury

The cost of repurchasing shares including the related stamp duty and transaction costs is charged to capital reserves and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. Where shares are cancelled or held in Treasury and subsequently cancelled, the nominal value of those shares is transferred out of called up share capital and into special reserve. Should shares held in Treasury be reissued, the sales proceeds up to the purchase price of the shares will be transferred to capital reserves. The excess of the sales proceeds over the purchase price will be transferred to share premium.

Capital reserve

Capital reserve is a distributable reserve which includes:

- gains and losses on the disposal of investments;
- exchange difference of a capital nature;
- expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies; and
- increase and decrease in the valuation of investments held at period end.

Revenue reserve

This reserve includes profit for the year recognised in the revenue column of the Statement of Comprehensive Income. This reserve is distributable.

Special reserve

The company cancelled its share premium account following a court order issued on 12 July 2017. As a result, a distributable special reserve was created. This reserve is distributable.

Capital redemption reserve

This reserve represents the repurchase and subsequent cancellation of the Ordinary Shares of the company. This reserve is not distributable.

Dividends payable to shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid. Dividends declared and approved by the company after the balance sheet date have not been recognised as a liability of the company at the balance sheet date.

3. Income

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Income from listed investments		
UK dividend income	**258**	749
UK fixed interest income (**note 9**)	**738**	756
Total	**996**	1,505

UK fixed interest income represents loan note interest receivable from Real Good Food plc. Such amounts form part of the overall fair value of the loan note instruments and are therefore included within investments held at fair value through profit or loss on the Statement of Financial Position.

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.

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Investment management fee		
Revenue	**59**	76
Capital	**234**	303
Total	**293**	379

5. Other expenses

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 £'000
Administration and secretarial fees	**79**	**79**
Auditor's remuneration:		
- audit services	**38**	**38**
Directors' fees	**86**	**116**
Safe custody fees	**8**	**7**
Legal fees	**-**	**1**
Charitable donations	**29**	**-**
Sundry fees	**150**	**133**
Taxation services	**-**	**4**
Revenue expenses	**390**	**378**
Capital expenses	**-**	**–**
Total expenses	**390**	**378**

6. Basic and diluted return per Ordinary Share

Returns per Ordinary Share are based on the weighted average number of shares in issue during the year. As there are no dilutive elements on share capital, basic and diluted returns per share are the same.

	Year ended 28 February 2021		Year ended 29 February 2020	
	Net return £'000	Per share Pence	Net return £'000	Per share Pence
Revenue return	**547**	**1.02**	1,051	1.91
Capital return	**5,156**	**9.56**	(2,207)	(4.01)
Total return	**5,703**	**10.58**	(1,156)	(2.10)
Weighted average number of Ordinary Shares[1]	**53,908,480**		55,049,771	

[1]Excluding treasury shares

7. Taxation

	Year ended 28 February 2021			Year ended 29 February 2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax at 19% (2020: 19%)	–	–	–	–	–	–

The current taxation charge for the period differs from the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	Year ended 28 February 2021			Year ended 29 February 2020		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return/(loss) before taxation	547	5,156	5,703	1,051	(2,207)	(1,156)
Theoretical tax at UK corporation tax rate of 19%	104	980	1,084	200	(419)	(219)
Effects of:						
UK dividends not taxable	(49)	–	(49)	(142)	–	(142)
Capital items not taxable	–	(1,024)	(1,024)	–	361	361
Excess expenses in the period	(55)	44	(11)	(58)	58	–
Actual current tax charge	–	–	–	–	–	–

Factors that may affect future tax charges:

The company has surplus management expenses carried forward of £666,516 (2020: £722,315). It is unlikely that the company will generate sufficient taxable profits in the future to utilise these expenses, therefore no provision for any deferred tax asset has been made in the current year. The company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments as it is exempt from tax on these items because of its status as an investment trust.

8. Dividends

	Year ended 28 February 2021	Year ended 29 February 2020
	£'000	£'000
Dividends paid during the year	874	691

A final dividend of 0.8p per share has been proposed in respect of the year ended 28 February 2021. Subject to shareholder approval at the forthcoming AGM, this is due to be paid on 9 July 2021, to shareholders on the register as at 11 June 2021.

9. Investments

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 (restated) £'000
Opening book cost	42,138	48,498
Opening UK fixed interest income at fair value through profit or loss	1,355	695
Opening investment holding losses	(10,394)	(13,172)
Opening valuation	**33,099**	**36,021**
Movements in the year		
UK Fixed interest income at fair value through profit or loss **(note 3)**	738	756
Receipt of UK fixed interest income	-	(96)
Investment purchases at cost	8,877	969
Disposals:		
Proceeds	(8,886)	(2,647)
Net realised gains on disposals	(3,705)	(4,682)
Movement in investment holding losses	9,095	2,778
Closing valuation	**39,218**	**33,099**
Closing book cost	38,425	42,138
Closing UK fixed interest income at fair value through profit or loss	2,093	1,355
Closing investment holding losses	(1,300)	(10,394)
	39,218	**33,099**
Realised loss on disposals	(3,705)	(4,682)
Movement in investment holding losses	9,095	2,778
Gains/(losses) on investments held at fair value through profit or loss	**5,390**	**(1,904)**

Transaction costs

During the year the company incurred transaction costs of £8,100 (2020: £nil) and £4,807 (2020: £541) on purchases and sales respectively. These amounts are included in losses on investments, as disclosed in the statement of comprehensive income.

10. Trade and other receivables

	28 February 2021 £'000	28 February 2020 (restated) £'000	1 March 2019 (restated) £'000
Dividends receivable	**28**	29	28
Prepayments and accrued income	**11**	14	17
	39	43	45

11. Trade and other payables

	28 February 2021 £'000	28 February 2020 £'000
Other creditors	**161**	97

12. Called-up share capital

	Number of Ordinary shares	Treasury shares	Total shares	Nominal value £'000
Allotted, called up and fully paid share capital comprises:				
Ordinary Shares of £0.001				
At 28 February 2020	54,830,002	720,000	55,550,002	56
Cancellation of Ordinary Shares	–	–	–	–
Shares purchased into treasury	(2,431,511)	2,431,511	–	–
At 28 February 2021	52,398,491	3,151,511	55,550,002	56

The company was incorporated on the 17 February 2017 with issued share capital of £50,002, represented by 50,000 Management shares ('Management shares') of £1.00 each and 2 Ordinary Shares of £0.001.

On 9 May 2017, the company issued 55.6 million Ordinary £0.001 Shares at a £1 per share in a placing, offer for subscription and intermediaries offer, raising £54.5 million after expenses.

The Management shares were redeemed immediately following admission of the Ordinary Shares on 9 May 2017, out of the proceeds of the issue.

During the year 2,431,511 (2020: 720,000) Ordinary Shares were bought back and placed in treasury for an aggregate consideration of £1,390,350, at an average price of 57.2p per share (2020: £496,113, at an average price of 68.9p per share). No Ordinary Shares held in treasury were re-issued into the market. In addition, no Ordinary Shares were bought back and cancelled during the year (2020: 50,000 Ordinary Shares were bought back and cancelled or an aggregate consideration of £33,000, or an average price of 66.0p per share).

The Ordinary Shares in issue at the year end includes 3,151,511 (2020: 720,000) Ordinary Shares held in treasury.

13. Net Asset Value per Ordinary Share

NAV per Ordinary Share is based on net assets at the period end and 52,398,491 (28 February 2020: 54,830,002) Ordinary Shares, being the number of Ordinary Shares in issue excluding treasury shares at the period end.

	28 February 2021		29 February 2020	
	NAV per share Pence	NAV attributable £'000	NAV per share Pence	NAV attributable £'000
Ordinary Shares:				
Basic and diluted	**81.16**	**42,524**	71.30	39,096

14. Analysis of financial assets and liabilities

Investment objective and policy

The company's investment objective and investment policy are detailed on the inside front cover and in the Strategic Report on pages 30 to 36. The company's investing activities in pursuit of its investment objective involve certain inherent risks. The company's financial instruments can comprise:

- shares and debt securities held in accordance with the company's Investment Objective and investment policies;
- derivative instruments for efficient portfolio management, gearing and investment purposes; and
- cash, liquid resources and short-term receivables and payables that arise from its operations.

14. Analysis of financial assets and liabilities (continued)

Investment objective and policy (continued)

The risks identified arising from the company's financial instruments are market risk (which comprises market price risk, interest rate risk and foreign currency exposure risk), liquidity risk and credit and counterparty risk. The company may enter into derivative contracts to manage risk. The board reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk arises from uncertainty about future prices of financial instruments used in the company's business. It represents the potential loss the company might suffer through holding market positions by way of price movements, interest rate movements and exchange rate movements. The investment manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the investment manager on a regular basis and the board at quarterly meetings with the investment manager.

Market price risk

Market price risk (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of investments.

The board manages the risks inherent to the investment portfolio by ensuring full and timely reporting of relevant information from the investment manager, including investment performance and exposure, which are reviewed at each board meeting.

The company's exposure to changes in market prices as at 28 February 2021 on its equity investments held at fair value through profit or loss was £30,219,000 (2020: £24,838,000).

The board has considered the market volatility, arising as a result of the coronavirus pandemic, in determining the reasonably possible market movements that might be possible, on order for such movements to be reflected in a sensitivity analysis. It is considered that a 10% increase and a 50% decrease in market prices are appropriate levels. A 10% increase in market prices of its investments at 28 February 2021 would have increased net assets attributable to shareholders by £3.0 million (2020: £2.5 million). A 50% decrease in the market prices of its investments would have decreased the net assets and distributable reserves attributable to shareholders by £19.6 million (2020: £16.5 million). The analysis is based on closing balances only and is not representative of the period as a whole.

Interest rate risk

The company does not currently receive interest on its cash deposits; therefore interest rate movements are not expected to have an impact on the level of cash deposits held by the company.

The company's financial assets may include investment in fixed interest securities, such as UK Corporate debt, whose fair value may be affected by movements in interest rates. The majority of the company's financial assets and liabilities, however, are either subject to a fixed rate of interest or are non-interest bearing. As a result, the company's financial assets and liabilities are not subject to significant amounts of risk due to fluctuations in market interest rates. There was no exposure to interest bearing liabilities during the year ended 28 February 2021 (2020: none).

The possible effects on the fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. The board imposes borrowing limits to ensure gearing levels are appropriate to market conditions.

As at 28 February 2021, the Company held the following interest-bearing securities:

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 (restated) £'000
Real Good Food Loan Notes	**8,999**	8,261

Notes to the Financial Statements (continued)

for the year ended 28 February 2021

14. Analysis of financial assets and liabilities (continued)

Interest rate risk (continued)

The exposure, at 28 February 2021, of financial assets and liabilities to interest rate risk is shown by reference to:

- floating interest rates – when the rate is due to reset; and
- fixed interest rates – when the financial instrument is due for repayment.

An analysis of the company's exposure to fixed interest rates, as at 28 February 2021, is shown below:

	28 February 2021				29 February 2020 (restated)			
	1 year £'000	1 to 2 years £'000	2 to 3 years £'000	Total £'000	1 year £'000	1 to 2 years £'000	2 to 3 years £'000	Total £'000
Exposure to fixed interest rates:								
Real Good Food Loan Notes	–	8,999	–	8,999	6,799	–	1,462	8,261
Total	–	8,999	–	8,999	6,799	–	1,462	8,261

The fair values of the loan notes issued to Real Good Food have been assessed using a discounted cash flow valuation methodology which takes into consideration the performance of the borrower and the characteristics of the instruments, as well as comparable market rates which reflect the company's cost of capital and the risk profile of similar loans. If the discount rates applied in assessing the fair values of the loan note investments were increased by 2%, the fair values of the loan notes, and therefore the net assets attributable to shareholders, would have reduced by £nil (2020: £141,894). If the discount rates decreased by 2%, the net assets attributable to shareholders would increase by an equal and opposite amount.

As the company has no exposure to floating interest rates, the Interest Rate Benchmark Reform is expected to have no impact on its assets and liabilities.

Foreign currency risk

The company's assets, liabilities, income and expenses are denominated in Sterling, being the functional currency of the company. Accordingly, the only currency exposure the company has is through the trading activities of its investee companies.

Liquidity risk

The company's assets, liabilities, income and expenses are denominated in Sterling, being the functional currency of the company. Accordingly, the only currency exposure the company has is through the trading activities of its investee companies.

Credit and counterparty risk

Credit risk is the risk of financial loss to the company if the contractual party to a financial instrument fails to meet its contractual obligations.

Credit risk arises from two main sources. Firstly, the possibility that the issuer of a security will be unable to pay interest and principal in a timely manner. Secondly, there is the possibility of default of the issuer. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer or scheme can limit credit risk.
The maximum exposure to credit risk as at 28 February 2021 was £12,455,000 (2020: £14,341,000). The calculation is based on the company's credit risk exposure as at 28 February 2021 and this may not be representative for the whole period.

	28 February 2021 £'000	29 February 2020 (restated) £'000
Dividends receivable	**28**	29
Cash and cash equivalents	**3,428**	6,051
Unquoted loan notes	**8,999**	8,261
Total	**12,455**	14,341

14. Analysis of financial assets and liabilities (continued)

Credit and counterparty risk (continued)

Credit risk relating to unquoted loan notes is considered to be part of market risk.

The company's quoted investments are held on its behalf by The Northern Trust company, acting as the company's custodian. Bankruptcy or insolvency of the custodian may cause the company's rights with respect to securities held by the custodian to be delayed. The board monitors the company's risk by reviewing the custodian's internal controls report.

Investment transactions are carried out with a number of brokers whose creditworthiness is reviewed by the investment manager. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the company's custodian bank ensures that the counterparty to any transaction entered into by the company has delivered on its obligations before any transfer of cash or securities away from the company is completed.

Cash is only held at banks that have been identified by the board as reputable and of high credit quality.

None of the company's assets are past due or impaired.

15. 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.

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).

15. Fair value hierarchy (continued)

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
28 February 2021				
Quoted on the Main Market	**1,018**	-	-	**1,018**
Traded on AIM	**29,201**	-	-	**29,201**
Unquoted Loan Notes (including interest held at FVTPL)	-	-	**8,999**	**8,999**
	30,219	-	**8,999**	**39,218**
29 February 2020 (restated)				
Quoted on the Main Market	1,100	-	-	1,100
Traded on AIM	23,738	-	-	23,738
Unquoted Loan Notes (including interest held at FVTPL)	-	-	8,261	8,261
	24,838	-	8,261	33,099

There were no transfers between Level 1 and Level 2 during the period. A reconciliation of fair value measurements in Level 3 is set out in the table below.

	Year ended 28 February 2021 £'000	Year ended 29 February 2020 (restated) £'000
Opening balance	8,261	8,604
Purchases	-	-
Sales	-	(329)
UK Fixed interest income at FVTPL (**notes 3, 9**)	738	756
Receipt of UK fixed interest income	-	(96)
Total gains or losses included in losses on investments in the Statement of Comprehensive Income:		
- on assets sold	-	26
- on assets held at the period end	-	(700)
Closing balance	8,999	8,261

Significant unobservable inputs for Level 3 valuations

The fair values of the unquoted loan notes and associated interest are established with reference to IPEV Guidelines using a discounted cash flow methodology which involves the use of unobservable inputs. Unobservable inputs include all relevant financial and non-financial information regarding the borrower, the expected dates of any partial or full redemptions and any risk-adjusted inputs which might be obtained from comparable companies. The fair values of the unquoted loan notes are highly sensitive to changes in the timing and amounts of future cash flows, and as a result the directors carefully consider a range of possible scenarios in assessing fair values.

16. Capital management

The company's capital is as disclosed in the statement of financial position and is managed on a basis consistent with its investment objective and policies, as set out on the inside front cover and in the Strategic Report on pages 30 to 36. The principal risks and their management are disclosed in the Strategic Report.

Notes to the Financial Statements (continued)

for the year ended 28 February 2021

17. Significant interests

As at 28 February 2021, the Company held interests amounting to 3% or more of the equity in issue by the following investee companies.

	% of investee company
Digitalbox plc	21.05%
FireAngel Safety Technology plc	11.99%
Synectics plc	10.80%
Ramsdens Holdings plc	6.22%
Real Good Food Company plc	5.33%
AdEPT Technology Group plc	4.93%
Hargreaves Services plc	3.24%
Flowtech Fluidpower plc	3.11%

18. Related parties and Investment Manager

Investment Manager

Downing LLP is the investment manager to the company. The relationship is governed by an agreement dated 23 March 2017.

The total investment management fee charged by Downing LLP for the period ended 28 February 2021 was £292,800 (2020: £378,799). The amount outstanding as at 28 February 2021 was £30,868 (2020: £28,786).

During the year under review, Judith MacKenzie was a Non-Executive director of Real Good Food plc, in which the company has an investment. An annual fee of £25,000 is paid to Downing LLP for Judith's services as a director of Real Good Food plc.

Administrator and Company Secretary

On 1 April 2020, Downing LLP was appointed as administrator to the company and Grant Whitehouse, a Downing LLP partner, was appointed as Company Secretary. During the period from 1 April 2020 to 28 February 2021, total fees of £75,720 (inclusive of VAT where applicable) were charged by Downing LLP in connection with the provision of the Administration, AIFM Support and company secretarial services set out in the Downing LLP Administration Agreement. As at 28 February 2021, the amount outstanding was £75,720.

Directors

Disclosure of the directors' interests in the Ordinary Shares of the company and fees and expenses payable to the directors are set out in the directors' Remuneration Report on pages 51 to 54. At 28 February 2021, there were no outstanding directors' fees (2020: none).

19. Contingent liabilities

There were no contingent liabilities at 28 February 2021 (2020: none).

20. Non-adjusting events after reporting date

In the period between 28 February 2021 and the date of this report, the following non-adjusting events took place:

- The company purchased 420,290 of its own Ordinary Shares, at an average price of 72.0 pence per share, all of which are now held in treasury;
- On 22 April 2021 RGD announced the proposed sale of its majority stake in Brighter Foods to The Hut Group ('THG') plc for a gross consideration of £43m. Completion of the proposed transaction will result in the company receiving a payment of over £5.3m from RGD. The payment will constitute a partial redemption of the company's 10% loan note holding in RGD, including elements of loan note principal and accrued interest, as well as redemption premium equal to 15% of the principal being redeemed.

Shareholder information

Financial Calendar

Company's year end	28 February
Annual Results announced	May
Annual General Meeting	7 July
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.

Glossary

C Shares

C ('Conversion') shares help an investment company grow in a way that protects the interests of existing ordinary shareholders. When an investment company wants to grow, it may issue C shares. These shares and the proceeds are held in a separate pool and invested in a portfolio of assets. After a certain period, or when the pool of new money is fully invested, the two portfolios are merged and the C shares are exchanged for ordinary shares.

Discount and premium

If the share price of an investment trust is lower than the net asset value ('NAV') per share, the shares are trading at a discount to NAV. In this circumstance the price that an investor pays or receives for a share would be less than the value attributable to it by reference to the underlying assets. The discount is the difference between the share price (based on mid-market share prices) and the NAV, expressed as a percentage of the NAV.

A premium occurs when the share price is above the NAV. Investors would therefore be paying more than the value attributable to the shares by reference to the underlying assets.

Discounts and premia are generally the consequence of supply and demand for the shares on the stock market.

Gearing

Gearing is the process whereby a company can borrow to purchase additional investments with the expectation that the return on the investments purchased will exceed the interest cost of the borrowings.

Gearing is calculated by dividing total assets less cash or cash equivalents by shareholders' funds expressed as a percentage.

Intrinsic value

The actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business in terms of both tangible and intangible factors. This value may or may not be the same as the current market value.

Intrinsic value is a core concept to value investors that seek to uncover hidden investment opportunities.

Margin of safety (safety margin)

The difference between the intrinsic value of a stock and its market price.

Net asset value per Share ('NAV') per Ordinary Share

The NAV is shareholders' funds expressed as an amount per individual share. Equity shareholders' funds are the total value of all of the company's assets, at current market value, having deducted all current and long-term liabilities and any provision for liabilities and charges.

The NAV is published daily.

Ongoing charges

Ongoing charges are expenses of a type that are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition or disposal of investments, financing costs and gains or losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs and include the annual management charge. The calculation methodology is set out by the Association of Investment Companies.

Revenue return per share

The revenue return per share is the revenue return profit for the year divided by the weighted average number of ordinary shares in issue during the year.

Total return performance

This is the return on the share price or NAV taking into account both the rise and fall of share prices and the dividends and interest paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the company's assets (for NAV total return).

Contact details of the Advisers

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Linda Bell
William Dawkins
Robert Legget

Company Secretary
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Broker
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London SW1A 1LD

Auditor
BDO LLP
55 Baker Street
London W1U 8EW

Company number: 10626295

Annual General Meeting

Notes in respect of special business at the Annual General Meeting

Resolutions relating to the following items of special business will be proposed at the forthcoming AGM to be held on 7 July 2021:

Resolution 8
Authority to allot shares
The directors may only allot shares for cash if authorised to do so by shareholders in a general meeting. This resolution seeks to renew the authority of the directors to allot ordinary shares for cash up to an aggregate nominal amount of £2,599 or such other amount as shall be equivalent to 5% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of the Notice of AGM. This provides the company with some flexibility if a situation were to arise where the board may consider issuing some new shares.

Resolution 9
Authority to disapply pre-exemption rights
By law, directors require specific authority from shareholders before allotting new shares or selling shares out of treasury for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 9 empowers the directors to allot new ordinary shares for cash or to sell shares held by the Company in treasury, otherwise than to existing shareholders on a pro rata basis, up to an aggregate nominal amount of £2,599 or such other amount as shall be equivalent to 5% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of the Notice of AGM.

Resolution 10
Authority to make market purchase of the company's shares
The resolution to be proposed will seek to renew the authority granted to directors enabling the Company to purchase its own shares. The directors will only consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between supply and demand for the Company's shares. The directors are seeking authority to purchase up to 7,791,532 being the equivalent of 14.99% of the issued ordinary share capital (excluding treasury shares) or such other amount as shall be equivalent to 14.99% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of passing the resolution. This authority will expire at the conclusion of the AGM to be held in 2021 unless renewed prior to that date. Any ordinary shares purchased pursuant to resolution 10 shall be cancelled immediately upon completion of the purchase or held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Companies Act 2006.

Notice of Annual General Meeting

Notice is hereby given that the fourth Annual General Meeting of Downing Strategic Micro-Cap Investment Trust plc will be held at 2:15pm on 7 July 2021, at 6th Floor, St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD.

If you wish to attend the meeting please register by sending an email to **dsmagm@downing.co.uk** stating that you wish to register for the AGM.

The following business will be dealt with at the meeting:

Ordinary business

1. To receive the Directors' Report and the financial statements for the year ended 28 February 2021 with the report of the Auditor thereon.

2. To approve the Directors' Remuneration Report for the year ended 28 February 2021.

3. To approve the Director's Remuneration Policy

4. To approve the payment of a dividend of 0.8p per share to be paid on 9 July 2021

5. To re-elect Hugh Aldous as a director.

6. To re-appoint BDO LLP as auditor to the company to hold office from the conclusion of the annual general meeting of the company until the conclusion of the next general meeting at which financial statements are laid before the company.

7. To authorise the Audit Committee to determine the auditor's remuneration.

Special business

Ordinary resolution

8. That the directors of the company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted), in accordance with Section 551 of the Companies Act 2006 (the Act) to exercise all the powers of the company to allot relevant securities (within the meaning of Section 551 of the Act) up to an aggregate nominal amount of £2,599, representing approximately 5% of the company's issued ordinary share capital (excluding treasury shares) as at the date of this notice provided that this authority shall expire at the conclusion of the next Annual General Meeting of the company to be held in 2022 unless renewed at a general meeting prior to such time, save that the company may before such expiry make offers, agreements or arrangements which would or might require relevant securities to be allotted after such expiry and so that the directors of the company may allot relevant securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

Special resolutions

9. THAT subject to the passing of resolution 8 above, the directors of the company be and are hereby empowered pursuant to sections 570 and 573 of the Companies Act 2006 (the Act) to allot and make offers of agreement to allot equity securities (within the meaning of Section 560 of the Act) and to sell equity securities held by the company as treasury shares (as defined in section 724 of the Act) for cash pursuant to the authority conferred by resolution 8 above as if Section 561(1) of the Act did not apply to any such allotment and sales of equity securities, provided this authority:

a. shall expire at the conclusion of the next Annual General Meeting of the company to be held in 2022 save that the company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted or sold after such expiry and so that the directors of the company may allot and sell equity securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired;

b. shall be limited to the allotment of equity securities and/or sale of equity securities held in treasury for cash up to an aggregate nominal amount of £2,599 (representing approximately 5% of the company's issued ordinary share capital (excluding treasury shares) as at the date of this notice; and

c. shall be limited to the allotment of equity securities and/or sale of equity securities held in treasury at a price not less than the cum income net asset value per share as close as practicable to the allotment or sale.

10. THAT in substitution of any authorities previously granted to make market purchases of ordinary shares of 0.1 pence in the company (ordinary shares), the company be and it is hereby authorised in accordance with section 701 of the Companies Act 2006 (the Act) to make market purchases of ordinary shares (within the meaning of section 693 of the Act) provided that:

a. the maximum number of ordinary shares hereby authorised to be purchased is 7,791,532 (being the equivalent of 14.99% of the issued ordinary share capital (excluding treasury shares) or such other amount as shall be equivalent to 14.99% of the company's issued ordinary share capital (excluding treasury shares) as at the date of passing the resolution;

b. the minimum price (exclusive of expenses) which may be paid for an ordinary share shall be the nominal value per share;

c. the maximum price (exclusive of expenses) which may be paid for any such ordinary share shall be the higher of (i) 105% of the average of the middle market quotations (as derived from the Official List) of the ordinary shares for the five dealing days prior to the date on which the market purchase is made and (ii) the higher of the price quoted for (a) the last independent trade of and (b) the highest current independent bid for, any number of ordinary shares on the trading venue where the purchase is carried out; and

d. unless revoked, varied or renewed prior to such time, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the company to be held in 2022 save that the Company may, prior to such expiry enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

All ordinary shares purchased pursuant to the above authority shall either be:

(i) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act; or

(ii) cancelled immediately upon completion of the purchase.

Dated 7 May 2021

By Order of the Board

Grant Whitehouse
Secretary

Registered Office:
St Magnus House,
3 Lower Thames Street,
London
EC3R 6HD

Notes

i. This Notice of Annual General Meeting (AGM) is sent to holders of ordinary shares, all of whom are entitled to attend, speak and vote at the above AGM.

ii. Members entitled to attend and vote at the AGM are also entitled to appoint one or more proxies to exercise all or any of their rights to attend and speak and vote on their behalf. Where multiple proxies are appointed, they must be appointed to exercise the rights in relation to different ordinary shares. Proxies need not be members of the company.

iii. A form of proxy is sent to members with this notice. To be valid the form of proxy and any power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of that power of attorney or authority) must be completed and returned to the office of the company's registrar as soon as possible but so as to arrive no later than 2:15pm on 5 July 2021. Where multiple proxies are being appointed additional forms should be obtained from the company's registrar and a separate form completed for each proxy identifying, that the proxy is a multiple form and the different ordinary shares that each proxy represents. Completion and return of form(s) of proxy will not preclude a member from attending, speaking, and voting in person at the AGM.

iv. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

v. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent Computershare (ID: 3RA50) by 2:15pm on 5 July 2021. In this respect the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message in the manner prescribed by CREST.

vi. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by the particular time the CREST member requires.

vii. The company may treat as invalid a CREST proxy instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

viii. A person who is not a member of the company and receives this notice of meeting as a person nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 ("Act") does not have a right to appoint proxies. However, if a nominated person has an agreement with the member who nominated them, the nominated person may have a right to be appointed as a proxy or a right to instruct the member as to the exercise of voting rights at the AGM.

ix. Shareholders entered on the register of members of the company at the close of business on 5 July 2021, or the close of business on the day two days prior to the time of an adjourned meeting, shall be entitled to attend and vote at the AGM. Any changes to the register of members after such dates shall be disregarded in determining the rights of any shareholders to attend and vote at the AGM.

x. Under section 319(A) of the Act, the company must cause to be answered any question relating to the business being dealt with at the AGM put by a member attending the AGM unless answering the question would interfere unduly with the preparation for the meeting, would involve the disclosure of confidential information, an answer has already been given on a website, or is undesirable in the interests of the company or the good order of the AGM.

xi. Members may not use any electronic address provided in this notice or any related document(s) to communicate with the company for any purpose other than as specifically stated.

xii. As at 7 May 2021, the latest practicable date prior to the publication of this notice, the company's issued share capital comprised 55,550,002 ordinary shares of 0.1 pence each, of which 3,571,801 are held in treasury. Each ordinary share carries a right to one vote at general meetings of the company and accordingly the total number of voting rights in the company as at 7 May 2021 is 51,978,201.

xiii. Information regarding the AGM, including the information required by Section 311A of the Act, can be found on the company's website at **www.downingstrategic.co.uk**.

xiv. No director has a service agreement with the company. Directors' letters of appointment can be viewed by contacting the company secretary.

xv. Member(s) have a right in accordance with Section 338 of the Act to require the company to give to members of the company entitled to receive the above notice of meeting, notice of any resolution which they may properly move at the meeting. Under Section 338A of the Act member(s) may request the company to include in the business to be dealt with at the meeting any matter, other than a proposed resolution, which may be properly included in that business.

xvi. Members may require the company, under section 527 of the Act, to publish on a website a statement setting out any matter relating to the audit of the company's financial statements being laid before the meeting, including the auditor's report and the conduct of the audit at the company's expense. Where the company is required to place such a statement on a website it must forward the statement to the auditor not later than the time it makes the statement available on that website, and include the statement in the business to be dealt with at the meeting.

May 2021

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