



Downing Strategic Micro-Cap Investment Trust PLC

Annual Report and Financial Statements

28 February 2022

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 50% 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.

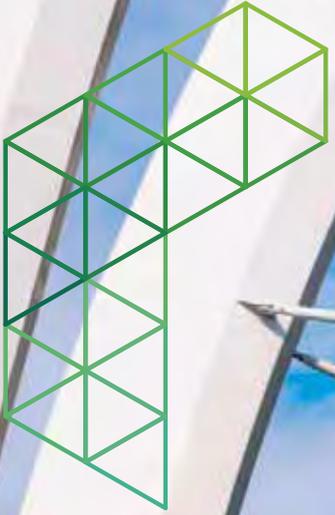
Discount control

- ▶ The Company has a buyback procedure which, in normal markets, seeks to manage the discount of the Company's share price to the underlying net asset value ('NAV') per share.

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Financial highlights

Assets	28 February 2022	28 February 2021	Change %
Net assets (£'000)	43,059	42,524	1.26%
Net asset value ('NAV') per Ordinary Share ¹	85.43p	81.16p	5.26%
Mid-market price per Ordinary Share	72.75p	72.00p	1.04%
Discount	14.84%	11.28%	

¹ Alternative Performance Measure (see page 38)

Revenue	Year ended 28 February 2022	Year ended 28 February 2021
Revenue return per Ordinary Share	0.42p	1.02p
Capital return per Ordinary Share	4.29p	9.56p
Total return per Ordinary Share	4.71p	10.58p

Performance from 9 May 2017 to 28 February 2022

Share price and net asset value per share from 9 May 2017 to 28 February 2022



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)		Norman Broadbent PLC (Norman Broadbent)
	Centaur Media PLC (Centaur)		Ramsdens Holdings PLC (Ramsdens)
	Digitalbox PLC (Digitalbox)		Real Good Food PLC (RGF)
	FireAngel Safety Technology PLC (FireAngel)		Synectics PLC (Synectics)
	Flowtech Fluidpower PLC (Flowtech)		Tactus Holdings Limited (Tactus)
	Hargreaves Services PLC (Hargreaves)		Venture Life Group PLC (Venture Life)
	National World PLC (National World)		Volex PLC (Volex)

Highlights

- ▶ 5.3% increase in NAV and 1% increase in share price over 12 months to 28 Feb 2022, despite the volatility in markets due to post pandemic macro backdrop and the Ukraine conflict.
- ▶ Focused portfolio of actively managed investments with exciting catalysts now in play which should prove reliable in volatile markets.
- ▶ Investments have progressed through the 'J curve' and are now in either late-stage turnaround or growth phase.
- ▶ Investee companies are all well financed, and all are benefitting from a post covid environment.
- ▶ Significant return of capital in the year as well as interest and redemption premium, reducing the exposure to Real Good Food plc, following the sale of its division Brighter Foods Limited and continued turnaround of the remaining business.
- ▶ c.£3.8m of cash to deploy and a strong list of potential new investments which will be executed during the right conditions and at attractive valuations.

Chairman's Statement

Overview

As I write, disruptions in supply chains, rebounds from Covid, labour market imbalance, cheap money and fiscal endeavours have triggered threateningly high inflation. Geopolitical shortcomings and short-sightedness have led to another war, with critical consequences. Globalisation is splintering, both politically and economically. Central banks have left matters late and if inflation proves stubborn that may leave them little alternative other than to constrain economies with slower growth, even to recession. The outcome looks like continuing inflation and more volatility, with maybe low and middle-income consumers under pressure. Will we still see Jamie Dimon's "*The consumer is unstoppable*" or will the consequence be stagflation? Consensus is that the UK 'will get by', hopefully. Meanwhile most portfolios have taken at least a breather, if not a battering. This is a time for resilient business models.

DSM overview

Your company's portfolio has progressed well.

Whilst over the last 12 months the FTSE AIM All-Share has declined by 21%, the MSCI UK Small Cap by 14% and the FTSE Small Cap by 5%, DSM, which does not measure itself against a benchmark but holds investments for their intrinsic value (which, in total, is considered, by the directors, to be well above the company's NAV) has maintained its NAV with a current value per share of 87.37p, against 81.16p at the 2021 financial year end and 89.79p a year ago. Through this particularly stressful period, since the year end, the portfolio and its NAV have performed well. However, even though the latest NAV per share is 87.37p, the shares stand at 69.5p mid and the discount is 20.5% which is wider than this time last year.

Outlook

The DSM portfolio consists of value stocks, dynamically managed with strong balance sheets, appropriate to the foreseeable economy and held at modest valuations. Their quoted prices are significantly below the value at which DSM's managers, using conservative estimates and noting evident catalysts, place their achievable market value. Time is then the spur to results. That leads us, your board, to consider how best to deliver that prospect to shareholders.

Looking after shareholders' interests

We are active in managing the discount of shares to NAV. Occasionally the market goes awry in its reactions and there is little that can be done for a while, but generally we have taken up loose stock and the discount has averaged around 15% through the year which, of course, is in addition to the inexpensive market value of the individual stocks.

Reducing the discount, enabling shareholders to realise further value, building a larger company

Your board is working on those three objectives.

We have tackled the first of these with buyback programmes when appropriate. We will continue to do that; but DSM has now achieved two years of distinctive performance. It deserves more market attention followed by realisable corporate growth.

In recent years, and during volatile markets, a portfolio of long term, 'private equity' style investments with considerable potential value, was not suited to fixed realisation points. It would have been damaging to continuing shareholders to sell part of a small fund, invested in undervalued and still developing companies, with some (as yet) of limited liquidity, to fund a periodic redemption programme. Instead, we have managed buybacks constructively and it does seem that thereby we have looked after the small investor.

However, the portfolio now looks to be in good order, right for the foreseeable economic and market climate, and the board does recognise the need to offer all shareholders the benefit of what in settled markets should be both an improving NAV and a reducing discount. Accordingly, we plan to provide a significant redemption point on 31 May 2024, assuming no serious market disorder from even darker days than now. That redemption will enable shareholders to redeem or have a matched sale for up to 50% of their holding. To affect the redemption and calculate the relevant redemption price, the directors expect to use the Redemption Pool basis as provided for in the company's Articles of Association. The costs of that will be borne by the Redemption Pool and be deducted in arriving at the redemption price. In my view that should encourage the market to improve its rating of the company's shares as we move towards that redemption point.

Chairman's Statement (continued)

Improving the rating of the company's shares should in turn enable us to tackle our third objective which is to build a larger company. The current net asset value of the company, at under £50m, is too small for the long term. By getting the discount in, coupled with continuing performance, I hope that we will get to a position to be able to raise capital and build the company. If size and performance also mean that shareholders do well and not all seek to redeem, we will have started to reposition DSM. Success in that objective will enable us then to repeat similar plans to maintain that stronger rating for shareholders.

Dividend

We will be proposing another small dividend of 0.3p per share. Subject to shareholder approval at the AGM, the dividend will be paid on 15 July 2022 to shareholders on the register at 17 June 2022.

Board and managers

The board undertakes an extensive appraisal of itself and the managers (and they of us, as a matter of interest) annually which develops into a process of continuous improvement, and that works well for now.

AGM

This year's AGM will take place on 11 July 2022 at 2:15pm at Downing's office at St Magnus House, 3 Lower Thames Street, London EC3M 6HD and will be held in the traditional manner. 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. Details regarding arrangements for the AGM will then be provided to you.

The notice of the AGM is set out on page 91 of this report and notes in respect of special business to be proposed at the meeting on page 90. We encourage shareholders to submit their proxy votes in advance of the deadline of 7 July 2022.

Investor letters, presentations, and regular information for shareholders

As shareholders know, I make a point of talking to the larger shareholders after each report and accounts, and more frequently if they wish. I am happy to talk to any shareholder. One problem we face is penetrating the nominee platforms to reach the smaller shareholders. We invite all shareholders to register on our website (www.downingstrategic.co.uk) and thereby get the manager's extensive investor letters, have access to Kepler research reports, useful articles about micro-caps generally, presentations, videos and be invited to join webinars.

Doctors' Support Network

With the continuing pressure of Covid and backlogs on the NHS, we are pleased to say that our NEDs' personal contribution to the Doctors' Support Network continues to help Foundation doctors, GPs, doctors in speciality training and consultants. Issues raised include burn out, managing ongoing health issues as well as how to maintain interest and fulfilment later in careers during times of stress. The support was timely. I do not propose to report further but would encourage others to take an interest.

What matters looking forward?

Issues ahead look likely to be the consequences of inflation, slowing growth and trade disruption. Regrettably another may be the outcome of events in Ukraine, still watched from the side-lines by too many countries unsure of what they see as their own interests, but which seems to be turning into a tussle of momentous economic and historic significance, quite apart from immediate disruptions to energy and wheat. In these uncertain times, it will certainly matter to have a portfolio of well rooted, strongly managed, value investments.

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
6 May 2022

Investment Manager's Report

The year-end of the Company over the last two reporting periods has coincided with some historic world (and life) changing events. When it seemed like markets might normalise, we continued to be affected by unforeseen events. Brexit consequences, followed by Covid, followed by war. All of these have driven some of the most uncertain investing market backdrops that I have ever experienced. This has been characterised by extreme demand side shocks, extreme supply side shocks (often at the same time), labour shortages, energy price crises, freight and logistical challenges, and more. It is in these particularly uncertain times that we fall back on a tried and tested investment style which we believe can generate returns regardless of uncertainty and sentiment.

The Company invests in small, unloved, and overlooked UK companies under £150m market capitalisations (at the time of investment). These are typically good businesses with a core asset or earnings quality which is unrecognised by the market. We use strategic catalysts to unlock value over a three-to-seven-year investment horizon. We are now nearly five years into the seven-year investment lifecycle of some of our investments and the portfolio has begun to evidence that the strategic catalysts put in place are making a difference.

We try to de-risk investments by looking for self-help mechanisms and catalysts which can be executed by competent management teams. Self-help should create opportunities to grow earnings even through slower trading periods. By investing in overlooked businesses, we avoid the crowds and can often buy company profits at a lower multiple than if we invested in larger businesses. By combining an improved operating structure with improving demand and growing profits, we hope that the equity markets will gradually capitalise profits at a higher multiple, and failing that, a private buyer will.

Strategic activity

We have been very active executing on strategic catalysts within the portfolio over the period. This has included funding acquisitions, facilitating disposals, improving boards, refinancing, and improving investor perceptions. This activity has driven more recent performance and we believe that the portfolio has begun to demonstrate the ability to deliver on our expectations.

The most significant event was the partial repayment of Real Good Food loan notes which returned £6.0m across the holding period, generating an IRR on the returned investment of 11.3%. This is noteworthy because it significantly de-risked the investment of Real Good Food Plc, which was previously one of our largest exposures. It also leaves Real Good Food with a simplified corporate structure from which to drive continuing value.

The Company participated in the fundraising of FireAngel, which has helped it to restructure – now demonstrating significantly improved gross margins to 23% from the mid-teens. Management expects this trend to continue towards 30%. With the return to pre-Covid earnings we believe that this will create a £4m EBITDA business which has a current market capitalisation of £25m.

We also helped to facilitate the refresh of the board at Digitalbox which we think positions the business strongly for the future. Across the portfolio we have enabled board improvements during the year (which amount to the introduction of two new NEDs, two new Chairpersons and one new CEO). We have overseen strategy changes alongside these Boards and engaged as 'insiders' at moments of key importance. We have helped put in LTIP incentives for management teams in several positions.

Alongside high strategic activity, we also engaged regularly with many company stakeholders including management, advisors, and other investors. Further detail of our engagement, governance and social and climate engagements are described on pages 12 to 14.

Performance and Portfolio activity

In the year to 28 February 2022 the NAV of the Company was up 5.3% versus the wider FTSE AIM All-Share which was down 12%.

In the period, we have invested in six new companies deploying £11.1m in cash. We made follow on investments in five existing holdings, deploying £3.4m of cash. New investments that continue to be in the portfolio include National World (investment of £2.5m), Centaur Media (investment of £3.6m), Norman Broadbent (investment of £0.4m), Tactus Limited (£1.9m), and one toehold where we are building a position (£1.2m). The investment cases for these are detailed on page 16 to 29 within this report.

Investment Manager's Report (continued)

Performance and Portfolio activity (continued)

We increased our position in Flowtech, Fireangel and Venture Life when share prices were volatile and provided an opportunity to buy stock at a significant discount to our calculation of intrinsic value.

We exited in full from five positions, raising £6.8m in cash. These included toehold positions that had met our intrinsic value, one that was bid for shortly after we invested, and also one of our older positions in Duke Royalty, where we felt that the investment case had been changed. We made partial sales in five investments, where we were taking profits as the share price neared intrinsic value, which raised £9.1m in cash.

Overall net realised and unrealised gains of £2.5m were derived from the portfolio, which was predominantly made up of equity gains, however also included a net gain of £0.5m on disposal of loan notes (including redemption premium). The portfolio benefitted from receiving £0.3m from equity dividends. Meanwhile, the company returned £1.9m to shareholders in the period, £0.4m through dividends and £1.5m through buybacks. The NAV of the company improved from £42.5m to £43.1m and the NAV per share from 81.16p to 84.43p. At the period end the company had net cash of £3.8m, around 8.8% of net assets.

The main contributors to performance included;

- ▶ **Volet** contributed strongly to performance in the period as the shares re-rated significantly through to Q3 on the back of further organic and inorganic growth. The shares then de-rated through the last few months of 2021 and into 2022 on the back of wider macro concerns. We took profits throughout the year to manage our position size. In our view, they are now well below intrinsic value given the quality and growth on offer and we continue to believe that there is ample re-rating opportunity as the company demonstrates the quality of its operating model and delivers on growth expectations.
- ▶ **Flowtech's** share price has performed well and has proven particularly robust through the current macro headwinds. There remains significant opportunity to grow earnings as the business recovers from Covid and grows revenues on a leaner cost base. Investment into an e-commerce platform should allow the business to begin taking market share more rapidly while working capital efficiencies, still to come through, will materially improve cash conversion and the quality of earnings. This ought to support a re-rating, in our view.
- ▶ **Hargreaves Services** saw its share price up by 56% as its diversified and asset backed operating model begins to shine through. There remains significant upside through earnings growth across all divisions and a potential re-rating. The likelihood of a near-term disposal of the German JV has dissipated whilst that business earns outsized profits. We have taken modest profits from this share price rise.

The main detractors to performance included;

- ▶ **Centaur** saw its share price modestly decline in the period; however, it has recovered since the period end. We believe that the market has not yet reflected the value of the initiatives put in place to achieve a margin of 23% by 2023. When that is achieved the company should be highly cash generative, producing a double-digit free cash flow yield. We have been impressed by the calibre of management in this new position in the portfolio.
- ▶ **Synectics'** share price experienced some weakness during the period, reflecting the shut-down of its key casino market in the US due to Covid. The share price performance ignored the benefit of the reorganisation and cost cutting in the business, which saw costs of £2m per annum removed from the business. This will allow Synectics to benefit from significant margin improvement as revenues return to pre-Covid levels. We are also encouraged that Synectics has won significant new contracts in the infrastructure and transport sectors. We believe this company is under-rated compared to its peers, and management have committed to improving shareholder communications.

Investment Manager's Report (continued)

Performance and Portfolio activity (continued)

- ▶ **Venture Life** saw its share price down by 51% in the year. Venture Life has had a challenging 2021/2022. It was more of a Covid-beneficiary than we likely anticipated as core earnings faltered, masked by the positive Covid impact elsewhere. The route back to a reasonable market rating is to beat modest expectations, and the appointment of a new Chair will be key to ensuring management have a focus on this. We have reduced our exposure here until there is clarity on the direction of the new Chairperson.

Looking forward

Despite the obvious challenges ahead, we expect that this year will be one of progress as the catalysts and self-help initiatives within the portfolio are realised.

With high inflation, we are obviously focused on ensuring that portfolio companies are well placed to pass on costs. Inevitably, some will find this more challenging than others, but our expectation remains for the portfolio to modestly grow earnings over the course of the coming year.

Businesses have needed to invest more into working capital to restock inventories at higher prices to satisfy demand. Thus, we are conscious of ensuring ample financial flexibility. We may well see growth at the expense of some short-term margin, which should not be a concern. What is concerning is if the underlying economics are shifting permanently against our businesses and we need to permanently impair our estimation of long-term profits and/or the multiple at which an investor would capitalise those profits. Happily, we do not currently own anything where we deem this as a problem.

Strategically, we will continue to be active, ensuring that our businesses are well positioned to grow over the long term with the right operating structure and management in place. If conditions are right, we may exit positions. Cash remains around 9% (at the time of writing in late April) and the uncertain environment is generating ample opportunities for new investments.

Overall, despite macro uncertainties, we are positive on the prospects for our holdings which are generally cheaper than the wider market, with stronger balance sheets and good growth prospects from the compelling products or services they provide.

Judith MacKenzie

Head of Downing Fund Managers and partner of Downing LLP
6 May 2022



Ethical and sustainability investment approach

What we do now

Governance standards, operational and capital efficiency and the potential for corporate engagement have always been key investment considerations for DSM, with governance being a particular focus. (See our 'Our expectations of the Investee Companies' on page 31).

The Investment Manager is a Responsible Investor. This responsibility is contextualised by two key commitments; Downing is a signatory of the United Nations Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code, both of these commitments share in common the integration of Environmental, Social and Governance factors in Investment decision-making and the principle of active ownership.

As stated by the UN Principles for Responsible Investment, ESG Integration is "*the systematic and explicit inclusion by investment managers of Environmental, Social and Governance (ESG) factors into financial analysis. Active ownership is the use of the rights and position of ownership to influence the activities or behaviour of investee companies*".

UN Principles for Responsible Investment

Signatory of:



Downing believes that ESG factors are financially material and present both risks and opportunities for investors. Actively managing material risks and opportunities is how we protect and enhance value for our investors.

The terms 'Responsible' and 'Sustainable' are frequently used interchangeably but we believe that they mean subtly different things. As fiduciaries we are responsible to our investors for the execution of their investment mandate. As fiduciaries we put our investor's interests ahead of our own. However, our responsibility isn't just to our investors, as responsible stewards of capital we have a broader responsibility to society too as noted in the UK Stewardship Code 2021: "*Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society*".

UK Stewardship Code 2021



When we use the term 'Responsible Investing' we are principally referring to avoiding, mitigating, and managing risks on behalf of our investors and the environment and society that we share. The base line for this approach is the Downing exclusion policy.

Downing LLP's investment exclusions are expressions of principles that we share in common with our investors. They are the lines in the sand that collectively we will not cross, and our full policy can be read (www.downing.co.uk/responsible-investing). Briefly summarising the policy; exclusions are not applied on the basis of sectors but are informed by two areas: products and behaviours.

There are certain corporate behaviours which we believe that society in the form of customers, suppliers, competitors, and regulators won't tolerate and therefore avoiding these companies protects our investors from reputational risk and poor performance outcomes. These behaviours are typically ones which we would not condone in our own business operations or our supplier's, and we are aligned with our investors in not wishing to associate ourselves with them. Our framework for acceptable Corporate Behaviour is the United Nations Global Compact. Defined breaches of the Global Compact would constitute an investment exclusion.

There are some products which although we can't uninvent them, we can refuse to fund their production. These products are typically those where there is sufficient international consensus that refusing to invest is a meaningful act, that supports the containment of a product which we believe has no legitimate purpose. Product level exclusions would apply to companies deriving revenue from defined controversial weapons, the manufacture of tobacco products and companies with specific types and levels of fossil fuel exposure.

Ethical and sustainability investment approach (continued)

In its most practical sense, we are asking ourselves a series of questions relating to these specified products and behaviours. Wherever possible, the answers to these questions are binary and clear-cut but as with so much of what we do there is a degree of judgement required. These questions relate to:

Products

- ▶ Tobacco
- ▶ Controversial weapons
- ▶ Fossil fuel extraction and use

Behaviours

- ▶ Human rights
- ▶ Employment conditions
- ▶ Environmental responsibility
- ▶ Bribery and corruption

WE SUPPORT



When we talk about Responsible Investment, we recognise the natural relationship between exclusion, engagement, and divestment. Whilst adherence to the principles of the UN Global Compact is a key tenet of our exclusion policy, proactively encouraging best practice across the thematic areas of the compact is the foundation for our engagement policy.

We are used to thinking about our responsibility to our investors, it's implicit in our fiduciary duty. It's also not unusual for us to be thinking about our investors beneficiaries too because our investors are frequently investing for their children's future.

The same principle applies to society; when we think about our responsibility to society, in the context of Sustainability we are also thinking about the society of the future as noted in the United Nations Brundtland Commission which states "*Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs*".

The Brundtland Commission, Our Common Future

Sustainability, on the face of it, is just about the rate at which something can be maintained. It's most frequently used to describe resource efficiency. However, within financial regulation, 'Sustainable Investment' is increasingly a defined term: 'sustainable investment' means an investment in an economic activity that contributes to an environmental objective... or... a social objective... provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices.

To be clear, the fund is not actively targeting a portfolio of defined 'Sustainable Investments', however we believe that Sustainability is of increasing interest to investors, consumers and indeed, employees. In this sense, the sustainable characteristics of a business may have a material effect on its future valuation.

Downing believes that the problems facing society and the planet are powerful structural drivers for investment.

What we intend to do

Whilst neither the Company nor the Manager are currently required to disclose climate related financial information in line with the Task Force on Climate related Financial Disclosures (TCFD), they recognise the aim and importance of the TCFD recommendations to provide a foundation to improve investors' ability to appropriately assess climate-related risk and opportunities. Disclosing information against the TCFD recommendations remains an objective of the Manager as part of its ESG initiatives and progress will be monitored by the Directors.

Ethical and sustainability investment approach (continued)

What we intend to do (continued)

We will continue to monitor our engagement with investees and intend to provide a report of the various types of engagement within the full year Report and Accounts for 2023.

A summary of our voting at General Meetings for the year is below (unless otherwise stated all meetings are Annual General Meetings):

	Meeting date	Number of resolutions	Management recommendation	Our votes	Rationale for decision
Duke Royalty Limited (EGM)	16/04/2021	10	For all	For all	
Synectics plc	27/04/2021	10	For all	For all (excl. 6 & 7)	Against pre-emption rights waiver
Real Good Food plc (EGM)	10/05/2021	1	For all	For all	
Digitalbox plc	14/05/2021	7	For all	For all (excl. 7)	Against pre-emption rights waiver
Venture Life Group plc	20/05/2021	8	For all	For all	
Flowtech Fluidpower plc	03/06/2021	12	For all	For all (excl. 9 & 11)	
Fireangel Safety and Technology plc	30/06/2021	11	For all	For all (excl. 9, 10 & 11)	Against pre-emption rights waiver
Volex plc	29/07/2021	12	For all	For all (excl.10 & 11)	Against pre-emption rights waiver
Card Factory plc	28/07/2021	19	For all	For all	
Adept Technology Group plc	23/09/2021	8	For all	For all	
Real Good Food plc	20/10/2021	10	For all	For all	
Duke Royalty Limited	22/10/2021	7	For all	For all	
Hargreaves Services plc	27/10/2021	12	For all	For all (excl. 11)	Against pre-emption rights waiver
Ramsdens Holdings plc	28/02/2022	12	For all	For all	

Judith MacKenzie

Head of Downing Fund Managers and partner of Downing LLP

6 May 2022

Investments

As at 28 February 2022

	As at 28 February 2022		As at 28 February 2021
	Market Value (£'000)	% of Total Assets	% of Total Assets
Hargreaves Services plc	4,345	10.09	7.64
Volex plc	4,296	9.98	15.17
Flowtech Fluidpower plc	3,412	7.92	4.50
Ramsdens Holdings plc	3,358	7.80	7.04
Digitalbox plc	3,184	7.39	3.46
Centaur Media plc	2,814	6.54	-
Fireangel Safety Technology plc	2,705	6.28	6.07
Real Good Food 10% Loan Notes ¹	2,669	6.19	17.38
Adept Technology Group plc	2,221	5.16	7.43
National World plc	2,140	4.97	-
Synectics plc	2,114	4.91	6.55
Real Good Food 12% Loan Notes ¹	1,755	4.08	3.78
Tactus Holdings Limited ²	1,631	3.79	-
Venture Life Group plc	852	1.98	4.59
Norman Broadbent plc	531	1.23	-
Real Good Food plc	172	0.40	0.44
Duke Royalty Limited	-	-	3.30
Other	1,242	2.88	4.88
Total investments	39,441	91.59	92.23
Cash	3,798	8.82	8.06
Other net current assets	(180)	(0.41)	(0.29)
Total assets	43,059	100.00	100.00

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

² Unquoted

All investments are in Ordinary Shares and traded on AIM unless indicated. The total number of holdings as at 28 February 2022 was 15 (28 February 2021: 14). 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 2022, loan note principal represented 7.29% (28 February 2021: 16.24%) of total assets and the total of loan note principal and interest represented 10.27% (28 February 2021: 21.16%).

The table above includes net current assets of £3,618,000 that are also disclosed in the statement of financial position.

Portfolio Distribution

As at 28 February 2022



Real Good Food	10.67%
Hargreaves Services	10.09%
Volex	9.98%
Flowtech Fluidpower	7.92%
Ramsdens	7.80%
Digitalbox	7.39%
Centaur	6.54%
Fireangel Safety Technology	6.28%
Adept	5.16%
National World	4.97%
Synectics	4.91%
Tactus	3.79%
Venture Life	1.98%
Norman Broadbent	1.23%
Others	2.88%
Net Current Assets	8.41%

Background to the investments

(unless otherwise stated all information provided as at 28 February 2022)

Key: **GREEN: Good** **RED: Negative** **ORANGE: Neutral**

AdEPT Technology Group PLC (AdEPT) (5.16% of net assets)

Cost: £3.83m Value as at 28 February 2022, £2.22m

Background

AdEPT functions as an aggregator of telecoms services providing a smoother, integrated service to corporate and government organisations. We were attracted by the high operational gearing and recurring revenue streams at attractive 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 as activity continued to normalise in the sector**
- ▶ **Focus on strong cash generation to reduce net senior debt**
- ▶ **On track to achieve management expectations for FY22**
- ▶ **Recent acquisition Datrix secures new contract**



Progress against investment case

AdEPT reported a strong start to H1 FY22, with management reporting in the interim results that the group is on track to achieve management expectations for FY22. £0.9m of revenue and its associated margin, deferred from H1 due to supply chain issues and customer resource allocation, underpin the board's confidence.

Group revenue increased by 20%, there was strong organic growth of 6% in Cloud Centric Strategic Services, and managed service revenue grew organically by 4% - this now represents 87% of revenue. Management focus in H2 is on the continued delivery of its stated objectives, with an emphasis on the achievement of further organic growth, using the group's strong cash generation to reduce net senior debt, as the business capitalises on the macro shift to cloud centric solutions. The aim being to reduce debt below 2x EBITDA. Over time the business should be able to create significant equity value by de-gearing – a strategy which we are supportive of.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

Centaur Media PLC (Centaur) (6.54% of net assets)

Cost: £3.58m Value as at 28 February 2022, £2.81m

Background

Centaur Media is an international provider of business information, training and consultancy, creating value through premium content, analytics and market insight within the Marketing and Legal segments. Centaur operates under several flagship brands, namely The Lawyer, MW Mini MBA, Influencer Intelligence and Econsultancy, with the latter three brands forming part of their marketing arm, XEIM.

Update to the investment case

- ▶ On plan to generate 23%+ margins
- ▶ Strong growth through pandemic
- ▶ Continued strong momentum through Q4
- ▶ Strong balance sheet with net cash ahead of expectations



CENTAUR

Progress against investment case

A new addition to the portfolio, Centaur is an attractive business which generates subscription revenues with the aim to move margins from mid-teens now, to 23% by 2023. Growth is coming from improving the revenue mix in both events and content-based client engagement. Meanwhile, XEIM services the marketing sector with content, research, marketing solutions, and training. Growth has been derived across all divisions but particularly in Econsultancy and the MW Mini MBA – a marketing MBA that has become industry leading and grown exponentially through Covid.

A recent trading update in January highlighted continued strong momentum through Q4, with revenue and profit outperformance against expectations. Higher margin revenue streams nudged the margin above the forecast 15% for the year or an implied H2 margin of 19%, demonstrating management are well on track for the aspiration of 23% margins in 2023. Working capital is always well controlled and net cash was £3m ahead of expectations at £13m, albeit there will be some unwind during 2022. In short, there is a lot to like about our entry point, the quality of management execution, and a defined path to value creation.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

Digitalbox PLC (Digitalbox) (7.39% of net assets)

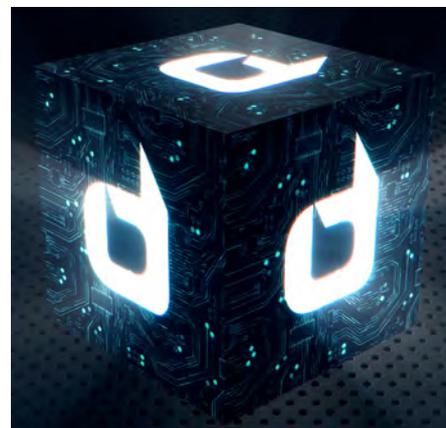
Cost: £1.20m Value as at 28 February 2022, £3.184m

Background

Digitalbox 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 yields ahead of market norms for publishers on mobile.

Update to the investment case

- ▶ Trading across the group's brands stronger than anticipated
- ▶ Consistent earnings upgrades
- ▶ Improved management and governance
- ▶ Cash should be available to complete value enhancing acquisitions
- ▶ Group has re-rated considerably



digitalbox.

Progress against investment case

The group successfully generated earnings upgrades through the year, particularly in Q4, aided by the strong digital ad market. The group's strong performance has not all been market driven and management deserves credit for building a scalable operating platform and for investing in content that has considerable value. Digitalbox's inventory remains hot property and this is reflected in market-beating yields.

We think that the prospects for Digitalbox this year are good. Management is focused and incentivised, given the quantum of their own shareholding in the business. They have built a scalable technology platform and proven that their inventory is valued highly by clients. They have also proven that they can acquire and create value quickly from underperforming assets. The company has ample cash on the balance sheet to complete further earnings enhancing acquisitions and to invest for organic growth.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

FireAngel Safety Technology Group PLC (FireAngel) (6.28% of net assets)

Cost: £5.73m Value as at 28 February 2022, £2.71m

Background

FireAngel designs, sells, and markets smoke detectors, carbon monoxide detectors and home safety products. We were attracted to FireAngel 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 FireAngel will benefit from. Legislative guidance is for the purchase of smoke alarms with a 7–10 year lifespan, and we are already beginning to see a replacement cycle on the installed base in more mature markets.

Update to the investment case

- ▶ Sales increase of 7% over 2020
- ▶ £9.8m raised in placing to support strategic priorities
- ▶ Growth suppressed by supply chain crisis
- ▶ Review of pricing structure expected to benefit the company from Q2 2022
- ▶ Began the development of a new generation smoke alarm, supported by a lucrative contract from German power provider Tekham



Progress against investment case

FireAngel issued a trading update for the year ended 31 December 2021 and reported that sales for the period are expected to show an improvement over 2020 of more than 7%. The group raised £9.8m by way of a placing and open offer following the disruption caused in 2020 by Covid-19. While progress was made, the growth was suppressed by the global supply chain crisis. This impacted production due to component shortages, creating shipping and fulfilment delays and driving inflation. An easing of the situation is already evident in early 2022.

The board reported it had been a particularly tough year for the business, however, it is satisfied with performance and pleased with the continued improvement in gross margin, driven mainly by management action and focus. Although supply chain challenges are easing, there may still be some issues during this year, especially in Q1 2022 and the board is monitoring these developments closely. From Q2 2022, FireAngel's existing strategy, combined with new pricing and supply chain measures, will offer strong validation of the margin improvement opportunity. The Tekham contract validates the strength of the technology in a regulated and growing market.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

Flowtech Fluidpower PLC (Flowtech) (7.92% of net assets)

Cost: £2.60m Value as at 28 February 2022, £3.41m

Background

Flowtech 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 £110m, and 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

- ▶ Revenue improved near pre-pandemic levels
- ▶ Business performing in line with expectations
- ▶ Savings achieved from restructuring activities
- ▶ Two new NEDs appointed



Progress against investment case

Flowtech continues to recover from Covid where its cyclically exposed revenues were impaired due to forced closures of its customers. In the most recent trading update, management signalled those revenues had almost returned to pre-Covid levels and the business was performing in-line with expectations.

This is a good business with a leading market share and strong value-add position in the market. They are a distributor and provide a critical service to customers who need parts and spares expedited, typically next day, to allow their own business's capital assets (machines, assembly lines, construction equipment) to get back up and running. Flowtech earns respectable margins and should generate reasonable operating leverage as it grows, which it should, since management have been talking about the opportunity to continue taking market share. The value creation proposition here is reasonably simple: build revenues back to pre-Covid, c.£112m, and from there grind out low-to-mid single digit growth; maintain gross margins at 35%, with some growth potential over the medium and longer term; deliver operating cost savings, much of which will be reinvested into the e-commerce platform; focus on driving best in class working capital turnover; and ensure the operating platform is well invested for growth. Putting all these together, we see a pathway to well over a 10% free cash flow yield from here, with the majority delivered by self-help.

The recent appointments of James Brooke and Ailsa Webb as Non-Executive Directors will bring additional cross-sectoral experience, strategic, analytical and transformational competences to the board.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

Hargreaves Services PLC (Hargreaves) (10.09% of net assets)

Cost: £3.07m Value as at 28 February 2022, £4.35m

Background

Hargreaves 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 includes planning for residential, logistics and industrial space.

Update to the investment case

- ▶ Profit before tax improved materially, including from JVs
- ▶ Benefitted from strong commodity prices
- ▶ Sales of first plots at Blindwells delivered
- ▶ Bank debt eliminated, strong net cash position, and refinanced without bank debenture



Progress against investment case

Hargreaves Services has recovered from the pandemic well, as reflected in latest interim results for the six months to 30 November. These were driven by stronger underlying performance in Services and Land, and in the German associate.

Revenue reduced as expected following the exit from the coal business in December 2020. However, profits increased in all three business segments. In Services, HS2 is now ramping up and is expected to hit £40m per annum and generate £1.5-2.0m of earnings. Tungsten West, a tin and tungsten mine in Plymouth could also have good scope to drive upgrades. In Land, the group recently announced the financial close of its Westfield site in Fife. This is a substantial industrial site which will benefit from the construction and operation of an EfW plant. The Blindwells site continues to make progress having recently completed the 197 plot, £9.6m sale to Persimmon. Profit after tax from the German joint venture was £9m versus £0.9m for the same period in 2020.

The group carries real momentum in all segments of the business with the German joint venture continuing to deliver substantial profits and the balance sheet remains strong with no bank debt.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

National World PLC (National World) (4.97% of net assets)

Cost: £2.47m Value as at 28 February 2022, £2.14m

Background

National World is a reverse into the regional publishing assets of the old Johnston Press. The management team are top calibre, with experience seldom found in £70m market caps. The strategic aim is to grow and build, through acquisition, a leading news publishing group.

Update to the investment case

- ▶ **Highly experienced and respected management team**
- ▶ **Building a valuable and scalable multi-platform publishing business.**
- ▶ **Restructuring generating significant cost savings**
- ▶ **Asset attractive to private equity buyer**



National World plc

Progress against investment case

National World has taken control of established heritage titles such as The Scotsman and the Yorkshire Post and has since launched several regional 'World Sites' and a new online national 'NationalWorld.com'. Management have unpicked the centralisation which drove the decline of the heritage brands, with editorial and commercial responsibilities pushed back into the regions. The acquired assets have been heavily restructured, generating £5m of annualised cost savings to date and with more to come as significant printing and office contracts come up for negotiation this year and next. These savings will allow management to re-invest in digital and quality content to drive growth. National World is also free of legacy pension liabilities and fixed costs and assets tied to printing activities which are a millstone around many other legacy-publisher's necks.

Results for the full year were ahead of expectations and showed some impressive results, particularly in the digital business which is growing strong from a low base. The legacy print business will have to contend with higher newsprint and commodity prices this year but there are plenty of levers within managements grasp to offset this. We expect to see operating progress across all fronts and hopefully an accretive acquisition this year.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

Norman Broadbent PLC (Norman Broadbent) (1.23% of net assets)

Cost: £0.40m Value as at 28 February 2022, £0.53m

Background

Another new addition to the portfolio, Norman Broadbent is less than 2% of DSM but Downing client funds now hold an influential stake of almost 20% of the equity. Norman Broadbent offers a bespoke mix of high-quality Search, Interim Management, Research & Insight, Assessment & Development solutions. A recognised but historically uninspiring brand, Norman Broadbent has market presence but had struggled to gain scale. However, it is profitable, modestly cash generative, and provides a platform for growth. After executing a turnaround in 2017 and a return to stability, Downing and other strategic shareholders recently refreshed the Chair and CEO positions, having identified a strong 'buy-in' team to take Norman Broadbent to the next level of organic and inorganic growth.

NORMANBROADBENT
BOARD | SEARCH | INTERIM | CONSULTING | INSIGHT | SOLUTIONS

Update to the investment case

- ▶ **Highly experience management team with proven track record**
- ▶ **Highly likely that a £1.5m+ EBITDA business can be created in the coming 2/ 3 years**
- ▶ **Likelihood of corporate activity**

Progress against investment case

Management is key in people businesses like recruitment where the assets walk out of the door every evening. Peter Searle, an accomplished entrepreneur in the recruitment sector, became Chair mid-2021. Prior to Norman Broadbent, Peter grew Delphi before it was sold to Adecco in 1999, and he became CEO of Adecco UK. He left Adecco in 2006 to join Spring Group plc which he subsequently grew and sold to Adecco in 2009. In 2015, he left to join AirSwift – which he left in 2021 to join Norman Broadbent as Executive Chair. Peter brought in Kevin Davidson as Chief Executive who has a proven track record in executive search. Kevin built Ducaus Partners from scratch in 2016 to \$5.5m turnover and 16% EBITDA margin, he also took Maxwell Drummond from a small four people business to 55 employees across eight global offices generating £10m revenue and 12% EBITDA margin.

The investment case here is simple: add core quality fee earners in attractive and growing verticals (like renewables) and generate operating leverage on the already well-established operating platform. This is a management team who have done it before, and who we are backing to do it again. Valuations for well run (10%+ EBIT margin) businesses tend to trade at between 8x-10x earnings. We believe this team can make key hires and create a £1.5m+ EBITDA business in the coming 2/3 years. This does not assume any acquisitions. We would then expect an exit either through share liquidity or a corporate exit, generating an equity return of between 3-4x monies.

A 'strategic' shareholder list (including the Moulton family and recruitment sector veteran Pierce Casey) indicates that the likelihood of corporate activity is high – over 55% of the equity is held by these parties and Downing.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

Ramsdens Holdings PLC (Ramsdens) (7.80% of net assets)

Cost: £3.08m Value as at 28 February 2022, £3.36m

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 over 150 owned stores within the UK and has a growing online presence.

Update to the investment case

- ▶ Resilient and profitable performance despite difficult trading conditions
- ▶ Foreign currency income recovering from travel restrictions
- ▶ Online retail jewellery sales more than doubled
- ▶ Balance sheet remains strong
- ▶ Confident management team, positioning the business for growth

Progress against investment case

Ramsdens most recent trading statement for Q1 FY22 (October to December 2021) highlights the resilience of the group's diversified business model. Investments in the jewellery retail operations have continued to deliver strong results, with store retail jewellery revenue up more than 30% and online retail jewellery up more than 70%. Foreign currency volumes have been severely impacted by international travel restrictions but had increased by c.200% in the period. The group's pawnbroking service is expected to see increased demand as its customers need for short term financing grow.

The business has been agile in adapting to the challenges and restrictions caused by the pandemic. It has invested in areas of the business that have presented opportunities and continued to make improvements and put capital into growing its retail operations, both instore and online. We are confident that pawnbroking loan books will grow, demand for foreign currency exchange service will return as international travel continues to open up, and there will be further opportunities to grow the footprint of its store estate in the UK. We believe that Ramsdens is well positioned to move forward and deliver on its strategic ambitions to achieve long-term sustainable growth as we return to more normal trading conditions.



Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

Real Good Food PLC (RGD) (equity, loan notes and interest, 10.67% of net assets)

Cost: £5.03m Value as at 28 February 2022 (including loan note interest), £4.60m

Background

Real Good Food is a food manufacturing business serving several market sectors including retail (own label and private label), manufacturing and export. The company's one remaining business, (Renshaw) focuses on cake decoration, with a leading brand in their chosen markets.

Update to the investment case

- ▶ **Business has gone through material turnaround**
- ▶ **Term debt repaid and part repayment of DSM loan notes**
- ▶ **Sales impacted by severe shortages and high absence rates**
- ▶ **Enhanced relationships through new product development**



Real Good Food plc
Cake Decoration • Food Ingredients • Premium Bakery

Progress against investment case

Real Good Food (RGD) is now a focused food ingredients business that has gone through material turnaround. Around £60m has been realised through divestment in the last four years, allowing term debt to be repaid and more significantly a repayment of DSM Loan Notes providing a 11.3% IRR on this capital investment through interest and redemption premium. The DSM investment comprises a loan note, convertible loan note and equity – highlighting the strategic nature of the investment.

The remaining business is Renshaw – a Liverpool-based manufacturer of cake decorations primarily focusing on fondant icings, marzipan, frostings and caramels. Although the business suffered through Covid with lower wholesale sales, a high level of absenteeism due to Covid and supply chain disruptions, the business continued to trade with a positive EBITDA. Significant cost has been taken out of the business in previous years allowing efficiencies to be achieved – these initiatives continue.

Despite some short-term setbacks the business trades profitably at the EBITDA level before the shareholder loan note interest obligations. It has also enhanced relationships through new product development – allowing some costs to be passed on in these key client relationships. As we enter a new trading year in April, we expect that accelerating self-help measures should enable RGD to deliver on the aspirational return to £3m EBITDA targets. The company has recently stated the desire to maximise stakeholder value and reduce loan note debt. We expect further news on organic and inorganic opportunities through the course of 2022. The business has many levers to pull for value realisation, including property and land assets.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

Synectics PLC (Synectics) (4.91% of net assets)

Cost: £3.98m Value as at 28 February 2021, £2.11m

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

- ▶ Gradual recovery in casino and gaming sectors
- ▶ Latest financial results demonstrate a resilient performance
- ▶ Significant improvement in underlying losses
- ▶ Strong balance sheet with net cash and no bank debt
- ▶ Strong order book



Progress against investment case

Synectics suffered from a dramatic decline in revenue and profits driven by the closure, or collapse in business levels, of most major casinos and gaming resorts in Asia and North America due to the pandemic. The gradual recovery of these markets has begun in North America and should follow in Asia once leisure travel in the region resumes.

The group delivered resilient financial results and reported good strategic progress for the year ended 30 November 2021. Revenue fell by 2.2% to £43.6m, though there was significant improvement in underlying losses and the group returned to profit in the second half of the year. Pre-tax loss was £0.6m compared to a loss of £4.1m in the same period the year prior. This was largely due to cost reductions as a result of restructuring and a recovery in revenues in the Security Division. Both of the group's operating divisions achieved strong turnarounds to produce positive operating profits for the year as a whole. Net cash at the period end was £4.6m, with no bank debt and undrawn banking facilities of £3m. The order book was up 11.8% to £28.4m, around two thirds of which is expected to be traded in 2022, with the balance largely long-term service and support contracts.

The underlying global market for sophisticated, software-led security systems is fundamentally attractive, with solid long term growth prospects. The group has recently won a number of new contracts, it has a strong management team, it is financially sound, supported by significant intellectual property, and is well positioned to capitalise on its established market positions as the post-COVID recovery continues.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

Tactus Holdings Limited (Tactus) (3.79% of net assets)

Cost: £1.00m Value as at 28 February 2022, £1.63m

Background

Tactus is an unquoted UK business which designs, markets, and sells IT hardware - mainly budget laptops and notebooks in the B2B channel. They do not manufacture themselves but outsource this to several Chinese partners within the China Technology Ecosystem. As a result, the Tactus business is capital light and generates high returns on equity.

Update to the investment case

- ▶ Executing growth strategy in education, budget IT and gaming verticals
- ▶ Completion of £40m funding round
- ▶ Several acquisitions completed since DSM investment
- ▶ Some higher costs on supply chain and freight and logistics



Progress against investment case

Tactus completed several acquisitions in the year, growing its position in the PC gaming e-commerce and system building space. Devices also made progress generating revenues from multiple new customers in Europe and the United States, furthering Tactus's reach. As with many companies operating in the electronics industry, due to manufacturing being in China, supply chain has been trickier to navigate than usual and freight and logistics availability and delays have led to some higher costs being absorbed. This resulted in some margin erosion, to be expected in the difficult environment, but an expected adjusted EBITDA out turn of £8.5-£9.0m represents progress.

The business has significant opportunity through 2022 to execute a synergy strategy on the back of the M&A progress made over the last 12 months. The strategic vision is sound, and management has executed quickly and decisively over our holding period. We think that a fully formed PC gaming e-commerce platform and devices business with strong growth prospects will attract a strong multiple at IPO.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

Venture Life Group PLC (Venture Life) (1.98% of net assets)

Cost: £1.76m. Value as at 28 February 2022, £0.85m

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 ownership in other funds. We think the business has reached an interesting juncture with significant growth prospects.

Update to the investment case

- ▶ Revenue increased by 8%
- ▶ Momentum building post acquisitions
- ▶ Adjusted EBITDA in line with reduced market expectations
- ▶ Strong order book
- ▶ New CFO appointed



Progress against investment case

Venture Life issued a trading update for the year ended 31 December 2021, and reported revenue was up 8% to £32.6m compared to the prior year. There was some recovery in the second half of the year, with revenue of £18.7m, an increase of 35% over the revenues in the first half. Although these numbers are less than initial expectations, it appears that renewed momentum in the second half has continued into 2022.



Supply chain and logistics continue to be an issue, but the group is managing these challenges to meet the needs of suppliers and customers. The new partnership with Samarkand Global, for oral care products in China, has started well, and the acquisitions made in 2021 are now fully integrated and have performed extremely well, contributing significantly to strong growth in revenue and profitability in the second half. The group has started 2022 with an order book significantly ahead of the same time last year, giving a good level of confidence for the year ahead.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2022)

Volex PLC (Volex) (9.98% of net assets)

Cost: £1.57m Value as at 28 February 2021, £4.30m

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

- ▶ **Strong interim results but with some margin headwinds**
- ▶ **Investing for growth across the business**
- ▶ **Successful navigation of supply chain challenges**
- ▶ **Shares continue to trade at a discount to sector peers**
- ▶ **Significant de-rating of the shares**



Progress against investment case

Volex made significant strategic and operating progress in the year, in the face of strong headwinds and supply chain challenges. The geographically diversified manufacturing base and revenue streams shone through, generating very strong growth. In the face of supply chain issues and rapid cost inflation, we thought that the margin out turn was impressive and there is likely mix benefits to come next year as the high-speed business should recover. The de-rating in the year is a function of the market generally and not, as far as we are aware, reflective of any Volex specific issues. Volex is a quality business with structural growth drivers and trades around the lowest multiple in the sector, we think this is unjustified.



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 has recently retired as chairman of a group of Guernsey investment companies. 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 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), the CEO of MIRICO Ltd, a venture capital backed company commercialising novel laser dispersion spectroscopy into industrial applications, and 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 an adviser and former head of 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 is a Trustee, Director and former chair 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 2022. 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.

Strategic Report (continued)

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 half-yearly newsletters and monthly factsheets and reporting back to the board on developments in the portfolio.

The chairman visits, or speaks with, the larger shareholders at least twice a year and the board encourage 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.

The impact of key decisions on stakeholders in the year	
The key decisions and actions during the year which have required the directors to consider applicable Section 172 factors include:	
Share buyback management	<p>The board closely monitors the level of the company’s share price discount to NAV and looks to manage the value through a programme of share buybacks.</p> <p>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.</p> <p>During the period the shares traded at a discount between 9.97% and 24.97%, with the level of the discount at the year ended 28 February 2022 being 14.84%, which the board considers having been managed down to a satisfactory level.</p>
Redemption facility	Shareholders are entitled to request the redemption of all or part of their holding of Ordinary Shares on a biennial basis through a redemption facility. During the year, as noted in the Chairman’s Statement, the board intends to provide a redemption point on 31 May 2024. It is intended that the board will offer a tender/matched sale for up to 50% of a shareholder’s holding which will allow those shareholders seeking to redeem their shares to do so.
Communication with shareholders	As a result of the COVID-19 restrictions in place at the time, the AGMs in 2020 and 2021 could not be held in person and the decision was made to hold the AGMs virtually via a webinar. The board encourages all shareholders to attend the AGM and welcomes communication from shareholders and is pleased to hold the 2022 AGM in person at the company’s registered office to facilitate this interaction. In person AGMs will continue, where possible, to allow shareholders to ask questions and hear updates from the board and investment manager.

Strategic Report (continued)

Investment policy

The company invests 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 one or more unquoted companies;
- ▶ 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 FTSE AIM All Share TR Index.

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.

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 does not invest in other closed-ended investment funds.

Strategic Report (continued)

Investment policy (continued)

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.

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 2022 the company had no borrowings (2021: £nil).

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 8.

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 9 to 11.

Results and dividend

The results of the company are set out in the Statement of Profit or Loss and Other Comprehensive Income on page 69 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 £2.4 million (2021: £5.7 million), equivalent to 4.71p per share (2021: 10.58p per share). This comprised a revenue return of £0.2 million (2021: £0.5 million), equivalent to 0.42p (2021: 1.02p) per share, and a capital return of £2.2 million (2021: £5.2 million) equivalent to 4.29p (2021: 9.56p) per share.

The directors are recommending the payment of a final dividend of 0.3p (2021: 0.8p) per share. Subject to shareholder approval at the forthcoming AGM, this will be paid on 15 July 2022, to shareholders on the register as at 17 June 2022.

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 2022, the shares traded at a discount of between 9.97% and 24.97%, with the average discount being 15.23%. The level of the discount at the year ended 28 February 2022 was 14.84% (28 February 2021: 11.28%). The board continues to work with its broker and utilises share buybacks to seek to reduce the discount to a satisfactory level.
- ▶ **Share price movements** – the company's Ordinary Share price increased by 1.04% 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 2022 were 1.75% (2021: 1.84%). The board considers this level to be satisfactory.

The net asset value per share is defined as an Alternative Performance Measure and the Board considers it to be the primary measure of shareholder value.

Principal and emerging 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.

Strategic Report (continued)

Principal and emerging risks (continued)

Risk	Mitigation
Investment performance	
<p>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.</p>	<p>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.</p>
Operational	
<p>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.</p> <p>Disruption to the accounting, payment systems or custody records could lead to inaccurate reporting and monitoring of the Company's financial position.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>The board also considers the business continuity arrangements of the company's key service providers.</p> <p>The board may terminate all key contracts on normal market terms.</p>
Financial	
<p>The company's investment activities expose it to a variety of financial risks that include market risk, liquidity risk, and credit and counterparty risk.</p>	<p>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.</p>
Legal and compliance	
<p>Non-compliance with investment trust eligibility conditions. The company has been accepted by HM Revenue & Customs as an investment trust, subject to continuing to meet the relevant conditions.</p>	<p>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.</p>
<p>Non-compliance with Companies Act 2006, the Alternative Investment Fund Manager's Directive ('AIFMD'), the UK Listing Rules and Disclosure & Transparency Rules and the Market Abuse Regulations, the UK adopted international accounting standards and the AIC SORP.</p>	<p>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.</p> <p>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.</p>

Strategic Report (continued)

Principal and emerging risks (continued)

Risk	Mitigation
Emerging risks	
Geopolitical risks	
<p>The Ukraine conflict and the impact of new sanctions placed on Russian businesses and individuals may have some impact on the returns of the Company.</p>	<p>The investment manager's approach of having a strategic involvement with the investee companies ensures that the manager is well placed to assess the exposure of the business to the Ukraine conflict and associated developments. Exposure is considered to be low and any direct impact on the company's performance not expected to be significant. The manager will continue to review the evolving situation as part of its ongoing activities.</p>
Inflation	
<p>The company's investments could be impacted negatively as a result of increasing inflation, particularly on wages and other costs.</p>	<p>The investment manager's close relationship with the investee companies allows it to ensure that the businesses properly assess the potential impact of increasing costs, particularly wages, and the extent to which these may or may not be able to be passed on to the end customer. The manager currently considers the net impact to be at a manageable level and continues to monitor developments closely with all investee companies.</p>
Climate change	
<p>The effects of climate change or those of changing legislation as the world looks to transition towards net zero emissions may impact the returns generated by the portfolio companies.</p>	<p>Whilst the company itself, as an investment entity, has negligible exposure to climate change risk, the investment manager works closely with investee companies to ensure that climate change risk and transition risk is appropriately addressed. The manager believes that the risks within the current portfolio to be manageable and gives consideration to this in reviewing new investment decisions and will continue to assess developments in legislation and their potential impact on portfolio companies. Developments in accounting and disclosure regulations impacting the company are monitored by the investment and administration manager to ensure full compliance.</p>

Coronavirus pandemic

A key feature of the investment manager's approach is in seeking to have a strategic involvement with all investee companies. This allowed the manager to be closely involved with the investee companies throughout the coronavirus pandemic, providing support where possible. The board and manager will continue to monitor such developments as the world starts to return to more normal conditions.

Strategic Report (continued)

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 38 to 40;
- ▶ the company's business model, which should remain attractive for longer than the period to 28 February 2027;
- ▶ 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 38 to 40, 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.

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 7 and the Investment Manager's Report on page 11.

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 36 and 37. 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 2022, there were three male directors and one female director on the board.

The Chairman's Statement on pages 7 to 8, together with the investment manager's report and portfolio information on pages 9 to 15 form part of the Strategic Report.

The Strategic Report was approved by the board on 6 May 2022.

For and on behalf of the board

Hugh Aldous
Chairman
6 May 2022

Directors' Report

The directors present their report and the audited Financial Statements of the company for the year ended 28 February 2022.

Directors

Linda Bell was last re-elected at the 2019 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.

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. Hugh Aldous was re-elected in 2021 and therefore will next stand at the 2024 AGM.

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 Linda Bell.

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 56 to 59. 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 2021, therefore, an ordinary resolution to approve the policy will next be put to shareholders at the 2024 AGM.

Directors' responsibilities

The directors' responsibilities in preparing these Financial Statements are noted on page 60.

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 77. 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 terminable by the company, or the investment manager, providing not less than six months' written notice.

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.

Directors' Report (continued)

Exercise of voting rights in investee companies (continued)

► We will vote against proposals which we believe may damage shareholders' rights or economic interests. 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 2022	2,420	4.71
Dividends paid during the year ended 28 February 2022: 9 July 2021	415	0.80

Your board is proposing to pay a final dividend of 0.3p per share on 15 July 2022 to shareholders on register at 17 June 2022, 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 Organisation declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. This resulted in significant correction in global markets in 2020, followed by a gradual recovery in many markets over the period since. Whilst the lasting economic impact of the pandemic remains unclear, the board and investment manager are pleased with how the investee companies dealt with the challenges incurred by the pandemic and now look forward to exiting the pandemic stage and seeing further recovery in global markets.

The Ukraine conflict and the impact of new sanctions placed on Russian businesses and individuals arose towards the end of the period. The board notes the investment manager's approach of having a strategic involvement with the investee companies which ensures that the manager is well placed to assess the exposure of the business to the Ukraine conflict and associated developments. Exposure is considered to be low and any direct impact on the company's performance is not expected to be significant. The manager will continue to review the evolving situation as part of its ongoing activities.

The market volatility observed during the course of the pandemic and Ukrainian conflict 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 41.

Share capital

Details of the company's issued share capital are given in note 12 on page 80. 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 2022 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 total voting rights	% of issued share capital
EQ Investors Limited	7,857,654	15.6%	14.1%
Downing ONE VCT plc	5,300,000	10.5%	9.5%
Premier Miton Group plc	5,220,253	10.4%	9.4%
Downing FOUR VCT plc	5,100,250	10.1%	9.2%

Since the year end, the company has been notified of the following changes:

	Number of Ordinary Shares	% of total voting rights	% of issued share capital
Downing ONE VCT plc	6,032,313	12.1%	10.9%

The company has not been informed of any further changes to the notifiable interests between 28 February 2022 and the date of this report.

Discount management

The directors recognise that taking steps to keep the discount of the company's share price to its underlying NAV (per Ordinary Share) competitive with its peer group 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 11 July 2021. 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 1,996,346 of its own shares at an average price of 73.2p 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 normally intends to hold less than 10% of the issued Ordinary Shares at any time in this way. As at 28 February 2022, the company held 5,147,857 Ordinary Shares in treasury, or 10.2% 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.

As noted in the Chairman's Statement, the Board now intends to provide a redemption point on 31 May 2024 by offering a tender or matched sale for up to 50% of a shareholder's holding.

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 2022, 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 11 July 2022 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 91 of this report and notes in respect of special business to be proposed at the meeting on page 90.

Corporate governance

Full details are given in the Corporate Governance Statement on pages 48 to 52. 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 information of 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 2023 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
6 May 2022

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 2022.

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 33. 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 42 and 43. 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 43.

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 43.

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 89.

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 an 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 60, the report of the Independent Auditor on page 65 and the statement of going concern on page 44.

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

Director	Year ended 28 February 2022					
	Meetings of the Board		Audit Committee Meetings		Management Engagement Committee Meetings	
	Number held	Number attended	Number held	Number attended	Number held	Number attended
Hugh Aldous	4	4	3	3	1	1
Robert Legget	4	4	3	3	1	1
Linda Bell	4	4	3	3	1	1
William Dawkins	4	4	3	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 42.

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 of 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 2022. The reviews were led by William Dawkins, 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 matters of concern requiring corrective action 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 and various improvements agreed.

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 56 to 59. 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 53 to 55.

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, and chairman 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 89.

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 8, the Investment Manager's Report on pages 9 to 11, the Strategic Report on pages 34 to 41 and the Directors' Report on pages 42 to 47.

The financial position of the company, its cash flows, liquidity position and borrowing facilities are shown in the Statement of Financial Position on page 71 and the Statement of Cash Flows on page 72. 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
6 May 2022

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 49.

The fees paid to the external Auditor are set out in note 5 on page 77.

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 services during 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 2022, BDO LLP have acted as external auditor for three accounting periods.

Report of the Audit Committee (continued)

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 73 to 76. 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 calculate and record income accurately 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.

Report of the Audit Committee (continued)

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	<p>The impact of the coronavirus pandemic on global markets was first observed in March 2020. Since then, there have been a number of challenges for business in the UK and around the world, as governments sought to contain rising infection numbers.</p> <p>The UK Government has now removed the majority of the COVID restrictions that have previously been in place for the prior two years, with social distancing no longer required, however a spike in infections could result in the reimplementing of restrictions. The investment manager has reported to board and Audit Committee regularly and in detail, with additional consideration of the challenges brought about by the pandemic and how the investee companies have adapted their plans and operations.</p> <p>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.</p>
Impact of the Ukraine conflict and additional sanctions	The Audit Committee notes the investment manager's approach of having a strategic involvement with the investee companies which ensures that the manager is well placed to assess the exposure of the business to the Ukraine conflict and associated developments. The Audit Committee will continue to review the evolving situation and risks faced by the company as they develop.

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 2022 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 60.

Robert Legget

Chairman of the Audit Committee

6 May 2022

Directors' remuneration report

The board presents the directors' remuneration report for the year to 28 February 2022, 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 61 to 67.

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 2023. The Remuneration Policy was approved by shareholders at the AGM in 2021 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 next be put to shareholders at the 2024 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.

 - 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.
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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 7 July 2021, of votes cast, 99.68% 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 0.32% were against the resolutions.

Details of voting on the Remuneration Report at the 2022 AGM will be provided in the Annual Report for the year ending 28 February 2023.

Remuneration Policy Implementation Report (Audited)

The single total remuneration figure for each director who served during the year ended 28 February 2022 is set out below.

Director	Year ended 28 February 2022			Year ended 28 February 2021			Percentage change in gross fee	
	Gross fees £	Taxable benefits £	Total £	Gross fees £	Fees waived £	Taxable benefits £		Total £
Hugh Aldous	35,000	-	35,000	35,000	(8,750)	-	26,250	-
Robert Legget	30,000	-	30,000	30,000	(7,500)	-	22,500	-
Linda Bell	25,000	-	25,000	25,000	(6,250)	-	18,750	-
William Dawkins	25,000	-	25,000	25,000	(6,250)	-	18,750	-
	115,000	-	115,000	115,000	(28,750)	-	86,250	

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 2022.

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

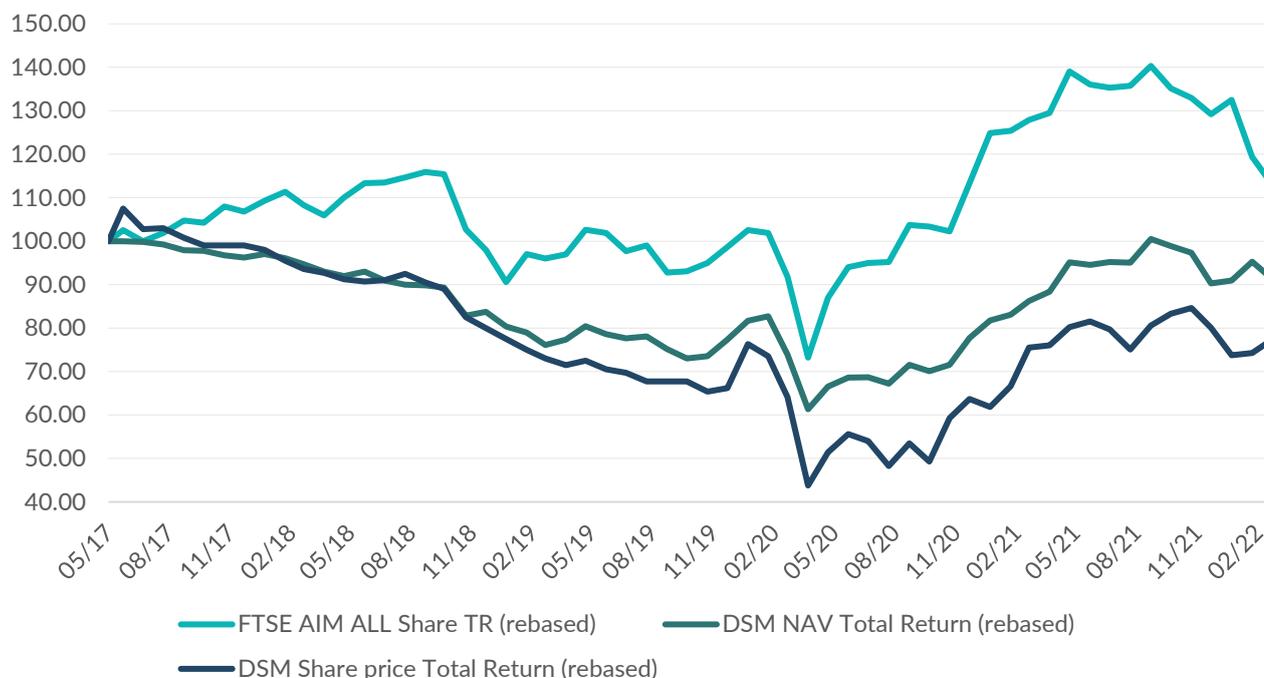
The following table shows the proportion of the company's income spent on remuneration during the year ended 28 February 2022.

	Year ended 28 February 2022	Year ended 28 February 2021	Change %
Management fees payable for the year	385,000	293,000	31.4
Total remuneration payable to the directors	115,000	115,000	0.0
Return on ordinary activities after tax	2,420,000	5,703,000	(57.6)

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 FTSE AIM All Share TR Index, 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 2022



*The company commenced trading on the main market of the London Stock Exchange on 9 May 2017.

Source: Downing LLP. Index: FTSE AIM All Share TR.

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 2022	28 February 2021
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

Since the year end, Hugh Aldous has increased his holdings in the company to 250,000 shares, including 39,791 shares held by Mrs Aldous.

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

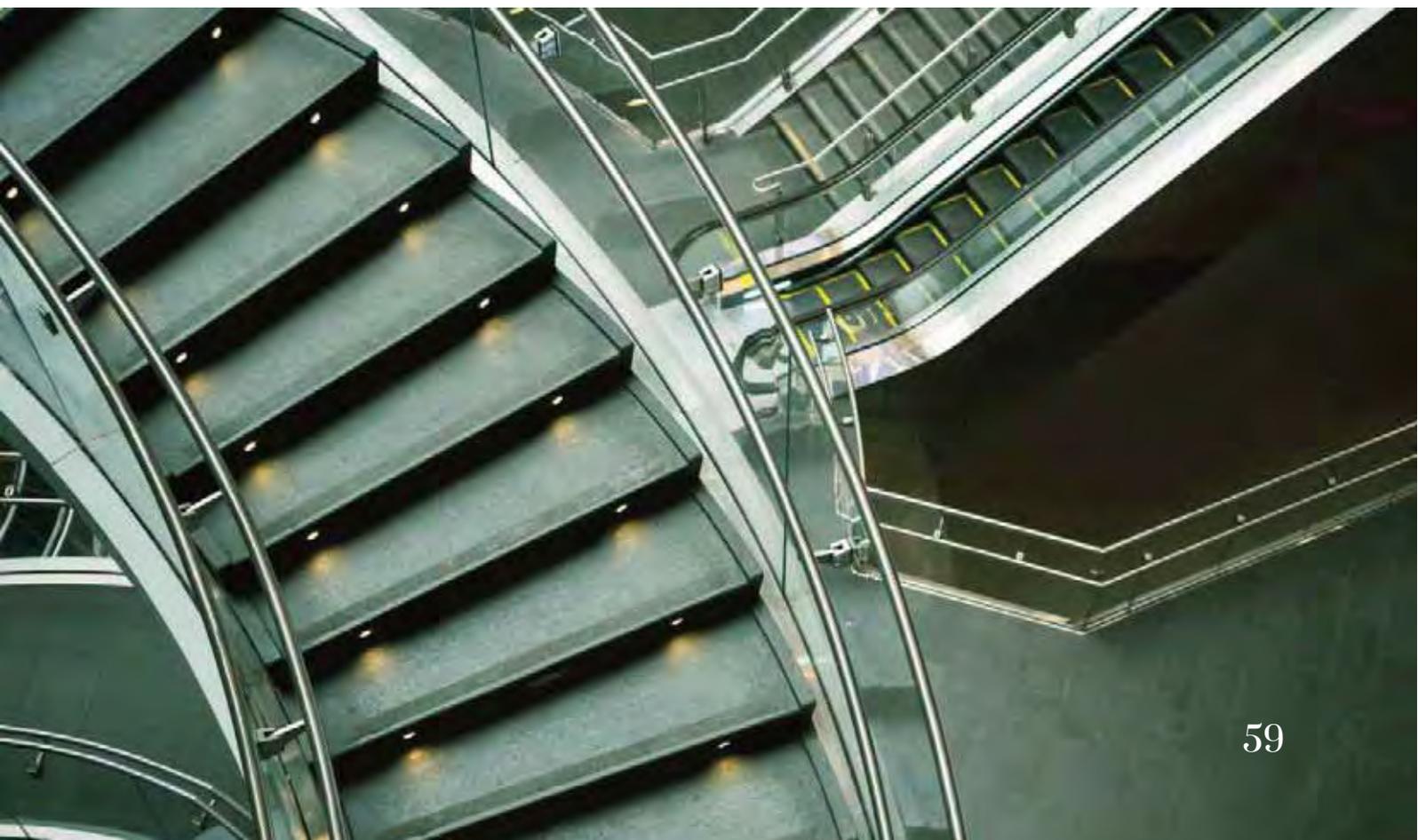
The Directors' Remuneration Report was approved by the board on 6 May 2022.

For and on behalf of the board

Hugh Aldous

Chairman

6 May 2022



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 the UK adopted 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 the UK adopted 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 33, confirms that, to the best of his or her knowledge:

- ▶ the Financial Statements, which have been prepared in accordance with the UK adopted 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
6 May 2022

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 2022 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with UK adopted international accounting standards; 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 2022 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 UK adopted international accounting standards.

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 3 years, covering the years ended 29 February 2020 to 28 February 2022. 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 the directors' method of assessing going concern in light of market volatility and the present uncertainties due to the ongoing impact of the Covid-19 pandemic and the current geo-political situation;
- ▶ 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 current cash position; and
- ▶ Challenging the directors' assumptions in relating to the cash flow forecast prepared to incorporate the worst-case scenario by checking the company's ability to meet its obligations in relation to 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. 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.

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

(continued)

Overview

		2022	2021
Key audit matters	Valuation and ownership of investments	✓	✓
Materiality	<i>Financial statements as a whole</i> £0.43m (2021: £0.42m) based on 1% (2021: 1%) of Net Assets		

An overview of the scope of our audit

Our 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. These matters were 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 these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
<p><i>Valuation and ownership of investments (Accounting policy note page 74-75, and note 9 and note 15)</i></p> <p>The investment portfolio at the year-end comprised of investments held at fair value through profit or loss.</p> <p>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.</p> <p>Further, the valuations of unquoted investments involve a high degree of estimation uncertainty and are also subject to the investment manager's judgement. Therefore, there is a risk of potential bias by the investment manager in determining the fair value of the unquoted investments.</p>	<p>We responded to this matter by testing the valuation and ownership of 100% of the portfolio of investments.</p> <p>We performed the following procedures:</p> <p>In respect of quoted investment valuations and ownership we have:</p> <ul style="list-style-type: none"> ▶ Confirmed the year end bid price was used by agreeing to externally quoted prices and for all of the investments, assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value. Contra indicators examples include considering the realisation period for individual holdings. ▶ Obtained direct confirmation from the custodian regarding the ownership of all investments held at the statement of financial position date. <p>In respect of unquoted investment valuations and ownership, we have:</p> <ul style="list-style-type: none"> ▶ Corroborated title and existence of the unquoted investments by referencing to a range of information including share certificate, custodian statement and independent confirmations from the investee company.

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

(continued)

	<p>As investments is the key item on the balance sheet there is a risk that the Company does not have ownership rights to the investments.</p>	<ul style="list-style-type: none"> ▶ Considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation (“IPEV”) Guidelines and in accordance with applicable accounting standards. ▶ Verified and benchmarked key inputs and estimates to independent information and our own research. ▶ Considered the revenue or earnings multiples applied and the discounts applied by reference to observable listed company market data. ▶ Reviewed the historical financial statements and recent management information available to support assumptions about maintainable revenue and earnings used in the valuations. ▶ Where appropriate, we performed a sensitivity analysis by developing our own point estimate where we considered that alternative input assumptions could reasonably have been applied and we considered the overall impact of such sensitivities on the portfolio of investments in determining whether the valuations as a whole are reasonable and free from bias. <p>Key observations: Based on our procedures performed we did not identify any matters to suggest that the valuation and ownership of the investments was not appropriate.</p>
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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.

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

	Company financial statements	
	2022 £m	2021 £m
Materiality	0.43	0.42
Basis for determining materiality	1% of Net Assets	
Rationale for the benchmark applied	As an investment trust, the net asset value is a key measure of performance for users of the financial statements.	
Performance materiality	0.32	0.32
Basis for determining performance materiality	Performance materiality was set at 75% of total materiality taking into consideration that this is a recurring audit and there is a low expectation of known and likely misstatements, based on prior year experience.	

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

(continued)

Our application of materiality (continued)

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £9,000 (2021: £8,500). 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 financial statements, 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.

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 Code 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	<ul style="list-style-type: none">▶ 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 their assessment of the company's prospects, the period this assessment covers and why the period is appropriate.
Other Code provisions	<ul style="list-style-type: none">▶ The directors' statement on fair, balanced and understandable;▶ The 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 on the next page.

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

(continued)

Other Companies Act 2006 reporting (continued)

Strategic Report and Directors' Report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> ▶ 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. <p>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.</p>
Directors' remuneration	<p>In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.</p>
Matters on which we are required to report by exception	<p>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:</p> <ul style="list-style-type: none"> ▶ adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or ▶ the 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 on the next page:

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 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. We considered the significant laws and regulations to be Section 1158 and 1159 of the Corporation tax Act 2010, 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 UK adopted International Accounting standards. We also considered the company's qualification as an Investment Trust under UK tax legislation.

We assessed the susceptibility of the financial statement to material misstatement including fraud and considered the fraud risk areas to be the valuation of unquoted investments and management override of controls.

Our procedures in response to the above included:

- ▶ agreement of the financial statement disclosures to underlying supporting documentation;
- ▶ enquiries of management and those charged with governance regarding known or suspected instances of non-compliance with laws and regulation and fraud within the Company and its operations;
- ▶ review of correspondence with the relevant authorities and minutes of board meetings throughout the period for any evidence of fraud or non-compliance with laws and regulations;
- ▶ obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- ▶ assessing the company's qualification as an Investment Trust under UK tax legislation in line with the appropriate guidelines;
- ▶ testing journals which met a defined risk criteria by agreeing to supporting documentation and evaluating whether there was evidence of bias by the investment manager and directors that represented a risk of material misstatement due to fraud; and
- ▶ in response to the risk of fraud in the valuation of unquoted investments:
 - The procedures set out in the Key Audit Matters section above;
 - Recalculating investment management fees in total; and
 - Obtaining independent confirmation of bank balances.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.

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

(continued)

Use of our 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

6 May 2022

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 2022

	Year ended 28 February 2022			Year ended 28 February 2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments at fair value through profit or loss (note 9)	-	2,454	2,454	-	5,390	5,390
Investment income (note 3)	700	61	761	996	-	996
	700	2,515	3,215	996	5,390	6,386
Investment management fee (note 4)	(77)	(308)	(385)	(59)	(234)	(293)
Other expenses (note 5)	(410)	-	(410)	(390)	-	(390)
	(487)	(308)	(795)	(449)	(234)	(683)
Return before taxation	213	2,207	2,420	547	5,156	5,703
Taxation (note 7)	-	-	-	-	-	-
Return for the year after taxation	213	2,207	2,420	547	5,156	5,703
	Revenue (p)	Capital (p)	Total (p)	Revenue (p)	Capital (p)	Total (p)
Basic and diluted return per Ordinary Share (note 6)	0.42	4.29	4.71	1.02	9.56	10.58

The total column of this statement represents the Statement of Profit or Loss and Comprehensive Income of the company prepared in accordance with the UK adopted 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 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 73 to 85 form an integral part of these Financial Statements.

Statement of Changes in Equity
for the year ended 28 February 2022

	Note	Share capital £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Year ended 28 February 2021						
At 28 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
Year ended 28 February 2022						
At 28 February 2021		56	54,474	(12,863)	857	42,524
Return for the year		-	-	2,207	213	2,420
Buyback of Ordinary Shares into treasury		-	-	(1,460)	-	(1,460)
Transfers between reserves		-	-	-	-	-
Expenses for share buybacks		-	-	(10)	-	(10)
Dividends paid	8	-	-	-	(415)	(415)
As at 28 February 2022		56	54,474	(12,126)	655	43,059

Statement of Financial Position

as at 28 February 2022

		28 February 2022	28 February 2021
	Note	£'000	£'000
Non-current assets			
Investments held at fair value through profit or loss	9, 15	39,441	39,218
		39,441	39,218
Current assets			
Trade and other receivables	10	60	39
Cash and cash equivalents		3,798	3,428
		3,858	3,467
Total assets		43,299	42,685
Current liabilities			
Trade and other payables	11	(240)	(161)
		(240)	(161)
Total assets less current liabilities		43,059	42,524
Net Assets		43,059	42,524
Represented by:			
Share capital	12	56	56
Special reserve		54,474	54,474
Capital reserve		(12,126)	(12,863)
Revenue reserve		655	857
Equity shareholders' funds		43,059	42,524
Net asset value per Ordinary Share	13	85.43p	81.16p

The Financial Statements were approved by the board on 6 May 2022 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 73 to 85 form an integral part of these Financial Statements.

Statement of Cash Flows
for the year ended 28 February 2022

		Year ended 28 February 2022	Year ended 28 February 2021
	Notes	£'000	£'000
Operating activities			
Return before taxation		2,420	5,703
Gains on investments at fair value through profit or loss	9	(2,454)	(5,390)
UK fixed interest income	3	(351)	(738)
Receipt of UK fixed interest income		1,162	-
(Increase)/decrease in other receivables		(21)	4
Increase in other payables		79	64
Purchases of investments		(14,493)	(8,877)
Sales of investments		15,913	8,886
Net cash inflow/(outflow) from operating activities		2,255	(348)
Financing activities			
Buyback of Ordinary shares into treasury		(1,460)	(1,390)
Expenses of for share buybacks		(10)	(11)
Dividends paid		(415)	(874)
Net cash outflow from financing activities		(1,885)	(2,275)
Change in cash and cash equivalents		370	(2,623)
Cash and cash equivalents at start of period		3,428	6,051
Cash and cash equivalents at end of period		3,798	3,428
Comprised of:			
Cash and cash equivalents		3,798	3,428

The notes on pages 73 to 85 form an integral part of these Financial Statements.

Notes to the Financial Statements

for the year ended 28 February 2022

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 the UK adopted 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 the UK adopted 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 Profit or Loss and Other 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 2021

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

- ▶ Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7)

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

- ▶ IAS 1 (Amendments to the Classification of Liabilities as Current or Non-Current) – effective 1 January 2023
- ▶ IAS 1 (Amendments to the Disclosure of Accounting Policies) – effective 1 January 2023
- ▶ IAS 8 (Amendments to the Definition of Accounting Estimates) – effective 1 January 2023

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

2. Accounting policies (continued)

Critical accounting estimates and judgements

The preparation of financial statements in conformity with the UK adopted 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.
- ▶ **Valuation of unquoted equity:** a key estimate in the financial statements is the determination of the fair value of the unquoted equity by the Directors, as it impacts the valuation of the unquoted investments at the balance sheet date. Of the company's assets measured at fair value, it is possible to determine their fair values within a reasonable range of estimates. The fair value upon acquisition is deemed to be cost. Thereafter, unquoted equity is measured at fair value in accordance with International Private Equity and Venture Capital Valuation ('IPEV') Guidelines.

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

Investments held at fair value

All investments held by the company (quoted equity investments, unquoted loan notes and unpaid loan note interest) 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.

UK fixed interest income represents loan note interest receivable from unquoted investments and is measured on a daily basis. 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.

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:

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

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 Profit or Loss and Other 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.

Dividends 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 Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income is reflected in the capital reserve and a corresponding amount is charged against the revenue column of the Statement of Profit or Loss and Other 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.

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

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 Profit or Loss and Other 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 2022		Year ended 28 February 2021
	Revenue	Capital	Total	Total
	£'000	£'000	£'000	£'000
Income from investments				
UK dividend income	349	-	349	258
UK fixed interest income (note 9)	351	-	351	738
Arrangement fee Income	-	61	61	-
Total	700	61	761	996

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.

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

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 2022 £'000	Year ended 28 February 2021 £'000
Investment management fee		
Revenue	77	59
Capital	308	234
Total	385	293

5. Other expenses

	Year ended 28 February 2022 £'000	Year ended 28 February 2021 £'000
Administration and secretarial fees	79	79
Auditor's remuneration:		
- audit services	43	38
Directors' fees	115	86
Safe custody fees	8	8
Legal fees	-	-
Charitable donations by directors	-	29
Sundry fees	163	150
Taxation services	2	-
Revenue expenses	410	390
Capital expenses	-	-
Total expenses	410	390

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 2022		Year ended 28 February 2021	
	Net return £'000	Per share Pence	Net return £'000	Per share Pence
Revenue return	213	0.42	547	1.02
Capital return	2,207	4.29	5,156	9.56
Total return	2,420	4.71	5,703	10.58
Weighted average number of Ordinary Shares ¹		51,409,463		53,908,480

¹Excluding treasury shares

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

7. Taxation

	Year ended 28 February 2022			Year ended 28 February 2021		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
UK corporation tax at 19% (2021: 19%)	-	-	-	-	-	-

The current taxation charge for the period differs from the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	Year ended 28 February 2022			Year ended 28 February 2021		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Return before taxation	213	2,207	2,420	547	5,156	5,703
Theoretical tax at UK corporation tax rate of 19%	40	420	460	104	980	1,084
Effects of:						
UK dividends not taxable	(66)	-	(66)	(49)	-	(49)
Capital items not taxable	-	(466)	(466)	-	(1,024)	(1,024)
Excess expenses in the period	26	46	72	(55)	44	(11)
Actual current tax charge	-	-	-	-	-	-

Factors that may affect future tax charges:

The company has surplus management expenses carried forward of £1,050,700 (2021: £666,500), resulting in an unrecognised deferred tax asset of £263,000. 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 2022	Year ended 28 February 2021
	£'000	£'000
Dividends paid during the year	415	874

A final dividend of 0.3p per share has been proposed in respect of the year ended 28 February 2022. Subject to shareholder approval at the forthcoming AGM, this is due to be paid on 15 July 2022, to shareholders on the register as at 17 June 2022.

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

9. Investments

	Year ended 28 February 2022 £'000	Year ended 28 February 2021 £'000
Opening book cost	38,425	42,138
Opening UK fixed interest income at fair value through profit or loss	2,093	1,355
Opening investment holding (losses)	(1,300)	(10,394)
Opening valuation	39,218	33,099
Movements in the year		
UK Fixed interest income at fair value through profit or loss (note 3)	351	738
Receipt of UK fixed interest income	(1,162)	-
Investment purchases at cost	14,493	8,877
Disposals:		
Proceeds	(15,913)	(8,886)
Net realised (losses) on disposals	(1,492)	(3,705)
Movement in investment holding gains	3,946	9,095
Closing valuation	39,441	39,218
Closing book cost	40,512	38,425
Closing UK fixed interest income at fair value through profit or loss	1,282	2,093
Closing investment holding (losses)	(2,353)	(1,300)
	39,441	39,218
Realised (loss) on disposals	(1,492)	(3,705)
Movement in investment holding gains	3,946	9,095
Gains on investments held at fair value through profit or loss	2,454	5,390

Transaction costs

During the year the company incurred transaction costs of £32,000 (2021: £8,000) and £4,000 (2021: £5,000) on purchases and sales respectively. These amounts are included in gains on investments, as disclosed in the statement of comprehensive income.

10. Trade and other receivables

	28 February 2022 £'000	28 February 2021 £'000
Dividends receivable	48	28
Prepayments and accrued income	12	11
	60	39

11. Trade and other payables

	28 February 2022 £'000	28 February 2021 £'000
Other creditors	240	161

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

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 2021	52,398,491	3,151,511	55,550,002	56
Cancellation of Ordinary Shares	-	-	-	-
Shares purchased into treasury	(1,996,346)	1,996,346	-	-
At 28 February 2022	50,402,145	5,147,857	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 1,996,346 (2021: 2,431,511) Ordinary Shares were bought back and placed in treasury for an aggregate consideration of £1,460,453, at an average price of 73.2p per share (2021: £1,390,350, at an average price of 57.2p 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 (2021: Nil).

The Ordinary Shares in issue at the year end includes 5,147,857 (2021: 3,151,511) Ordinary Shares held in treasury.

The Ordinary Shares can be redeemed by the company under the redemption process as set out in the Articles of Association.

13. Net Asset Value per Ordinary Share

NAV per Ordinary Share is based on net assets at the period end and 50,402,145 (28 February 2021: 52,398,491) Ordinary Shares, being the number of Ordinary Shares in issue excluding treasury shares at the period end.

	28 February 2022		28 February 2021	
	NAV per share Pence	NAV attributable £'000	NAV per share Pence	NAV attributable £'000
Ordinary Shares:				
Basic and diluted	85.43	43,059	81.16	42,524

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 34 to 41. 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.

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

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 2022 on its equity investments held at fair value through profit or loss was £35,017,000 (2021: £30,219,000).

The board has considered the market volatility, arising as a result of the coronavirus pandemic and Ukrainian conflict, in determining the reasonably possible market movements that might be possible, in 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 2022 would have increased net assets attributable to shareholders by £3.5 million (2021: £3.0 million). A 50% decrease in the market prices of its investments would have decreased the net assets and distributable reserves attributable to shareholders by £17.5 million (2021: £19.6 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 2022 (2021: 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 2022, the company held the following interest-bearing securities:

	Year ended 28 February 2022 £'000	Year ended 28 February 2021 £'000
Real Good Food Loan Notes	4,424	8,999

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

14. Analysis of financial assets and liabilities (continued)

Interest rate risk (continued)

The exposure, at 28 February 2022, 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 2022, is shown below:

	28 February 2022				28 February 2021			
	1 year	1 to 2	2 to 3	Total	1 year	1 to 2	2 to 3	Total
	£'000	years £'000	years £'000	£'000	£'000	years £'000	years £'000	£'000
Exposure to fixed interest rates:								
Real Good Food Loan Notes	-	4,424	-	4,424	-	8,999	-	8,999
Total	-	4,424	-	4,424	-	8,999	-	8,999

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 £92,000 (2021: £nil). If the discount rates decreased by 2%, the net assets attributable to shareholders would increase by £96,000 (2021: £nil).

As the company has no exposure to floating interest rates, the Interest Rate Benchmark Reform has had 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 2022 was £8,270,000 (2021: £12,455,000). The calculation is based on the company's credit risk exposure as at 28 February 2022 and this may not be representative for the whole period.

	28 February 2022	28 February 2021
	£'000	£'000
Dividends receivable	48	28
Cash and cash equivalents	3,798	3,428
Unquoted loan notes	4,424	8,999
Total	8,270	12,455

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

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).

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

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	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
28 February 2022				
Quoted on the Main Market	4,954	-	-	4,954
Traded on AIM	28,431	-	-	28,431
Unquoted Loan Notes (including interest held at FVTPL)	-	-	4,424	4,424
Unquoted Equity	-	-	1,632	1,632
	33,385	-	6,056	39,441
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

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 2022 £'000	Year ended 28 February 2021 £'000
Opening balance	8,999	8,261
Purchases	1,920	-
Sales	(5,593)	-
UK Fixed interest income at FVTPL (notes 3, 9)	351	738
Receipt of UK fixed interest income	(1,162)	-
Total gains or losses included in losses on investments in the Statement of Profit or Loss and Other Comprehensive Income:		
- on assets sold	910	-
- on assets held at the period end	631	-
Closing balance	6,056	8,999

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 34 to 41. The principal risks and their management are disclosed in the Strategic Report.

Notes to the Financial Statements (continued)

for the year ended 28 February 2022

17. Significant interests

As at 28 February 2022, the company held interests amounting to 3% or more of the equity in issue by the following investee companies.

	% of investee company
Digitalbox plc	20.77%
Norman Broadbent plc	11.65%
FireAngel Safety Technology plc	11.07%
Synectics plc	10.80%
Real Good Food Company plc	7.52%
Ramsdens Holdings plc	6.07%
AdEPT Technology Group plc	4.93%
Centaur Media plc	4.56%
Flowtech Fluidpower plc	4.51%
National World plc	3.30%

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 2022 was £385,000 (2021: £292,800). The amount outstanding as at 28 February 2022 was £123,000 (2021: £30,868).

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 2021 to 28 February 2022, total fees of £79,000 (2021: £76,000) (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 2022, the amount outstanding was £59,000.

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 56 to 59. At 28 February 2022, there were no outstanding directors' fees (2021: none).

19. Contingent liabilities

There were no contingent liabilities at 28 February 2022 (2021: none).

20. Non-adjusting events after reporting date

In the period between 28 February 2022 and the date of this report, the following non-adjusting events took place:

- ▶ The company purchased 823,192 of its own Ordinary Shares, at an average price of 70.0 pence per share, all of which are now held in treasury.

Shareholder information

Financial Calendar

Company's year end	28 February
Annual Results announced	9 May 2022
Annual General Meeting	11 July 2022
Company's half-year end	31 August 2022
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 account information.

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

Directors

Hugh Aldous (Chairman)
Linda Bell
William Dawkins
Robert Legget

Company Secretary

Grant Whitehouse
Downing LLP
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD

Administrator

Downing LLP
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD
Telephone: 0207 416 7780

Solicitor

Dentons UK and Middle East LLP
One Fleet Place
London EC4M 7WS

Investment Manager

Downing LLP
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 702 0003

Custodian

The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

Broker

Shore Capital Stockbrokers Limited
57 St James's Street
London SW1A 1LD

Auditor

BDO LLP
55 Baker Street
London W1U 8EW

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 11 July 2022:

Resolution 7

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 £2,479 (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 8

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 7 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 £2,479 (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 9

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 7,431,885 (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 2022 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 11 July 2022, 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 dsmagn@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 2022 with the report of the Auditor thereon.
2. To approve the Directors' Remuneration Report for the year ended 28 February 2022.
3. To approve the payment of a dividend of 0.3p per share to be paid on 15 July 2022
4. To re-elect Linda Bell as a director.
5. 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.
6. To authorise the Audit Committee to determine the auditor's remuneration.

Special business

Ordinary resolution

7. 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 £2,479, 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 2023 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.

Notice of Annual General Meeting (continued)

Special resolutions

8. THAT subject to the passing of resolution 7 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 7 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 2023 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 £2,479 (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.
9. 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 7,431,885 (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 2023 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.

Notice of Annual General Meeting (continued)

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 6 May 2022

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 7 July 2022. 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 7 July 2022. 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.

Notice of Annual General Meeting (continued)

- 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 7 July 2022, 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 6 May 2022, 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 5,971,049 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 6 May 2022 is 49,578,953.
- 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 2022

DSM3081

St Magnus House
3 Lower Thames Street
London EC3R 6HD

020 7416 7780
customer@downing.co.uk
www.downingstrategic.co.uk

Downing LLP is authorised and regulated by the Financial Conduct Authority