Downing Strategic Micro-Cap Investment Trust PLC

Annual Report and Financial Statements

28 February 2019

Company number: 10626295

Downing

The investment objective of the Company is to generate capital growth for Shareholders over the long term from 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 percent 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 capitalization of less than £150 million, at the time of investment.
- By definition, this comprises over 70% of UK listed companies.
- On average, there are less 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 is expected to comprise between 12 and 18 holdings when fully invested.
- The Company will typically seek to hold between 3% and 25% of the equity of these investee companies, notwithstanding the ability to use debt instruments alongside equity.
- Typically investments will be appraised over a three to seven-year investment horizon.

Process

- The Investment Manager's investment process is bottom up and value driven. This means that they focus on company fundamentals rather than macro-economic drivers, and that they aim to invest in line with value principles.
- The Investment Manager focuses on cash generation and return on capital metrics.

Strategic involvement

- The Investment Manager seeks to invest in companies which are materially undervalued and where there is scope for strategic involvement going forward.
- Strategic mechanisms typically include, but are not limited to: providing funding for organic and inorganic growth; providing capital for restructuring operations; implementing incentive plans to align management over the long term; and rectifying sub-optimal corporate governance practices.

Discount control

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

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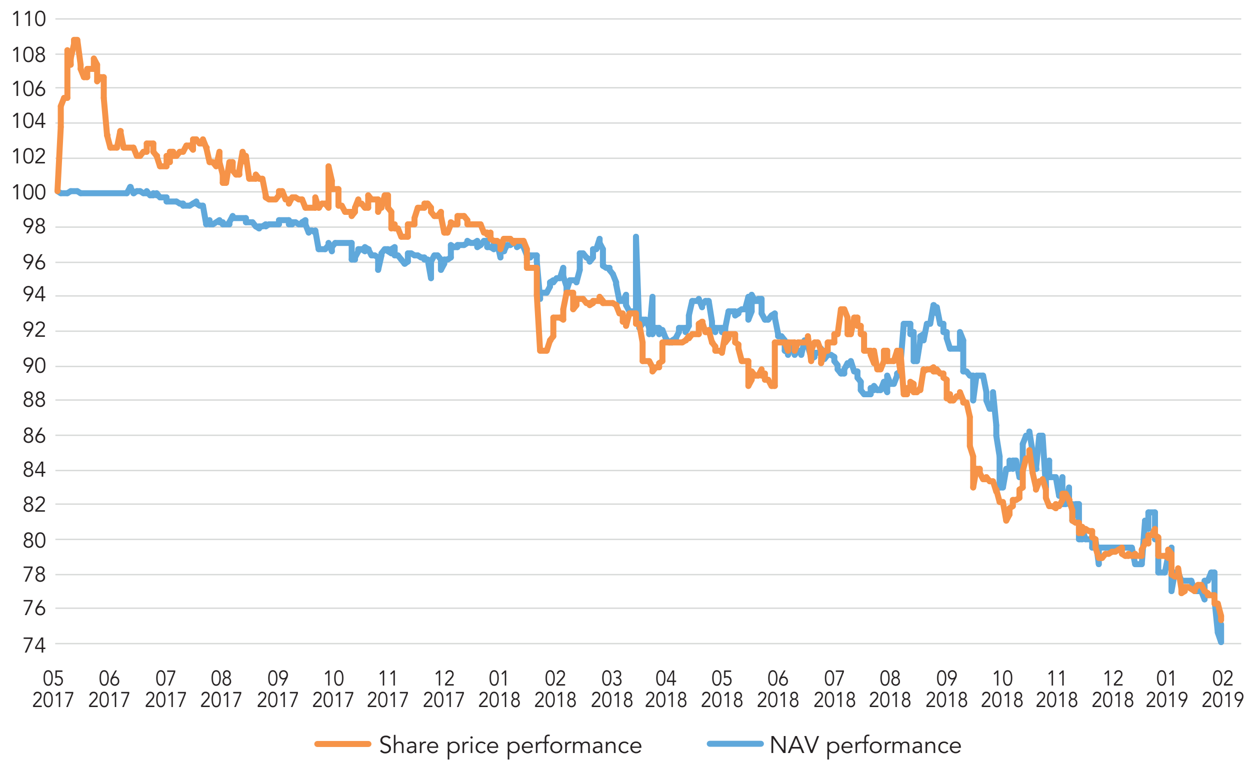
Financial highlights

	28 February 2019	28 February 2018	Change %
Assets			
Net assets (£'000)[1]	**41,475**	51,744	(19.85)
Net asset value (NAV) per ordinary share	**74.59p**	93.06p	(19.85)
Mid market price per ordinary share	**73.00p**	93.60p	(22.01)
(Discount)/premium	**(2.13)%**	0.58%	

Revenue	**Year ended 28 February 2019**	Year ended 28 February 2018
Revenue return per ordinary share	**1.50p**	(0.03p)
Capital return per ordinary share	**(19.97)p**	(6.22p)
Total return per ordinary share	**(18.47)p**	(6.25p)
	%	%
Decrease in NAV since admission[2]	**(25.41)**	(6.94)
Decrease in share price since admission[2]	**(27.00)**	(6.40)

[1] The change in net assets reflects market movements during the year.
[2] 9 May 2017.

Performance from 9 May 2017 to 28 February 2019



Source: Downing LLP
Performance figures are calculated on a bid-price basis.
Share prices and NAV at 9 May 2017 rebased to 100.

Operational highlights

The Company now holds position in the following businesses:

AdEPT Technology Group PLC (AdEPT)	Ramsdens Holdings PLC (Ramsdens)
Braemar Shipping Services PLC (Braemar)	Real Good Food PLC (RGF)
Duke Royalty Limited (Duke Royalty)	Redhall Group PLC (Redhall)
FireAngel Safety Technology PLC (FireAngel)	Science in Sport PLC (SiS)
Gama Aviation PLC (Gama)	Synectics PLC (Synectics)
Hargreaves Services PLC (Hargreaves)	Volex PLC (Volex)
Pennant International Group PLC (Pennant)	

- Fully deployed in 13 companies
- £27,417,000 invested in equity and £7,909,000 in high yielding loan notes
- RGF now turned around and realising value from its portfolio of businesses
- Three companies behind on execution versus our investment case
- The remainder of the portfolio performing operationally in-line but with negative sentiment
- Active engagement evidenced across the entire portfolio

Chairman's statement

Whilst I am mindful of reporting a decline in net asset value ("NAV") and share price over the last two years (see the summaries on page 4 shareholders should be reassured that the Company's value investing is well thought through and a sound foundation for the Company's portfolio. The investment management team's assessments of each investment indicates that the Company's market NAV sits at around 75%[1] of current longer-term portfolio value. Realising value for the Company will come as the market, or acquirers, focus on particular stocks. Meanwhile the portfolio's intrinsic value remains demonstrable and is increasing. Regular reporting on the portfolio is provided through exceptional quarterly investor letters which I commend to all current and prospective investors and which are available from the website or by email.

Short term damage to your Company's share price has come from three or four investments and has been due almost entirely to failings in corporate management and governance. I will discuss that in principle; detail is covered in the Investment Manager's Report. Each investment, still sound, is receiving close attention.

Where there has been a problem, it has not been because there was anything fundamentally wrong with the business or its market; the Investment Manager's in-depth analyses have generally proved sound. What has emerged on active investing, and with, in one case, a seat on the board, has been the need for a change in the management and an overhaul of the governance of those companies. Our expectation of boards of public companies is that they should do the job required of them by law and regulation and that their audited accounts should be reliable. Unfortunately, you will see from the Investment Manager's Report that, for otherwise good businesses, our Investment Manager has had to 'encourage' quite a lot of management and board change; more so than we anticipated. Your Board's support for the determination of the investment management team remains unwavering.

In my view this activism may reflect a need that rings true more widely: a need for stronger management and better governance.

I said six months ago that "*to some extent cheap assets remain cheap for longer than your board would hope*" but I did say that "*by and large nearly all of our investments are progressing well as businesses*" and that is still the case. Three, maybe four, of the portfolio are behind the investment thesis, but all have action plans in place to address that. Four or five are 'in-line' with expectations and at least another four are progressing nicely and deserve much better market recognition. Change takes time.

Your company has now invested in 13 quoted businesses; every investment made as a significant, long-term holding in good markets generating good margins. Nevertheless, shareholders will see from the Investment Manager's Report that across our 13 investments there have been 29 board or management changes. Some of those changes have been made naturally by well-managed businesses building their succession and managerial strength for themselves – AdEPT Technology would be an example. Synectics would also get a 'thumbs up'. Others have needed encouragement, typically led by the Downing team, in order to bring about change.

A year ago, and regularly reinforced subsequently, we set out what we expect of boards of directors. We said we would be truly active investors, and we have been. Inadequate boards have found that we are deadly serious. Passive boards and weak audit committee chairmen who don't challenge management are not doing their job. 'Incorrect' accounting or massaging the figures, regrettably accepted by auditors, are also not acceptable to us.

Your Company is as it set out to be: active and activist amongst small, listed companies of potential, unappreciated value and consequently mispriced. The creation of wealth through good leadership and corporate governance may sometimes take a while to feed through to stock markets. However, as long as our Investment Manager's assessment of the businesses continues to be right most of the time, and they are actively engaged, our shareholders should know that in this Company they have an investment that is distinctive, if not unique, with potential value considerably more than the share price. Your Board will do its best to begin to get that value recognised over the next year and into the future.

I continue to increase my personal 'skin' in your Company.

Dividend

The Company does not have a dividend target. This year we have benefitted from loan interest and investment company regulations require 85% of a year's distributable income to be distributed. We are proposing a modest dividend of 1.25p per share for the year. Subject to approval by shareholders at the annual general meeting ("AGM") the dividend will be paid to shareholders on 5 July 2019 to shareholders on the register at 24 May 2019 (ex-dividend date 23 May 2019).

Share price and NAV

I am pleased to report continuing interest by shareholders and by new investors in the Company's shares; discounts have remained modest. Shareholders will have noticed that we put in place a buy-back agreement with the Company's brokers to cover the recent close period. Shares bought back are held in treasury; at the time of writing the holding is 250,000. In reasonable markets, we, and the Investment Manager, work to maintain interest in the Company's shares.

The Quoted Companies Alliance and the Henley study

Downing LLP and the Quoted Companies Alliance ("QCA") have sponsored a study by Henley Business School[2] into the role and contribution of boards of directors to growth companies. The findings are mapped against the 10 Code Principles of the QCA and emphasise how the role of the chair is central. That study is for discussion in another forum, but we would like to see the QCA Code of Principles followed by all boards.

The year ahead

We now have a challenging year ahead to prove to shareholders that your Company's hands-on, intense, active management style lifts the value that lies in the constituents of your Company's portfolio.

AGM

The AGM last year was well attended. This year it will be held at the offices of Downing LLP, 6th Floor, St Magnus House, 3 Lower Thames Street, London, EC3R 6HD on Tuesday, 25 June 2019 at 2.30 pm. The management team will be making presentations and I encourage shareholders and potential shareholders to attend.

Finally, thank you to board colleagues for their contribution, lifted by our latest non-executive director Dr Linda Bell.

Hugh Aldous
Chairman
2 May 2019

[1] (Intrinsic value/current price) – 1. Intrinsic value = NPV of free cash flows under Downing base case assumptions. Average upside 132.63%, Median 97.69%, Weighted average 76.33% - see April 2019 Investor Letter and the following Investment Manager's Report.

[2] Henley Business School University of Reading Research report by Prof Kakabadse and others

Investment Manager's Report

"The best executive is the one who has sense enough to pick good (wo)men to do what (s)he wants done, and self-restraint to keep from meddling with them while they do it."

Theodore Roosevelt

There has been a tremendous amount of management change in our portfolio of 13 investments over the last 12 months. By and large, we believe we have the correct leaders in place to drive the underlying value within these companies. Now we need to let them get on with the job and not 'meddle', rather provide supportive challenge and ensure good governance is adhered to. For us as Manager, the first two years of the life of the Company have been intensive, hands-on and verging on activist. Such is the nature of strategic investing.

It has not been a simple transformation; each company is at a different stage in its evolution. Strategic investing, defined as "an individual or company that adds value to the money it invests, through contacts, experience and knowledge to the company in which it is investing, thus brightening the investee's prospects for success*", unavoidably requires patience as the transformation takes place. For this to be effective, there is inevitably the need to facilitate and accept change. Fortunately, as managers we have both patience and the ability to influence transformation – most importantly, we are able to quantify our calculation of the intrinsic value of the portfolio as the journey continues.

The Company was launched in May 2017, and at the date of this report, is 87.85% invested in 13 companies. The first 12 months were that of the investment phase. As I write, we are about to enter our third year, and the second year was typified by ensuring that the correct management skills were in place to execute on strategic plans. Consequently, during 2018/early 2019 there has continued to be a lot of change in the underlying businesses.

The table below provides a school report of the changes that have been made within our investee companies since we made these investments;

Company	Board Change	Management Change	Restructure	Acquisition/ Disposal
AdEPT Technology Group	2	1		1 acquisition
Braemar Shipping Services	2	1	1	2 acquisitions and 1 disposal
Duke Royalty				1 acquisition
Real Good Food	4	2	1	4 disposals
Synectics	1	1	1	
Science in Sport				1 acquisition
Redhall Group	2	2	1	
Ramsdens Holdings				1 acquisition
Pennant International Group				1 acquisition
Hargreaves Services	1	2		1 disposal
Volex				3 acquisitions
Gama Aviation	4	1		5 acquisitions
FireAngel Safety Technology	1	2	1	
Total	**17 Board Changes**	**12 management changes**	**5**	**15 acquisitions 6 disposals**

Data as at 1 May 2019, since investment by the Company.

17 board changes, alongside 12 management changes have been made in our 13 active investments, and it is likely that there will be more in the future. Largely, these changes are at chair level and are therefore the most effective for managing further change. 12 management moves have been made in our investments, 41% have gone through some kind of restructuring, and of the 13 companies, 15 acqusitions have been made and six companies divested.

This demonstrates an active period of corporate activity.

We would not expect this continuing level of corporate activity over the next 18 months. Instead, we expect that the management teams will take the benefit of the initiatives put in place and deliver on their strategic plans. We believe they are well on the way to creating the shareholder value that they are capable of.

We are pleased to say that the gap between market value and intrinsic value (our calculation of the real value, not a stock market value, of the investments), has increased. This is reflective of the work being carried out to make these transformational changes. Although the Company should be measured for its performance over the longer term, the investment managers should be judged for their activity in implementing transformation and recovery.

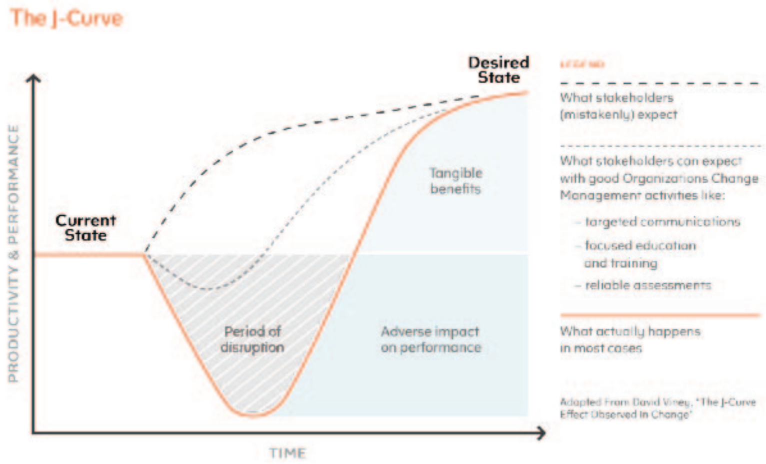
It would be easy for us to pretend that we knew of the transformation required in each investment at the time we invested. Although the journey has been smooth in 9 out of 13 of our investments, the curved balls that have been thrown in a handful of cases have been time consuming and expensive in the short term. Many of the 'unknown' issues came to light as we continued to build our knowledge and challenge the quality of the boards. You learn an awful lot more once you get into bed with a company than you do from the sidelines. In some cases, our fact-finding hasn't been palatable, however that is what we get paid for; strategic investing isn't just about buying good companies cheaply, it is also about being prepared to embrace the need for change and optimise the eventual outcome for all stakeholders. In this regard, we have been very active on your behalf. Our strategic portfolio contains a couple of 'recovery plays'. Where faith in the company has been abandoned, financial inefficiencies have been identified and remedy has been be applied to realise value.

We feel that the catalysts for change that have been put in place have already started to demonstrate value creation, and should therefore be reflected in the value of these businesses over the next 12 to 18 months.

**Source: Business Dictionary http://www.businessdictionary.com/definition/strategic-investor.html*

The J Curve – and the life cycle of a strategic investment

Strategic and recovery investing is not for the faint hearted and, as the NAV of the Company has demonstrated, can reflect negative sentiment long before positive initiatives are understood. This is a familiar trait of private equity investment funds, often called the J Curve. It is not uncommon for private equity funds to show losses before turning positive years after launch. We realise that this requires patience and belief on behalf of investors. We note that at the start of an investment cycle there is often a disconnect between what the investor thinks might happen and what might actually happen. This is nicely illustrated in the graph over the page.



No more mediocre management. It is all about premier league leadership

To optimise a business' financial results, companies often hire managers with a proven track record of doing so. Famous "turnaround" CEOs include Al "Chainsaw" Dunlap, who was hired in 1996 to turn Sunbeam around, or Jacques "The Knife" Nasser, who was tapped in 1999 to revitalise operations at Ford. Although we do not have any CEOs with such 'interesting' names, we do have a number of chairmen and CEOs who exhibit the attributes of these famous turnaround specialists.

On our 'bench' we have Hugh Cawley, CEO of Real Good Food. So far, he has led the turnaround of the business, disposing of four non-core assets, paying down debt, leading the restructure of the cost base and now ultimately returning to the group to profitability. This is a good example of a company approximately 75% of its way through the pain and on the way up the J curve, having been at the depths of it a year ago.

Meanwhile, John Conoley, Non-Executive Chairman of FireAngel is at the start of the journey. Having come on board in January 2019, John is working with the competent management team to exercise best practice, prioritise and execute. No mean feat for a business that has experienced so much change. This company is now 'tooled up' and knows what it needs to do. We hope hindsight will prove us correct in saying that FireAngel has experienced the bottom of the J curve.

Ron Series of Braemar has just (April 2019) arrived in the saddle and has taken the reins as Non-Executive Chairman. We expect good things.

Joe Oatley of Redhall has stepped up to become chair and is driving the strategic direction of the business and its working capital issues over the short term.

Roger McDowell has been on board at Hargreaves now for over six months. We are reassured by the changes he has implemented, whilst engaging effectively with management. Hargreaves is on a clear path to value realisation.

Simon To of Gama has a big job ahead of him. He promises appropriate governance, controls and integrity – attributes that the board has been desperately lacking given the calamitous last 12 months. We lend him support in the challenges that inevitably lie ahead for Gama, as it begins its recovery.

Intrinsic Value of the Portfolio

The intrinsic value of the portfolio is significantly above the current NAV. The intrinsic value is the investment manager's calculation of the net worth of the businesses. This is a calculation based predominantly on the value of future free cash flows, but also includes the investment manager's judgement of quality of earnings, and the ability of management to drive to a strategic goal. We believe that the weighted average upside in the portfolio is over 75%, based on the underlying portfolios prospects as of today.

Portfolio valuation statistics

as at 31 March 2019

	P/book	P/earnings[1]	Margin of safety[2]	Upside[3]
Average	1.45	7.61	46.54%	132.63%
Median	0.92	7.59	49.42%	97.69%
Weighted average	1.37	6.15	35.53%	76.33%

1 Normalised as: (Downing EBIT – (2.5%* debt))* (1 – tax rate). Excluding Science in Sport with negative P/ earnings

2 1 – (current price/ intrinsic value). Intrinsic value = NPV of free cash flows under Downing base case assumptions. Price from FactSet

3 (Intrinsic value/ current price) – 1. Intrinsic value = NPV of free cash flows under Downing base case assumptions. Price from FactSet

Portfolio construction

as at 31 March 2019

Name	Sector	Age[5]	Progress against thesis[6]	Market cap (£m)	% of the Portfolio[7]	% equity held by Downing[8]
AdEPT Technology Group	Telecommunications	1.75	Ahead	76.08	8.51%	12.11%
Braemar Shipping Services	Transportation	1.50	Behind	51.87	4.10%	6.59%
Duke Royalty	Speciality Finance	0.75	Ahead	86.94	4.79%	6.37%
FireAngel Safety Technology	Electrical Equipment	1.25	Behind	9.65	0.76%	10.73%
Gama Aviation	Transportation	1.50	Behind	41.05	3.35%	7.12%
Hargreaves Services	Support Services	1.25	In-line	97.48	7.45%	7.02%
Pennant International Group	Software & Services	0.25	Early	43.25	2.63%	5.28%
Ramsdens Holdings	Financial Services	1.50	Ahead	56.28	6.76%	16.77%
Real Good Food[9]	Food Producers	1.75	In-line*	5.71	17.79%	7.90%
Redhall Group[9]	Support Services	1.75	Behind	5.99	3.48%	23.91%
Science in Sport	Food Producers	1.50	In-line	63.87	2.59%	5.64%
Synectics	Support Services	1.25	In-line	38.26	9.57%	12.86%
Volex	Electrical Equipment	1.00	Ahead	134.84	13.49%	7.38%

5 Weighted average age of the portfolio investment, including initial investment and all follow-on investments. Rounded to nearest 0.25.

6 Based on Downing's interpretation of progress against original investment thesis, or revised thesis*, where applicable

7 Includes cash

8 Total percentage of investee company held by all Downing managed funds

9 Real Good Food holding includes 0.69% equity and 17.10% debt split. Redhall holding includes 1.82% equity and 1.66% debt split.

Outlook

We could blame Brexit (or the lack-of), market volatility in AIM and small cap, and we could even blame the weather for our decline in NAV over the last 12 months. That would be wrong. The decline in NAV is directly correlated to the businesses in which we have chosen to invest, where the market value has declined significantly in a handful of positions (Gama, Redhall, FireAngel) reflecting their challenging trading and the need for change. Our other ten positions have performed rather well.

We have been very active with the 'problem children', working hard to help these businesses adopt appropriate governance and face their strategic challenges.

We hope that you will have seen our interviews with management of some of our investees, and that you will be able to attend Mello 2019, where several of our investments will be exhibiting.

https://player.vimeo.com/video/317275711
https://player.vimeo.com/video/319510900
http://downingstrategic.co.uk/sites/default/files/dsm_q119.pdf

As we enter our third year, we are very aware that shareholders in the Company need a reward for their patience to date. We firmly believe that 2019 is going to be a year that demonstrates that the strategic initiatives and work that has been undertaken in 2018 begins to realise value for all stakeholders in these businesses.

Judith MacKenzie
Partner and Head of Public Equity, Downing LLP
2 May 2019

Investments

As at 28 February 2019

	Market Value (£'000)	% of investments
Real Good Food 10% Loan Note (29/06/2020)[1]	6,014	14.50
Volex	5,373	12.95
AdEPT Technology Group	3,632	8.76
Synectics	3,554	8.57
Hargreaves Services	3,090	7.45
Ramsdens Holdings	2,611	6.30
Duke Royalty	1,927	4.65
Braemar Shipping Services[2]	1,889	4.55
Gama Aviation	1,525	3.68
Real Good Food 12% 'C' Secured Guaranteed Loan Note (16/05/2021)[1]	1,195	2.88
Pennant International Group	1,101	2.65
Science in Sport	1,093	2.63
Redhall Group	901	2.17
Redhall 12.5% Loan Note (01/10/2019)[1]	700	1.69
FireAngel Safety Technology	403	0.97
Real Good Food	318	0.77
Total Investments	35,326	85.17
Net current assets	6,149	14.83
Total investments	**41,475**	**100.00**

[1] Unquoted

[2] Quoted on the Main Market

All investments are in ordinary shares and traded on AIM unless otherwise indicated.

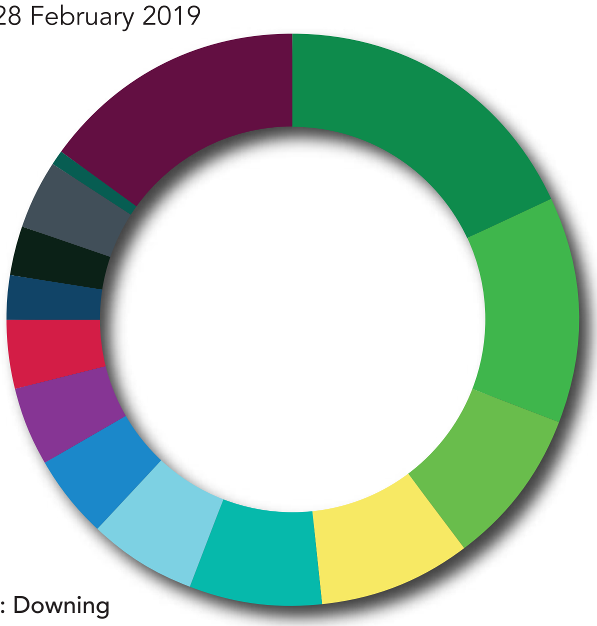
The total number of holdings as at 28 February 2019 was 13 (28 February 2018: 10). Details of the equity interests comprising more than 3% of any company's share capital are set out in note 18.

As at 28 February 2019 loan notes represented 19.07% (2018: 17.50%) of the portfolio.

The table above includes net current assets of £6,149,000 that are also disclosed in the statement of financial position.

Portfolio Distribution

As at 28 February 2019



Real Good Food *	18.15%
Volex	12.95%
AdEPT Technology Group	8.76%
Synectics	8.57%
Hargreaves Services	7.45%
Ramsdens Holdings	6.30%
Duke Royalty Ltd Common NPV	4.65%
Braemar Shipping Services	4.55%
Gama Aviation	3.68%
Pennant International Group	2.65%
Science in Sport	2.63%
Redhall Group **	3.86%
Fireangel Safety Technology	0.97%
Net current assets	14.83%

Source: Downing

* Loan notes represent 17.38% of the portfolio holdings and equity 0.77%.

** Loan notes represent 1.69% of the portfolio holdings and equity 2.17%.

Background to the investments

(unless otherwise stated all information provided as at 31 March 2019)

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

AdEPT Technology Group PLC (AdEPT) (8.76% of net assets)
Cost: £3.63m. Value as at 28 February 2019, £3.63m.

Update to the investment case

- **Interim results released in November 2018 were positive, with EBITDA up 10.7% year-on-year**
- **November 2018 acquisition of ETS Communications**
- **Phil Race appointed as new CEO. Incumbent CEO, Ian Fishwick, moves to chairman**
- **Extension of bank facility by £5 million to a total of £35 million**

Progress against investment case

This is a quality business with attractive recurring revenue. Our investment case was predicated on the ability of management to acquire businesses at a good price, and the migration to become a managed service business. AdEPT acquired two businesses in the second half of 2018. ETS Communications is the most recent and brings with it a complementary skill set, a robust customer book of over 200 GP surgeries, and is expected to be approximately 5% accretive to group revenue. The managed services division attracts high quality, recurring revenues, and now accounts for 74% of group turnover. We have also seen Phil Race appointed to CEO as of 1 January 2019 and Ian Fishwick move into the chairman role. We see this as a positive step for the business that will allow Ian Fishwick to focus on delivering the long-term strategy with the reassurance that operations are being overseen by an experienced leader of technology businesses as CEO, and proven Finance Director in John Swaithe.

Braemar Shipping Services Plc (Braemar) (4.55% of net assets)
Cost: £3.00m. Value as at 28 February 2019, £1.89m.

Update to the investment case

- **The Shipbroking division has had a strong second half with full year profits expected to be ahead of the market expectations**
- **Ron Series appointed as new chairman**
- **Marine Services continues to experience challenging conditions and the board is working on a structural change**

Progress against investment case

The long-term upward trend for seaborne trade continues and as expected shipbroker margins are improving. However, the marine services business has hit stumbling blocks that have resulted in the expected cost savings not materialising. Another restructuring in a similar vein would likely prove unsuccessful and the group is considering its strategic options to boost the focus and pace that this unit demands.

Duke Royalty Limited (Duke) (4.65% of net assets)
Cost: £2.06m. Value as at 28 February 2019, £1.93m.

Update to the investment case

- Interim results released in December 2018 were in line with expectations; Revenue +350%, Royalty Investments +523% year on year
- Dividend increased by 17% year on year
- Acquisition of Capital Step, the company's only known competitor
- New Royalty Agreements and follow-ons consistent with longer-term strategy
- Director share purchase

Progress against investment case

Our investment case was predicated on the identification of suitable royalty partners and deployment of capital into these companies. Progress against this has been accelerated through the acquisition of Capital Step, which we view as a sensible deal to consolidate the market at an attractive 15% cash-on-cash yield. This has the added benefit of further diversifying the portfolio through the addition of a further six royalty partners. The deal deploys a further £10 million of capital that when combined with the £1 million follow-on into the existing Brownhill's royalty partner and the completion of a new £10 million agreement with MRDB leaves Duke approaching full deployment ahead of our expectations. The recently announced dividend suggests a yield for the coming year of over 6.0%.

FireAngel Safety Technology Plc (FireAngel) (0.97% of net assets)
Cost: £2.89m. Value as at 28 February 2019, £0.40m.

Update to the investment case

- Restructuring of balance sheet with £6m raise
- New senior appointments – FD, Chair and Operations Director
- Trading in line with revised expectations
- Further local council contract wins in Scotland
- Directors buy shares

Progress against investment case

It has been a challenging 12 months for FireAngel, the manufacturer and distributor of fire safety products. Management faced an aggressive legal challenge over the termination of a distribution agreement, took its eye off the ball in one of its main markets (Germany) and lost sales, faced manufacturing issues, issued a profit warning, and lost an FD - none of this was in our initial investment case.

Although some of these issues were self-inflicted and arguably badly managed, the fundamentals remain intact; the company has a strong position in a growing and regulated market. Although we understand that businesses don't always run smoothly and often face external challenges, we expect our management teams to adapt and plan accordingly. In the last six months the company has gone through structural and management change. We are delighted to have John Conoley as chairman, Mike Stillwell as FD, and a new COO, Andy Gregg. In addition, we ensured that a £6 million raise was completed, and 'underwrote' a large percentage of the raise, at what we believe was an attractive price. The instruments for effective and managed growth are now in the tool box.

As we have said previously, we love the regulated markets in which FireAngel operates, and its barrier to entry through IP. We believe that these initiatives mean the company will be more efficiently managed, and more capable of adapting to challenges. It is all there for FireAngel to achieve; they have a strong position in growing and regulated markets and well invested IP. Now we want to see that they can execute.

Gama Aviation Plc (Gama) (3.68% of net assets)
Cost: £5.29m. Value as at 28 February 2019, £1.52m.

Update to the investment case

- **Operational challenges and delays around deploying capital have led to management reducing their expectations for forecast periods**
- **Delay in announcing new chairman**
- **Capital deployment into US maintenance facilities has been moving ahead and a small acquisition of a completions facility was finalised in January 2019**
- **Business continues to secure new contracts with the Ministry of Defence and Scottish Air Ambulance**

Gama Aviation

Progress against investment case

Post the fundraise last year, the business has hit several stumbling blocks. Capital has not been deployed as expected and the appointment of a strong new FD has uncovered some questionable financial reporting practices. Unfortunately, we underestimated the ability of the board to impose the expected checks and balances on a business of this size and complexity.

Despite the disappointing governance, the business does continue to perform respectably well which demonstrates the viability of the model. In December, the company announced that between £93.5 million and £115.5 million of contracts had been awarded to support special missions' operations.

We have confidence that with the correct governance in place this is a viable business which can be turned around and generate a healthy return for our investors. We are working hard to ensure that an equitable governance structure is put in place that will represent all minority shareholders.

Hargreaves Services Plc (Hargreaves) (7.45% of net assets)
Cost: £3.65m. Value as at 28 February 2019, £3.09m.

Update to the investment case

- Large amount of tangible asset value
- Market discount can be realised
- New board appointments are positive

Progress against investment case

Hargreaves Services is a good example of an asset heavy balance sheet alongside profitable operations. Owing to legacy capital-intensive operations, there is a large amount of tangible asset value as previously detailed. This has been difficult to access, and the market discounts this materially given that the business trades on a substantial discount to its true book value. We believe this discount can be realised by further spinoffs and cash returns to shareholders.

We supported the appointment of Roger McDowell, the new chairman, and he has put shareholder interests first and we are pleased with how the management team has responded. In the period we met David Anderson, who was appointed as the newly created position of Group Property Director and also sits on the board.

Pennant International Group Plc (Pennant) (2.65% of net assets)
Cost: £1.04m. Value as at 28 February 2019, £1.10m.

Update to the investment case

- Ambitious chair and CEO driving culture
- Continued investment and product improvement
- Acquisitions can help advance strategic aims

Progress against investment case

Our newest position is a small stake in Pennant International Group Plc, a training provider to the defence and civil markets. The company has a long trading history, great IP and accreditations. However, it has been a sleepy relatively unknown company until a few years ago. It underwent a governance change led by chairman Simon Moore and this has invigorated the partly new management team led by a hard-working and hungry CEO, Philip Walker. Philip has subsequently moved the company's culture and ambitions forward. It has continued to add to the order book, almost tripled its manufacturing base and has added innovations to cash cow product offerings. By way of an example, over £1 million has been invested in FY2018 (2015: £35k, 2016: £250k and 2017: £600k). In the 15-year period prior to 2017 only one new product had been created.

For us, the attraction of this company is that we think it can continue to invest and see a return above its cost of capital and improve the quality of the business at the same time. These initiatives include: capturing more of the value chain – focus on selling more services linked to Pennant hardware; diversifying the defence client base - targeting civil customers in aviation and rail; improving the quality of business - selling more of its software products that benefit from recurring income.

In the recent period, Pennant has continued to announce new contract wins and has acquired a small bolt on aviation training provider. The deal, which we supported, provides a great low risk platform for Pennant to advance its strategic aims. Looking forward, we expect, indeed encourage, the investment programme to continue.

Ramsdens Holdings Plc (Ramsdens) (6.30% of net assets)
Cost: £2.62m. Value as at 28 February 2019, £2.61m.

Update to the investment case

- **Interim results released in November 2018 were in line with expectations; Revenue +10%, Dividend +9%**
- **8 sites opened as of November**
- **Acquisition of 18 Money Shop stores**
- **Earnings reduced 3% as a result of new store opening costs**

Progress against investment case

Our investment case centres on management's ability to expand the estate at a rate of six new sites per year and drive organic growth from the existing estate across four diversified revenues streams. Our assumption of six new sites has been greatly exceeded thus far with eight being opened in FY19 thus far and a further 18 sites being acquired from the Money Shop. Our calculations place the acquisition cost at a very attractive approximately 4x earnings and we expect this to be accretive in the coming years. An additional five Money Shop sites will be rolled into existing nearby Ramsdens stores allowing for an accelerated increase in revenue at these locations. In summary, the company has hit our year four expansion target in its first year. On the organic side, the business has again outperformed on all fronts excluding the only fly in the ointment that was the foreign exchange business where income from foreign exchange declined 2%. This has been attributed to the unseasonably hot summer of 2018 and the World Cup reducing the amount of leisure travel. We expect this to return to a more normalised growth rate through FY20.

Real Good Food Plc (Real Good Food) (including loan notes) (18.15% of net assets)
Cost: £9.07m. Value as at 28 February 2019, £7.53m.

Update to the investment case

- **Four disposals - Garretts, Hayden's, R&W Scott & Chantilly**
- **Terms agreed for new funding**
- **Open Offer to raise £1 million**
- **New NEDs appointed**
- **Latest results September demonstrate the impact of turn around**
- **Departure of FD – due to there not being a need for a full time FD post turnaround and disposals of non-core assets**

Progress against investment case

It has been a busy year for the board of Real Good Food. There was a lot of work involved in the turnaround of this business, however the company now has a transformed balance sheet with no term debt, benefitting from the proceeds of four disposals during the last 12 months, which netted gross proceeds of £17.95 million.

The arrival of two independent Non-Executive Directors has helped address the previously poor governance.

The investment case was that the sum of the parts of the divisions was greater than the market capitalisation and enterprise value at our entry point, and this remains the case. The two remaining businesses, Brighter Foods, a welsh-based manufacturer of health bars, and Renshaw, a producer of speciality sugar pastes and decorations for the confectionary market, have a historic combined EBITDA of over £4 million. Therefore, with a management team and strategy to drive value from these attractive businesses, we expect continued progress and ultimately a trade exit from this business.

Redhall Group Plc (Redhall) (including loan notes) (3.86% of net assets)
Cost: £5.00m. Value as at 28 February 2019, £1.60m.

Update to the investment case

- **Jordan won three contracts with Balfour Beatty**
- **FD replaced by Simon Cromer (ex FD at Applied Composites)**
- **Appointment of Joe Oatley as Chairman (ex CEO of Cape and ex CEO of Hamworthy)**
- **New interim CEO appointed**
- **Full year trading update to 30 September 2018 – delays on contracts mean full year results will be materially below expectations**

Progress against investment case

Redhall has made progress in growing its order book, although it has been slow on both delivery and execution of it. Frustratingly, contract delays have consequently had an impact on working capital. Given these are large infrastructure projects, such as Crossrail and Hinckley Point C, and are often subject to delays, there was an inevitable knock on effect to Redhall. Ultimately, you would want this type of contracting business to have sufficient regular smaller business to weather the bumps, however this has not been the case. Although we now have a team that is more focused on engineering efficiency and best practice than ever before, there is still a lot of work to do. We cannot dispute the fact that Redhall either needs to be part of something larger or gain critical mass itself.

We are of the view that a potential acquirer will value the toe-hold that Redhall provides into UK nuclear and infrastructure. Our strategic position of 22.9% across Downing client funds, has been accompanied by a £700,000 loan to the company, carrying a 12.5% redemption premium for its eight-month term. This allows us the influence and investor rights to ensure the correct corporate activity is followed.

Science in Sport Plc (SiS) (2.63% of net assets)
Cost: £1.50m. Value as at 28 February 2019, £1.09m.

Update to the investment case

- Strategic acquisition of PhD Nutrition completed in November 2018
- Results highlight continued impressive revenue growth in SiS
- Strategic investments into the US and football have a strong foothold
- Core SiS business generated £2 million of operating profit demonstrating the profitability of the underlying model

Progress against investment case

Science in Sport is delivering underlying results as expected with continued strong revenue growth. The acquisition of PhD Nutrition looks to be a sensible one with complementary premium products and opportunities to extract some synergies. Despite this, we thought that the deal looked expensive, so we chose not to participate. The profitability of PhD should go some way to supplement the losses of SiS as that business continues to scale. We think that the combined entities could make an attractive portfolio of premium and high margin sports nutrition businesses to a strategic buyer.

Synectics Plc (Synectics) (8.57% of net assets)
Cost: £3.98m. Value as at 28 February 2019, £3.55m.

Update to the investment case

- Multiple contract wins, latest a multi-million dollar new customer
- New FD appointment in September 2018
- November, trading update in line. Restructure of bus division
- Final results to 30 November 2018 in line with market expectations
- Departure of FD, appointment of Acting Finance Director

Progress against investment case

Synectics continues to quietly manage the business and modestly outperform against expectations. The new oil and gas contract is encouraging, as is the decisive action taken to cut costs in the bus sector which had been in decline. The investment over the last few years in the Synergy software has yielded benefits and instead of just being a box seller, the company is beginning to command software-like margins.

It is important for the story to be told and we are encouraging the board to tell investors what they are doing as the company is on a single digit PE, has net cash and some interesting growth attributes for the next few years.

Rather frustratingly the new FD left for personal reasons only six months after he had started. Therefore, the search begins again for another, however we are very reassured that Amanda Larnder, has stepped up to be Acting Finance Director.

Volex plc (Volex) (12.95% of net assets)
Cost: £4.78m. Value as at 28 February 2019, £5.37m.

Update to the investment case

- Volex continues to perform well ahead of our expectations
- Four earnings upgrades since we invested in May 2018
- Revenue growth supplemented by cost efficiencies and margin improvements across the business
- Management continues to deliver a seriously impressive turnaround project with plenty of upside remaining
- Proposed return to the dividend list in FY2020 demonstrates management's confidence of sustainable cash generation going forwards
- Management continue to buy shares

Volex

Progress against investment case

The company reported impressive half year results in November followed by a third acquisition, post the fundraise, of GTK in December. The trading update in March 2019 was the fourth earnings upgrade delivered by the company since we invested less than a year ago.

We believe that the shares remain abnormally cheap with the year-end trading update signalling further revenue and margin growth. Free cash flow generated in the second half at $10 million was the key takeaway for us. The business remains in a net cash position of $18.4 million which leaves significant headroom for further acquisitions and scope to pay a dividend from next year.

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 say so publicly 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.

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

Investment team

Judith MacKenzie
Partner and Head of Downing Public Equity

Judith joined Downing in October 2009. Previously she was a partner at Acuity Capital, a buy-out from Electra Private Equity, where Judith managed small company assets with an activist strategy. 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 both the public and private arenas. Judith is a Certified Fellow of the Securities Institute and has held a number of public and private directorships.

Nicholas Hawthorn
Fund Manager

Nick joined Downing in September 2015 from BP Investment Management, where he worked in the private equity team. Prior to this, he worked for Aberdeen Asset Management in group finance. Nick is a CFA level III candidate and has a MSc. in Finance and Investment from Durham University and a MA in Accounting and Economics from the University of Aberdeen. He also holds the Investment Management Certificate.

James Lynch
Fund Manager

James joined Downing in February 2012 as part of the Private Equity team, gaining transaction experience in the SME space across a range of industries before transferring to Downing Public Equity in 2013. Prior to Downing, James worked within the asset management division of Ernst & Young after specialising in smaller companies at HW Fisher & Company. James is a CFA Charterholder, Chartered Accountant (ACA) and holds the Investment Management Certificate. James manages the MI Downing Monthly Income Fund and co-manages the Downing Strategic Micro-Cap Investment Trust.

Alyx Wood
Fund Manager

Alyx joined Downing in February 2014 and has over ten years of investment and accounting experience, having held positions at Deutsche Bank AG and KPMG LLP. He also trained as a management consultant and has completed tax and corporate finance secondments. Alyx is a Chartered Accountant (ICAS) and holds the Investment Management Certificate. He also holds a BA in accounting and economics from the University of Reading.

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. Cheryl provides portfolio support and oversight to all of the Downing Public Equity funds. Cheryl graduated from Keele University and is a Chartered Fellow of the Securities Institute.

Directors' biographies

Hugh Aldous
Chairman, Chairman of the Management Engagement Committee

Hugh is a director of two other public companies, one listed in the UK and one in the US, where he chairs respectively the audit and corporate governance committees. He is also Chairman of the board of a Guernsey investment company. Previously, Hugh has been Executive Chairman of an AIM listed company sold to a FTSE 100 company, director and chairman of London listed investment and fund management companies, chairman of a funds administrator and chairman of four companies backed by private equity. Hugh's current quoted company directorships include a US speciality chemicals company quoted on NASDAQ and a Venture Capital Trust. Hugh's career included 35 years as director of a wide selection of companies from nationalised industries to private equity across a range of sectors, 10 years as managing partner, and latterly head of Financial Services, of Robson Rhodes (now Grant Thornton), 16 years of appointments as a DTI Companies Act Inspector responsible for several reports, including two major published reports, and membership of the UK Monopolies & Mergers and Competition Commissions.

Andrew Griffiths

Andrew Griffiths founded Green Star Media Ltd after a career in print journalism including five years as business correspondent of The Daily Telegraph. Andrew has been responsible for the creation and launch of eleven specialist magazines and newsletters, including the AIM Newsletter. Andrew has been a non-executive director of several venture capital trusts and was previously a Non-Executive Director of Downing ONE VCT plc.

Stephen Yapp
Chairman of the Audit Committee

Stephen has over 25 years' experience as director of public and private companies over the course of his career. Presently, Stephen is Non-Executive Chairman at Pittards Plc, Chairman of MNH Grp Limited and a Non-Executive Director of The Tilian Partnership. Stephen was Non-Executive Director of Journey Group Limited (formerly Journey Group plc), Executive Chairman of Altitude Group Plc from September 2013 to April 2015 and of Redstone plc (now Castleton Technology plc) from September 2009 to September 2010, and Non- Executive Director of Imagesound plc (now Imagesound Limited) from January 2007 to December 2008. Prior to this, Stephen was Chief Executive of DCS Group plc between 2001 and 2006 and held the position of Finance Director at SBG between 1997 and 2000. Stephen is also a Fellow Chartered Management Accountant and holds an MBA.

Linda Bell

Linda has extensive management experience working in both public and venture capital markets. She is CEO of Mirico Limited and a director of Tomra Systems ASA, a Norwegian listed company. Linda was previously CEO of PhosphonicS Limited, and has also held senior positions at DS Smith Plc, Inca Digital Printers Limited, Servomex Group Limited and ICI. She is an Oxford graduate in Natural Sciences (Chemistry) and a DPhil in Inorganic Chemistry.

All Directors are members of the Management Engagement Committee and the Audit Committee.

Strategic Report

The Directors present the Strategic Report of the Company for the year ended 28 February 2019. 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 of 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 an investment trust company that has a premium listing on the London Stock Exchange. Its principal activity is to carry on business as an investment trust.

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.

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 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.

Investment policy

The Company intends to invest in UK publicly quoted companies that are defined by the Investment Manager as micro-cap, reflecting a market capitalisation of under £150 million of the investee company at the time of investment.

The Investment Manager will select a concentrated portfolio of between 12 and 18 investments (once fully invested). The Company will seek to hold between 3% - 25% of the equity of these investee companies, although it may hold larger or smaller stakes when it deems appropriate (including up to a maximum of 29% of the equity of any one company at the time of investment), but only where the Company holds an additional right of conversion (e.g. option rights or convertible loan notes) that would, on exercise, result in the Company holding above 25% of the equity). It is likely that the majority of the investments held in the Company's portfolio will be quoted on AIM and will typically be drawn from the Numis Smaller Companies Index plus AIM (Excluding Investment Companies).

The Investment Manager will:

- deploy 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;
- take advantage of the inefficiencies within the microcap market which include lack of analyst coverage;
- have the ability to invest up to 10% of the Gross Assets at the time of investment in unquoted or untraded companies, or in any one unquoted or untraded company;
- procure 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;
- favour 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% - 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). 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 may use derivative instruments including index-linked notes, contracts for difference, covered options and other equity-related derivative instruments for efficient portfolio management, gearing and investment purposes. Any use of derivative instruments for investment purposes will be made on the basis of the same principles of risk spreading and diversification that apply to the Company's direct investments, as described above, although the Company would not hold more than 5% of Net Assets in a derivative of any single investee company. The Company will not enter into uncovered short positions.

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

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

Performance

Details of the Company's performance are set out in the Highlights and the Chairman's Statement on pages 6 to 7.

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 8 to 12.

Results and dividend

The results of the Company are set out in the statement of comprehensive income on page 57.

The total net loss for the year, after taxation was £10.3 million (2018: loss of £2.8 million), of which the revenue return amounted to 1.50p (2018: 0.03p) per share, and the capital return amounted to (19.97p) (2018: 6.22p) per share.

The Directors are recommending a final dividend of 1.25p per share.

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.

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:

- **Performance against the Company's peers** - while the principal objective is to achieve capital growth, the Board also monitors the performance relative to a broad range of competitor funds. The Company does not have a benchmark.
- **Share price discount to NAV per share** - the Board monitors the level of the Company's premium or discount to NAV closely. During the period 1 March 2018 to 28 February 2019, the shares traded between a premium of 6.8% and discount of 2.9% at an average premium of 1.4%.
- **Share price movements** - the Company's Ordinary Share price decreased by 22.0% over the period under review.
- **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 2019 were 1.84% (2018: 1.48%).

Principal Risks

The Company is exposed to a variety of risks and uncertainties. The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its investment objective, business model, future performance, solvency or liquidity.

The Company maintains a risk matrix which sets out the key risks facing the Company and how they can be mitigated. The principle risks remain unchanged since last year and are set out in the following table with an explanation of how they are mitigated.

Risk	Mitigation
Investment performance	
The investment objective of the Company may not be achieved as returns are reliant primarily upon 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.
Operational	
The Company relies on external service providers. In the event that they are unable, or unwilling, to perform in accordance with its terms of appointment the Company may impact the Company's performance. Disruption to the accounting, payment systems or custody records could prevent the accurate reporting and monitoring of the Company's financial position. The security of the Company's assets, dealing procedures, accounting records and adherence to regulatory and legal requirements depend on the effective operation of the control systems of the service providers.	Due diligence is undertaken before contracts are executed with potential service providers. The Board monitors the performance of service providers together with the associated costs. The Board also reviews reports on the effective operation of the internal controls of service providers. The Company's assets are subject to a strict liability regime and in the event of a loss of financial assets held in custody assets of an identical type or the corresponding amount must be returned unless the loss was beyond the reasonable control of the custodian. The Board also considers the business continuity arrangements of the Company's key service providers. The Board may terminate all key contracts on normal market terms.

Financial	
The Company's investment activities expose it to a variety of financial risks that include interest rate, currency and liquidity risk.	Further details of these risks are disclosed in Note 14 to the financial statements together with a summary of the policies for managing these risks.
Legal and compliance	
The Company has been accepted by HM Revenue & Customs as an investment trust, subject to continuing to meet the relevant conditions.	The Investment Manager monitors investment movements and the amount of proposed dividends, if any, to ensure that the relevant provisions of the Corporation Tax Act 2010 are not breached. A report is provided to the Board at each meeting.
The Company is subject to the Companies Act 2006, the Alternative Investment Fund Manager's Directive, the UK Listing Rules and Disclosure & Transparency Rules and the Market abuse Regulations.	The Company Secretary and the Company's professional advisers provide reports to the Board in respect of compliance with all applicable rules and regulations and will ensure that the Board is made aware of any changes to these rules and regulations. Compliance with the accounting rules affecting investment trusts is also monitored.

Brexit

The Board follows developments in the Brexit negotiations. The future relationship between the UK and the EU is not currently clear; markets may react differently to diverse outcomes. The situation is difficult to mitigate today, but the Investment Manager considers the range of risk for each investment and the Board continues to monitor events.

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 development and prospects, the Directors have assessed the prospects 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 29 and 30;
- the Company's business model which should remain attractive for longer than the period to 28 February 2024;
- the relative stability of the Company's expenses and liabilities; and
- the outlook for the value of the Company's 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 29 and 30, 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 12.

Employees, social, community, human rights and environmental matters

The principal activity of the Company is to invest in accordance with the Investment Policy set out on pages 27 and 28. 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 2019, there were three male Directors and one female Director on the Board.

The Chairman's Statement on pages 6 and 7 together with the Investment Manager's Report and portfolio information on pages 13 to 21 form part of the Strategic Report.

The Strategic Report was approved by the Board on 2 May 2019.

For and on behalf of the Board

Hugh Aldous
Chairman

2 May 2019

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 28 February 2019.

Directors

Diana Hunter resigned from the Board on 4 April 2018 and Linda Bell was appointed to the Board on 19 September 2018. The Directors of the Company as at 28 February 2019 and their biographies are set out on page 25. Details of their interests in the Ordinary Shares of the Company are provided on page 48.

Linda Bell, having been appointed as a Director by the Board since the last AGM and Stephen Yapp, who will retire by rotation, will stand for election and re-election respectively by shareholders at the forthcoming AGM in accordance with the provisions of the Company's Articles of Association.

The Board is conscious of the need to maintain a degree of continuity, and believes that retaining Directors with sufficient experience of both the Company and the markets is of great benefit to shareholders. The Board believes that the performance of Stephen Yapp continues to be effective and that he demonstrates a range of business, financial and asset management skills and experience relevant to the direction and control of the Company.

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 election, or re-election of each, of the Directors.

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 45 to 48. An advisory ordinary resolution to approve this report will be put to shareholders at the Company's AGM. The Company is also required to put the Director's Remuneration Policy to a binding shareholder vote every three years. The Company's Remuneration Policy was last put to shareholders at the AGM in 2018, therefore, an ordinary resolution to approve the policy will next be put to shareholders at the AGM in 2021.

Directors' responsibilities

The Directors' responsibilities in preparing these financial statements are noted on page 49.

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 one twelfth of 1% of the market capitalisation of the Company on the last business day of each month. Further details are provided in note 4 on page 65. Downing LLP has agreed to rebate any management fee payable in order for the Company to maintain an ongoing charges ratio of 2% or lower. The Board believes that the current fee structure is appropriate for an investment company in this sector.

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

Company secretarial and administration

Maitland Administration Services Limited has been appointed as Company Secretary and Administrator pursuant to the Administration Agreement. The Administrator provides general fund valuation, accounting and investment operation services to the Company, AIFM support services and company secretarial services.

Either the Company or the Administrator may terminate the Administration Agreement by giving not less than three months' prior 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, such notice not to expire prior to the end of the third anniversary of the commencement date of the Registry Services Agreement.

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

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

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

Going Concern

The financial statements of the Company have been prepared on a going concern basis. After 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 believe this to be an appropriate basis. 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 had particular regard to the Company's ability to meet its obligations as they fall due and the liquidity of the portfolio. The Company is also able to meet all of its liabilities from its assets and the ongoing charges are approximately 1.84% of the net assets.

The Company's longer term viability is considered in the Viability Statement on page 30.

Substantial Share Interests

As at 28 February 2019 the Company had received notification in accordance with the FCA's Disclosure and Transparency Rule 5.1.2R of the following interests in 3% or more of the voting rights attaching to the Company's issued share capital.

	Number of Ordinary Shares	% of issued share capital
EQ Investors Limited	7,857,654	14.13
Downing One VCT PLC	5,000,000	8.99
The Central Finance Board of the Methodist Church UK Equity Fund and Epworth Investment Management Limited Affirmative Equity Fund	4,653,425	8.37
Downing Four VCT PLC	4,600,000	8.27

No changes have been notified to these holdings at the date of this report.

Share Capital

Details of the Company's issued share capital are given in notes 12 and 21 on pages 69 and 76 respectively. Details of the voting rights in the Company's shares as at the date of this report are also given in note XII to the Notice of Annual General Meeting on page 84. 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.

Discount management

The Directors recognise the importance to investors of ensuring that any discount of the Company's share price to the underlying NAV per Ordinary Share is as small as possible. The Directors will monitor any discount closely.

Share issues

During the year the Company did not issue any shares.

The current authority to issue new Ordinary Shares or sell Ordinary Shares from treasury for cash was granted to the Directors on 27 June 2018 and will expire at the conclusion of the 2019 AGM. 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 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.

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.

The Directors considered that it was unnecessary to buy back any of the Ordinary Shares during the year as there was demand for them in the market. Since the year end, 250,000 Ordinary Shares have been repurchased in the market and placed in treasury.

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. Subject to the Board exercising its discretion to operate the redemption facility, the first redemption point will be 5.00 pm on the last business day in May 2020.

Treasury Shares

The Company may hold Ordinary Shares acquired by way of market purchases in treasury. The Company may hold up to 10% of the issued Ordinary Shares at any time in this way.

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.

There were no shares held in treasury on 28 February 2019. The Ordinary Shares repurchased since the year end have been placed in treasury. The Company now holds 250,000 Ordinary Shares in treasury 0.45% of the Company's issued share capital).

Global greenhouse gas emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for other emission producing sources 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 made by special resolution.

Annual General Meeting

Note: this section is important and requires your immediate attention.

If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial advisor authorised under the Financial Services and Markets Act 2000.

Resolutions relating to the following items of special business will be proposed at the forthcoming AGM:

- **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 £2,767 (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 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 8 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 £2,767 (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 buy back 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 8,296,965 (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 2020 unless renewed prior to that date. Any Ordinary shares purchased pursuant to resolution 9 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.

Recommendation

The Board considers that each of the resolutions to be proposed at the Annual General Meeting is likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that shareholders vote in favour of the resolutions, as they intend to do in respect of their own beneficial holdings which amount in aggregate to 298,547 shares representing approximately 0.54% of the voting rights of the Company.

Corporate Governance

Full details are given in the Corporate Governance Statement on pages 38 to 42. 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.

Auditor

The Auditor, Grant Thornton UK LLP, is willing to continue in office. Resolutions proposing the reappointment of Grant Thornton UK LLP and authorising the Audit Committee to determine the Auditor's remuneration for the ensuing year will be proposed at the AGM.

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

Maitland Administration Services Limited
Secretary

2 May 2019

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.

As a UK listed investment trust company the Company's principal reporting obligation is driven by the UK Corporate Governance Code (the UK Code) issued by the Financial Reporting Council in 2016. However, as investment trust companies differ in many ways from other listed companies, the Association of Investment Companies produced its own guidelines, the AIC Code of Corporate Governance 2016 (the AIC Code) that addressed the governance issues relevant to investment companies and which was endorsed by the Financial Reporting Council.

Following the publication in July 2018 of a new version of the UK Code, in February 2019, the AIC issued a new AIC Code of Corporate Governance that has also been endorsed by the Financial Reporting Council. For the Company's financial year ending 28 February 2020 the Company will report against the new AIC Code.

The UK Code is available from the FRC website at frc.org.uk. The AIC Code is available from the AIC at the aic.co.uk.

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 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 recommendations of the AIC Code and the provisions contained within the UK Code that are relevant to the Company throughout this financial period, except for the provisions relating to:

- the role of the chief executive;
- executive directors' remuneration;
- the need for an internal audit function; and
- the appointment of a senior independent director.

Information on how the Company has applied the principles of the AIC and UK codes 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 to engage 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, 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 25. 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 leadership of the Company.

The provision of the UK Code which relates to the combination of the roles of the chairman and chief executive does not apply as the Company has no executive directors.

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 page 33. 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 on the Company's Management Engagement Committee below.

The provision of accounting, company secretarial and administration services has been delegated to Maitland Administration Services Limited under the terms of the Administration Agreement. The terms of the agreement are summarised on page 33.

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 is conducted is given on page 85.

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

Internal control

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

The Board maintains a risk matrix, which provides a detailed risk and internal control assessment and is the basis for the Audit Committee and the Board to regularly monitor the effective operation of the controls. The risk matrix is updated when new risks are identified. The risk matrix covers all material financial, operational, 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. As a consequence, 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 the review no failings or weaknesses determined as significant 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 49, the report of the Independent Auditor on pages 50 to 56 and the statement of going concern on page 34.

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	Scheduled meetings					
	Board		Audit		Management engagement	
	Number held	**Number attended**	**Number held**	**Number attended**	**Number held**	**Number attended**
Hugh Aldous	4	4	1	1	1	1
Linda Bell*	4	2	1	1	1	1
Andrew Griffiths	4	4	1	1	1	1
Stephen Yapp	4	4	1	1	1	1

*appointed on 19 September 2018

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 the meetings.

Directors' appointment, retirement and succession

Details on the appointment, retirement and rotation of Directors are set out in the Directors' report on page 32.

The Board's individual independence, including that of the Chairman, has been considered and all Directors are considered independent, notwithstanding that Andrew Griffiths, until his resignation on 31 December 2016, was a Director of Downing One VCT plc, another fund managed by Downing LLP as Investment Adviser. Being that Andrew Griffiths was not appointed as a Director of the Company until 17 February 2017, after his resignation from the Board of Downing One VCT plc, the Board is of the view that he is independent in both character and judgement. This independence allows all of the Directors to sit on the Company's various committees.

The Board's view on tenure is that length of service is not necessarily an impediment to independence or good judgement and does not therefore have a formal policy requiring Directors to stand down after a fixed period. It considers that a long association with the Company and experience of a number investment cycles is valuable and does not compromise a Directors' 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 not appointed a Senior Independent Director in accordance with the provisions of the UK Code. The Board, which is small and entirely comprised of independent non-executive directors, does not consider the appointment of a Senior independent Director is necessary. However, the Chairman of the Audit Committee acts in that role. 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.

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 laws or regulations that could affect 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 appropriate statutes 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 matters in order to discharge their duties effectively in considering a matter and reaching a decision on it.

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 2019. The reviews were led by the Chairman, in the case of the Board, and the relevant Chairman for each committee. Each Chairman, assisted by the Company Secretary, determined the scope and format for the review, which was predominantly through questionnaires and focused discussions. There were no significant actions arising from the evaluation process and it was agreed that the composition of the Board, at that time, reflected a suitable mix of skills and experience, and that the Board as a whole, the individual Directors and its committees were functioning effectively.

Directors' liability insurance

During the year the Company has maintained appropriate insurance cover which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties.

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 and details of the remuneration of each Director, are set out in the Directors' Remuneration Report on pages 45 to 48. As stated in the Directors' Remuneration Report, the full Board 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 Stephen Yapp consists of all the Directors of the Company. Further details are provided in the Report of the Audit Committee on pages 43 to 44.

Management Engagement Committee

The Company's Management Engagement Committee comprises all Directors and is Chaired by Hugh Aldous. The Committee considers the performance, terms, fees and other remuneration payable to the Investment Manager, the Administrator and other service providers. Annually, it reviews the appropriateness of the Investment Manager's continued appointment, together with the terms and conditions of the Investment Management Agreement.

Shareholder relations

The Board is committed to ensuring that there is open and effective communication with the Company's shareholders. The Investment Manager and the Company's broker maintain regular dialogue with major shareholders and provide the Board with reports and feedback.

All shareholders are encouraged to attend and vote at the Company's Annual General Meeting. The Board and the Investment Manager will be available at the Annual General Meeting to discuss issues affecting the Company and to answer any questions. The Notice of Annual General Meeting is set out on pages 81 to 84 and details the business of the meeting. Any item not of an entirely routine nature is explained in the Directors' Report on pages 36 and 37. The Notice of Annual General Meeting and any related papers are sent to shareholders at least 20 business days before the meeting.

Shareholders may contact the Board through the Investment Manager or the office of the Company Secretary. The contact details are given on page 85.

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

2 May 2019

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, Stephen Yapp and Hugh Aldous both have recent and relevant financial experience, and the Audit Committee as a whole has competence 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 reviewing 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;
- considering the quality of the formal audit report to shareholders;
- 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 39.

The fees paid to the external Auditor are set out in note 5 on page 66.

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.

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 Directors' opinion 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.

Representatives of the Company's Auditor attend the Audit Committee meeting at which the draft Annual Report and Financial Statements are considered and also engage with the Directors as and when required.

Having reviewed the performance of the external Auditor, including assessing the quality of work, timing of communications and work with the Investment Manager, the Committee considered it appropriate to recommend the Auditors reappointment. The Board supported this recommendation and a resolution will be put to shareholders at the forthcoming AGM.

Grant Thornton UK LLP has been Auditor to the Company since launch in May 2017. The Company is required to re-tender, at the latest, by 2027. 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 year under review is the Audit Partner, Marcus Swales' second year of a five-year maximum term.

Significant issues considered regarding the Annual Report and Financial Statements

During the year, the Audit Committee considered a number of significant issues and areas of key audit risk 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 appropriate areas of audit risk relevant to the Company had been identified and that suitable audit 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 key areas of risk identified and also explains how these were addressed.

Significant issue	How the issue was addressed
Valuation, existence and ownership of investments	The valuation of investments is undertaken in accordance with the accounting policies, disclosed in Note 2 on pages 61 to 64. Controls are in place to ensure that valuations are appropriate and existence is verified through custodian reconciliations. 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 use correct prices and seeks comfort in the testing of this process through the internal control statements. The Board reviews income forecasts and receives explanations from the Investment Manager for any variations or significant movements from previous forecasts. Subjective elements of income such as special dividends have been reviewed by the Board to agree the accounting treatment.
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. The position is also discussed with the Auditor as part of the audit process.

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 2019 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 49.

Stephen Yapp
Chairman of the Audit Committee

2 May 2019

Directors' remuneration report

The Board presents the Directors' remuneration report for the year to 28 February 2019, 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 of the disclosures provided. Where disclosures have been audited it is indicated as such. The Auditor's opinion is included in the Independent Auditor's report on pages 50 to 56.

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 fulfills 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. There have been no changes to the remuneration policy during the financial year under review and none are proposed for the year ending 28 February 2020. The remuneration policy was approved by shareholders at the AGM in 2018 in accordance with section 439A of the Companies Act 2006. The law requires that the remuneration policy is subject to a triennial binding vote and it is the Directors' intention that the policy on remuneration, as provided in the table, will continue to apply for the next two financial years to 28 February 2021.

Policy Table

Fixed fee element	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.
Discretionary element	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.
Taxable benefits	In accordance with the Company's Articles of Association the Directors are also entitled to be reimbursed for out-of-pocket expenses and any other reasonable expenses incurred in the proper performance of their duties. Such expenses are treated as a benefit in kind and are subject to tax and national insurance.
Purpose and link to strategy	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.
Operation	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.
Maximum	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.

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 when they join 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 2019 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 27 June 2018, of votes cast, 99.02% were in favour of (or granted discretion to the Chairman who voted in favour of) the resolutions to approve both the Directors' Remuneration Policy and the Directors' Remuneration Report. Of the votes cast 0.98% were against both resolutions.

Details of voting on the Remuneration Report at the 2019 AGM will be provided in the annual report for the year ending 28 February 2020.

Remuneration Policy Implementation Report (Audited)

Single Total Figure of Remuneration

The single total remuneration figure for each Director who served during the year ended 28 February 2019 is set out below.

	Year ended 28 February 2019			Period from launch[3] to 28 February 2018		
Director	Fees £	Taxable benefits £	Total £	Fees £	Taxable benefits £	Total £
Hugh Aldous	35,000	–	35,000	29,167	–	29,167
Linda Bell[1]	11,186	–	11,186	n/a	n/a	n/a
Andrew Griffiths	25,000	–	25,000	20,833	–	20,833
Diana Hunter[2]	8,333	–	8,333	20,833	–	20,833
Stephen Yapp	30,000	–	30,000	25,000	–	25,000
Total	109,519	–	109,519	95,833	–	95,833

[1] appointed 19 September 2018
[2] resigned 4 April 2018
[3] 9 May 2017

No discretionary payments were made during the year ended 28 February 2019.

The Board's remuneration was last reviewed in February 2019 and it was agreed that there would not be any changes to the Directors' fees for the year ending 28 February 2020. Any feedback from shareholders would be taken into account by the Board when setting remuneration levels.

In the year under review Directors' fees were paid at the following rates:

- Chairman - £35,000
- Chairman 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 set out in the table above.

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 2019.

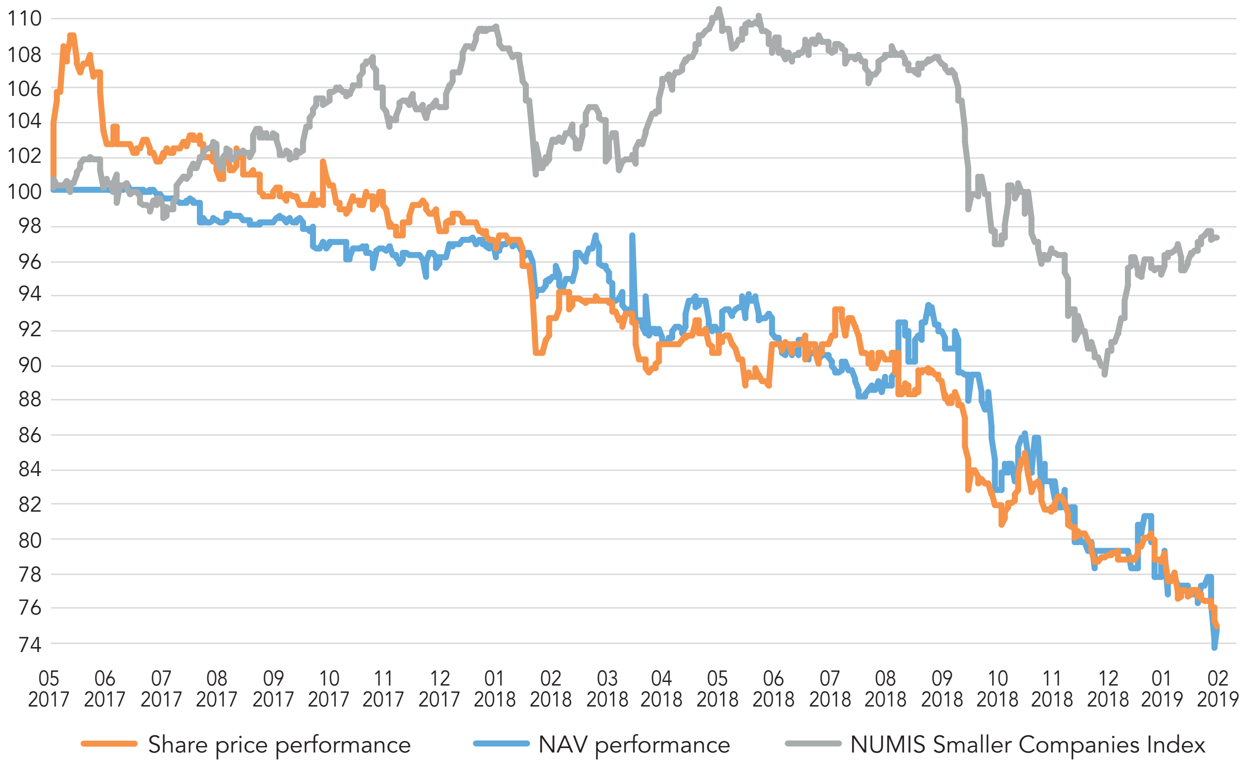
	Year ended 28 February 2019	Period from launch* to 28 February 2018	Change %
Management fees paid in the period	475,195	447, 998	6.07
Total remuneration paid to the directors	109,519	95,833	14.28
Loss on ordinary activities after tax	(10,269)	(2,818)	(264.41)

* 9 May 2017

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 the total return on an equivalent investment in the Numis Smaller Companies Index plus AIM (excluding investment companies), where the majority of the investments held in the Company's portfolio are drawn from and which is therefore considered the closest broad index against which to measure the Company's performance.

Performance from 9 May 2017* to 28 February 2019



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

Source: Downing LLP. Index: Numis Smaller Companies Index Plus AIM Ex. Investment Companies.

All figures at 9 May 2017 rebased to 100.

Directors' interests in shares (Audited)

There are no requirements for the Directors to own shares in the Company.

The Directors 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 period under review.

	Ordinary Shares of 0.1 pence per share	
Director	28 February 2019	28 February 2018
Hugh Aldous	160,000[1]	145,091[1]
Linda Bell[2]	11,886	n/a
Andrew Griffiths	26,161	15,075
Stephen Yapp	100,500	100,500

[1] includes 19,791 shares held by Mrs Aldous
[2] appointed on 19 September 2018

Hugh Aldous purchased a further 15,000 on 29 March 2019, subsequent to the year-end. No other changes to these holdings had been notified up to the date of this report.

The Directors' Remuneration Report was approved by the Board on 2 May 2019.

For and on behalf of the Board

Hugh Aldous
Chairman
2 May 2019

Statement of Directors' responsibilities in respect of the annual report and financial statements

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company's financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. 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 IFRS as adopted by the European Union 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 25, confirms that, to the best of his knowledge:

- the financial statements, which have been prepared in accordance with IFRS as adopted by the European Union 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
2 May 2019

Independent Auditor's Report to the members of Downing Strategic Micro-Cap Investment Trust PLC

Opinion

Our opinion on the financial statements is unmodified.

We have audited the financial statements of Downing Strategic Micro-Cap Investment Trust plc (the 'Company') for the year ended 28 February 2019, which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position, the statement of cashflow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 February 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are 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 public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report, set out on page 29 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 29 of the annual report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement, set out on page 34 of the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on page 30 of the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

- Overall materiality: £622,000 which represents 1.5% of the Company's net assets;
- Key audit matters were identified as valuation of investments, existence of investments and completeness, occurrence and accuracy of investment income.
- Our audit approach was a risk-based audit focused on investments at the year end and investment income recognised during the year.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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. These matters included those that 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 issue	How the matter was addressed in the audit
Valuation of investments The Company's investment objective is to generate long-term shareholders returns, mainly in the form of capital growth. This objective is pursued through a focused portfolio of UK micro-cap investments comprising of quoted and unquoted holdings. The investment portfolio at £35.3 million is a significant material balance in the statement of financial position at year-end and the main driver of the Company's performance. Of the total investment portfolio, £27.4 million of investments were listed on recognised stock exchanges and £7.9 million were held in the form of unquoted loan notes. As different valuation approaches are applied to the different types of investments, there are risks that the investment valuation recorded in the statement of financial position may be misstated. In addition, as unquoted investments are not traded in an active market, management are required to apply judgement in	**Quoted investments** Our audit work included, but was not restricted to: ▶ Obtaining an understanding of management's process to value quoted investments through discussions with the management and through obtaining an understanding of relevant internal controls at both the Company and third-party service providers. This included obtaining and reading internal controls reports prepared by the third-party service providers on the description, design, and operating effectiveness of the internal controls at the custodian and administrator; ▶ assessing whether the Company's accounting policy for the valuation of investments is in accordance with IFRSs as adopted by the European Union and testing whether management have accounted for valuation in accordance with that policy; ▶ independently checking the pricing of 100% of the listed equity portfolio by obtaining the bid prices from the independent market sources and calculating the total valuation based on the Company's investment holdings; and ▶ extracting a report of trading volumes from an independent market source for the equity investments held to test that investments are actively traded. **Unquoted investments** Our audit work included, but was not restricted to: ▶ Assessing the qualifications, expertise and valuation approach of management in the fair valuation of the unquoted loan notes; ▶ using our in-house valuation team as auditor's experts to inform our challenge of the investment manager on the valuation methodology used including whether this was in accordance with IFRSs as adopted by the European Union and the Statement of Recommended Practice ('SORP') issued by the Association of Investment Companies ('AIC').

Key issue	How the matter was addressed in the audit
determining the value of these investments. There is a risk that fair value measurements priced using inputs not based on observable market data (using models or similar techniques) may not be correct. We therefore identified valuation of investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	Specifically, we focused on the appropriateness of the valuation basis selected, management's assessment of the ability of the underlying investee companies to repay at the time of maturity of the investments and the underlying assumptions such as discount rate used; and ▶ assessing whether the discount rates used to calculate the fair value of the loan notes based on the interest and loan repayment cashflows discounted reflect the appropriate market yields at the valuation date. The Company's accounting policy on valuation of investments is shown in note 2 to the financial statements and related disclosures are included in note 9. The Audit Committee identified valuation of investments as a significant issue in its report on page 44, where the Audit Committee also described the action that it has taken to address this issue. **Key observations** Our audit work did not identify any material misstatements concerning the valuation of investments.
Existence of investments There is a risk that the beneficial rights of the Company over the investments may not exist. An error in the holdings could materially impact the Company's net assets. We therefore identified existence of investments as a significant risk which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: ▶ Understanding the processes in place which ensure all investment transactions are recorded in the Company's accounting records through discussion with management and through obtaining an understanding of relevant internal controls at both the Company and third-party service providers. This included obtaining and reading internal controls reports prepared by the third-party service providers on the description, design, and operating effectiveness of the internal controls at the custodian and administrator; ▶ testing the existence of all holdings listed in the investment portfolio at year end by agreeing to an independent confirmation received directly from the Company's custodian; and ▶ testing the existence of all unquoted investments at year end by agreeing to loan note subscription agreements. The Company's accounting policy on investments is shown in note 2 to the financial statements and related disclosures are included in note 9. The Audit Committee identified existence of investments as a significant issue in its report on page 44, where the Audit Committee also described the action that it has taken to address this issue. existence and ownership of investments. **Key observations** Our audit work did not identify any material misstatements concerning the existence of investments

Key issue	How the matter was addressed in the audit
Completeness, occurrence and accuracy of investment income During the year, the Company has recognised investment income of £1.3 million in the statement of comprehensive income. As such, Income from investments is a significant, material item in the statement of comprehensive income. Under International Standard on Auditing (UK) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', there is a presumed risk of fraud in revenue recognition. There is a risk of fraud/improper revenue recognition within the dividend income revenue stream as dividend income may not be earned or may not be complete. We therefore identified completeness, occurrence and accuracy of investment income as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: ▶ Assessing the design and implementation of controls in relation to revenue recognition; ▶ Assessment and testing of revenue recognition policies to obtain comfort on compliance with IFRSs and the Statement of Recommended Practice ('SORP') issued by the Association of Investment Companies ('AIC'); ▶ testing that dividend income transactions were recognised in accordance with the policy by agreeing the relevant investment income receivable for 100% of the quoted equities to the Company's income ledger. We also obtained the respective dividend rate entitlements for 100% of the quoted equites from independent sources and checked against the amounts recorded in the Company's accounting records maintained by the administrator. In addition, we agreed the receipt of the dividend to bank statements; and ▶ testing that interest income transactions were recognised in accordance with the policy by agreeing the relevant investment income receivable for 100% of the unquoted loan notes to the Company's income ledger. We also recalculated interest income in accordance with underlying agreements and checked against the amounts recorded in the Company's accounting records maintained by the administrator. The Company's accounting policy on revenue recognition is shown in note 2 to the financial statements and related disclosures are included in note 3. **Key observations** Our audit work dd not identify any material misstatements concerning the completeness, occurrence and accuracy of investment income.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £622,000, which represents 1.5% of the Company's net assets This benchmark is considered the most appropriate because the Company's net assets, which primarily comprise the Company's investment portfolio, are considered to be the key driver of the Company's total return performance and form a part of the net asset value calculation.

Materiality for the current year is higher than the level that we determined for the year ended 28 February 2018 to reflect the nature, growth and performance of the investment portfolio.
We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality.

We also determine a lower level of specific materiality for certain areas such as investment income, being a main driver of the Company's performance, transactions with the Investment Manager and related party transactions which includes directors' remuneration.

We determined the threshold at which we will communicate misstatements to the audit committee to be £31,100. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Company's business, its environment and risk profile and in particular included:

- Obtaining an understanding of relevant internal controls at both the Company and third-party service providers. This included obtaining and reading internal controls reports prepared by the third-party service providers on the description, design, and operating effectiveness of the internal controls at the custodian and administrator; and
- Performing substantive audit procedures on specific transactions, which included journal entries and individual material balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment and our evaluation of the design and implementation of controls that address significant audit risk.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 49 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- audit committee reporting set out on page 43 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- directors' statement of compliance with the UK Corporate Governance Code set out on page 38 – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Our opinions on other matters prescribed by the Companies Act 2006 are unmodified

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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 for the financial statements

As explained more fully in the statement of directors' responsibilities in respect of the annual report and financial statements set out on page 49, 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.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The primary responsibility for the prevention and detection of fraud rests with those charged with governance of the Company and management. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report. This included selection of an audit team that has the relevant sector experience, understanding of the regulatory environment the Company operates in and previous experience with the Company. It also included discussions with the Directors and regard to specific law and regulations applicable to the Company including compliance with the relevant provisions of HMRCs regulations applicable to an Investment Trust Company. We remained alert to any indications of misstatements or non-compliance of regulations throughout the audit.

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

Other matters which we are required to address

We were appointed by the directors on 16 March 2017. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee

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.

Marcus Swales
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

2 May 2019

Grant Thornton

Company accounts

Statement of Comprehensive Income
for the year ended 28 February 2019

	Year ended 28 February 2019			Period from 17 February 2017 to 28 February 2018		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Losses on investments at fair value through profit or loss (note 9)	**–**	**(10,725)**	**(10,725)**	–	(2,447)	(2,447)
Investment income (note 3)	**1,326**	**–**	**1,326**	417	–	417
	1,326	**(10,725)**	**(9,399)**	417	(2,447)	(2,030)
Investment management fee (note 4)	**(95)**	**(380)**	**(475)**	(90)	(358)	(448)
Other expenses (note 5)	**(395)**	**–**	**(395)**	(339)	(1)	(340)
	(490)	**(380)**	**(870)**	(429)	(359)	(788)
Profit/(loss) before taxation	**836**	**(11,105)**	**(10,269)**	(12)	(2,806)	(2,818)
Taxation (note 7)	**–**	**–**	**–**	–	–	–
Profit/(loss) for the period	**836**	**(11,105)**	**(10,269)**	(12)	(2,806)	(2,818)
	Revenue (p)	**Capital (p)**	**Total (p)**	Revenue (p)	Capital (p)	Total (p)
Earnings/(loss) per Ordinary Share (note 6)	**1.50**	**(19.97)**	**(18.47)**	(0.03)	(6.22)	(6.25)

The total column of this statement represents the statement of comprehensive income of the Company prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

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

The profit/(loss) for the period 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 61 to 76 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 28 February 2019

Year ended 28 February 2019	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 28 February 2018	**56**	**–**	**54,506**	**(2,806)**	**(12)**	**51,744**
Profit/(loss) for the period	**–**	**–**	**–**	**(11,105)**	**836**	**(10,269)**
Dividends paid (note 8)	**–**	**–**	**–**	**–**	**–**	**–**
At 28 February 2019	**56**	**-**	**54,506**	**(13,911)**	**824**	**41,475**

For the period 17 February 2017 to 28 February 2018						
At 17 February 2017	–	–	–	–	–	–
Loss for the period	–	–	–	(2,806)	(12)	(2,818)
Issue of Management Shares	50	–	–	–	–	50
Redemption of Management Shares	(50)	–	–	–	–	(50)
Issue of Ordinary Shares	56	55,544	–	–	–	55,600
Expenses of share issue	–	(1,038)	–	–	–	(1,038)
Cancellation of share premium account	–	(54,506)	54,506	–	–	–
Dividends paid (note 8)	–	–	–	–	–	–
At 28 February 2018	56	–	54,506	(2,806)	(12)	51,744

The notes on pages 61 to 76 form an integral part of these financial statements.

Statement of Financial Position
as at 28 February 2019

	28 February 2019 £'000	28 February 2018 £'000
Non-current assets		
Investments held at fair value through profit or loss (note 9)	**35,326**	32,861
	35,326	32,861
Current assets		
Trade and other receivables (note 10)	**740**	114
Cash and cash equivalents	**5,504**	20,704
	6,244	20,818
Total assets	**41,570**	53,679
Current liabilities		
Trade and other payables (note 11)	**(95)**	(1,935)
	(95)	(1,935)
Total assets less current liabilities	**41,475**	51,744
Net Assets	**41,475**	51,744
Represented by:		
Share capital (note 13)	**56**	56
Special reserve	**54,506**	54,506
Capital reserve	**(13,911)**	(2,806)
Revenue reserve	**824**	(12)
Equity shareholders' funds	**41,475**	51,744
Net asset value per Ordinary Share (note 13)	**74.59p**	93.06p

The financial statements were approved by the Board on 2 May 2019 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 61 to 76 form an integral part of these financial statements.

Statement of Cash Flow
for the year ended 28 February 2019

	Year ended 28 February 2019 £'000	Period from 17 February 2017 to 28 February 2018 £'000
Operating activities		
Loss before taxation	**(10,269)**	(2,818)
Losses on investments at fair value through profit or loss	**10,725**	2,447
Increase in other receivables	**(626)**	(114)
(Decrease)/increase in other payables	**(24)**	119
Purchases of investments	**(15,006)**	(33,492)
Sales of investments	**–**	–
Net cash outflow from operating activities	**(15,200)**	(33,858)
Financing activities		
Issue of Ordinary shares	**–**	55,600
Expenses of Ordinary share issue	**–**	(1,038)
Issue of Management Shares	**–**	50
Cancellation of Management Shares	**–**	(50)
Dividends paid	**–**	–
Net cash inflow from financing activities	**–**	54,562
Change in cash and cash equivalents	**(15,200)**	20,704
Cash and cash equivalents at start of period	**20,704**	–
Cash and cash equivalents at end of period	**5,504**	20,704
Comprise of:		
Cash and cash equivalents	**5,504**	20,704

The notes on pages 61 to 76 form an integral part of these financial statements.

Notes to the Financial Statements
for the year ended 28 February 2019

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.

The Company commenced its operations on 9 May 2017. The Company intends to carry on business as an investment trust within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010.

2. Accounting policies

The principal accounting policies followed by the company are set out below:

Basis of accounting

The annual financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These comprise standards and interpretations approved by the International Accounting Standards Board (IASB), together with interpretations of the International Accounting Standards' and Standing Interpretations Committee (IASC) that remain in effect, and to the extent that they have been adopted by the European Union.

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 November 2014 and updated in February 2018 with consequential amendments is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

Going concern

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

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

Presentation of statement of comprehensive income

In order to better reflect the activities of an investment trust and in accordance with guidance issued by the AIC, supplementary information which analyses the income statement between items of revenue and capital nature has been presented alongside the income statement. The net revenue 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.

Notes to the Financial Statements
continued

2. Accounting policies continued

Accounting developments

The following amendments to standards effective this year, being relevant and applicable to the Company, have been adopted, although they have no impact on the financial statements:

- IFRS 7 Financial Instruments: disclosures for initial application of IFRS 9 - effective 1 January 2016 or when IFRS 9 is first applied
- IFRS 9 Financial Instruments - effective 1 January 2018
- IFRS 15 Revenue from Contracts with Customers - effective 1 January 2018

The revised IFRS 9 Financial Instruments replaces IAS 39 and applies to the classification and measurement and impairment of financial assets and liabilities, and hedge accounting. Please see note 16 on pages 74 and 75 for further details.

The following accounting standards and their amendments were in issue at the period end but will not be in effect until after this financial year end. The Directors have concluded that there is no impact from this accounting standard on the financial statements.

International Financial Reporting Standards

- IFRS 16 Leases - effective 1 January 2019

Critical accounting judgements and uses of estimation

The preparation of financial statements in conformity with IFRS 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. There were no significant accounting estimates or significant judgements in the current period, except the valuation of the loan notes of Real Good Food as explained in note 14.

Investments held at fair value

All investments held by the Company are classified at 'fair value through profit or loss'. Investments are initially recognised at cost, being the fair value of the consideration given. 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 cost.

For investments actively traded in organised financial markets, fair value is generally determined by 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 require delivery within the time frame of the relevant market, the investments concerned are recognised or derecognised on the trade date.

Notes to the Financial Statements
continued

2. Accounting policies continued

Investments held at fair value continued

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 (IPEVC) Guidelines issued in December 2015 such as dealing prices or third-party valuations where available, net asset values and other information as appropriate.

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

- 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.
- 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 the sources of the dividend on a case by case basis.

When the Company elects to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend forgone is recognised as income. Any excess in the value of the cash dividend will be recognised in the capital column.

Other investment income and interest receivable are included in the financial statements on an effective interest rate basis.

Expenses

All expenses are accounted for on an effective interest rate basis. All expenses are charged through the revenue account in the statement of comprehensive income except as follows:

- expenses which are incidental to the acquisition and disposal of an investment which are 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.

Notes to the Financial Statements
continued

2. Accounting policies continued

Taxation

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

Cash and cash equivalents

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

Share issue costs

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

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.

Capital reserve

Capital reserve 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.

This reserve is distributable.

Revenue reserve

This reserve includes net revenue recognised in the revenue column of the statement of comprehensive income. This reserve is distributable.

Special reserve

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

Dividends payable to shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid or approved in general meetings and are taken to the statement of changes in equity. 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 2019 £'000	Period from 17 February 2017 to 28 February 2018 £'000
Income from listed investments		
UK dividend income	**633**	173
UK fixed interest income	**693**	244
Total	**1,326**	417

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.

At 28 February 2019, an amount of £33,824 (2018: £43,368) was outstanding and due to Downing LLP in respect of Management fees.

	Year ended 28 February 2019 £'000	Period from 17 February 2017 to 28 February 2018 £'000
Investment management fee		
Revenue	**95**	90
Capital	**380**	358
Total	**475**	448

Notes to the Financial Statements
continued

5. Other expenses

	Year ended 28 February 2019 £'000	Period from 17 February 2017 to 28 February 2018 £'000
Administration and secretarial fees	**79**	66
Auditor's remuneration[1]:		
- audit services	**37**	30
Directors' fees	**110**	96
Safe custody fees	**3**	22
Legal fees	**5**	30
Sundry fees	**156**	90
Taxation services	**5**	5
Revenue expenses	**395**	339
Capital expenses	**–**	1
Total expenses	**395**	340

[1]Fee payable to the auditor for the audit of the Company's financial statements for the year ended 28 February 2019. During the year there were no non-audit service fees payable to the auditor (2018: £17,500). Inclusive of VAT at 20%.

6. Earnings/(loss) per Ordinary Share

	Year ended 28 February 2019		Period from 17 February 2017 to 28 February 2018	
	Net return £'000	**Per share pence**	Net return £'000	Per share pence
Revenue return	**836**	**1.50**	(12)	(0.03)
Capital return	**(11,105)**	**(19.97)**	(2,806)	(6.22)
Total return	**(10,269)**	**(18.47)**	(2,818)	(6.25)
Weighted average number of Ordinary Shares	**55,600,002**		45,089,319	

Notes to the Financial Statements
continued

7. Taxation

	Year ended 28 February 2019			Period from 17 February 2017 to 28 February 2018		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
UK corporation tax at 19% (2018: 19.22%)	**–**	**–**	**–**	–	–	–

The current taxation charge for the period differs from the standard rate of corporation tax in the UK of 19% (2018: 19.22%). The differences are explained below:

	Year ended 28 February 2019			Period from 17 February 2017 to 28 February 2018		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Loss before taxation	**836**	**(11,105)**	**(10,269)**	(12)	(2,806)	(2,818)
Theoretical tax at UK corporation tax rate of 19% (2018: 19.22%)	**159**	**(2,110)**	**(1,951)**	(2)	(539)	(541)
Effects of:						
UK dividends not taxable	**(120)**	**–**	**(120)**	(33)	–	(33)
Capital items not taxable	**–**	**2,038**	**2,038**	–	470	470
Excess expenses in the period	**(39)**	**72**	**33**	35	69	104
Actual current tax charge	**–**	**–**	**–**	–	–	–

Factors that may affect future tax charges:

The Company has unrealised expenses of £341,000 (2018: £543,000). 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

Amounts recognised as distributions in the year:

	Year ended 28 February 2019	Period from 17 February 2017 to 28 February 2018
	£'000	£'000
Dividends paid during the year	**–**	–

It is proposed that a final dividend of 1.25p per share will be paid in respect of the year ended 28 February 2019.

9. Investments

	Year ended 28 February 2019 £'000	Period from 17 February 2017 to 28 February 2018 £'000
Opening book cost	**35,308**	–
Opening investment holding losses	**(2,447)**	–
Opening valuation	**32,861**	–
Movements in the period		
Purchases at cost	**13,190**	35,308
Disposals:		
Proceeds	**–**	–
Net realised losses on disposals	**–**	–
Movement in investment holding losses	**(10,725)**	(2,447)
Closing valuation	**35,326**	32,861

Closing book cost	**48,498**	35,308
Closing investment holding losses	**(13,172)**	(2,447)
	35,326	32,861

Realised gains on disposals	**–**	–
Movement in investment holding losses	**(10,725)**	(2,447)
	(10,725)	(2,447)

Transaction costs

During the period the Company incurred transaction costs of £3,077 (2018: £44,330) and nil (2018: nil) on purchases and sales respectively. These amounts are included in losses on investments, as disclosed in the statement of comprehensive income.

10. Trade and other receivables

	28 February 2019 £'000	28 February 2018 £'000
Dividends receivable	**724**	109
Prepayment and other debtors	**16**	5
	740	114

Notes to the Financial Statements
continued

11. Trade and other payables

	28 February 2019	28 February 2018
	£'000	£'000
Amount due to brokers	**–**	1,816
Other creditors	**95**	119
	95	1,935

12. Called-up share capital

	28 February 2019	28 February 2018
	£'000	£'000
At beginning of period	**56**	-
Issue of ordinary shares	**–**	56
At end of period	**56**	56

The Company was incorporated on 17 February 2017 with an issued share capital of £50,002 represented by 50,000 Management shares of £1.00 each and 2 Ordinary shares of £0.001. These Management shares were redeemed immediately following admission of the Ordinary shares on the 9 May 2017 out of the proceeds of this issue.

On 9 May 2017, the Company issued 55,600,000 Ordinary £0.001 shares at £1 per share in a placing, offer for subscription and intermediaries offer, raising £54.5 million after expenses.

As at 28 February 2019 there were 55,600,002 (2018: 55,600,002) Ordinary shares in issue.

13. Net Asset Value per Ordinary Share

NAV per Ordinary Share is based on net assets at the period end and 55,600,002 (2018: 55,600,002) Ordinary Shares, being the number of Ordinary Shares in issue at the period end.

	28 February 2019		28 February 2018	
	NAV per share pence	**NAV attributable £'000**	NAV per share pence	NAV attributable £'000
Ordinary Shares:				
Basic and diluted	**74.59**	**41,475**	93.06	51,744

Notes to the Financial Statements
continued

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 pages 27 and 28. 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.

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.

Investment performance and exposure are reviewed at each Board meeting.

The Company's exposure to changes in market prices as at 28 February 2019 on its equity investments held at fair value through profit or loss was £35,326,000 (2018: £32,861,000).

A 10% increase in the fair value of its investments at 28 February 2019 would have increased net assets attributable to shareholders by £3,533,000 (2018: £3,286,000). An equal change in the opposite direction would have decreased the net assets and net profit available to shareholders by an equal and opposite amount. The analysis is based on closing balances only and is not representative of the period as a whole.

Fair value of loan notes of Real Good Food was calculated by discounting the expected future cash flows using the original effective interest being 10% and 12%. If these rates were increased by 2%, the fair value would have reduced by £258,937 (2018: £206,502). As a result, net assets attributable to shareholders would decline by the same amount. An equal change in the opposite direction would have increased the net assets attributable to shareholders by an equal and opposite amount.

Fair value of loan notes of Redhall was calculated by discounting the expected future cash flows using the original effective interest being 12.5%.

14. Analysis of financial assets and liabilities continued

If this rate was increased by 2%, the fair value would have reduced by £12,227 (2018: nil). As a result, net assets attributable to shareholders would decline by the same amount. An equal change in the opposite direction would have increased the net assets attributable to shareholders by an equal and opposite amount.

Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits. The Company does not currently receive interest on its cash deposits.

The Company's financial assets may include investment in fixed interest securities, such as UK Corporate debt stock, whose fair value may be affected by movements in interest rates. The majority of the Company's financial assets and liabilities, however, 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 the prevailing levels of market interest rates. There was no exposure to interest bearing liabilities during the period ended 28 February 2019 (2018: 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.

The interest rate profile of the Company was as follows:

	28 February 2019	28 February 2018
	£'000	£'000
Real Good Food loan notes	**7,209**	5,749
Redhall loan notes	**700**	–

The exposure, at 28 February 2019, of financial assets and liabilities to interest rate risk is shown by reference to:

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

	2019 in one year	**2019 in two to three years**	**2019 total**	2018 in one year	2018 in two to three years	2018 total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Exposure to fixed interest rates:						
Unquoted loan notes	**700**	**7,209**	**7,909**	170	5,579	5,749
Total	**700**	**7,209**	**7,909**	170	5,579	5,749

Foreign currency risk

All the Company's assets are denominated in Sterling and accordingly the only currency exposure the Company has is through the trading activities of its investee companies.

Notes to the Financial Statements
continued

14. Analysis of financial assets and liabilities continued

Liquidity risk

Liquidity risk is not significant as the Company is a closed-end investment trust and the majority of the Company's assets are investments in quoted equities and other quoted securities that are readily realisable.

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 2019 was £14,137,000 (2018: £26,562,000). The calculation is based on the Company's credit risk exposure as at 28 February 2019 and this may not be representative for the whole period.

	28 February 2019	28 February 2018
	£'000	£'000
Dividends	**724**	109
Cash and cash equivalents	**5,504**	20,704
Unquoted loan notes	**7,909**	5,749
Total	**14,137**	26,562

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 balance sheet date, without adjustment for transaction costs necessary to realise the asset.

15. Fair Value Hierarchy continued

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); and
- 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).

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.

Notes to the Financial Statements
continued

15. Fair Value Hierarchy continued

28 February 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Quoted on the Main Market	**1,889**	**–**	**–**	**1,889**
Traded on AIM	**25,528**	**–**	**–**	**25,528**
Unquoted Loan Notes	**–**	**–**	**7,909**	**7,909**
	27,417	**–**	**7,909**	**35,326**

28 February 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Quoted on the Main Market	2,370	–	–	2,370
Traded on AIM	24,742	–	–	24,742
Unquoted Loan Notes	–	–	5,749	5,749
	27,112	–	5,749	32,861

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

	28 February 2019 £'000	28 February 2018 £'000
Opening balance	**5,749**	–
Purchases	**2,160**	5,749
Sales	**–**	–
Total gains or losses included in losses on investments in the statement of comprehensive income:		
– on assets sold	**–**	–
– on assets held at period end	**–**	–
Closing balance	**7,909**	5,749

16. Transition to IFRS 9 Financial Instruments

IFRS 9 'Financial Instruments' is effective for periods beginning on or after 1 January 2018 and has been adopted by the Company in the year. IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities and replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The impact on the consolidated financial statements of the Company is detailed below.

Classification of financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and the cash flow characteristics of the assets.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. The new classification requirements do impact the accounting for the Company's financial assets.

16. Transition to IFRS 9 Financial Statements continued

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortised cost. There is no impact on the values reported in the financial statements from adopting IFRS 9 in respect of expected credit losses.

Cash and cash equivalents

Cash and cash equivalents are held at banks with a strong credit rating and are not subject to any period of notice. The Company typically maintains a low value of cash and cash equivalents. There is no impact on the values reported in the financial statements from adopting IFRS 9 in respect of expected credit losses.

Classification of financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The classification requirements of IFRS 9 do not impact the financial statements.

17. 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 page 27. The principal risks and their management are disclosed in the Strategic Report.

18. Significant Interests

As at 28 February 2019 the Company held interests amounting to 3% or more of the equity the following investee companies.

	% of investee company
AdEPT Technology Group plc	4.8
Braemar Shipping Services plc	3.4
FireAngel Safety Technology plc	3.7
Gama Aviation plc	3.5
Hargreaves Services plc	3.3
Ramsdens Holdings plc	5.1
Real Good Food Company plc	5.3
Redhall Group plc	13.5
Synectics plc	10.8
Volex plc	4.3

Notes to the Financial Statements
continued

19. Related parties and Investment Manager

Investment Manager

Downing LLP have been appointed as 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 2019 was £475,195 (2018: £447,993). The amount outstanding at 28 February 2019 was £33,824 (2018: £43,368).

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.

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 45 to 48. At 28 February 2019, there were no outstanding Directors' fees (2018: none).

20. Contingent liabilities

There were no contingent liabilities at 28 February 2019 (2018: none).

21. Post balance sheet events

Share repurchases

Since the year end the Company has completed the following transactions in its own shares:

Shares bought back and placed in treasury:

Date of repurchase	Number of Ordinary shares repurchased	Gross Consideration (£)
18 April 2019	100,000	71,108
24 April 2019	100,000	71,108
26 April 2019	50,000	35,554
Total	**250,000**	**178,390**

Directors' interests in shares

Hugh Aldous purchased 15,000 ordinary shares on 29 March 2019, subsequent to the year-end. Following which he held 175,000 shares including 19,791 shares held by Mrs Aldous.

Shareholder Information

Financial Calendar

Company's year end	28 February
Annual Results announced	May
Annual General Meeting	25 June
Company's half-year end	31 August
Half-yearly results announced	October/November

Share Price and NAV

The Company's Ordinary Shares are listed on the main market of the London Stock Exchange. The market price of these shares can be found in the London Stock Exchange Daily Official List and in the Financial Times. The Company's NAV is published daily and released through the London Stock Exchange's Regulatory News Service and is available through the AIC.

Registrar enquiries

The register for the Ordinary Shares is maintained by Computershare Investor Services PLC. In the event of queries regarding your holding, please contact the registrar on 0370 707 1358.

Changes of name and/or address must be notified in writing to the registrar, whose address is:

Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ.

Common Reporting Standard

Under the Common Reporting Standard financial institutions, including investment trust companies, are required to provide personal information to HMRC on investors who meet certain criteria set out in the legislation.

On an annual basis the Company will provide information to the local tax authority on the tax residencies of non-UK based certificated shareholders and corporate entities. The local tax authority may exchange this information with the tax authorities of another country or countries in which the shareholder may be a tax resident, where those countries, or the tax authorities in those countries, have entered into agreements to exchange financial 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: downing.co.uk/strategic.

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.

Website

Your Board is committed to shareholder engagement. To receive regular email 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.

Country of incorporation: England.
Company Number: 10626295.
Registered office: Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY.

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 the 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).

Notice of Annual General Meeting

Notice is hereby given that the first Annual General Meeting of Downing Strategic Micro-Cap investment Trust PLC will be held at the offices of **Downing LLP, 6th Floor, St Magnus House, Lower Thames Street, London, EC3R 6HD, at 2:30pm on 25 June 2019** for the following purposes:

Ordinary business

1. To receive the Directors' Report and the financial statements for the year ended 28 February 2019 with the report of the Auditor thereon.
2. To approve the Directors' Remuneration Report for the year ended 28 February 2019.
3. To elect Linda Bell as a Director.
4. To re-elect Stephen Yapp as a Director.
5. To re-appoint Grant Thornton UK 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 £2,767, 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 2020 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements which would or might require relevant securities to be allotted after such expiry and so that the Directors of the Company may allot relevant securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

Special resolutions

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 2020 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 £2,767 (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 8,296,965 (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 2020 save that the Company may, prior to such expiry enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

All Ordinary Shares purchased pursuant to the above authority shall either be:

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

(ii) cancelled immediately upon completion of the purchase.

Dated 2 May 2019

By Order of the Board
Maitland Administration Services Limited
Secretary

Registered Office:

Hamilton Centre
Rodney Way
Chelmsford
Essex
CM1 3BY

Notes

(i) This Report and Financial Statements is sent to holders of Ordinary Shares, all of whom are entitled to attend, speak and vote at the above Annual General Meeting (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 the Annual Report and Financial Statements. 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 2:30pm on 21 June 2019. 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 2:30pm on 21 June 2019. In this respect the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message in the manner prescribed by CREST.

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

(vii) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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

(ix) Shareholders entered on the Register of Members of the Company at the close of business on 21 June 2019, 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 2 May 2019, the latest practicable date prior to the publication of this notice, the Company's issued share capital comprised 55,600,002 Ordinary Shares of 0.1 pence each, of which 250,000 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 2 May 2019 is 55,350,002.

(xiii) Information regarding the AGM, including the information required by Section 311A of the Act, can be found on the Company's web-pages by following the appropriate links at www.downingstrategic.co.uk.

(xiv) No Director has a service agreement with the Company. Directors' letters of appointment will be available for inspection at the AGM venue from 15 minutes before the time for the meeting until the conclusion of the meeting.

(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.

Contact details of the Advisers

Directors
Hugh Aldous (Chairman)
Linda Bell (appointed on 19 September 2018)
Andrew Griffiths
Stephen Yapp

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