

Downing Strategic Micro-Cap Investment Trust



September 2020 Commentary

The company returned -2.09% in the month while the discount has widened to end the month at 28.74%. The manager is focused on trying to narrow this discount over the coming months and will be focused on marketing accordingly. The manager continues to believe that the discount, and the underlying share prices, materially undervalue the prospects of the company and its investments.

The company made one new investment in the month in DigitalBox, supporting the acquisition of The Tab media. DigitalBox owns other titles which earn revenues through advertising through which Digitalbox optimise revenues through their programmatic technology. We believe that Digitalbox can significantly improve The Tab's subscriber and revenue KPIs and can continue to roll up the space with attractive and under-optimised titles purchased at attractive prices.

As we continue to come through the reporting cycle, it is pleasing to see some businesses perform robustly, such as [Science in Sport](#), which reported strong interims in the period. The effect of the coronavirus has increased the sales growth in the businesses online channels which are higher margin than its more traditional routes to market. Conversely, [Synectics](#) has been significantly adversely impacted from the prolonged shut down of the casino and gaming markets and earnings are expected to be materially lower this year. We expect the management team to focus inwardly in this period to drive a leaner and more efficient business which should benefit from the eventual upturn.

Opinions expressed in this document represent the views of the Investment Manager at the time of publication, are subject to change, and should not be interpreted as investment advice.

Private equity approach to research and engagement seeks to unlock greater shareholder value over the long term

We believe a strategic, proactive investment approach can help smaller companies realise their potential



UK micro caps offer a wider investment universe and can offer better value relative to larger caps (Factset)

The Downing Strategic Micro-Cap Investment Trust [website](#) includes further information about the company including annual and half year reports, investor update letters, historic factsheets and video content from the manager.



Lead Investment Manager
Judith MacKenzie

Judith is a Partner at Downing, having joined in 2009 and founding Downing Fund Managers. She was named Small-Cap Fund Manager of the Year at the Small-Cap Awards in 2013 and 2015 for the Downing UK Micro-Cap Growth Fund.

Company Objectives

- ▶ The Company aims to generate a return of 15% p.a. compound over the long term. Please note that this is a target only and is not guaranteed.
- ▶ The Manager employs a value approach and seeks to be influential through taking strategic stakes.
- ▶ The Company seeks to hold a concentrated portfolio between 12-18 holdings.
- ▶ The Company will typically hold between 3 - 25% of the equity of investee companies, notwithstanding ability to use debt instruments alongside equity.
- ▶ Long-term investment horizon over three to seven years.
- ▶ Buyback mechanism for up to 14.99% of the equity of the Company seeking to closely control discount (at the Board's ultimate discretion and subject to shareholders' annual approval).

Fund discrete performance (%)	Rolling 12-month period -6.34% (30/09/2019-30/09/2020)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	1.26	-10.64	-17.04	8.45	0.64	0.12	-2.09	6.44	-2.09				-16.29
2019	-1.81	-3.59	1.65	4.01	-3.93	-1.20	0.57	-3.75	-2.83	0.72	5.23	5.57	-0.02
2018	-0.98	-1.49	-1.76	-1.15	1.14	-2.24	-1.04	-0.19	-0.51	-7.23	1.07	-4.04	-17.18
2017*					-0.02	-0.12	-0.64	-1.31	-0.16	-1.02	-0.55	0.86	-2.94

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

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

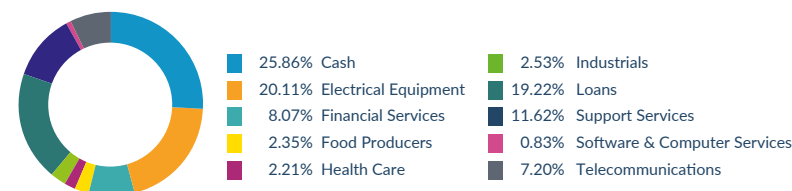
Portfolio summary As at 30 September 2020

Top five holdings

Holding	Sector	% of Company
Real Good Food Plc*	Food Producers	19.81
Volex Plc	Electrical Equipment	14.99
Adept Technology Group Plc	Telecommunications	7.20
Hargreaves Services Plc	Support Services	6.01
Synectics Plc	Support Services	5.62

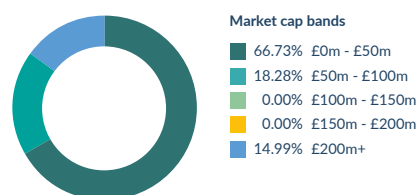
*Holding includes a 19.22% loan note and 0.59% equity split

Portfolio by sector



Source of holding and sector data is Downing LLP.

Market Cap



Source of market cap data is Factset.

Key facts As at 30 September 2020

The Company targets positive returns over the long term from a focused portfolio of UK micro-cap companies believed to be undervalued and could benefit from strategic and operational initiatives.

Launch date

9 May 2017

Morningstar sector

UK Small Cap Equity

Total market value

£25,599,490.94

Total net assets

£35,924,434.23

No of Ordinary Shares in issue

54,467,002

NAV incl. income (starting NAV 98.04p)

65.96p

Market Price of Ordinary Shares

47.00p

Premium (Discount)

-28.74%

Dividends

The Company has no stated dividend target. A dividend of 1.6p for the year ending 29 February 2020 was paid to shareholders on 3 July 2020.

Codes and fees

Ordinary Share ISIN: GB00BF0SCX52

Ordinary Share SEDOL: BF0SCX5

Ordinary Share Ticker: DSM

AMC on market cap: 1%

Ongoing charges

The ongoing charges represent the Company's management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average daily net assets during the year. The ongoing charges for the year ending 29 February 2020 were 1.83%.

Managers

Judith MacKenzie, James Lynch & Nick Hawthorn

Directors

- » Hugh Aldous, Chairman
- » Linda Bell, Non-Executive Director
- » Robert Legget, Non-Executive Director
- » William Dawkins, Non-Executive Director

Financial calendar

The Company's annual financial statements will be prepared to 28 February in each year and will typically be sent to shareholders within four months of its financial year end.

The Company also publishes an unaudited interim report covering the six months to 31 August each year, typically within two months of that date.

Further information

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Source of data: Downing LLP.

www.downingstrategic.co.uk

Risk warning: Your capital is at risk. Investments and the income derived from them can fall as well as rise and investors may not get back the full amount invested. Investments in smaller companies will normally involve greater risk or volatility than investments in larger, more established companies. Performance figures are taken from daily valuations provided by Downing LLP. Return is the total return (value of the investments plus cash including income after all expenses and charges), ignoring investor's taxation. Because shares in an investment Trust are listed on the London Stock Exchange their price is affected by supply and demand. This means that the share price may be different from the NAV. The Company's investment strategy may involve the use of leverage, which exposes the Company to risks associated with borrowings. Please note that past performance is not a guide to future performance.

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