

# Downing Strategic Micro-Cap Investment Trust



## July 2021 Commentary

In July, the Company's NAV declined by 1% whilst the share price declined by 7%. This was a disappointing performance in what was a month of strong company reporting. The markets have turned noticeably quieter following a period of fever pitch activity and this has resulted in some profit taking in DSM. Therefore, the Company ended the month at over a 20% discount which is entirely at odds with the short, medium and long-term prospects of the holdings.

As flagged in last month's factsheet, Hargreaves Services (+16.4%) reported very strong full year results. These were primarily driven by HRMS, the German joint venture, which has enjoyed an exceptionally strong period of zinc and pig iron prices. Moreover, as announced ahead of the full year results, this business has now locked these prices in for the first six months of the year which has provided greater visibility on FY2022 earnings and subsequently resulted in an upgrade. Hargreaves shareholders will continue to receive economic benefits from HRMS in the form of a 12p dividend. Elsewhere, the Land business continues to make good progress and there remain significant catalysts here to generate value for the next decade or more. Synectics (+2.9%) reported half year results which bore the brunt of continuing Covid-19 headwinds in the gaming sector but good progress in the security division which continues to win good public sector contracts. Given the confidence, management have re-introduced (conservative, we think) guidance which signals a strong recovery with £5 million EBITDA potential by 2023 implying less than 4x EV/ EBITDA. Given the significant cost savings through Covid-19, we think this ought to be achievable. AdEPT (+13.3%) also reported final results in the month, which again pointed to a resilient performance through Covid-19. Core to our thesis, managed services continued to grind higher as a percentage of overall revenue, now at 81%, and significantly improved earnings visibility. Cloud Centric services also grew in a challenging year and this provides further traction in the attractive education sector where AdEPT have a long track record. We think there are great things happening at AdEPT and the outlook reflects that, with sales and margins firmly in line with expectations.

Volex made a notable trading statement (-6.9%) which reiterated a very strong beginning to the year and subsequently upgraded guidance. We continue to think that management are being very conservative and will discuss various scenarios where we see upside to consensus in our next investor letter which will be published later this month. We think the shares offer good value here with numerous short-term catalysts, thus have been adding modestly to our position on weaker days.

There have been a number of positive developments at Tactus recently, including another small acquisition which adds a warranty and repairs function. Tactus was also awarded the Device Partner of the Year award by Microsoft and is now a Gold Microsoft Partner which should generate a significant rebate contribution going forwards. In the sector, relevant to Tactus (and CCL), is the recent acquisition by HAL Holding N.V. of Pro Gamers Group, an online retailer and distributor of computer gaming equipment and accessories with both own- and third-party brands. Pro Gamers Group has executed a similar strategy to Tactus/ CCL.

*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.*



Lead Investment Manager  
**Judith MacKenzie**

Judith is a Partner at Downing, having joined in 2009 and founding Downing Fund Managers.

Previously she was a partner at Acuity Capital managing AIM-quoted VCT and IHT investments and a small-cap activist fund. Prior to Acuity, Judith spent nine years as a senior investment manager with Aberdeen Asset Management Growth Capital as co Fund Manager of the five Aberdeen VCTs, focusing on technology and media investments in both the public and private arenas.

### Investment rationale

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

Fund discrete performance (%)	Rolling 12-month period 40.08% (31/07/2020-31/07/2021)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	1.63	3.80	2.46	7.64	-0.62	0.69	-1.02						15.24
2020	1.26	-10.64	-17.04	8.45	0.64	0.12	-2.09	6.44	-2.09	2.04	8.69	5.17	-2.36
2019	-1.81	-3.59	1.65	4.01	-3.93	-1.20	0.57	-3.75	-2.83	0.72	5.23	5.57	-0.02
2018	-0.98	-1.49	-1.76	-1.15	1.14	-2.24	-1.04	-0.19	-0.51	-7.23	1.07	-4.04	-17.18
2017*					-0.02	-0.12	-0.64	-1.31	-0.16	-1.02	-0.55	0.86	-2.94

\* 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.

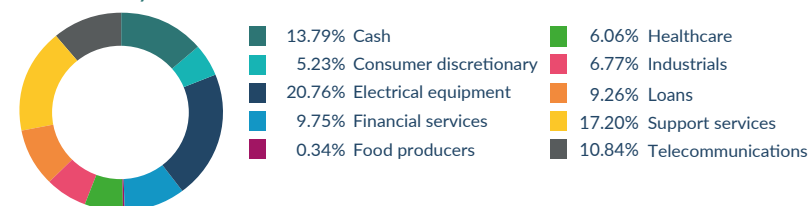
# Portfolio summary As at 31 July 2021

## Top five holdings

Holding	Sector	% of Company
Volex plc	Electrical Equipment	14.17
Hargreaves Services plc	Support Services	11.93
Real Good Food Company plc*	Food Producers	9.60
Ramsdens Holdings plc	Financial Services	6.94
Flowtech Fluidpower plc	Industrials	6.77

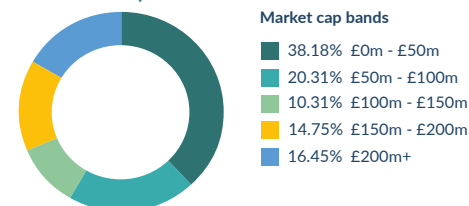
\*Holding includes a 9.26% loan note and 0.34% equity split

## Portfolio by sector



Source of holding and sector data is Downing LLP.

## Market Cap



Source of market cap data is Factset.

# Key facts As at 31 July 2021

### Launch date

9 May 2017

### Morningstar sector

UK Small Cap Equity

### Total market value

£36,421,633.76

### Total net assets

£45,639,376.37

### No of Ordinary Shares in issue

51,479,341

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

88.66p

### Market Price of Ordinary Shares

70.75p

### Premium (Discount)

-20.20%

### Dividends

The company has no stated dividend target.

### Codes and fees

Ordinary Share ISIN: GB00BF0SCX52

Ordinary Share SEDOL: BF0SCX5

Ordinary Share Ticker: DSM

AMC on market cap: 1%

### Ongoing charges

The ongoing charges represent the company's management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average daily net assets during the year.

The ongoing charges for the year ending 28 February 2021 were 1.84%.

### Managers

Judith MacKenzie & Nick Hawthorn

### Directors

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

### Financial calendar

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

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

### Further information

#### Registered Office

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Source of data: Downing LLP.

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

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

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