

Downing Strategic Micro-Cap Investment Trust



July 2020 Commentary

The Company's NAV returned -2.09% in June. The discount widened to finish the month at 27%. This is disappointing, especially given the relatively positive news flow that our companies reported in the period. As uncertainty lingers around COVID and other economic events such as the US election, we continue to work diligently to uncover further opportunities for the Company. We are also continuing to build our position in the toeholds which we have mentioned previously.

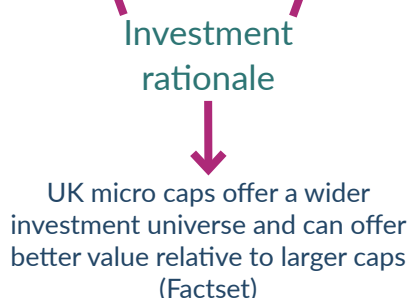
The most significant positive updates came from [Synectics](#) and [Hargreaves Services](#) – both reporting results in the period. Unfortunately, the positive contributions were outweighed, largely, by the negative contribution from Volex, which ended the month at 136p, around 11% lower than where it began. This was despite, in our view, a robust [AGM statement](#), which reiterated that performance was in-line with prior years. At the time of writing, the share price is already back to 144p.

In the month, we exited our remaining position in [Gama Aviation](#) in full, prior to it announcing results. This is an incredibly disappointing outcome, but one which has been driven by an increasing lack of confidence in the management team and Board, following restatements of its accounts, and what we perceive to be misleading accounting practice which flattened cash flow, including by failing to recognise the receipt of overpayments totalling c\$5 million in 2017 and c\$5.75 million in 2018. We are equally disappointed that Gama's directors, brokers and auditors at the time, have not faced any challenge to their professional conduct before, during or after the [placing in February 2018](#) in view of the subsequently discovered accounting inaccuracies.

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



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 -15.94% (31/07/2019-31/07/2020)												
	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						
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

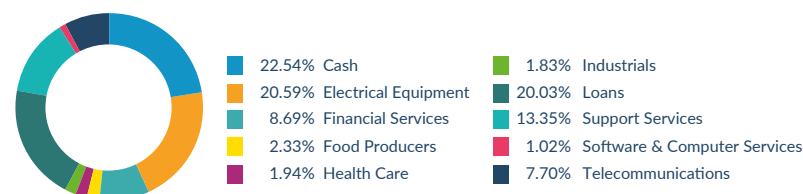
Source: Downing LLP. Please note that past performance is not a reliable indicator of future results.

Portfolio summary As at 31 July 2020

Top five holdings

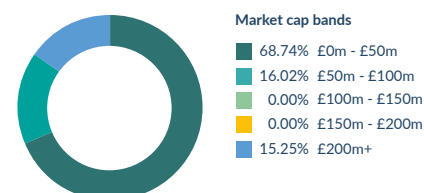
Holding	Sector	% of Company
Real Good Food (inc loan notes)	Food Producers	20.73%
Volex Plc	Electrical Equipment	15.25%
Adept Technology Group Plc	Telecommunications	7.70%
Synectics Plc	Support Services	6.97%
Hargreaves Services Plc	Support Services	6.38%

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 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 Smaller companies

Total market value

£25,054,820.92

Total net assets

£34,471,293.82

No of Ordinary Shares in issue

54,467,002

NAV incl. income (starting NAV 98.04p)

63.29p

Market Price of Ordinary Shares

46.00p

Premium (Discount)

-27.32%

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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