Downing Strategic Micro-Cap Investment Trust PLC

Half-Yearly Financial Report

31 August 2018

Company number: 10626295

Downing

Objective of the Company

The investment objective of Downing Strategic Micro-Cap Investment Trust PLC ('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 per cent. per annum over the long term.

Investment Policy

The investment policy is available on the Company's website. An explanation of the investment strategy is provided in the Investment Manager's Report on page 5.

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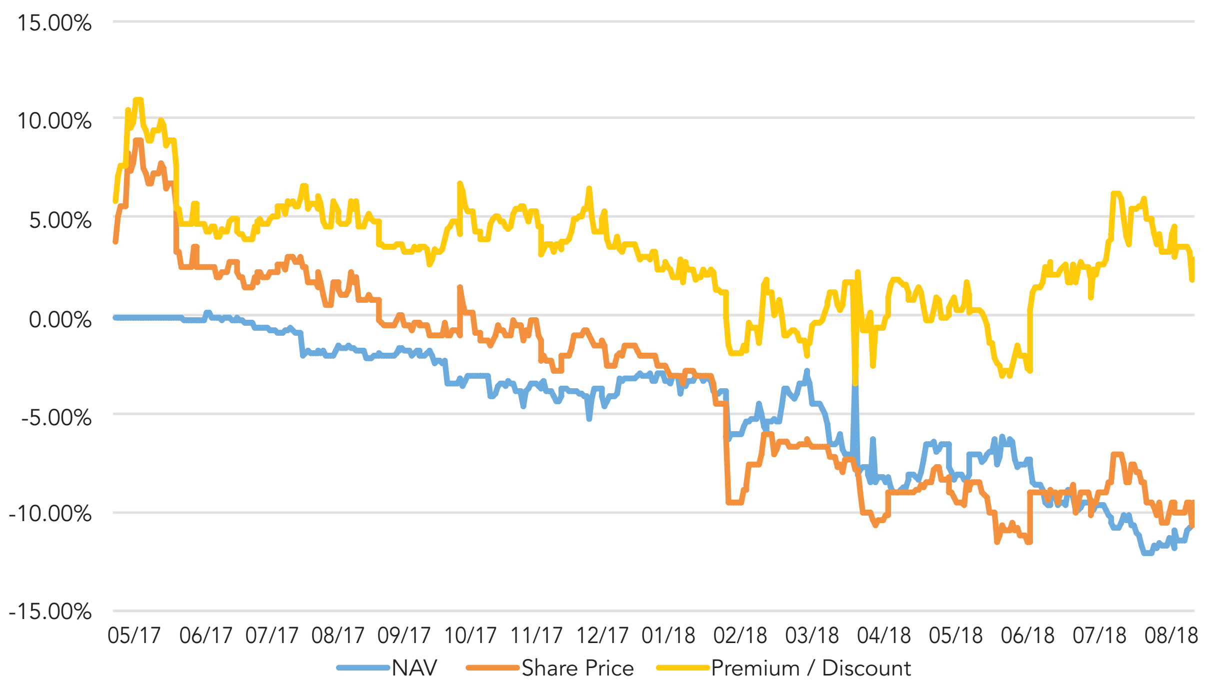
Financial Summary

	(Unaudited) Six months ended 31 August 2018	(Audited) For the period ended 28 February 2018	% change
Performance			
Net Assets (£'000)	**48,952**	51,744	(5.40)
Net asset value (NAV) per Ordinary Share	**88.04p**	93.06p	(5.40)
Mid Market price per Ordinary Share	**90.50p**	93.60p	(3.31)
Premium	**2.79%**	0.58%	–
Revenue return per Ordinary Share	**0.72p**	(0.03p)	–
Capital return per Ordinary Share	**(5.74)p**	(6.22p)	–
Total return per Ordinary Share	**(5.02)p**	(6.25p)	–
	%	%	
Decrease in NAV since admission *	**(11.96)**	(6.94)	–
Decrease in share price since admission *	**(9.50)**	(6.40)	–

* 9 May 2017

Performance from 9 May 2017 to 31 August 2018



Source: Downing

Chairman's Statement

Although, speaking generally, the shares of micro-cap companies have had a difficult six months, and currently suffer from a jittery global market, at least your Company's portfolio continues to build intrinsic value[1] by investing in good quality businesses at bargain prices. 66% of the portfolio has reported improved trading since acquisition, and one investment has undergone major change, at Downing's instigation. The Investment Manager's report (page 5) will help shareholders see that all but two, maybe all but one, of our investments are better value today than when we invested – and they were good value then. It may be frustrating waiting for markets to appreciate the increasing value of these micro-caps, but the rationale and portfolio construction remain sound. Your Board does recognise that strategic, value investments imply a need for change – and that sometimes takes a while, as does market recognition.

The Investment Manager has been instrumental in at least a couple of catalysts to release value and its close monitoring, and some radical influence when needed, have proved appropriate. It is vexing that we ended the period with the net asset value ('NAV') per share down by 5.4% and the shares down by 3.3% at 90.5p, followed by October's market correction, but polite, firm activism should win through.

As you will see from the Investment Manager's report, change within the portfolio has included eight new non-executive directors ('NEDs'), three chairmen, six finance directors ('FDs') and two chief executive officers ('CEOs'), coupled with some plain speaking. Our investees are good businesses; they deserve to be energetically governed; and we encourage that to happen.

Your Company is now 82.6% invested. We will retain some cash, partly to be able to manage any manifest discount that should emerge, and partly for investment opportunities, but it would be fair to say that, for our present capital, we are getting close to being fully invested with 12 listed investments.

The Investment Manager's style of in-depth analysis, and sometimes strong, active engagement, has also been demonstrated. Your Company has a distinctly differentiated strategy for this undervalued market segment.

Your Board also works closely with its management team and we review investments and confer frequently. Thoughtful support helps investment managers deal with an inherently frustrating market.

Part of the market problem is that some micro-caps are not good at explaining their purpose, value and performance and get little support from their brokers. Some need to have more shareholder awareness, even vitality, on their boards. Those companies can remain cheap for longer than your Board would wish. In the meantime, our Investment Manager works doubly hard to improve public appreciation of the companies in which we have invested. A good example of that work is their detailed quarterly investor letter. If you haven't seen it, go to our website www.downingstrategic.co.uk.

As for what was initially our most problematic investment, I am pleased to say that it has been handled strongly and well. After investing in Real Good Food plc, we found more than we bargained for. Judith MacKenzie went onto the board, the company was quickly given a new CEO, a new FD, now two new NEDs and it has sold businesses that are not key to its future. Stockdale, our brokers, issued a note on 23 September that gives a good overview and estimated that, on this investment alone, the steps taken so far "could cause the NAV of DSM to rise by c.7.5%". That style of engagement will be a feature of your Company's manager wherever necessary.

The Investment Manager's review on pages 5 to 7 takes you through your Company's diversified portfolio of strategic holdings. Each is at a point of transformation, some energetically so, meeting key demand in future economies. A good example is AdEPT (now AdEPT Technology Group plc), a company that has grown steadily to meet managed service demand in the technology of unified communications and grown its earnings before interest, tax, depreciation and amortization and its earnings per share every year over 15 years. It has new brokers, Cantor Fitzgerald, who brought out an initiation note that explains AdEPT's continuing transformation well. I commend our Investment Manager's report: detailed and incisive.

[1] using consistent discounts applied to trading analyses to arrive at the Investment Manager's valuations

The importance of good corporate governance

Your Board and Downing are strong supporters of The Quoted Companies Alliance ('QCA') and its Corporate Governance Code released in April 2018. I urge the boards of all small companies (and many large ones!) to absorb the QCA's guidance and consider what they as a board need to do to 'up' their own game and that of management. That's what boards are there for.

Value and purpose

DSM has no doubt about the value and purpose that it brings to investing: to build a portfolio of intrinsic worth well in excess of quoted market value with the purpose of realising that excess for shareholders. We invite the boards of our investees to assess their value, purpose and (to paraphrase the Financial Reporting Council) their effectiveness in directing their companies to realise value for shareholders.

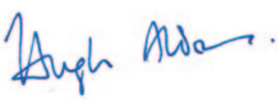
The Board

I am pleased to report that we have recruited a strong new NED, Linda Bell, who brings an inquiring mind with the invaluable experience of a considerable run of years as a successful CEO of demanding businesses.

Outlook

Markets decide, from time to time, that a correction, a 'reset' is needed. Such a view has now triggered a correction coupled with a more sober view of global growth. Nothing catastrophic has happened – yet, although Janet Yellen has pointed out an increase in doubtful lending. At times like these it is even more important that stock selection should be value driven and should grip sound earnings and long-term value. That is your management team's purpose and your Board's oversight.

Hugh Aldous
Chairman
1 November 2018



Investment Manager's Report

Definition of a Strategic Investor

"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".

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

The Company invests in publicly quoted companies with a market capitalisation typically below that of £150 million and takes strategic positions (defined as between 3% and 25% of the underlying equity in the company) with a target of 15% compound per annum returns over three to seven years.

The Company was launched in May 2017, and at the date of this report, is 82.61% invested in 12 companies. By their nature, strategic investments tend to require some element of change, hence the portfolio is not expected to perform over the very short term while these catalysts are put in place. The Company should be measured for its performance over the longer term, and the investment managers should be judged for their activity in ensuring that these catalysts for positive change are implemented.

In all of these holdings we have been working with management to add value to the strategy the company is deploying. We are not operational managers of the businesses we invest in; we back management and boards. We work with management, and only work against boards where we feel there has been a fundamental breakdown in the commitments they have made to shareholders and their ability to deliver shareholder value.

We have a proactive engagement with our investee boards, and do not seek to be 'activist' in its purest definition. However, we will not stand for behaviour in management teams and boards that is not in the interests of all shareholders. In these situations, we will work first behind the scenes to facilitate change, and will only make a public display of the weaknesses that we perceive as a last resort. Thankfully, we have not had to make many public displays since the lead investment manager has been exercising this strategy. However, it is fair to say that a lot happens behind closed doors. We do not like management teams that are not accountable, and relish working with those that are.

We view the half-yearly and annual report and accounts as an opportunity to update shareholders in the companies in which we have invested. We issue a quarterly Investor Letter, which gives a more comprehensive description of our strategy and underlying investments. You will find it here www.downingstrategic.co.uk, or email marketing@downing.co.uk for a copy.

Shareholders in the Company should look for accountability and a road-map to value creation in these businesses. The factor that differentiates us from other investment managers is the level of engagement we have with our investments, "brightening the investee's prospects for success". We will leave you to draw your own conclusions as to where we have had a direct and guiding influence. We do not conform to the regime of smaller company investing and hence our investors should expect to see results and engagement that are atypical of our peers.

These are the highlights from our portfolio over the period:

- **66%** of the portfolio has/is going through **board change** which represents eight NEDS, three chairmen, six FDs, and two CEOs. **In total 19 new key hires.**
- **66%** of the portfolio has experienced **positive trading.**
- **58%** of the portfolio **has experienced corporate activity** having been acquisitive/made disposals and/or invested in organic growth.
- Of the four investments that have not experienced improved trading, one has undergone turnaround and disposal of non core assets (Real Good Food plc), one is in the process of changing the Chairman (FireAngel), one has faced contract delays, NOT loss of contracts, and Gama is now forecast to deliver flat earnings whilst this period of heavy reinvestment is navigated.

This is the school report of our underlying investments over the last 12 months – in alphabetical order

Company	Trading +/-	Acquisitions/ Disposals	Director share purchases	Change of Broker	Change in SMT*	Board Change	Organic Investment**
AdEPT Technology Group	✔	✔	✔	✔		✔	
Braemar Shipping Services	✔	✔			✔	✔	
Duke Royalty	✔						✔
FireAngel Safety Technology	✖		✔		✔	✔	
Gama Aviation	✖	✔	✔		✔	✔	✔
Hargreaves Services	✔	✔	✔			✔	
Ramsdens Holdings	✔						
Real Good Food	✖	✔			✔	✔	✔
Redhall Group	✖				✔	✔	✔
Science in Sport	✔			✔			✔
Synectics	✔					✔	
Volex	✔	✔	✔				✔

*SMT = Senior Management Team

** via capital from equity placing

Portfolio

We use our own valuations to drive our decision making and we care about the price at which we buy stock, and the price that we sell it at. The market's perception and behaviour towards a stock in the intervening period is, frankly, irrelevant. However, it would be naive to be blind to market sentiment, and we have faced challenges here over the past year. Our companies tend to be slightly unloved value positions, having been subject to turnarounds (Redhall/Volex/Real Good Food), or be in sectors that are not easily understood by the layman (Gama, Duke Royalty, Ramsdens). By virtue of the fact that they are misunderstood/out of favour, we believe they are attractive as we can pay a lower price for better quality of earnings than a company that has growth priced in. It has been well documented that growth and momentum strategies have been attractive to investors over the last couple of years. We adopt a slow, value approach; the antithesis of growth and momentum. We prefer this strategy since history has taught us that, over the long-term, value outperforms growth.

Short-term market sentiment should not dampen the credibility of the underlying investments. The majority of the portfolio has reported improved trading! Of the four that have not, one has experienced contract delays not losses (Redhall), whilst another (Real Good Food plc) is in the throes of a full-on-turnaround (instigated at the time of investment), and the third, FireAngel, is going through growing pains as it struggles to manage capital and growth efficiently - fortunately, FireAngel is a smaller position in the portfolio. The fourth, Gama is now forecast to deliver flat earnings whilst this period of heavy reinvestment is navigated. We believe that it is within our power to mitigate against these perceived negative elements.

What keeps us awake at night?

The underperformance of an investments' fundamentals against our own expectations gives concern, as opposed to a share price fall as this is the markets interpretation of the headlines. Regulatory change has had an impact on our investments as it is very difficult for shareholders to get accurate information on small companies at the best of times, and this has been exacerbated by rules which have made research harder to distribute. Therefore, our companies are getting less attention, and are consequently less 'marketable'.

We have used our initiative to help improve this situation;

- We are making sure we draw attention to the 'stars' in our portfolio. We have filmed three videos in the last six months, using this medium to talk about our investments. In one we went on site and shot a video interview with the CEO (AdEPT Technology, see it here https://www.downingstrategic.co.uk/news-views/adept-telecom-hidden-gem. We will be doing more of this with other investee companies. Indeed, you can view a short video overview of our activity in the half-year and meet our fund managers by visiting www.downingstrategic.co.uk
- We have been persuading boards to consider using 'paid for research'.
- We have been persuading boards to think more about their IR strategy and have made the relevant introductions.

We expect that our portfolio will begin to see the benefit of the changes that have been made in the underlying investments. We are encouraged by our management teams who make investment decisions for the long term, not to satisfy market sentiment at any given time. The following pages contain a review of our investments against plan.

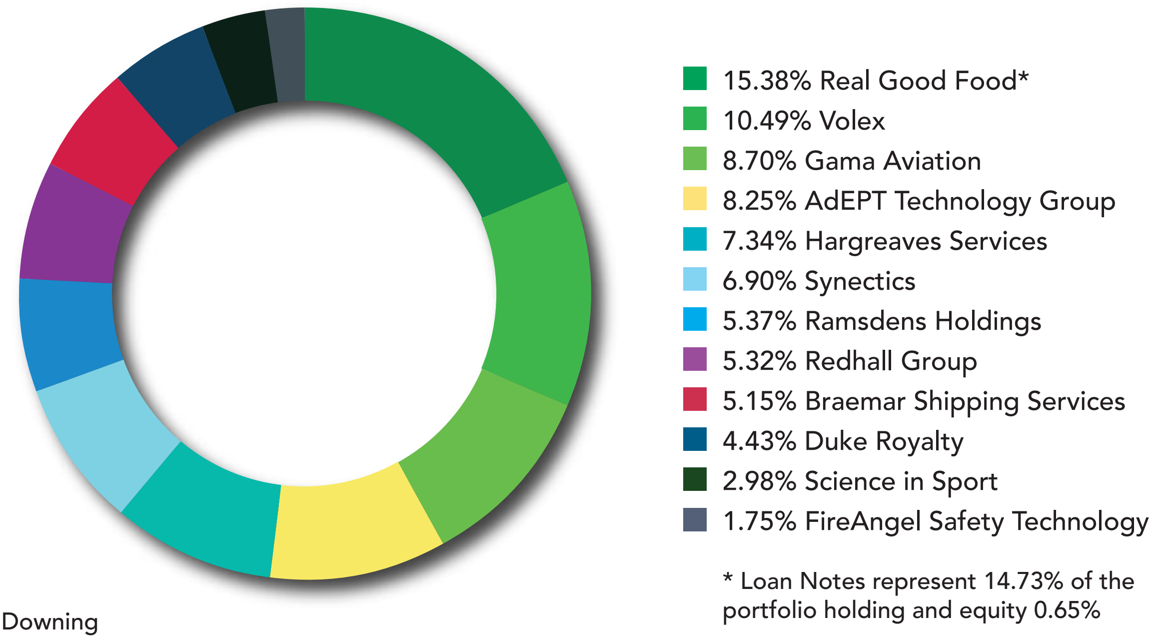
Judith MacKenzie
Partner and Head of Public Equity, Downing LLP
1 November 2018

Investment Portfolio

Holding	Market Value (£'000) as at 31 August 2018	% of Total assets as at 31 August 2018	% of Total assets[3] as at 28 February 2018
Real Good Food 10% Loan Note (29/06/2020)[1]	6,014	12.29	–
Volex	5,134	10.49	–
Gama Aviation	4,260	8.70	10.51
AdEPT Technology Group	4,040	8.25	6.80
Hargreaves Services	3,593	7.34	6.72
Synectics	3,377	6.90	5.65
Ramsdens Holdings	2,627	5.37	5.96
Redhall Group	2,604	5.32	5.60
Braemar Shipping Services[2]	2,522	5.15	4.58
Duke Royalty	2,170	4.43	–
Science in Sport	1,457	2.98	2.82
Real Good Food 12% 'C' Secured Guaranteed Loan Note (16/05/2021)[1]	1,195	2.44	–
FireAngel Safety Technology	856	1.75	–
Real Good Food	318	0.65	1.74
Total Investments	40,167	82.06	
Net current assets	8,785	17.94	
Total assets	**48,952**	**100.00**	

[1] Unquoted
[2] Quoted on the Main Market
[3] Full portfolio details are on page 12 of the Annual Report (www.downing.co.uk/strategic)

All investments are traded on AIM unless indicated. The total number of holdings as at 31 August 2018 was 12 (28 February 2018: 10). Details of the equity interests comprising more than 3% of any company's share capital are set out in note 8.



Source: Downing

Background to the investments

Key: GREEN: Good RED: Bad ORANGE: Neutral

AdEPT Technology Group PLC (AdEPT) (8.3% of net assets)
Cost: £3.62m. Value as at 31 August 2018, £4.04m.

- Final results in July 2018 were ahead of expectations. EBITDA up 23% year-on-year
- August 2018 acquisition of Shift 7
- CEO purchased shares in August 2018
- Appointment of new broker and NOMAD in August 2018

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 has acquired again in the last six months and has upgraded earnings. Managed services are now over 70% of revenues. The company has been receptive to the need to make the business more 'market facing' and has changed broker and engaged with shareholders to get the message about the strength of this business out to all aspects of its shareholder base.

Braemar Shipping Services PLC (Braemar) (5.2% of net assets)
Cost: £2.86m. Value as at 31 August 2018, £2.52m.

- Operating profit and underlying basic EPS increased over 90%
- Overall trading performance in line with expectations
- Board changes – interim CFO appointed, NED stands down, chairman to retire
- Disposal of Braemar Response

Progress against investment case

Braemar's underlying performance for 2017/18 showed a marked improvement on the previous year due to the actions taken in the technical division to re-scale the business for the market environment. It generated £8.17m of operating profit and underlying basic EPS of 21.1p per share, while net debt was higher following its entry into new markets through the acquisitions of Braemar-NAVES and Braemar Atlantic. We believe that having a strong presence in the maritime financial advisory, dry freight and commodity derivatives markets is important for the long-term strategy and growth of the group.

The outlook is relatively positive for the current financial year, and although tanker freight rates are likely to remain lower for longer in this part of the business, it is offset by the relative strength in the financial, technical and logistics divisions. In October, the group announced the disposal of its incident response business, Braemar Response, for a total consideration of £0.77m. The disposal allows Braemar to focus on delivering its strategy for its core consultancy and professional services divisions.

It terms of the investment case, the marine services business restructuring has happened successfully and the long term upward trend for seaborne trade continues. Equally, ship broker margins are improving albeit not as fast as we would like. The chair change on the board was required to help better focus the group on shareholder value, such as investing in high margin businesses and selling off the low margin areas.

Duke Royalty Limited (Duke Royalty) (4.4% of net assets)
Cost: £2.05m. Value as at 31 August 2018, £2.17m.

- Full year results were in line with expectations; September 2018
- Successful capital raise; July 2018
- Capital deployment program progressing according to plan
- New Royalty Agreements consistent with longer-term strategy

Progress against investment case

Duke Royalty's results showed total income for the year of £1.80m and generated £0.25m net cash inflow from operating activities. Following the year end, the company participated in a funding round that saw the business raise an additional £44m of capital. Approximately £11m of this has been deployed in the first two months following the raise and management has a strong pipeline of potential Royalty Partners that will allow them to deploy the remaining funds within the coming 6-12 months. The Duke Royalty portfolio construction has been consistent with the board's investment criteria. The recently announced dividend suggests a yield for the coming year of over 6.0%.

FireAngel Safety Technology PLC (FireAngel) (1.8% of net assets)
Cost: £2.88m. Value as at 31 August 2018, £0.85m.

- Termination Notice of Distribution Agreement; March 2018
- Outcome of Distribution Agreement Dispute; May 2018
- Appointment of New FD to start in November 2018
- Trading below market expectations
- NED buys shares; August 2018
- Mears Partnership agreed in September 2018
- St Ledger Homes preferred supplier; September 2018

Progress against investment case

It has been a challenging six months for FireAngel (formerly Sprue Aegis), 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 we understand that businesses don't always run smoothly and often face external challenges, we expect our management teams to adapt and plan accordingly, and we have not seen much evidence of that in this case. We love the regulated markets in which FireAngel operates, and its barrier to entry through IP. We don't like its inability to be flexible and adapt to challenges, and management has been serially 'unlucky' in its ability to execute. We feel it is a business that has grown very quickly financially, however has not adopted best practice and processes for a business of its size. We are disappointed that progress has been stalled, however we believe that there is a very interesting strategic plan that will get the business back on track, perhaps with a refined cost base and renewed focus. The board has stated that the current executive chairman will be replaced with a new chair and we support this move.

We would expect to advise in our next report and accounts, that the new chair has been appointed, and that a review of operations of the business has been undertaken.

We are reassured that a new FD has been appointed, and is someone known to Downing.

Gama Aviation PLC (Gama) (8.7% of net assets)
Cost: £5.29m. Value as at 31 August 2018, £4.26m.

- **Interim results flat year-on-year**
- **New FD**
- **Strategic progress**
- **Refinancing completed**

Gama Aviation

Progress against investment case

Gama reported flat interim results followed by a trading statement which indicated that underlying profits were going to be behind for the year and, we think, about in line with last year. Whilst we expect that some delayed contracts from the first half did begin coming through in the second half, these had not been enough to offset the lower than expected growth elsewhere combined with the higher costs associated with the current investment phase. Overall, it feels like management underestimated the disruption and costs involved in the growth plan. The business is well financed post the fundraise and has attractive attributes where we think there is a real competitive advantage to Gama. We hope to see demonstrable focus on maximising these as a priority. The new CFO joined in September and we have so far been impressed with his knowledge of the operations. We think that the business will benefit from his financial rigour and independent thought.

Hargreaves Services PLC (Hargreaves Services) (7.3% of net assets)
Cost: £3.65m. Value as at 31 August 2018, £3.59m.

- **New Chairman and Group Property Director appointed**
- **Underlying trading satisfactory and in line with management expectations**
- **Disposal of Brockwell Energy; October 2018**
- **Wolf Minerals ceases trading; October 2018**

Progress against investment case

Hargreaves Services is a good example of an asset heavy balance sheet alongside profitable operations. Owed to legacy capital-intensive operations, there is a large amount of tangible asset value. This has been difficult to access, and the market discounts this materially given that the business trades on a 46%discount to its true book value. We believe this discount can be realised by further spinoffs and cash returns to shareholders. For example, the property assets are spread over 18,000 acres of land, of which the majority is no longer needed for the group's core operations. The group announced the appointment of a new Group Property Director and that the chairman would be replaced by Roger McDowell, who we believe will more appropriately represent shareholders' interests. During the period, the group sold Brockwell Energy with initial gross proceeds estimated to be £21 million. The high coal price has also meant that the legacy surface mine has become highly profitable and is expected to be extracted as fast as possible over the next two years. On the downside, the group has a current net exposure of approximately £5 million owed to it from Wolf Minerals PLC, some or all of which may prove to be irrecoverable were Wolf to be unable to continue trading.

Ramsdens Holdings PLC (Ramsdens) (5.4% of net assets)
Cost: £2.61m. Value as at 31 August 2018, £2.62m.

- **Nine new sites opened since investment**
- **All sites trading ahead of expectations**
- **Trading update states profitability is expected to be inline**
- **Foreign exchange segment was impacted by strong summer**
- **Management share sale has weighed on share price**

Progress against investment case

Ramsdens has performed well against our investment case thus far, with 16 sites expected to be opened by the end of full year 2019, against the 12 we had forecast. The full year 2018 results were ahead of our forecast numbers, significantly reducing the level of forecast risk in the investment case going forward. Following our investment in the business the shares saw a strong rally, however we believe that the market has since misinterpreted the director's share sale in June as a negative signal. We think that the valuation still represents a strong discount to our intrinsic value.

Real Good Food PLC (Real Good Food) (including loan notes) (15.38 % of net assets) Cost: £9.06m. Value as at 31 August 2018, £7.52m.

- Disposal of Garretts Ingredients; April 2018
- Terms agreed for new funding; May 2018
- Open Offer to raise £1 million; July 2018
- New NED; August 2018
- Disposal of Haydens Bakery; September 2018
- New NED; September 2018
- Final results to March 2018 – demonstrating impact of turn around

Real Good Food plc

Cake Decoration • Food Ingredients • Premium Bakery

Progress against investment case

It has been a busy period for the board of Real Good Food. There was a lot of work involved in the turnaround of this business, and it has been clearly evidenced in the catalysts that the management has put in place. Poor governance has been addressed, financing has been addressed, and the disposal of non-core assets has started. 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. This remains the case, and now with a management team and strategy to drive that value, we feel increasingly confident of our ability to drive returns from this investment.

Redhall Group PLC (Redhall) (5.3% of net assets) Cost: £4.14m. Value as at 31 August 2018, £2.60m.

- Jordan won three contracts with Balfour Beatty; March 2018
- FD replaced by Simon Cromer (ex FD at Applied Composites); April 2018
- Appointment of Joe Oatley as Senior Independent Director (ex CEO of Cape and CEO of Hamworthy)
- Phil Hilling resigned as NED
- Full Year trading update in September 2018 – delays on contract mean Full Year results will be materially below expectations

Redhall Group

Progress against investment case

Redhall has made significant progress on its order book and execution of it since we invested last year, however, this has been frustrated by contract delays. Perhaps we should not have been surprised that these large infrastructure projects, such as Crossrail and Hinckley Point C, are subject to interuptions. We take the view with this business that delays can partly be mitigated and controlled by efficient management, and we now have a team and board that are more focused on engineering efficiency and best practice than ever before. We also take the view that a potential acquirer will value the toe-hold that Redhall provides into UK Nuclear. We cannot dispute the fact that Redhall either needs to be part of something larger or gain critical mass itself. Our strategic position of 22.9% across Downing client funds, allows us the influence to ensure the correct corporate activity is followed. We have taken advantage of the weak share price and have been acquiring stock at what we believe is a significant discount to the intrinsic value of the company.

Science in Sport PLC (SIS) (3.0% of net assets)
Cost: £1.49m. Value as at 31 August 2018, £1.45m.

- **Interim revenues increased by 20%**
- **Strong sales underpinned by growth in international markets**
- **E-commerce platform delivered growth of 30%**
- **Confidence in the outlook for the full year and beyond**

Progress against investment case

Science in Sport is currently investing heavily to fund growth, however we believe that in normalised market growth conditions the business can generate enough free cash flow to justify its current valuation with a material margin of safety.

Despite operating in competitive markets where there is considerable pressure on margin, SiS has grown gross margins from 56% in 2013, to 60% in 2017. In part, this is due to its position as a niche player in endurance sports nutrition, with a premium product that is the only one to hold certification for banned substance controls in the world.

The e-commerce platform delivered growth of 30% underlining the pace of change from offline to online across the retail market is accelerating. The SIS brand is well placed to take advantage of this structural shift and continue to invest in its people, technology and brand awareness to underpin its growth ambitions. The launch of its football business, securing an exclusive nutrition partnership with Manchester United, has already seen an impact on sales to elite clubs demonstrating that the strategy of focusing on online and international growth is delivering results.

Group operating losses reflect the increased investment in new international markets, football and the e-commerce platform. The core business moved into profit at the half year for the first time through leveraging the advantage of a strong gross margin and tightly controlled costs. Having reached the milestone of profitability in its core business and with promising early signs in the USA, we are very confident for the future of the SIS brand.

Synectics PLC (Synectics) (6.9% of net assets)
Cost: £3.41m. Value as at 31 August 2018, £3.37m.

- Contract win. European Metro Trains €1m+ in March 2018
- Trading update in line with market expectations
- Contract win – key London site. £1m+ in April 2018
- Notice given in June 2018 of FD departure in November 2018
- Interim results – positive improved earnings (underlying profit up 12% to £1.5 million)
- Contract win, Serco for six of its UK operated custodial sites in August 2018
- New FD appointment in September 2018

Progress against investment case

Synectics is probably modest in its ambitions, however it has a great market position and IP in growing sectors. It would be easy to criticise for the apparent lack of ambition and a rather introverted attitude to the market, however it is more difficult to criticise the growing order book and delivery on earnings, while also making the correct decisions for capital deployment to grow the business over the longer term. It was a surprise to see the departure of the FD, however he has gone to another portfolio company, FireAngel. A new FD has been appointed, and in typically prudent style there is an appropriate handover period for the business. We are confident that Synectics has the ability to deliver against its modest expectations and start to gain recognition and/or consider corporate deals.

Volex PLC (Volex) (10.5% of net assets)
Cost: £4.47m. Value as at 31 August 2018, £5.13m.

- Acquisition of Silcotech and MC Electronics
- Revenue growth
- Earnings growth
- Strategic progress on deploying capital

Progress against investment case

Volex has had a good few months following the placing earlier in the year. The power cords business has strengthened materially off a low base whilst margins in cable assemblies were slightly lower on the back of investment, though these are expected to recover. There has been progress on the sales front as well, with revenue growth mentioned in the AGM statement alongside further cost efficiencies. We think that there are some attractive inorganic growth opportunities as well and expect further progress on this in due course.

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 in 2016 which will be replaced by the new 2018 version with effect from 1 January 2019.

- **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.

Condensed Statement of Comprehensive Income

for the six months ended 31 August 2018

	(Unaudited) Six months ended 31 August 2018			(Unaudited) Period from 17 February 2017 to 31 August 2017			(Audited) Period from 17 February 2017 to 28 February 2018		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments at fair value through profit or loss	**–**	**(2,988)**	**(2,988)**	–	(922)	(922)	–	(2,447)	(2,447)
Investment income (note 3)	**658**	**–**	**658**	78	–	78	417	–	417
	658	**(2,988)**	**(2,330)**	78	(922)	(844)	417	(2,447)	(2,030)
Investment management fee (note 4)	**(50)**	**(205)**	**(255)**	(35)	(142)	(177)	(90)	(358)	(448)
Other expenses	**(207)**	**-**	**(207)**	(153)	–	(153)	(339)	(1)	(340)
	(257)	**(205)**	**(462)**	(188)	(142)	(330)	(429)	(359)	(788)
Net return before taxation	**401**	**(3,193)**	**(2,792)**	(110)	(1,064)	(1,174)	(12)	(2,806)	(2,818)
Taxation	**–**	**–**	**–**	–	–	–	–	–	–
Total Comprehensive income/ (expense) for the period	**401**	**(3,193)**	**(2,792)**	(110)	(1,064)	(1,174)	(12)	(2,806)	(2,818)

	Revenue (p)	**Capital (p)**	**Total (p)**	Revenue (p)	Capital (p)	Total (p)	Revenue (p)	Capital (p)	Total (p)
Earnings/(loss) per Ordinary Share (note 5)	**0.72**	**(5.74)**	**(5.02)**	(0.34)	(3.24)	(3.58)	(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').

All items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period.

Condensed Statement of Changes in Equity
for the six months to 31 August 2018

	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Six months ended 31 August 2018 (Unaudited)						
At 01 March 2018	**56**	**–**	**54,506**	**(2,806)**	**(12)**	**51,744**
Total Comprehensive income/(expense) for the period	**–**	**–**	**–**	**(3,193)**	**401**	**(2,792)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**
At 31 August 2018	**56**	**-**	**54,506**	**(5,999)**	**389**	**48,952**
For the period 17 February 2017 to 31 August 2017 (Unaudited)						
At 17 February 2017	–	–	–	–	–	–
Total comprehensive expense for the period	–	–	–	(1,064)	(110)	(1,174)
Issue of Ordinary Shares	56	55,544	–	–	–	55,600
Expenses of share issue	–	(1,049)	–	–	–	(1,049)
Cancellation of share premium account	–	(54,495)	54,495	–	–	–
Dividends paid	–	–	–	–	–	–
At 31 August 2017	56	-	54,495	(1,064)	(110)	53,377
For the period 17 February 2017 to 28 February 2018 (Audited)						
At 17 February 2017	–	–	–	–	–	–
Total comprehensive expense 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	–	–	–	–	–	–
At 28 February 2018	56	–	54,506	(2,806)	(12)	51,744

Condensed Statement of Financial Position

as at 31 August 2018

	(Unaudited) 31 August 2018 £'000	(Unaudited) 31 August 2017 £'000	(Audited) 28 February 2018 £'000
Non-current assets			
Investments held at fair value through profit or loss	**40,167**	17,516	32,861
	40,167	17,516	32,861
Current assets			
Trade and other receivables	**410**	64	114
Cash and cash equivalents	**8,491**	35,937	20,704
	8,901	36,001	20,818
Total assets	**49,068**	53,517	53,679
Current liabilities			
Trade and other payables	**(116)**	(140)	(1,935)
	(116)	(140)	(1,935)
Total assets less current liabilities	**48,952**	53,377	51,744
Net Assets	**48,952**	53,377	51,744
Represented by:			
Share capital	**56**	56	56
Special reserve	**54,506**	54,495	54,506
Capital reserve	**(5,999)**	(1,064)	(2,806)
Revenue reserve	**389**	(110)	(12)
Equity shareholders' funds	**48,952**	53,377	51,744
Net asset value per Ordinary Share (note 6)	**88.04p**	96.00p	93.06p

Hugh Aldous
Chairman
1 November 2018

Condensed Statement of Cash Flow

for the six months ended 31 August 2018

	(Unaudited) Six months ended 31 August 2018 £'000	(Unaudited) 17 February 2017 to 31 August 2017 £'000	(Audited) 17 Februarys 2017 to 28 February 2017 £'000
Operating activities			
Net return before taxation	**(2,792)**	(1,174)	(2,818)
Losses on investments at fair value through profit or loss	**2,988**	922	2,447
Increase in other receivables	**(296)**	(64)	(114)
(Decrease)/increase in other payables	**(1,819)**	140	119
Purchases of investments	**(10,294)**	(18,438)	(33,492)
Sales of investments	**–**	–	–
Net cash outflow from operating activities	**(12,213)**	(18,614)	(33,858)
Financing activities			
Issue of Ordinary shares	**–**	55,600	55,600
Expenses of Ordinary share issue	**–**	(1,049)	(1,038)
Issue of Management Shares	**–**	50	50
Cancellation of Management Shares	**–**	(50)	(50)
Dividends paid	**–**	–	–
Net cash inflow from financing activities	**–**	54,551	54,562
Change in cash and cash equivalents	**(12,213)**	35,937	20,704
Cash and cash equivalents at start of period	**20,704**	–	–
Cash and cash equivalents at end of period	**8,491**	35,937	20,704
Comprise of:			
Cash and cash equivalents	**8,491**	35,937	20,704

Notes to the Condensed Financial Statements

as at 31 August 2018

1. Principal Activity

The Company was incorporated in England and Wales on 17 February 2017 with registered number 10626295, as a closed-ended investment company.

The principal activity of the Company is that of an investment trust within the meaning of section 1158 of the Corporation Tax Act 2010.

2. General Information

The unaudited financial statements for the six months to 31 August 2018 have been prepared using the same accounting policies set out in the Company's financial statements for the period ended 28 February 2018 which were prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and with International Accounting Standard 34, 'International Financial Reporting'.

Insofar as the Statement of Recommended Practice ('SORP') for investment trust companies and venture capital trusts issued by the Association of Investment Companies ('AIC'), issued in November 2014 and updated in February 2018 with consequential amendments is compatible with IFRS, the financial statements have been prepared in accordance with guidance set out in the SORP.

The financial information in this half-yearly report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the six months ended 31 August 2018 and for the period ended 31 August 2017 has not been audited.

The information for the period ended 28 February 2018 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditors on those financial statements was unqualified and did not include a statement under sections 498(2) or 498(3) of the Companies Act 2006.

The financial statements are presented in Pounds Sterling and all values are rounded to the nearest thousand pounds (£'000), except where otherwise stated.

3. Investment Income

	(Unaudited) Six months ended 31 August 2018 £'000	(Unaudited) For the period 17 February 2017 to 31 August 2017 £'000	(Audited) For the period 17 February 2017 to 28 February 2018 £'000
Income from listed investments			
UK dividend income	**349**	22	173
UK fixed interest income	**309**	56	244
Total	**658**	78	417

Notes to the Condensed Financial Statements
continued

4. Investment management fee

	(Unaudited) Six months ended 31 August 2018 £'000	(Unaudited) For the period 17 February 2017 to 31 August 2017 £'000	(Audited) For the period 17 February 2017 to 28 February 2018 £'000
Investment management fee			
Revenue	**50**	35	90
Capital	**205**	142	358
Total	**255**	177	448

5. Earnings/(loss) per Ordinary Share

	(Unaudited) Six months ended 31 August 2018		(Unaudited) For the period 17 February 2017 to 31 August 2017		(Audited) For the period 17 February 2017 to 28 February 2018	
	Net return £'000	**Per share pence**	Net return £'000	Per share pence	Net return £'000	Per share pence
Revenue return	**401**	**0.72**	(110)	(0.34)	(12)	(0.03)
Capital return	**(3,193)**	**(5.74)**	(1,064)	(3.24)	(2,806)	(6.22)
Total return	**(2,792)**	**(5.02)**	(1,174)	(3.58)	(2,818)	(6.25)
Weighted average number of Ordinary Shares	**55,600,002**		32,789,747		45,089,319	

6. Net Asset Value per Ordinary Share

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

	(Unaudited) 31 August 2018		(Unaudited) 31 August 2017		(Audited) 28 February 2018	
	NAV per share pence	**NAV attributable £'000**	NAV per share pence	NAV attributable £'000	NAV per share pence	NAV attributable £'000
Ordinary Shares:						
Basic and diluted	**88.04**	**48,952**	96.00	53,777	93.06	51,744

Notes to the Condensed Financial Statements
continued

7. Fair Value Hierarchy

Financial assets and financial liabilities of the Company are carried in the Statement of Financial Position at their fair value. The fair value is the amount at which the asset could be sold or the liability transferred in a current transaction between market participants, other than a forced or liquidation sale. For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices and Stock Exchange Electronic Trading Services ('SETS') at last trade price at the Statement of Financial Position date, without adjustment for transaction costs necessary to realise the asset.

The Company measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Quoted prices provided by external pricing services, brokers and vendors are included in Level 1, if they reflect actual and regularly occurring market transactions on an arm's length basis.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 2 inputs include the following:

- quoted prices for similar (i.e. not identical) assets in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active. Characteristics of an inactive market include a significant decline in the volume and level of trading activity, the available prices vary significantly over time or among market participants or the prices are not current;
- inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals); 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 Condensed Financial Statements
continued

7. Fair Value Hierarchy continued

31 August 2018 (unaudited)	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Quoted on the Main Market	**2,522**	**–**	**–**	**2,522**
Traded on AIM	**30,436**	**–**	**–**	**30,436**
Unquoted Loan Notes	**–**	**–**	**7,209**	**7,209**
	32,958	**–**	**7,209**	**40,167**

31 August 2017 (unaudited)	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Quoted on the Main Market	2,038	–	–	2,038
Traded on AIM	10,572	–	–	10,572
Unquoted Loan Notes	–	–	4,906	4,906
	12,610	–	4,906	17,516

28 February 2018 (audited)	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 Level 2 during the period.

A reconciliation of fair value measurements in Level 3 is set out in the following table.

	(Unaudited) 31 August 2018 £'000	(Unaudited) 31 August 2017 £'000	(Audited) 28 February 2018 £'000
Opening balance	**5,749**	–	–
Purchases	**1,460**	4,906	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	**7,209**	4,906	5,749

Notes to the Condensed Financial Statements
continued

8. Significant Interests

The Company held interests amounting to 3% or more of the equity of the following investee companies as at 31 August 2018:

	31 August 2018	28 February 2018
	% of the equity of the investee company held	
Redhall Group	**12.5**	12.4
Synectics	**9.1**	9.1
Real Good Food	**5.4**	6.8
Ramsdens Holdings	**5.1**	5.1
AdEPT Technology Group	**4.8**	4.8
Volex	**4.2**	–
FireAngel Safety Technology	**3.7**	–
Gama Aviation	**3.5**	4.7
Braemar Shipping Services	**3.3**	3.2
Hargreaves Services	**3.3**	3.3
Science in Sport	**3.2**	–

9. Related Party Disclosure: Directors' Emoluments

The Board consists of four non-executive Directors including Linda Bell who was appointed on 19 September 2018. All are considered by the Board to be independent of the Investment Manager. None of the Directors has a service contract with the Company. The Chairman receives an annual fee of £35,000, the Chairman of the Audit Committee receives an annual fee of £30,000 and all other Directors receive £25,000.

As at 31 August 2018 the amount outstanding in respect of Directors fees was nil (28 February 2018: nil).

At the period end, the interests of the Directors in the ordinary shares of the Company were as follows:

	31 August 2018	28 February 2018
Hugh Aldous (Chairman)	**145,091**[1]	145,091[1]
Diana Hunter[2]	**n/a**	23,667
Andrew Griffiths	**26,161**	15,075
Stephen Yapp	**100,500**	100,500

[1] includes 19,791 shares held by Mrs Aldous.
[2] ceased to be a director on 4 April 2018.

On appointment, and as at the date of this report, Linda Bell did not hold any shares in the Company.

There were no changes in the Directors' interests between the period end and the date of this report.

Interim Management Report

The Directors are required to provide an Interim Management Report in accordance with the UK Listing Authority's Disclosure and Transparency Rules ('DTR'). They consider that the Chairman's Statement and the Investment Manager's Report on pages 3 to 7 of this half-yearly report, the following statements on principal risks and uncertainties; related party transactions; and going concern, together with the Directors' Responsibility Statement below together constitute the Interim Management Report for the Company for the period ended 31 August 2018.

The Company is required to make the following disclosures in its half-yearly report.

Principal Risks and Uncertainties

The principal risks faced by the Company fell into the following broad categories: investment performance; operational; financial; and legal and compliance. The Board reported on the principal risks and uncertainties faced by the Company in the Annual Report for the period ended 28 February 2018. Information on each of these area can be found in the Strategic Report on pages 23 and 24 and in note 14 on page 70 to 72 of the Annual Report available on the Company's website at www.downing.co.uk/strategic.

Related Party Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position of the performance of the Company during the period.

Going Concern

The Directors, having considered the Company's investment objective, risk management policies, the nature of the portfolio and the Company's income and expenditure projections, are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the accounts.

Directors' Responsibility Statement

The Directors confirm that to the best of their knowledge:

a) the condensed set of financial statements, contained within the half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting";

b) the Interim Management Report includes a fair review information required by the DTR 4.2.7R and 4.2.8; and

The half-yearly financial report for the six months ended 31 August 2018 has not been audited or reviewed by the auditors.

The half-yearly financial report was approved by the Board on 1 November 2018 and the responsibility statement was signed on the Board's behalf by Hugh Aldous, Chairman of the Board.

Hugh Aldous
Chairman
1 November 2018

Directors and Advisors

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

Company Secretary & Administrator
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Auditor
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United Kingdom

Shareholder Information

Financial Calendar

Company's year end	28 February
Annual Results announced	1 May
Annual General Meeting	25 June
Company's half-year end	31 August
Half-yearly results announced	late October/early 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.

Share Dealing

Shares can be traded through your usual stockbroker.

Website

Further information on the Company can be accessed via the Company's website. The address is: www.downing.co.uk/strategic

Shareholder Enquiries

The Company's Registrar is Computershare Investor Services plc. To gain access to your account online through the Computershare Investor Centre website the website address is investorcentre.co.uk. To gain access you will need your shareholder reference number. Alternatively Computershare can be contacted on 0370 702 0000. Changes of name and/or address must be notified in writing to Computershare at the address provided on page 27.

Company Information

Downing Strategic Micro-cap Investment Trust plc is an investment company as defined under section 833 of the Companies Act 2006 and is a member of the Association of Investment Companies.

Downing