Downing Strategic Micro-Cap Investment Trust PLC

Annual Report and Financial Statements

29 February 2020

Downing

The investment objective of the Company is to generate capital growth for shareholders over the long term from active involvement in 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 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 capitalisation of less than £150 million, at the time of investment.
- By definition, this comprises over 70% of UK listed companies.
- On average, there are fewer 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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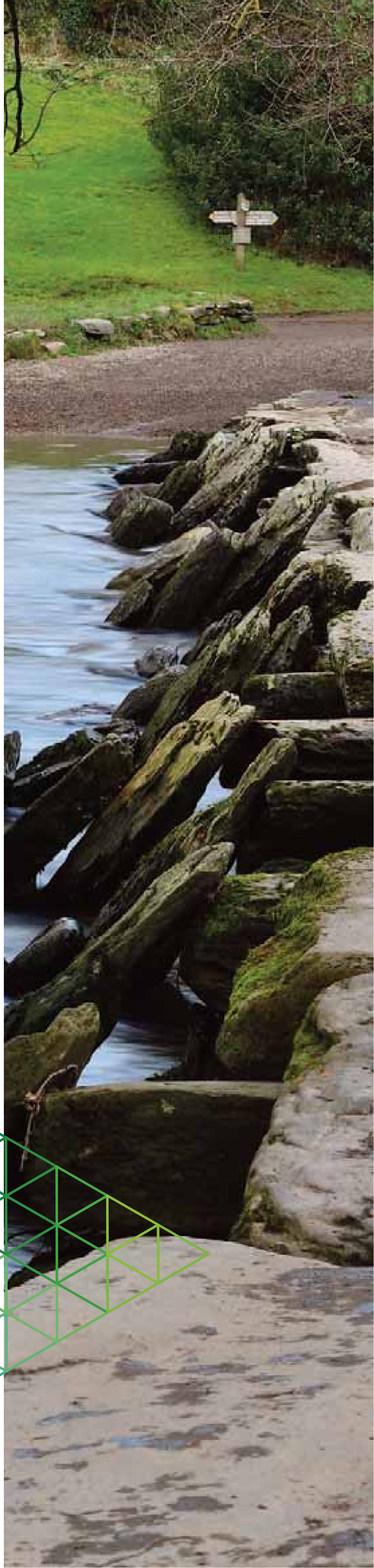
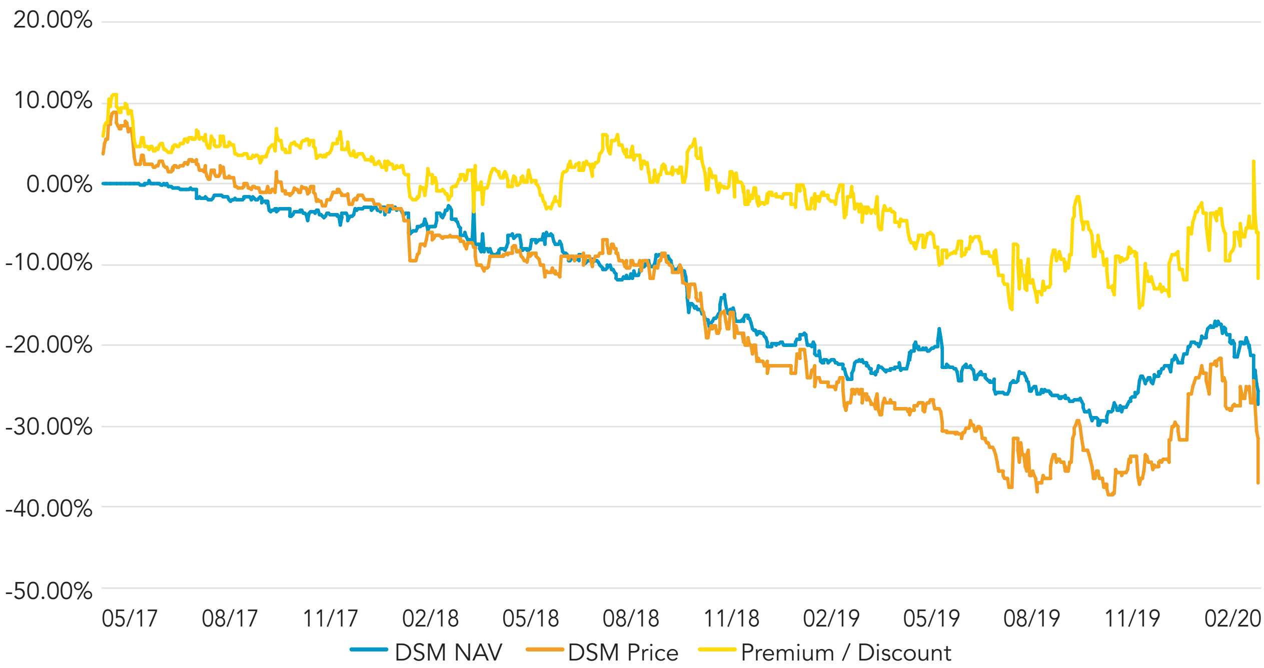


Financial highlights

Assets	29 February 2020	28 February 2019	Change %
Net assets (£'000)[1]	**39,096**	41,475	(5.74)
Net asset value ('NAV') per Ordinary Share	**71.30p**	74.59p	(4.41)
Mid market price per Ordinary Share	**63.00p**	73.00p	(13.70)
Discount	**11.64%**	2.13%	
Revenue	**Year ended 29 February 2020**	Year ended 28 February 2019	
Revenue return per Ordinary Share	**1.91p**	1.50p	
Capital return per Ordinary Share	**(4.01)p**	(19.97)p	
Total return per Ordinary Share	**(2.10)p**	(18.47)p	
	%	%	
Decrease in NAV since admission[2]	**(28.70)**	(25.41)	
Decrease in share price since admission[2]	**(37.00)**	(27.00)	

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

Performance from 9 May 2017 to 29 February 2020



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

Pre-Covid Outbreak

- Deployed into 12 companies, the majority trading ahead or in line with our expectations
- Realised £2.7 million through partial sales of equity and loan note refinancing
- Significant re-rating of Volex and Ramsdens on the back of strong operating performance
- Refinancing of FireAngel to provide growth capital for public sector roll out
- £6.1 million (15% of net assets) of cash and latitude to hold up to 18 positions

Post-Covid Outbreak

- Companies are generally well financed and/or with balance sheet optionality
- Most are trading through this period with marginal disruption
- Management teams taken decisive action to reduce operating costs and discretionary capex
- Expect most to emerge from Covid-19 with manageable medium to long-term ill effects
- Some seeing growth in demand for critical products and/or services during this time

Chairman's Statement

It is not easy to report at the start of May 2020 with this virus demarcating former and future worlds. National responses necessarily challenge the basis of our collective economic life and change business conditions. The result looks to be the most sudden drop in output and incomes in modern history: the National Institute of Economic and Social Research has forecast a 25% drop in gross domestic product in the second quarter for the UK; the Office of Budget Responsibility has forecast a fall of 35% assuming a further three month lockdown. How sharp will recovery be? Whilst science is cautious to suggest steps to more economic activity without immunisation, society, and likely limits to fiscal and monetary action, put pressure on the need for renewed growth and sustainable lifestyles. Where will priorities lie? Will we emerge much as we were or will this be a time of some 'creative destruction'? Will we see changes in social values, business models, the structure of employment? Fewer, leaner businesses; core unemployment? Will the return of the consumer transform demand? What will be the response to the cost of recovery – taxation, inflation, or continuing confidence in tomorrow's funding? This crisis could mark structural economic and social change, not just a passing event. Meanwhile, it is going to be some time before Covid-19 itself becomes 'just a nuisance'.

Your board has two tasks. One is to report on the past: the 2019 portfolio, its performance and how the manager and board responded over that now relatively normal period; the other is to join with the manager and try to look at where your company and its portfolio stands today – and speak usefully about that to shareholders in practical terms. The manager has set the ground with, if I may say so, an excellent assessment of the investments – see the Investment Manager's Report.

The past financial year

The company started the year with net assets of 74.59p per share and a mid-market share price of 73p, a discount of 2.13%. By the half-year, after one serious disappointment (see later) net assets were at 72.47p. Up to mid-February, performance was reasonable. Downing Strategic Micro-Cap Investment Trust's ('DSM's') manager continued its active involvement in investee companies to good effect. Shares remained in the mid 70p range. We made some buybacks and the discount generally remained in single figures.

The manager dealt with indifferent management in a couple of investments and helped reshape poor boards in a couple more.

At least seven of DSM's twelve investments continued to perform as expected; they were, and are, well run, their value unrecognised and the potential for shareholders sound. Three had, and have, new chairmen driving change, of which two had refreshed strategy with further equity. Two need further time, one of which gained a dominant shareholder providing a chairman whom we hope will continue to direct management. One of our most problematic investments had been nicely on the mend, generating sustainable positive cash flow and with disposable businesses worth much more than their carrying value.

Were this report to have been written at the end of January, I would be saying that the portfolio was much as we, and the manager, needed it to be: good value companies with good prospects of realising that value.

Our one disaster had been Redhall: a high-integrity, specialist engineering company that had undergone a turnaround process but lacked board strength and managerial grip to cope with subsequent contract delays on public sector contracts. It went into administration with the various divisions acquired at advantageous prices from the administrators by competitors. Interestingly, given today's climate, it was HMRC who pulled the plug.

Then the market crash started in early March and now, at the time of writing, your company's NAV is 64.15p a decline of nearly 20% from mid-February. The discount, which at one point hurtled out to some 35%, is still at 21%. I know that is distressing for shareholders. More so now that the shares are around 50p and some retail sales were made at 32p or less.

Looking forward

It may be brave or foolish, or both, to attempt to make predictions during this crisis; markets do seem to fail to grasp structural change and to have a bias toward treating corrections as temporary. Nevertheless, the fundamental strengths of most of DSM's portfolio, even during extended lockdown and slow recovery, are well set out on pages 16 - 23. Some investments, AdEPT for example, which has seized the opportunity for managed communications, have already addressed changing needs. Volex has produced an excellent assessment of its strong position. Another, FireAngel, is moving into the remote management of risk, raising significant cash from knowledgeable investors including a highly regarded technology investor. All are relevant to the future and most have available cash reserves. DSM meanwhile has 15.5% of its net assets in cash and 17.7% in high-yield loan notes serviced by a turnaround that is now reporting profits.

DSM is positioned both to support existing holdings and take advantage of new opportunities in this disturbed market.

But we are still sailing towards an economic and social disaster – at least until some immunity and some vaccine emerges. A lot needs rethinking; see the 'tailpiece'. Rethinking is also the challenge for our portfolio companies – and most are up to doing that.

Your board will continue to hold its open sessions, quite separate from board meetings, with the manager.

Share price and discount

With the support of knowledgeable investors and with relatively modest buybacks, your board was pleased to see the discount remaining mostly in single figures through to the end of February 2020 (2.13%). Then, as with the stock market in March, DSM's NAV started to decline and an increasing share price discount followed. There were no large sales, just a sad run of what must have been retail investors. Given one of the worst stock market corrections ever, there seemed no point in trying to intervene and change the tide with buybacks – even though the discount was ridiculously wide. Market and economic dislocation continue and the directors, using their permitted discretion, will not be exercising the redemption facility at present. We will continue to consult with the major shareholders and expect to return to considering buybacks and use of the redemption facility after economies and markets have stabilised when we will also return to our principle of trying to keep the discount within reasonable bounds. I am sorry for anyone who was a forced seller, but these are just not times to stand against the market.

Dividend

In addition to dividend income, the company continues to benefit from loan note interest. Investment company regulations require that no more than 15% of the company's annual income is retained. We are therefore proposing a dividend of 1.6p per share (2019: 1.25p), which is the minimum level to comply with the regulations. A resolution seeking shareholder approval for the payment of this dividend on 3 July 2020 to shareholders on the register at 29 May 2020 (ex-dividend date 28 May 2020) will be proposed at the annual general meeting ('AGM').

Managers

Every year we review DSM's manager. Your board is more of a hands-on board than most. It has been a tough year and we think the manager has continued to grip this portfolio thoroughly and that grip is well expressed in its report. I would also encourage investors to read the quarterly investor letter, the last of which, published in February, just began to touch on Covid-19.

Board

At the interim I expressed our sadness, and for him our delight, that Andy Griffiths had been accepted as a mature officer in the Royal Fleet Auxiliary. We set out to find someone with a similar media and broad background and an enquiring mind. I was delighted to announce in November that Will Dawkins, Head of UK Board Practice at Spencer Stuart and one-time Foreign Editor of the Financial Times, had joined the board. He certainly has exactly that mind and has brought that perspective to a board of complementary individuals.

In response to these awful times, your board has decided to forego taking its fees for the current, Covid-ravaged, quarter and use those fees to make a modest national contribution of £28,750 to some of those in the front line of this pandemic. With the help of Will Dawkins, who chairs the Evelyn Trust, a Cambridge - based charity supporting medical research and health and wellbeing projects, we are developing a scheme with the Doctors' Support Network, a charity that provides peer support to doctors and medical students in times of stress. We have asked that our contribution be taken as a gift towards the dedication of doctors and medical students who have stepped forward into front line work during this pandemic. I add my thanks to fellow board members Linda Bell, Robert Legget and Will Dawkins not only as directors in difficult times but for this generous initiative.

AGM

We will work with our company secretary and media advisers to provide a 'virtual' AGM. We will need Shareholders to complete proxies for voting, as always. We are planning a webinar and slides with an opportunity for questions. The provisional date for the AGM is 24 June 2020. We will issue the notice for the AGM separately from this report once arrangements are finalised.

Tailpiece

At the beginning of the month Henry Kissinger, still going strong, wrote in the Wall Street Journal, *"When the Covid-19 pandemic is over, many countries' institutions will be perceived as having failed. Whether this judgment is objectively fair is irrelevant. The reality is the world will never be the same after the coronavirus… The historic challenge for leaders is to manage the crisis while building the future. Failure could set the world on fire."*

Let's hope for the best.

Hugh Aldous
Chairman
1 May 2020

Investment Manager's Report

"The best way out is always through"

Robert Frost

There is a painful difference between the 29 February 2020, the year end of the company, and when I am writing this, at the start of May 2020. It is a different world. So much has already been written about the invidious disease that I will not add to it. We cannot forecast yet how we will emerge from this. All I am certain of now is that every bit of evidence I see points to things getting worse before they get better. I find it difficult to look at a blue screen and a market that seems to be seeing the bright-side-of-life when the economic indicators tell me to expect the worst.

As fund managers, what do we do? We see the way through, plain and simple. We base our decisions on what we know, as opposed to the daily narrative. We keep close to our investments, which are a collective group of 12 management teams, employing c.14,500 people between them, all trying to find their way through. Of these employees, c. 14% have been furloughed (as at 31 March 2020). Less than 1% have been made redundant, and all management teams have taken steps to ensure the survival of their businesses. Of the eight manufacturing companies, seven are operational in some way. Net debt in the portfolio is minimal, with 50% of investments holding net cash. All have now put out Covid - related trading statements, and all have levers to pull and are being prudent in their cash management. We have been reassured by the quick action that our companies have taken to reduce cash operating expenses and other discretionary cash outflows.

'Survival' was not part of our investment thesis when we invested in these businesses nearly three years ago. But now survival is the obstacle that needs to be the new opportunity. Both for existing investments and those that we may purchase along the way from here.

The benefits of a strategic investment trust, at this point in time are:

1) It is closed ended. We are not facing redemptions like open-ended funds can.
2) We think we have been through the 'bulk' of the turnaround pain in the portfolio. With nearly 20 changes to the boards of these 12 companies, we believe have the right teams, structures and KPIs in place.
3) We are typically very close to our companies as we are looking after 12 between three fund managers and one analyst.
4) The Trust has 15% cash, which affords us the ability to support current positions in a meaningful way, or to introduce new positions into the portfolio.

So, what are we doing?

As you would expect, we are in regular dialogue with our investments. We are now intimate with the view of their home office/ kitchen/ family thanks to Teams and Zoom video calls. We are writing to the boards of our investments, where appropriate, and suggesting that if they are furloughing, then the board and senior management team should also be taking a cut in take-home pay over this period. So far over 50% of our investees have made the decision to cut salaries of the senior management team and/or board. We are urging management to act quickly and making sure that if funding does become an issue then they are on the front foot.

We own no 'zombie' companies – those which are continuing to operate with a fully furloughed workforce and zero revenue – most of these are in the direct retail or leisure sectors where we have steered clear. Our companies are relatively well capitalised and/or have balance sheet optionality which should provide some degree of additional liquidity if required as a last resort. In addition, many produce or provide some essential goods and/or services and some are seeing increased demand in parts of their business during this time of disruption.

It is worth looking at how we have classified our companies into buckets, to ensure our focus is where we need it most. Reassuringly, we state that circa 73% of the portfolio is not keeping us awake at night, and believe that only 2.4% might become cash consumptive if the lockdown is prolonged. It is also useful to think about how they will come out the other end.

We have categorised the companies as follows:

1) ***"Their survival does not keep us awake at night"*** **–** (accounting for 72.9% of the portfolio as at 23 April 2020), includes cash and accrued interest.

   a. **AdEPT Technology** – generates over 70% of its revenues on a recurring basis in normal times and has exposure to essential sectors such as government and healthcare. The business does have high debt, but ample liquidity through a drawn revolver facility. AdEPT may be a beneficiary when we come through Covid as we expect that some aspects of remote working could stick. We think this could be driven by employees' requests but also corporates requirement to reduce overheads and downsize office space, facilitated by allowing more remote working and rotating staff into the office.

   b. **FireAngel** – recently raised over £6 million, before expenses, to help fund working capital and the final stages of the turnaround plan. This provides balance sheet certainty, allowing the company to improve and grow margins. Downing is an 18% shareholder alongside BGF at 7%, who is also supportive. Our only thoughts here are to ensure the final steps of the turnaround are executed and that Covid is not a distraction. FireAngel's products are critical safety devices and the company is involved in several council roll outs of smoke and carbon dioxide detection products across public housing stock. We do not expect these activities to be impaired post-Covid.

   c. **Hargreaves Services** – will undoubtedly see a slowdown in demand for its services during the lockdown. The business does have a material net bank debt position of £35 million, however that compared with net assets of £130 million, within which inventory is over £60 million. This inventory position has doubled from £35 million the previous year, unwinding this increase would generate enough cash to de-gear the business. While management has highlighted that they do not expect this to happen in the current financial year, we think that it is an option for liquidity (albeit at a reduced price) if the situation worsened. The banking facility does need to be renewed in August 2020, but given the underlying assets, we do not think that this will be a problem. On the other side of Covid, we think that Hargreaves could prosper from an economy flush with stimulus. This would create demand for the company's services into infrastructure and its significant land bank for building as often these sectors are a core focus to drive growth and employment.

   d. **Ramsdens** – is the closest we have to a zombie company, with all its physical stores now closed as non-essential businesses. It does have a website which continues to trade although this is also operating at a much lower level. From a going concern perspective, we think that there is limited risk as the company has furloughed around 90% of its staff and will benefit from other government support. Ramsdens has a net cash balance sheet with around £10 million of cash. It also had almost £12 million of precious metals inventory (as at the last interim) which can be readily liquidated. This was a key attraction at the outset of our investment and management has demonstrated a willingness to do so when metal prices are strong – gold is approaching highs not seen since the last recession. As we emerge from lockdown, Ramsdens is probably in a good position with its diversified business model. A meaningful cohort of the UK is likely to wish to travel abroad creating demand for Ramsden's FX services. It is also likely that another cohort will require short-term liquidity through which the pawnbroking service will also benefit.

- **e. Science in Sport** – Predictably, SiS is being affected in traditional physical distribution channels. However, we note pockets of strength in online and the current crisis is an opportunity to drive more customers to .com with higher margins. There has been minimal disruption in terms of manufacturing, picking and packing, and supply chain. Innovation continues to drive around a quarter of sales growth and the business is launching specific indoor training products for Zwift and Peloton (cycle and spin platforms) which are no doubt strong during this global lockdown. Management have cut £4.7 million from this year's marketing budget – around 50% of the total – and the early indications are that this has had an immaterial effect on engagement. We are hopeful that some of this cost discipline could remain in the post-Covid world and that SiS can be a leaner, more profitable business earlier than we expected. The company recently raised around £4.5 million via a placing, which alongside cash balances of £4 million, secures the ability to trade through this crisis.

- **f. Synectics** – is experiencing significant disruption but it has a robust business model focused on mission critical products in security and surveillance. It is still operational, albeit at a reduced capacity. The balance sheet is also robust with net cash of around £4 million and access to facilities of another £5 million. The business is owned in part by its long-standing chairman who is aligned with shareholders and has historically run the business with a very prudent mindset. As we emerge from Covid and perhaps enter a more challenging economic environment, we expect that global governments' requirement to drive growth and jobs could benefit many of Synectics end markets.

- **g. Volex** – has issued a remarkably strong trading update, revising guidance for 2021 down by only 10% and maintaining its dividend. This is in a market where almost every company is pulling guidance completely and suspending dividend payments. There are pockets of strength with various customers with increased demand from working at home, as well as significantly higher orders with existing and even some new healthcare customers. Some of these end products are directly involved in treating Covid patients. The business has neither furloughed staff, nor closed facilities, it is largely business as usual albeit with some sites at marginally reduced capacity through labour constraints. However, we think that this manufacturing can and has been shifted elsewhere. The business ended the 2020 financial year with over $30 million of net cash and access to available liquidity of over $60 million. We expect it to perform well this year.

2) ***"The ones that are not in the home-and-dry category but have excellent levers to pull"*** – accounting for 24.6% of the Net Asset Value

- **a. Duke Royalty** – has modest gearing post the payment of its most recent dividend in March 2020, with estimated net debt of around £10 million. The royalty finance model should protect the business from more than a -6% fall in revenue in any one year. However, this assumes that the underlying royalty partners can remain trading. From this perspective, we note that the business is well diversified across geographies and industries with some more cyclical areas being offset by more defensive ones. In addition, we take comfort in knowing that management has applied the initial investment criteria strictly. This includes no/low debt, senior security, step-in rights, a sustainable competitive advantage, multi-cycle track record of management, and, importantly, a 2x EBITDA/ royalty payment coverage requirement.

- **b. Gama Aviation** – predictably, Covid and the global lockdown is having a significant effect on the business, with US and Europe maintenance activity down by around 50% at the beginning of April. Europe charter was also significantly affected (but we do not think that this is a material contributor to earnings in any case). Appropriate staff have been furloughed in the UK and the US. In our view, the significant cash generating division of the group is unlikely to be materially affected. This 'special missions' division provides public sector contracts to the likes of the NHS and the MoD. These are multiyear in nature and some are paid in advance. Other sources of revenue include management fees which we expect would continue to be paid by owners and ultimately, Gama can (and has in the past) used aircraft as collateral against collecting these fees from owners or, where they are in default, original creditors. The software businesses have seen a limited effect and recently announced a new $2.5 million SaaS-type contract. We think that liquidity should be okay – the company has $30 million undrawn headroom on its facility with an additional $17 million of cash. This includes $13 million of cash received from the recent disposal of its US associate for $33 million. The balancing $20 million will be received over the next four years. We are hopeful that during this time of lower flying activity, the business will be able to unwind a proportion of its debtor book without offsetting expenses and this could generate a sustainable improvement in cash flow with the right working capital controls post-Covid.

c. **Real Good Food** – Its manufacturing facilities are fully operational, and still selling sugar paste, bars and other cake decorations into end markets. However, supermarkets are reducing stock keeping units (SKUs), and this may have an impact on this business. Brighter Foods has diversified its client base, however it is still dependent on Slimming World, who obviously is not holding group meetings. Although it has made inroads to selling bars online, it is inevitable that this will impact turnover. But people are still eating cakes and bars, so when recovery happens, then we do expect this business to benefit as we think the structural shift towards food-to-go/ convenience will transcend Covid. In terms of liquidity, the company has numerous levers such as invoice discounting, asset finance and overdrafts as they have not made significant use of these post restructuring. We have a board position and are fully engaged in ensuring that management is taking all appropriate actions to get through the crisis. The bulk of our holding is in secured loan notes with an attractive coupon. Post-Covid we expect that the equity value of Real Good Food could be multiples of its current share price, as we have set out in our investor letter many times before.

3) ***"The ones that might suffer in a prolonged downturn"*** – account for 2.4% of the portfolio. Unsurprisingly, these have direct balance sheet risk.

   a. **Braemar Shipping** – has announced that its shipbroking arm is benefitting from the volatility in tanker rates and activity in shipping finance. Trading is in line with the board's expectations. The company has £18.8 million of net debt, excluding vendor loan notes of £6.7 million. However, that being said, the company has banking facilities of £40 million, made up of a revolving facility of £35 million and an accordion facility of £5 million. The group also has access to global cash management arrangements and feels confident these facilities provide sufficient headroom in this Covid world. The new chairman is looking at strategic options for the other divisions and believes there is flexibility in the cost base. Although there are sufficient banking facilities, if broking goes into a downturn there would likely have to be structural changes in the business.

   b. **Pennant** – is in a strong position as it is servicing large defence clients, who themselves are well funded. The downside is that the turnover and contracts can be very 'lumpy' making cash management a challenge at the best of times. Recent final results highlighted the timetable for ongoing contract delivery, albeit hampered by the ability to get product out the door in the factory. The company has net debt of £2.2 million, however it is in final stages of negotiation for a £4 million facility, which with agreed milestone payments from major customers, should be sufficient for the company to trade through this period. We note that the company has proposed a resolution at its AGM to increase the ability to allot shares without a vote, to 20% of the equity. This allows flexibility for a timely and cost efficient fund-raise should it be required.

Portfolio activity

In the year we have been reducing our position in Braemar, having sold £654,154 out of the position realising a loss of £279,353. We have also sold £1,519,264 of Volex realising a gain of £653,455. There has been a redemption of £339,440 capital of the Real Good Food Loan Note and repayment of interest and redemption premium of £84,305 which is a gain of 24.8% on cost. We have also sold a small amount of Pennant.

These disposals were reflective of a concern on balance sheet risk in Braemar, a rebalancing of the portfolio after a very strong performance in the share price of Volex, a refinancing at Real Good Food, and concerns on timing of contracts in Pennant.

Since the period end, the position in Braemar has been further reduced, and profits have continued to be taken in Volex, albeit it still remains our highest conviction position as the largest in the portfolio. We have also reduced the exposure to Gama Aviation and purchased stock in FireAngel through a placing.

As yet, we have not added any new positions although, at the time of writing, we have three prospective positions to add. We don't want to time markets, but we would like to be in the position to buy when markets get more challenging. And they will. These are likely to be toe-hold positions that we will not discuss until we are confident that the position size is correct. Of course, should any of our existing companies require funding then we have cash to support these.

What to expect over the next 12 months?

Never has writing an outlook statement been more difficult. We have no idea how this will pan out, but what I can say is that you have a fund management team that knows its investments, is proactive, and looking to the future as to how our businesses emerge from this challenge.

In our January 2019 investor letter, we quoted Jeff Bezos, who stated that he built Amazon's strategy around what he knew would not change, rather than trying to craft a strategy around things in which change seemed inevitable. While we do expect significant disruption from Covid, and there will undoubtedly be long-term effects and changes in people's behaviour, we think that the portfolio is grounded in structural 'themes' which are unlikely to change materially.

We have management teams that are incentivised with skin in the game. We have businesses who operate in end markets that are required for the world to go around. We don't have exposure to leisure or direct retail. Where we have balance sheet risk, we have sought to minimise it or ensure that survival is a priority. Other than that, we are dealing with what we can control, being cognisant of what we cannot, but not being obsessed by it. We will also be brave when markets become more challenging and take toe-hold positions in quality businesses that are priced wrongly or top up when businesses we know well are seeing their share prices affected.

Most importantly, we are concentrating on getting through.

Judith MacKenzie
Head of Downing Fund Managers and partner of Downing LLP
1 May 2020

Investments

As at 29 February 2020

	as at 29 February 2020		as at February 2019
	Market Value (£'000)	% of Total Assets	% of Total Assets
Volex	5,978	15.29	12.95
Real Good Food 10% Loan Note (29/06/2020)[1]	5,674	14.52	14.50
AdEPT Technology Group	3,496	8.94	8.76
Ramsdens Holdings	2,960	7.57	6.30
Synectics	2,786	7.13	8.57
Hargreaves Services	2,765	7.07	7.45
Duke Royalty	1,899	4.86	4.65
Real Good Food 12% 'C' Secured Guaranteed Loan Note (16/05/2021)[1]	1,232	3.15	2.88
Braemar Shipping Services[2]	1,100	2.82	4.55
Gama Aviation	1,096	2.80	3.68
Science in Sport	986	2.52	2.63
FireAngel Safety Technology	919	2.35	0.97
Pennant International Group	630	1.61	2.65
Real Good Food	223	0.57	0.77
Other	–	–	3.86
Total investments	**31,744**	**81.20**	**85.17**
Cash	6,051	15.47	13.27
Other net current assets	1,301	3.33	1.56
Total investments	**39,096**	**100.00**	**100.00**

[1] Unquoted
[2] Quoted on the Main Market

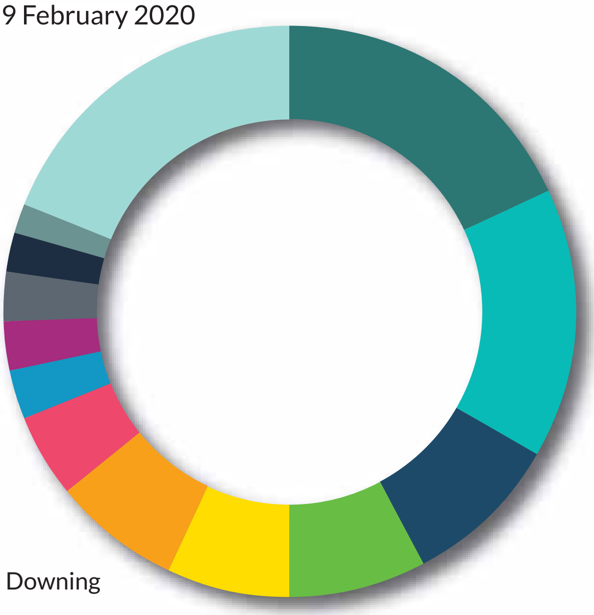
All investments are in Ordinary Shares and traded on AIM unless indicated. The total number of holdings as at 29 February 2020 was 13 (28 February 2019: 13). Details of the equity interests comprising more than 3% of any company's share capital are set out in note 17.

As at 29 February 2020 loan notes represented 17.66% (2019: 19.07%) of the portfolio.

The table above includes net current assets of £7,352,000 that are also disclosed in the statement of financial position.

Portfolio Distribution

As at 29 February 2020



Real Good Food *	18.24%
Volex	15.29%
AdEPT Technology Group	8.94%
Ramsdens Holdings	7.57%
Synectics	7.13%
Hargreaves Services	7.07%
Duke Royalty	4.86%
Braemar Shipping Services	2.82%
Gama Aviation	2.80%
Science in Sport	2.52%
FireAngel Safety Technology	2.35%
Pennant International Group	1.61%
Redhall Group	0.00%
Net current assets	18.80%

Source: Downing

* Loan notes represent 17.67% of the portfolio holdings and equity 0.57%.

Background to the investments

(unless otherwise stated all information provided as at 29 February 2020)

Key: GREEN: Good RED: Bad ORANGE: Neutral

AdEPT Technology Group PLC (AdEPT) (8.94% of net assets)
Cost: £3.63m. Value as at 29 February 2020, £3.50m

Adept Technologies is an independent provider of unified communications and managed services for the communications and IT sector

Update to the investment case

- Positive interim results, delivering a 26% increase in revenue
- Managed services revenue up to 82% of total revenue
- Interim dividend increased by 4%
- New NED appointed to the board
- Successful fund raise of £4.25m to support acquisitive growth strategy
- Covid resulting in reduced levels of activity but bodes well longer term as rise of homeworking

Progress against investment case

AdEPT 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. Managed services now account for 82% of total revenue. The interim results to 30 September 2019 saw the board report a year of continued progress and delivery of its organic and acquisitive growth strategy. There was organic growth across the group, and this was achieved alongside a continuation in AdEPT's acquisitive growth strategy. The latest results demonstrate strength of its capex-light highly cash generative business model which is focused on high levels of recurring revenue. The recent fund raise provides flexibility for acquisitions going forward, however we are pleased that the company is keen to drive down the debt/EBITDA ratio which will prove its strong cash generative capabilities.

Braemar Shipping Services PLC (Braemar) (2.82% of net assets)
Cost: £2.07m. Value as 29 February 2020, £1.10m

Braemar Shipping operates four divisions servicing the worldwide shipping market; shipbroking, technical, logistics and financial

Update to the investment case

- Trading expected to be in line with expectations for FY to end 29 Feb 2019
- Shipbroking division has performed strongly
- Performance of Logistics and Engineering needs to improve
- Covid resulting in reduced charter rates with likely impact on earnings in Shipbroking

Progress against investment case
Braemar issued a trading update for the year ended 29 February 2020, and reported that the Shipbroking division has performed well, largely driven by strong tanker markets in Q4 2019. The group expects the forward order book will be c. 15% higher than at the half year. New offices in Athens and Geneva are being planned, reflecting the positive long-term prospects for growth. Advisory fees from mandated business continued to grow in the Financial division, however there were fewer material transaction-based success fees than anticipated. The Logistics division traded in line with the previous year and a review of strategic options is underway. The Engineering division saw continuing losses and the board is currently reviewing possible options to improve performance. Despite the uncertain outlook due to the coronavirus, management are confident that the business is well positioned to benefit from a return to normal trading conditions.

Duke Royalty PLC (Duke) (4.86% of net assets)
Cost: £2.06m. Value as at 29 February 2020, £1.90m

Duke Royalty is a diversified royalty investment company providing alternative capital solutions to a range of profitable businesses

Update to the investment case
- **Positive interim results**
- **Two follow-up investments totalling £1.65m**
- **New revolving credit facility of £30m**
- **Maintaining high and stable dividend**
- **£17.5m raised via placing to build royalty portfolio and pay down inherited credit facility**
- **Inevitably some impact on portfolio from Covid however well secured royalty payments in majority of portfolio**

DUKE ROYALTY

Progress against investment case
Our investment case was predicated on the identification of suitable royalty partners and deployment of capital into those companies. In September, Duke announced that it had entered into a new £30 million revolving credit facility which replaces the previous £15 million facility. This will support the group's growth strategy by providing access to additional capital, at reasonable cost, without relying solely on equity markets. A number of follow-on investments have been made into existing royalty partners, with Duke providing capital to undertake synergistic M&A transactions, a core part of the group's investment mandate. The group's activities have materially increased its revenue, profitability and cashflow. The board reported that having entered the second half of the year with a strong pipeline of new royalty opportunities and greater financial flexibility, due to its new credit facility and recent successful equity raise, it is confident that it can continue the rapid growth achieved to date.

FireAngel Safety Technology Group PLC (FireAngel) (2.35% of net assets)
Cost: £3.82m. Value as at 29 February 2020, £0.92m

FireAngel is focused on providing smoke detectors, carbon monoxide detectors and other home safety products and solutions

Update to the investment case

- **European patent granted for FireAngel Predict**
- **Board reorganisation**
- **Exceptional charges incurred**
- **Investment in connected technology beginning to bear fruit**
- **Fundraise of c. £6m announced post period end. Securing long-term financing and future**
- **Short-term negative impact of Covid but still selling products**

Progress against investment case

FireAngel announced its final results for the year ended 31 December 2019 and reported that sales for the period were expected to be up 20% and the underlying operating loss is expected to be in line with market expectations. Exceptional charges have been incurred during the year, including increasing warranty provisions for increased product replacement costs, restructuring and fundraising costs, and a charge relating to stock provisions and the impairment of intangible development costs. This is a result of a complete review of product lines and future development plans in line with the group's evolved strategy to become a more technology-led connected home solutions provider. The board believes that the company's connected home safety system strategy is now proving to be correct and proposes to narrow its focus to developing and promoting those products and services which give the highest and quickest returns. This focus should make the company less complex, less cash consumptive, and support its gross margin improvement plans in both the short and medium term. The board stated that FireAngel's results continue to be negatively impacted by legacy issues as a result of certain historically poor internal processes. However, the strategic decision to invest heavily in future technology is proving to be correct., with the investment made in connected technology now beginning to come through in successful real-world trials, the financial benefits of which are expected to be realised in the short, medium and long term.

Gama Aviation PLC (Gama) (2.80% of net assets)
Cost: £5.17m. Value as at 29 February 2020, £1.10m

Gamma Aviation specialises in air and ground aviation support activities

Update to the investment case

- **Operational platform strengthened**
- **Progress on outstanding litigation**
- **Plans to enter rotary special missions market**
- **Sale of US Air associate**
- **Subsidiary secures $2.5m contract**
- **Short term disruption due to impact of Covid**

Progress against investment case

The significant transformation taking place within the business was evident in the series of announcements that the company made during the period. In its latest results for the six months to 30 June 2019, Gama reported significant progress which demonstrate the impact of the changes management has undertaken to strengthen the group's operational platform.

In December, the group announced a litigation update on legal proceeding with a number of parties and welcomed the progress being made. In aggregate, the board continues to anticipate a net cash inflow as an overall result of all litigation matters subject to the successful collection of the Taleveras trade receivables. In a further development, the group completed the purchase three Airbus H145 helicopters. This marks another significant milestone in its plans to enter the rotary special mission market where management is positive about the available opportunities. The group also announced the sale of its US Air associate, Gama Aviation LLC. We think that strategically divesting minority investments simplifies the corporate and financial structure, allowing further reinvestment in growing the group's wholly owned subsidiaries. Finally, the group's global services subsidiary, myairops, secured a $2.5million contract with one of the world's largest business aviation operators. This is another example of Gama's strategic organic investment into innovative services that simplify business aviation.

Hargreaves Services PLC (Hargreaves) (7.07% of net assets)
Cost: £3.65m. Value as at 29 February 2020, £2.77m

Hargreaves Services is a land a property company, and a specialist haulage business

Hargreaves

Update to the investment case

- **£2.8 million disposal of tungsten mine and 10-year mining services contract**
- **Acquisition by German associate**
- **Positive interim results**
- **Short-term impact from Covid particularly in property division**

Progress against investment case

Hargreaves sold its subsidiary, Drakelands, for £2.8m in cash on 29 November 2019, while the group entered into a 10-year mining services contract with the new owner. This creates the opportunity for future tungsten production at the mine with associated local employment and provides Hargreaves shareholders with substantial medium term earnings potential. The group also announced an acquisition by its German associate company, Hargreaves Raw Material Services GmbH ('HRMS'), which furthers its strategy of creating an integrated specialist manufacturing and minerals trading business in Germany's industrial heartland. HRMS is now an integrated speciality manufacturing and trading entity with an annualised revenue in excess of €300 million. The group's latest interim results for the six months ended 30 November 2019, were positive and demonstrate Hargreaves' progress in delivering higher quality earnings from its distribution and services business. Early indications that the initiatives being driven by its German associate in developing and enhancing the underlying value of the investment are encouraging.

Pennant International Group PLC (Pennant) (1.61% of net assets)
Cost: £0.96m. Value as at 29 February 2020, £0.63m

Pennant delivers integrated support solutions for the defence industry.

Update to the investment case

- **Several new contract wins**
- **Board reorganisation – new Operations Director**
- **Acquisition of Australian software business ADG**
- **Strong order book of £33 million and sizeable pipeline of single-source opportunities**
- **Disruption to delivery of projects because of Covid**

Progress against investment case

Pennant announced a number of new contracts wins in the period. The first, valued at circa £3.4 million is for the design and build of a helicopter maintenance training aid. Progress was also made on the Qatar programme, enabling the revenues and profits to be recognised in the current year. A further two international contracts were won by the group – Pennant Australasia Pty Ltd was awarded a contract for the supply of training aids and associated services for aviation technician training for the Australian Defence Force. The group also received an order valued at circa £1.5 million for the provision of additional training aids to the Middle East. Finally, it has received a statement of intent for a potential major new contract anticipated to be worth up to £5 million. These wins demonstrate not only the increasing diversity of Pennant's product and services portfolios but also the group's continued ability to win business internationally.

The group completed the acquisition of Australian software business ADG in March 2020. There are clear synergies between the two businesses and numerous opportunities to provide an end-to-end solution to the users of Pennants products. With a contracted order book of £33 million scheduled for delivery over the next three years, together with a sizeable pipeline of single-source opportunities, the board remains confident of future prospects and of building and delivering long-term shareholder value.

Ramsdens Holdings PLC (Ramsdens) (7.57% of net assets)
Cost: £2.62m. Value as at 29 February 2020, £2.96m

Ramsdens is a diversified financial services provider and retailer. Providing FX services, pawnbroking and the sale of jewellery.

Update to the investment case

- **Board expects FY PBT ahead of market expectations**
- **Strong trading over Christmas period**
- **Jewellery performed well instore and online**
- **FX negatively impacted by Covid-19 and stores now closed temporarily. Strong balance sheet with net cash provides comfort to investors**

Progress against investment case

In its last trading update issued in January 2020, Ramsdens announced that the group had delivered strong trading during the Christmas period, with each of its key business segments performing ahead of the prior year. As a result, the board now expects the group's full year profit before tax to be comfortably ahead of market expectations. Profits derived from the purchase of precious metals segment have been higher than previously anticipated reflecting the high gold price. The jewellery retail segment continued to perform well, both in store and online. The Christmas period saw double digit revenue growth in this segment reflecting the value, breadth and appeal of Ramsdens' jewellery proposition. The group's share price dropped sharply in February. We believe that this drop was driven by fear over the potential impact of Covid-19 on Ramsdens FX business as people stop travelling overseas. We believe this a macro-driven event rather than a deterioration in fundamentals and think the shares offer good value at current levels.

As announced on 25 March 2020 Ramsden's closed its stores in light of the government announcement regarding Covid. Whilst this will have a short-term impact on trading the group is well capitalised, with a £10 million net cash balance sheet and a £10 million undrawn credit facility. The business will also benefit from a number of government initiatives. In combination, these factors leave the business well placed to navigate the coming months.

Real Good Food PLC (RGD) (including loan notes) (18.24% of net assets)
Cost: £8.76m. Value as at 29 February 2020, £7.13m

Real Good Food manufactures sugar paste, icings and snack bars

Real Good Food plc
Cake Decoration • Food Ingredients • Premium Bakery

Update to the investment case

- **Board changes**
- **Improved performance from focus on two core divisions**
- **Trading remains in line with our expectations for the year in both divisions**
- **Lower cost base in place and improving performance increasingly evident**
- **Sites operating despite Covid**

Progress against investment case

Real Good Food continues to progress against our revised investment thesis. The underlying businesses are performing satisfactorily, and the group has returned to a positive operating profit position after 18 months of restructuring. Renshaw (Cake Decoration) is currently the more challenging situation as the market is becoming more competitive. However, Renshaw has a track record of innovation and we believe that it has significant recovery potential from here. Brighter Foods (Food Ingredients) manufactures nutritional food bars and we believe that there is a structural undersupply of capacity in the UK and European market for this rapidly growing medium of consumption. Based on these numbers, we arrive at a group which we think can generate up to £9 million of EBITDA. We believe that a buyer could find material cost savings from the removal of central costs if the business were separated or acquired into a larger business. Therefore, some additional value could be ascribed to this upon exit. RGD has stated that it seeks to return value to stakeholders and we believe that 2020 is likely to be the defining year for the Trust's investment in RGD.

Science in Sport PLC (SiS) (2.52% of net assets)
Cost: £1.50m. Value as at 29 February 2020, £0.99m

SiS manufactures and distributes sport nutrition products

Update to the investment case

- **Senior management appointments, CFO, NED, two directors**
- **Results in line with market expectations**
- **Integration of the PhD acquisition completed**
- **Strong growth in e-commerce sales**
- **Post period end fundraise securing future through Covid**

Progress against investment case

Science in Sport announced its pre-close trading update for the financial year ended 31 December 2019. The results for the year are in line with market expectations and show a strong performance in key growth metrics. 2019 was a landmark year for the group, representing the first full year of ownership of the PhD brand following its acquisition in December 2018. Integration of the acquisition was completed successfully during the year, PhD protein production was brought in house, a new PhD e-commerce platform was launched, and synergies were delivered to plan. New product development was a key growth driver during the year for both the SiS and PhD brands; new products delivered 25% of total group sales growth with successful product launches including PhD's Smart Bar Plant and SiS' innovative football range. The outlook for 2020 continues to be strong and benefits from key appointments to the executive management team. The strengthened management team, along with important operational progress, has positioned the group for the next stage of its growth.

Synectics PLC (Synectics) (7.13% of net assets)
Cost: £3.98m. Value as at 29 February 2020, £2.78m

Synectics designs, integrates, controls and manages surveillance technology and network security systems

Update to the investment case

- **Investments continue to deliver good progress in international systems business**
- **Systems division performance offset by continued weakness in other divisions**
- **Order deferrals and customer-led delays delaying progress**
- **Covid is disrupting business short term however the business has net cash on the balance sheet and is confident of weathering the current environment**

Progress against investment case

Synectics announced its audited final results for the year ended 30 November 2019 and reported that difficult market conditions for its UK integration business meant that results overall were in line with revised market expectations. The group's core systems division, supplying Synectics' high end proprietary surveillance systems globally, performed well, however, this positive momentum was offset by continued weakness in the group's UK integration businesses. Based on the pipeline of expected new orders, and customer schedules initially indicated, the group had anticipated a significant improvement in revenue and profits from its integration and managed service division in the second half of the year. However, the weak performance reported at the half year has continued. UK market conditions remain difficult and, with apparent uncertainty among Synectics' private and particularly public sector customers, the pattern of order deferrals and customer-led delays in the progress of existing contracts continues.

Volex PLC (Volex) (15.29% of net assets)
Cost: £3.92m. Value as at 29 February 2020, £5.98m

Volex manufacturers and distributes power cords and cable assemblies.

Update to the investment case

- **Acquisitions on track, margin expansion and cash generation ahead of plan**
- **Acquisitions allow more complex integrated manufacturing**
- **Further opportunities to improve efficiencies and reduce costs**
- **Two new contracts in power cords**
- **Temporary closure of Chinese plants due to Covid, now reopened**

Progress against investment case

Volex issued a very strong set of interim results for the period to 29 September 2019. The group also announced that the group would recommence the payment of a dividend, starting with an interim dividend of one pence per share. This is the first dividend it has paid since 2013 and it has been made possible due to the significant re-positioning seen across the business. The group is now cash generative, creating healthy profits across its two business divisions, and in acquisitive growth mode. Looking forward, Volex is taking the opportunity to selectively invest in increasing capacity in its key facilities and leveraging is global footprint. It continues to vertically integrate its power cord manufacturing capability and optimise its supply chain and production capacity to reflect economic trends. The group's share price fell in February following the Covid-19 outbreak. However, it later announced that all of its four sites in China had resumed operations, albeit at a reduced capacity.

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 Fund Managers

Judith joined Downing in October 2009. Previously she was a partner at Acuity Capital, a buy-out from Electra Private Equity, where she managed AIM-quoted IHT and VCT investments and a small-cap activist fund. 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 quoted and unquoted sectors. She is a Non-Executive Director of the Quoted Companies Alliance and is an active member on Boards both in the public and private arenas.

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 Fund Managers 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 also manages the MI Downing Monthly Income Fund.

Joshua McCathie
Analyst

Josh joined Downing as an analyst in 2018. Previously he had worked at BRI Wealth Management, where he worked in the UK Equities team, focusing on FTSE 350 companies. He is a CFA Charterholder, CISI Level 7 Chartered Wealth Manager and holds the Investment Management Certificate. Josh was named in the Citywire 2018 Top 30 under 30.

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. She provides portfolio support and oversight to all of the Downing Fund Managers portfolios. Cheryl graduated from Keele University and is a Chartered FCSI.

Directors' biographies

Hugh Aldous
Chairman, Chairman of the Management Engagement Committee

Hugh is currently a Director of three public companies, and Chairman of the board of a Guernsey investment company. He has a wealth of experience, having held numerous Chairman and Executive Chairman positions over a number of years. Hugh's career includes 35 years as Director of a wide selection of companies from nationalised industries to private equity, across a range of sectors. He spent 10 years as managing partner, and latterly head of Financial Services, of Robson Rhodes (now Grant Thornton), 16 years a DTI Companies Act Inspector, and was a member of the UK Monopolies & Mergers and Competition Commission.

Linda Bell

Linda Bell has extensive management experience leading technically based companies serving global industrial markets. She is currently the CEO of MIRICO Ltd, a venture capital backed company commercialising novel laser dispersion spectroscopy into industrial applications, and a non-executive director of Fera Science Limited, a business focussed on safety, security and sustainability across the agri-food chain. Prior to her current roles she was the CEO of PhosphonicS Ltd (acquired by Carbosynth Holdings Ltd in January 2017), a former non-executive director of Tomra Systems ASA, with an earlier career at ICI, Servomex, part of Spectris Plc, Inca Digital Printers, part of Dainippon Screen, and DS Smith. She is an Oxford graduate in Natural Sciences (Chemistry) and a DPhil in Inorganic Chemistry with an MBA from the Open University and is a Fellow of the Royal Society of Chemistry.

William Dawkins

Will is Head of UK Board & CEO Practice at Spencer Stuart, a global executive search and leadership consulting firm, prior to which he spent 23 years in a variety of posts for the Financial Times, including foreign correspondent with postings in Brussels, Paris and Tokyo, deputy managing editor, foreign editor and later publishing editor. He is a Cambridge graduate with a master's degree in English literature from Trinity College and attended the Advanced Management Programme at INSEAD. Will also chairs and is a Trustee and Director of the Evelyn Trust, a medical research grant giving charity based in Cambridge, and is a Governor and Director of The Perse School, Cambridge.

Robert Legget
Chairman of the Audit Committee

Robert has extensive industry experience, having co-founded Progressive Value Management Limited (PVML) in 2000. PVML specialises in creating value and liquidity for institutional investors out of holdings in underperforming companies. He remains as Chairman of PVML and is also Senior Independent Director of Sureserve Group plc. Robert was formerly a director of Quayle Munro Holdings plc and BMO Private Equity Trust PLC (formerly F&C Private Equity Trust plc). He is a member of the Institute of Chartered Accountants of Scotland and is well respected for his extensive experience in creating value for shareholders.

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 29 February 2020. 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.

Section 172 Statement - Directors duty to promote the success of the company

Companies are required to state how their directors have followed the duty to promote the success of the company as set out in s.172 of the Companies Act 2006 and when making decisions for the long term, have regard to a range of matters including:

- the likely consequences of any decisions in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the environment and community;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between shareholders of the company.

The company has no employees (other than its directors), no customers in the traditional sense and, as an investment trust, it delegates its day to day management and administration to third parties. The board's principal concern has been, and continues to be, to monitor portfolio management in light of the company's objectives and the interests of current and potential shareholders. That is helped by the manager regularly engaging with major shareholders, by producing quarterly newsletters and monthly factsheets and reporting back to the board. The chairman visits, or speaks with, the larger shareholders and the board encourages all shareholders to attend the AGM and welcomes any other communication from shareholders. During the year under review, the board has taken decisions to buy in its own shares from time to time to in order to manage the discount at which the shares trade in the market.

In addition to the above, the board has a responsible governance culture that it seeks to impart to other stakeholders, such as its service suppliers and investee companies, and it gives due regard to the expectations of its regulators.

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% and 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 micro-cap 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% and 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 5 to 9.

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 10 to 14.

Results and dividend

The results of the company are set out in the Statement of Comprehensive Income on page 62 and analysed in the Chairman's Statement in detail on page 7, along with an analysis of the investment portfolio and balance sheet position.

The total net loss for the year, after taxation was £1.2 million (2019: loss of £10.3 million), equivalent to 2.10p per share (2019: 18.47p per share). This comprised a revenue return of £1.0 million (2019: £836,000) equivalent to 1.91p (2019: 1.50p) per share, and a capital loss of £2.2 million (2019: £1.1million) equivalent to 4.01p (2019: 19.97p) per share.

The directors are recommending a final dividend of 1.6p (2019: 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:

- **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 2019 to 29 February 2020, the shares traded between a premium of 2.9% and discount of 15.6% at an average premium of 7.8%. The board considers the share price discount to have remained satisfactory levels throughout the year under review. The discount has increased significantly since the year end as the coronavirus pandemic has created challenging market conditions.

- **Share price movements** – the company's Ordinary Share price decreased by 13.7% over the period under review. This is a combination of a fall in NAV per share and an increase in share price discount.
- **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 29 February 2020 were 1.83% (2019: 1.84%). The board considers this level to be satisfactory.

Principal risks

The company is exposed to a variety of risks and uncertainties. The Directors have carried out a robust assessment of the company's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or 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.
The coronavirus pandemic poses a significant risk to the company's portfolio, the full extent of which cannot yet be reliably determined. Should efforts by the UK and governments worldwide to bring the outbreak under control not prove effective, the impact on the economy and the consequences for the portfolio companies may harm investment performance of the company.	The company has a small portfolio which allows the investment manager to work closely with each portfolio company and provide active support where it can.
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	Due diligence is undertaken before contracts are executed with potential service providers. The board monitors the performance of service

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.	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.

Coronavirus pandemic

A key feature of the investment manager's approach is in seeking to have a strategic involvement with all investee companies. This has allowed the manager to be closely involved with the developments in the investee companies in relation to the coronavirus pandemic and its consequences. The board and manager will continue to monitor such developments and the potential impact of the pandemic on the individual companies and the portfolio as a whole.

Brexit

The board follows developments in the plans for the UK leaving the EU. The ultimate relationship between the UK and the EU remains unclear at this time and the potential impact on the portfolio uncertain 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 32 and 33;
- the company's business model which should remain attractive for longer than the period to 28 February 2025;
- the relative stability of the company's expenses and liabilities;
- the outlook for the value of the company's investment portfolio; and
- the potential impact of the coronavirus pandemic on the company and its 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 32 and 33, 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 10.

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 30 and 31. 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 29 February 2020, there were three male directors and one female director on the board.

The Chairman's Statement on pages 7 to 10, together with the investment manager's Report and portfolio information on pages 10 to 24 form part of the Strategic Report.

The Strategic Report was approved by the board on 1 May 2020.

For and on behalf of the board

Hugh Aldous
Chairman

1 May 2020

Directors' Report

The directors present their report and the audited Financial Statements of the company for the year ended 29 February 2020.

Directors

Stephen Yapp and Andrew Griffiths resigned from the board on 31 August 2019 and 11 October 2019 respectively and Robert Legget and William Dawkins were appointed to the board on 22 July 2019 and 7 November 2019 respectively.

Robert Legget and William Dawkins, having been appointed as directors by the board since the last AGM, will stand for election by shareholders at the forthcoming AGM in accordance with the provisions of the company's Articles of Association.

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 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 49 to 52. 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 53.

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 70. 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 acted as Company Secretary and Administrator pursuant to the Maitland Administration Agreement providing general fund valuation, accounting and investment operation services to the company, AIFM support services and company secretarial services.

On 1 April 2020, Downing LLP was appointed as Administrator under a new administration agreement ('the Downing LLP Administration Agreement') on broadly same terms as the Maitland Administration Agreement. Grant Whitehouse, a Downing LLP partner, was appointed as Company Secretary on the same date. The Downing LLP Administration Agreement is for a fixed term of six months; however the board intends to put in place an ongoing administration agreement with Downing LLP in the coming months.

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.
- 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.

Results and dividends

	£'000	Pence per share
(Loss) for the year ended 29 February 2020	(1,156)	(2.10p)
Dividends paid during the year to 29 February 2020: 8 July 2019	541	1.25p

Your board is proposing to pay a final dividend of 1.6p per share on 3 July 2020 to shareholders on register at 12 June 2020, subject to shareholder approval.

Going concern

The Financial Statements of the company have been prepared on a going concern basis.

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Although the full impact of the unprecedented situation is not yet known, there is a significant risk that the pandemic may negatively impact the prospects of some businesses within the portfolio and the liquidity of the company's portfolio. These new factors have been taken into account in 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 have concluded that a going concern remains an appropriate basis on which to prepare these Financial Statements.

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 33.

Substantial share interests

As at 29 February 2020 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 note 12 on page 74. 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 2020 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.

During the year under review, the company purchased 770,00 of its own shares at an average price of 68.7p per share. 720,000 of these shares were held in Treasury and 50,000 were cancelled.

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 720,000 held in treasury on 29 February 2020. No Ordinary Shares were repurchased and placed in treasury since the year end. The company now holds 720,000 Ordinary Shares in treasury, 1.3% of the company's issued share capital.

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. The board has exercised its discretion and decided not to offer the redemption facility at the first redemption date in May 2020 as a result of the current market condition arising from the coronavirus pandemic.

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

In view of the lockdown resulting from the coronavirus pandemic, the company has not yet finalised arrangements for the next Annual General Meeting. A provisional date of 24 June 2020 has been set. Notice of the AGM will be sent to all shareholders once arrangements are in place.

Corporate governance

Full details are given in the Corporate Governance Statement on pages 41 to 45. 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, BDO LLP, has indicated its willingness to continue in office. Resolutions proposing the reappointment of BDO LLP and authorising the Audit Committee to determine the auditor's remuneration for the ensuing year will be proposed at the next AGM.

Statement as to disclosure of information to Auditor

The directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant audit information of which the Auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditor.

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

Grant Whitehouse
Company Secretary

1 May 2020

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 29 February 2020 the company reports against the AIC Code.

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 28. 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 36. 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 was been delegated to Maitland Administration Services Limited under the terms of the Administration Agreement during the year under review. The terms of the agreement are summarised on page 36. With effect from 1 April 2020, these services are provided by Downing LLP.

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 84.

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 53, the report of the Independent Auditor on pages 54 to 61 and the statement of going concern on page 37.

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	5	5	3	3	1	1
Linda Bell	5	4	3	3	1	1
William Dawkins*	1	1	–	–	1	1
Robert Legget**	2	2	1	1	1	1

*appointed on 7 November 2019

**appointed on 22 July 2019

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 35.

The board's individual independence, including that of the Chairman, has been considered and all directors are considered 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 director's 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 2020. 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

The company provides director's and officer's liability insurance, giving appropriate cover for legal action brought against its directors, and has also agreed to indemnify directors in circumstances where they are not considered to be culpable. The indemnity, which is a qualifying third-party indemnity provision for the purpose of the Companies Act, is for the benefit of all of the company's current directors.

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 49 to 52. 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 Robert Legget ,consists of all the directors of the company. Further details are provided in the Report of the Audit Committee on pages 46 to 48.

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 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 84.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 7 to 9, the Investment Manager's Report on pages 10 to 14, the Strategic Report on pages 29 to 34 and the Directors' Report on pages 35 to 40.

The financial position of the company, its cash flows, liquidity position and borrowing facilities are shown in the Statement of Financial Position on page 64 and the Cash Flow Statement on page 65. In addition, note 14 to the financial statements includes the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The company has considerable financial resources at the year end and holds a diversified portfolio of investments. As a consequence, the directors believe that the company is well placed to manage its business risks successfully, despite the current uncertain economic outlook

On 11 March 2020, the World Health Organisation declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Although the full impact of the unprecedented situation is not yet known, there is a significant risk that the pandemic may negatively impact the prospects of some of the businesses within the portfolio. However, the board is confident that the current situation will not threaten the going concern status and is satisfied that the company has adequate resources to continue in business for at least twelve months from the date of approval of these financial statements.

For this reason, the board believes that the company continues to be a going concern and that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

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

1 May 2020

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, Robert Legget 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 considering the quality of 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;
- 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 41.

The fees paid to the external Auditor are set out in note 5 on page 71.

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.

Change of auditor, 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.

During the year, as part of the planning process for the audit, the Committee decided to review the appointment of Grant Thornton UK LLP as external Auditor. An audit tender process was undertaken which resulted in the Audit Committee selecting BDO LLP as the company's new external Auditor. This appointment was formalised in November 2019 with notification being sent to all shareholders in accordance with the Companies Act.

The Committee expresses its appreciation to Grant Thornton UK LLP for acting as external Auditor during the company's first two audits and for the professional manner in which the transition to the new auditor has been undertaken.

BDO LLP will be required to re-tender, at the latest, by 2030. 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 audit partner for the year under review is Neil Fung-On, who is in the role for the first year of a maximum five-year term.

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 BDO LLP, 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 next AGM.

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 66 to 69. Controls are in place to ensure that valuations are appropriate and, in the case of unquoted investments in accordance with the International Private Equity and Venture Capital Valuation ('IPEV') Guidelines, 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 values 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. The board also considers the collectability of accrued income. 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.

Significant issue	How the issue was addressed
Impact of coronavirus pandemic	Following the year end, the coronavirus pandemic has started to have a significant impact on the UK and global economies and a wide-ranging effect on most businesses. The Audit Committee has worked with the Investment and Administration Manager to ensure that appropriate disclosures have been made in the Annual Report in respect of post balance sheet events (note 20) and the risks now faced by the company and its outlook.

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 29 February 2020 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 53.

Robert Legget
Chairman of the Audit Committee
1 May 2020

Directors' remuneration report

The board presents the directors' remuneration report for the year to 29 February 2020, 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 54 to 61.

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 fulfils 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 2021. 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 2022.

Policy Table

	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.
	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.
	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.
	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.
	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.
	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 2020 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 25 June 2019, of votes cast, 99.78% were in favour of (or granted discretion to the Chairman who voted in favour of) the resolutions to approve the Directors' Remuneration Report. Of the votes cast 0.22% were against the resolutions.

Details of voting on the Remuneration Report at the 2020 AGM will be provided in the Annual Report for the year ending 28 February 2021.

Remuneration Policy Implementation Report (Audited)

Single total figure of remuneration

The single total remuneration figure for each director who served during the year ended 29 February 2020 is set out below.

	Year ended 29 February 2020			Year ended 28 February 2019		
Director	Fees £	Taxable benefits £	Total £	Fees £	Taxable benefits £	Total £
Hugh Aldous	35,000	–	35,000	35,000	–	35,000
Linda Bell	25,000	–	25,000	11,186	–	11,186
William Dawkins[1]	7,692	–	7,692	–	–	–
Andrew Griffiths[2]	15,449	–	15,449	25,000	–	25,000
Diana Hunter[3]	–	–	–	8,333	–	8,333
Robert Legget[4]	17,853	–	17,853	–	–	–
Stephen Yapp[5]	15,000	–	15,000	30,000	–	30,000
Total	115,994	–	115,994	109,519	–	109,519

[1] appointed 7 November 2019
[2] resigned 11 October 2019
[3] resigned on 4 April 2018
[4] appointed on 22 July 2019
[5] resigned 31 August 2019

No discretionary payments were made during the year ended 29 February 2020.

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 29 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

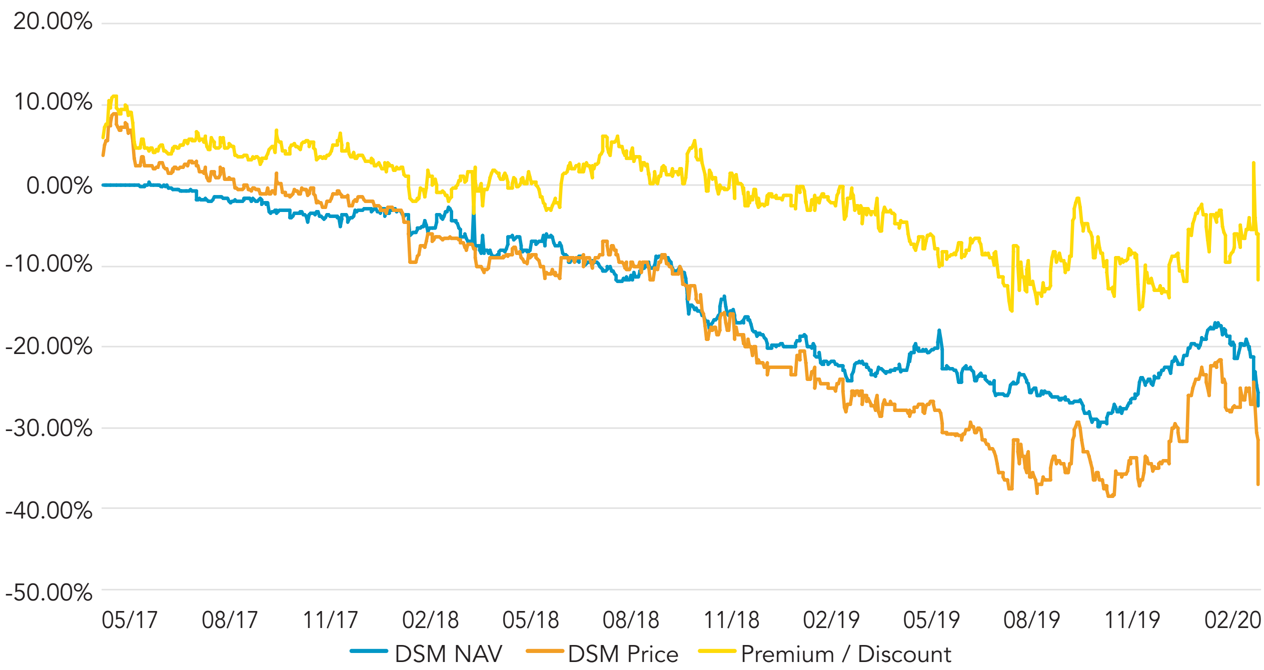
The following table shows the proportion of the company's income spent on remuneration during the year ended 29 February 2020.

	Year ended 29 February 2020	Year ended 28 February 2019	Change %
Management fees paid in the period	378,800	475,195	(20.29)
Total remuneration paid to the directors	115,993	109,519	5.91
Loss on ordinary activities after tax	(1,156)	(10,269)	(88.74)

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 29 February 2020



* 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 director's 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	29 February 2020	28 February 2019
Hugh Aldous[1]	200,000	160,000
Linda Bell	20,386	11,886
William Dawkins[2]	37,000	n/a
Robert Legget[3]	12,500	n/a

[1] includes 19,791 shares held by Mrs Aldous
[2] appointed 7 November 2019, includes 7,300 shares held by Mrs Dawkins
[3] appointed on 22 July 2019

The Directors' Remuneration Report was approved by the board on 1 May 2020.

For and on behalf of the board

Hugh Aldous
Chairman
1 May 2020

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 28, confirms that, to the best of his or her 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
1 May 2020

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

Opinion

We have audited the financial statements of Downing Strategic Micro-Cap Investment Trust PLC (the 'Company') for the year ended 29 February 2020 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of the Financial position, the Statement of Cash Flow and the 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 29 February 2020 and of the Company's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union ; and
- the financial statements have been prepared in accordance with the provisions 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 listed 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 directors' confirmation in the annual report that they have carried out a robust assessment of the Company's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the directors' statement in 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 in 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.

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, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. This matter was 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 this matter.

Key Audit Matter	How We Addressed the Key Audit Matter in the Audit
Valuation and ownership of investments: **(Note 2 on 66 to 69 and Note 9 on page 73):** We consider the valuation and ownership of investments to be the most significant audit areas as investments represent the most significant balance in the financial statements and underpin the principal activity of the entity, noting that some aspect of the valuation is judgemental. We also consider the valuation of investments with respect to realised and unrealised gains/ losses to be a significant area as the reported performance of the portfolio is a key area of interest for the users of the financial statements. Furthermore, we consider the valuation disclosures to be a significant area as they are expected to be a key area of interest for the users of the financial statements.	We responded to this matter by testing the valuation and ownership of 100% of the portfolio of investments. We performed the following procedures: In respect of quoted investment valuations (78% of the total portfolio by value) we have: - Agreed the year end bid price to externally quoted prices and for a sample of investments, assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value. - Obtained direct confirmation from the custodian regarding the ownership of all of investments held at the balance sheet date. In respect of unquoted investment valuations, we have: - Obtained direct confirmation of ownership from the custodian at the balance sheet date. - Considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines. - Verified and benchmarked key inputs and estimates to independent information and our own research. - Reviewed the historical financial statements and recent management information available to support assumptions about maintainable revenue and earnings used in the valuations. We also considered the investment-related disclosures against the requirements of the relevant accounting standards.

Key Audit Matter	How We Addressed the Key Audit Matter in the Audit
	For unrealised gains/losses, we tested all elements of the reconciliation of opening and closing investments which included additions, disposals and realised gains/losses. We obtained support for a sample of additions and disposals proceeds by tracing to bank statement as well as recalculating the gain/loss. **Key observations** Based on our procedures performed we did not identify any material exceptions with regards to valuation or ownership of investments or the disclosures.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could reasonably influence the economic decisions of users that are taken on the basis of the financial statements.

Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated below. In setting materiality, we had regard to the nature and disposition of the investment portfolio.

Materiality Measure	Purpose	Key considerations and benchmark	2020 Quantum (£)
Financial Statement Materiality 1% of the net assets	Assessing whether the financial statements as a whole present a true and fair view. We consider this to be the key measurement for shareholders.	▶ The value of investments ▶ The level of judgement inherent in the valuation ▶ The range of reasonable alternative valuation	390,000
Performance Materiality 70 of materiality	The maximum error in an assertion that we would be prepared to accept and still conclude that the result from an audit procedure has achieved our objective.	▶ Financial statement materiality ▶ Risk and control environment ▶ see below	273,000

The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements, the level of transactions in the year and consideration of the effect of this being our first year as auditors to the Company.

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £19,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Company's activities, and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement.

How the audit was considered capable of detecting irregularities, including fraud

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Chapter 3 Part 6 of the Income Tax Act 2007, the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the SORP and IFRS, VAT, Employers NI and other taxes. We also considered the company's compliance with S1158 of the Corporation Tax Act 2010 as any breach of this would lead to the company losing various deductions and exemptions from corporation tax.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements. Our tests included, but were not limited to:

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of minutes of board meetings throughout the period;
- review of legal correspondence;
- review of Investment trust status compliance workings and reports;
- enquiries and representations of management and the Board of Directors; and
- agreement of the financial statement disclosures to underlying supporting documentation.

There are inherent limitations in an audit of financial statements and the further removed noncompliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, 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 the 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 –** 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 position, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit committee reporting –** 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 –** 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.

Opinions on other matters prescribed by the Companies Act 2006

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.

Matters on which we are required to report by exception

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.

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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company 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

As explained more fully in the Statement of directors' responsibilities in respect of the annual report and financial statements, 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.

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

Following the recommendation of the audit committee, we were appointed by The Board of Directors on 6 January 2020 to audit the financial statements for the year ending 29 February 2020 and subsequent financial periods. The period of total uninterrupted engagement is one year.

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's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Fung-On (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

1 May 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Making investment more rewarding.

Company accounts

Statement of Comprehensive Income
for the year ended 29 February 2020

	Year ended 29 February 2020			Year ended 28 February 2019		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Losses on investments at fair value through profit or loss (note 9)	**–**	**(1,904)**	**(1,904)**	–	(10,725)	(10,725)
Investment income (note 3)	**1,505**	**–**	**1,505**	1,326	–	1,326
	1,505	**(1,904)**	**(399)**	1,326	(10,725)	(9,399)
Investment management fee (note 4)	**(76)**	**(303)**	**(379)**	(95)	(380)	(475)
Other expenses (note 5)	**(378)**	**–**	**(378)**	(395)	–	(395)
	(454)	**(303)**	**(757)**	(490)	(380)	(870)
Profit/(loss) before taxation	**1,051**	**(2,207)**	**(1,156)**	836	(11,105)	(10,269)
Taxation (note 7)	**–**	**–**	**–**	–	–	–
Profit/(loss) for the year	**1,051**	**(2,207)**	**(1,156)**	836	(11,105)	(10,269)

	Revenue (p)	**Capital (p)**	**Total (p)**	Revenue (p)	Capital (p)	Total (p)
Earnings/(loss) per Ordinary Share (note 6)	**1.91**	**(4.01)**	**(2.10)**	1.50	(19.97)	(18.47)

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 year 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 66 to 80 form an integral part of these Financial Statements.

Statement of Changes in Equity
for the year ended 29 February 2020

	Share capital £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Year ended 29 February 2020					
At 28 February 2019	**56**	**54,506**	**(13,911)**	**824**	**41,475**
Profit/(loss) for the period	**–**	**–**	**(2,207)**	**1,051**	**(1,156)**
Buyback of Ordinary Shares into treasury	**–**	**–**	**(496)**	**–**	**(496)**
Cancellation of Ordinary Shares	**–**	**(33)**	**–**	**–**	**(33)**
Expenses for share buybacks	**–**	**–**	**(3)**	**–**	**(3)**
Dividends paid (note 8)	**–**	**–**	**–**	**(691)**	**(691)**
At 29 February 2020	**56**	**54,473**	**(16,617)**	**1,184**	**39,096**
Year ended 28 February 2019					
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

The notes on pages 66 to 80 form an integral part of these Financial Statements.

Statement of Financial Position

as at 29 February 2020

	29 February 2020 £'000	28 February 2019 £'000
Non-current assets		
Investments held at fair value through profit or loss (note 9)	**31,744**	35,326
	31,744	35,326
Current assets		
Trade and other receivables (note 10)	**1,398**	740
Cash and cash equivalents	**6,051**	5,504
	7,449	6,244
Total assets	**39,193**	41,570
Current liabilities		
Trade and other payables (note 11)	**(97)**	(95)
	(97)	(95)
Total assets less current liabilities	**39,096**	41,475
Net Assets	**39,096**	41,475
Represented by:		
Share capital (note 12)	**56**	56
Special reserve	**54,473**	54,506
Capital reserve	**(16,617)**	(13,911)
Revenue reserve	**1,184**	824
Equity shareholders' funds	**39,096**	41,475
Net asset value per Ordinary Share (note 13)	**71.30p**	74.59p

The Financial Statements were approved by the board on 1 May 2020 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 66 to 80 form an integral part of these Financial Statements.

Statement of Cash Flow
for the year ended 29 February 2020

	Year ended 29 February 2020 £'000	Year ended 28 February 2019 £'000
Operating activities		
Loss before taxation	**(1,156)**	(10,269)
Losses on investments at fair value through profit or loss	**1,904**	10,725
Increase in other receivables	**(658)**	(626)
Increase/(decrease) in other payables	**2**	(24)
Purchases of investments	**(969)**	(15,006)
Sales of investments	**2,647**	–
Net cash inflow/(outflow) from operating activities	**1,770**	(15,200)
Financing activities		
Buyback of Ordinary shares into treasury	**(496)**	–
Cancellation of Ordinary Shares	**(33)**	–
Expenses of for share buybacks	**(3)**	–
Dividends paid	**(691)**	–
Net cash outflow from financing activities	**(1,223)**	–
Change in cash and cash equivalents	**547**	(15,200)
Cash and cash equivalents at start of year	**5,504**	20,704
Cash and cash equivalents at end of year	**6,051**	5,504
Comprising of:		
Cash and cash equivalents	**6,051**	5,504

The notes on pages 66 to 80 form an integral part of these Financial Statements.

Notes to the Financial Statements

for the year ended 29 February 2020

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 limited by shares.

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 October 2019 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 revenue profit for the year 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.

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 16 Leases – effective 1 January 2019

2. Accounting policies continued

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.

Investments held at fair value

All investments held by the company (quoted equity investments and unquoted loan notes) are classified at 'fair value through profit or loss' as the investments are managed and their performance evaluated on a fair value basis in accordance with the investment strategy and this is also the basis on which information about the investments is reported to the board. 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.

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.

2. Accounting policies continued

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.

Interest income on loan notes is accrued on a daily basis. Provision is made against this income where recovery is doubtful or where it will not be received in the foreseeable future. Where the loan notes only require interest or a redemption premium to be paid on redemption, the interest and redemption premium is recognised as income or capital as appropriate once redemption is reasonably certain.

Dividend and interest receivable are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. The company recognises the losses allowance for expected credit losses ('ECL') as per IFRS 9. Losses allowance are deducted from the gross carrying amount of the Dividend and interest receivables carried at amortised cost. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the Statement of Comprehensive Income.

Expenses

All expenses are accounted for on an 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.

Taxation

The charge for taxation is based on revenue profit 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.

Notes to the Financial Statements
continued

2. Accounting policies continued

Share issue costs

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

Repurchase of Ordinary Shares for cancellation or to be held in Treasury

The cost of repurchasing shares including the related stamp duty and transaction costs is charged to capital reserves and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. Where shares are cancelled or held in Treasury and subsequently cancelled, the nominal value of those shares is transferred out of called up share capital and into special reserve. Should shares held in Treasury be reissued, the sales proceeds up to the purchase price of the shares will be transferred to capital reserves. The excess of the sales proceeds over the purchase price will be transferred to share premium.

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 profit for the year 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.

Capital redemption reserve

This reserve represents the repurchase and subsequent cancellation of the Ordinary Shares of the company. This reserve is not distributable.

Dividends payable to shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid. 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 29 February 2020 £'000	Year ended 28 February 2019 £'000
Income from listed investments		
UK dividend income	**749**	633
UK fixed interest income	**756**	693
Total	**1,505**	1,326

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. There was no rebate in respect of the year ended 29 February 2020 (2019: nil) as the ongoing charges ratio was below 2%.

At 29 February 2020, an amount of £28,786 (2019: £33,824) was outstanding and due to Downing LLP in respect of management fees.

	Year ended 29 February 2020 £'000	Year ended 28 February 2019 £'000
Investment management fee		
Revenue	**76**	95
Capital	**303**	380
Total	**379**	475

5. Other expenses

	Year ended 29 February 2020 £'000	Year ended 28 February 2019 £'000
Administration and secretarial fees	**79**	79
Auditor's remuneration[1]:		
- audit services	**38**	37
Directors' fees	**116**	110
Safe custody fees	**7**	3
Legal fees	**1**	5
Sundry fees	**133**	156
Taxation services	**4**	5
Revenue expenses	**378**	395
Capital expenses	**–**	–
Total expenses	**378**	395

[1]Fee payable to the auditor for the audit of the company's Financial Statements for the year ended 29 February 2020. During the year there were no non-audit service fees payable to the auditor (2019: £nil). Inclusive of VAT at 20%.

6. Earnings/(loss) per Ordinary Share

	Year ended 29 February 2020		Year ended 28 February 2019	
	Net return £'000	Per share pence	Net return £'000	Per share pence
Revenue return	**1,051**	**1.91**	836	1.50
Capital return	**(2,207)**	**(4.01)**	(11,105)	(19.97)
Total return	**(1,156)**	**(2.10)**	(10,269)	(18.47)
Weighted average number of Ordinary Shares excluding treasury shares		**55,049,771**		55,600,002

Notes to the Financial Statements
continued

7. Taxation

	Year ended 29 February 2020			Year ended 28 February 2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax at 19% (2019: 19%)	–	–	–	–	–	–

The current taxation charge for the period differs from the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	Year ended 29 February 2020			Year ended 28 February 2019		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Loss before taxation	**1,051**	**(2,207)**	**(1,156)**	836	(11,105)	(10,269)
Theoretical tax at UK corporation tax rate of 19% (2019: 19%)	**200**	**(419)**	**(219)**	159	(2,110)	(1,951)
Effects of:						
UK dividends not taxable	**(142)**	–	**(142)**	(120)	–	(120)
Capital items not taxable	–	**361**	**361**	–	2,038	2,038
Excess expenses in the period	**(58)**	**58**	–	(39)	72	33
Actual current tax charge	–	–	–	–	–	–

Factors that may affect future tax charges:

The company has surplus management expenses carried forward of £722,315 (2019: £721,048). 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 29 February 2020	Year ended 28 February 2019
	£'000	£'000
Dividends paid during the year	**691**	–

It is proposed that a final dividend of 1.6p per share will be paid in respect of the year ended 29 February 2020.

9. Investments

	Year ended 29 February 2020 £'000	Year ended 28 February 2019 £'000
Opening book cost	**48,498**	35,308
Opening investment holding losses	**(13,172)**	(2,447)
Opening valuation	**35,326**	32,861
Movements in the year		
Purchases at cost	**969**	13,190
Disposals:		
Proceeds	**(2,647)**	–
Net realised loss on disposals	**(4,682)**	–
Movement in investment holding losses	**2,778**	(10,725)
Closing valuation	**31,744**	35,326
Closing book cost	**42,138**	48,498
Closing investment holding losses	**(10,394)**	(13,172)
	31,744	35,326
Realised loss on disposals	**(4,682)**	–
Movement in investment holding gains/(losses)	**2,778**	(10,725)
Losses on investments held at fair value through profit or loss	**(1,904)**	(10,725)

Transaction costs

During the year the company incurred transaction costs of nil (2019: £3,077) and £541 (2019: 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

	29 February 2020 £'000	28 February 2019 £'000
Dividends receivable	**61**	61
Prepayments and accrued income	**1,337**	679
	1,398	740

Notes to the Financial Statements
continued

11. Trade and other payables

	29 February 2020 £'000	28 February 2019 £'000
Other creditors	**97**	95
	97	95

12. Called-up share capital

	Number of Ordinary shares	Treasury shares	Total shares	Nominal value £'000
Allotted, called up and fully paid share capital comprised:				
Ordinary Shares of £0.001				
At 28 February 2018	**55,600,002**	**–**	**55,600,002**	**56**
At 28 February 2019	**55,600,002**	**–**	**55,600,002**	**56**
Cancellation of Ordinary Shares	**(50,000)**	**–**	**(50,000)**	**–**
Shares purchased into treasury	**(720,000)**	**720,000**	**–**	**–**
At 29 February 2020	**54,830,002**	**720,000**	**55,550,002**	**56**

The company was incorporated on the 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 55.6 million Ordinary £0.001 Shares at a £1 per share in a placing, offer for subscription and intermediaries offer, raising £54.5 million after expenses.

During the year 720,000 (2019: nil) Ordinary Shares were bought back and placed in treasury for an aggregate consideration of £496,113 (2019: nil at an average price of 68.9p per share). No Ordinary Shares held in treasury were re-issued into the market. In addition 50,000 Ordinary Shares were bought back and cancelled for a consideration of £33,000 and at a price of 66.0p per share.

The Ordinary Shares in issue at the year end includes 720,000 (2019: nil) Ordinary Shares held in treasury.

13. Net Asset Value per Ordinary Share

NAV per Ordinary Share is based on net assets at the period end and 54,830,002 (2019: 55,600,002) Ordinary Shares, being the number of Ordinary Shares in issue excluding treasury shares at the year end.

	29 February 2020		28 February 2019	
	NAV per share pence	NAV attributable £'000	NAV per share pence	NAV attributable £'000
Ordinary Shares:				
Basic and diluted	**71.30**	**39,096**	74.59	41,475

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 30 and 31. 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 29 February 2020 on its equity investments held at fair value through profit or loss was £31,744,000 (2019: £35,326,000).

The board has considered the current volatile market conditions arising from the coronavirus pandemic in determining the reasonably possible market movements that should be illustrated with sensitivity analysis. It has concluded that a 10% increase and a 50% decrease in market prices are appropriate levels. A 10% increase in the fair value of its investments at 29 February 2020 would have increased net assets attributable to shareholders by £3.2 million (2019: £3.5 million). An 50% decrease (2019: 10%) in the fair value of its investments would have decreased the net assets and net profit available to shareholders by £15.9 million (2019: £3.5 million). The analysis is based on closing balances only and is not representative of the period as a whole.

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.

14. Analysis of financial assets and liabilities continued

Interest rate risk (continued)

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 29 February 2020 (2019: 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:

	29 February 2020 £'000	28 February 2019 £'000
Real Good Food loan notes	**6,906**	7,209
Redhall loan notes	–	700

The exposure, at 29 February 2020, 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.

	2020 in one year £'000	**2020 in two to three years £'000**	**2020 total £'000**	2019 in one year £'000	2019 in two to three years £'000	2019 total £'000
Exposure to fixed interest rates:						
Unquoted loan notes	**5,674**	**1,232**	**6,906**	700	7,209	7,909
Total	**5,674**	**1,232**	**6,906**	700	7,209	7,909

Fair value of loan notes of Real Good Food was calculated by discounting the expected future cash flows at the market rates which is in line with the company's cost of capital and risk profile of similar loans. If these rates were increased by 2%, the fair value would have reduced by £141,894 (2019: £258,937). 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.

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.

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 29 February 2020 was £14,341,000 (2019: £14,137,000). The calculation is based on the company's credit risk exposure as at 29 February 2020 and this may not be representative for the whole period.

	29 February 2020	28 February 2019
	£'000	£'000
Dividends and loan note interest receivable	**1,384**	724
Cash and cash equivalents	**6,051**	5,504
Unquoted loan notes	**6,906**	7,909
Total	**14,341**	14,137

Credit risk relating to unquoted loan notes is considered to be part of market risk.

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.

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).
- 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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
29 February 2020				
Quoted on the Main Market	**1,100**	–	–	**1,100**
Traded on AIM	**23,738**	–	–	**23,738**
Unquoted Loan Notes	–	–	**6,906**	**6,906**
	24,838	–	**6,906**	**31,744**
28 February 2019				
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

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.

	29 February 2020 £'000	28 February 2019 £'000
Opening balance	**7,909**	5,749
Purchases	–	2,160
Sales	**(329)**	–
Total gains or losses included in losses on investments in the Statement of Comprehensive Income:		
– on assets sold	**26**	–
– on assets held at year end	**(700)**	–
Closing balance	**6,906**	7,909

Unquoted loan notes have been valued by discounting future cash flows. The significant unobservable inputs used as at 29 February 2019 are the rates used to discount the cash flows. These have been determined using the judgment of the investment management executives as 10% pa and 12% pa for the two Real Good Food loan notes.

16. 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 29. The principal risks and their management are disclosed in the Strategic Report.

Notes to the Financial Statements
continued

17. Significant interests

As at 29 February 2020 the company held interests amounting to 3% or more of the equity the following investee companies.

	% of investee company
AdEPT Technology Group plc	4.53
FireAngel Safety Technology plc	8.35
Gama Aviation plc	3.44
Hargreaves Services plc	3.25
Ramsdens Holdings plc	5.13
Real Good Food Company plc	5.53
Synectics plc	10.80
Volex plc	3.45

18. 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 29 February 2020 was £378,799 (2019: £475,195). The amount outstanding at 29 February 2020 was £28,786 (2019: £33,824).

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 49 to 52. At 29 February 2020, there were no outstanding directors' fees (2019: none).

19. Contingent liabilities

There were no contingent liabilities at 29 February 2020 (2019: none).

20. Non-adjusting events after the reporting date

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The UK and other governments worldwide have taken steps designed to contain the outbreak, including advising self-isolation, travel restrictions, quarantines and cancellations of gatherings and events. The effect on the UK and global economies will be significant. This has resulted in public equity markets seeing significant falls in prices since the reporting date. At 30 April 2020, the company's net asset value stood at 64.15p per share, a fall of 10.0% since 29 February 2020.

Shareholder information

Financial Calendar

Company's year end	29 February
Annual Results announced	May
Annual General Meeting	24 June (Provisional)
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: www.downingstrategic.co.uk

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 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 a 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).

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Downing

May 2020

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