

Downing Strategic Micro-Cap Investment Trust



April 2022 Commentary

In April, the Company's NAV increased by 2.2%, versus the market which declined by almost 2%. The Company's share price increased by 6.7%, thus closing the discount to NAV at the period end to 20.2%. The macro landscape is tricky and rate rises are significantly affecting sentiment and valuations. However, the Company's investing strategy is set up to generate good returns in this environment and we are optimistic that the holdings can continue to outperform the market.

There were no results in the month. However, there were several trading updates, as below.

Ramsdens Holdings (+14.7%) announced a strong trading update with a post-Covid return to profitability for the first half. Earnings were depressed through Covid so they are improving from a low base as the FX segment underperformed on lower travel, however this now looks to be returning, notwithstanding consumer spending headwinds. **AdEPT Technology Group** (+16.1%) announced positive trading and a strategic shift to focus on de-gearing the balance sheet – we view this as an easy win to accrue value to equity holders. **Real Good Food** (-20.0%) announced a more challenging trading update which outlined the ongoing challenges with significant cost inflation and ongoing commodity and labour shortages. This resulted in the business struggling to meet customer demand. There remain ample self-help levers around waste and efficiency improvements, along with lagged cost pass through in due course. **Volex** (-2.3%) announced a strong year end trading update with revenues and earnings ahead of expectations. Electric vehicle demand continued to grow very strongly, almost doubling on the prior year. The company reiterated that it is well positioned to navigate more challenging supply environments and that inflationary cost pass through has been promising.

We added a new toehold in the month, a small discount retailer which we think has good prospects to grow earnings and to improve its multiple, even through this period of high uncertainty. We will report on the company in more detail once we have built a significant position. Other WIP remains strong, with widespread selling across names we have been monitoring for some time.

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

Fund discrete performance	Rolling 12-month period 0.05% (30/04/2021 to 31/04/2022)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2022	4.83	-3.90	2.61	2.15									5.60
2021	1.63	3.80	2.46	7.64	-0.62	0.69	-1.02	5.73	-1.63	-1.51	-7.27	0.70	10.22
2020	1.26	-10.64	-17.04	8.45	0.64	0.12	-2.09	6.44	-2.09	2.04	8.69	5.17	-2.36
2019	-1.81	-3.59	1.65	4.01	-3.93	-1.20	0.57	-3.75	-2.83	0.72	5.23	5.57	-0.02
2018	-0.98	-1.49	-1.76	-1.15	1.14	-2.24	-1.04	-0.19	-0.51	-7.23	1.07	-4.04	-17.18
2017*					-0.02	-0.12	-0.64	-1.31	-0.16	-1.02	-0.55	0.86	-2.94

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

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



Lead Investment Manager
Judith MacKenzie

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

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



Investment Manager
Nick Hawthorn

Nick began working on the buy side in 2013 and joined Downing in September 2015 from BP Investment Management. Prior to this, he worked for Aberdeen Asset Management. Nick holds an MSc in Finance and Investment from Durham University and a MA in Accounting and Economics from the University of Aberdeen.

Investment rationale

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

Portfolio summary

As at 30 April 2022

Top five holdings

Holding	Sector	% of Company
Real Good Food Company Plc (including loan notes)	Food Producers	11.49
Hargreaves Services Plc	Support Services	10.05
Ramsdens Holdings Plc	Financial Services	8.42
Flowtech Fluidpower Plc	Industrials	7.80
Volex Plc	Electrical Equipment	7.77

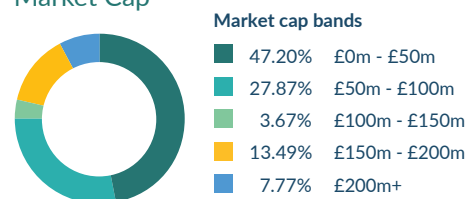
*Holding includes a 11.22% loan note and 0.27% equity split

Portfolio by sector



Source of holding and sector data is Downing LLP.

Market Cap



Source of market cap data is Factset.

Key facts As at 30 April 2022

Launch date

9 May 2017

Morningstar sector

UK Small Cap Equity

Total market value

£35,478,215.63

Total net assets

£44,434,022.09

No of Ordinary Shares in issue

49,619,882

NAV incl. income (starting NAV 98.04p)

89.55p

Market Price of Ordinary Shares

71.50p

Premium (Discount)

-20.16%

Dividends

The company has no stated dividend target.

Codes and fees

Ordinary Share ISIN: GB00BF0SCX52

Ordinary Share SEDOL: BF0SCX5

Ordinary Share Ticker: DSM

AMC on market cap: 1%

Ongoing charges

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

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

Managers

Judith MacKenzie & Nick Hawthorn

Directors

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

Financial calendar

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

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

Further information

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www.downingstrategic.co.uk

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

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