



Downing Strategic Micro-Cap Investment Trust

Launched
May 2017

Judith MacKenzie
Lead manager

Given the difficulty of buying and selling the very smallest UK companies, many investors have long preferred to use investment trusts over open-ended funds when it comes to holding this segment of the market.

The Downing Strategic Micro-Cap Investment Trust was launched in May 2017, meaning it is fast approaching its three year anniversary. The trust invests in UK-listed companies that typically have a market capitalisation of below £150 million at the time of investment.

We spoke to lead manager Judith MacKenzie, who is also founder of Downing Fund Managers, about how the trust invests and what makes it different to its competitors.



A strategic take on micro caps

Describing the investment process as almost unique, Judith says the investment team managing the fund take strategic stakes in the companies in which they invest, owning between 3-25% of the underlying business.

“We want to work with management teams to realise value,” she says. “This means that very often we invest in things that many other investors would not want to touch. To do this we invest over a long investment cycle, looking at between a three to seven-year time horizon.”

As a result, the trust adopts a focused approach, investing in between 12 to 18 holdings. Judith notes that this marks it out as different to its peer group. Judith says: “We take strategic stakes of influence and are looking for a catalyst of change that can be made to improve the business. It is very focused and engaged.”

Growth, but at the right price

Investors always like to compare and contrast the performance of value and growth strategies, with the latter having enjoyed a strong run of outperformance since the global financial crisis. With this in mind, Judith notes the value approach adopted by the fund can be hard to describe.

“There are so many factors to value and investors have so many different interpretations of it,” she says. “We are not scared of buying growth, we just want to pay the right price for it. What we try to do is buy a company where we see that its earnings can double over a two-to-three year period, which can happen a lot in the small cap space.”

To do this Judith, who is assisted on the portfolio by co-managers James Lynch and Nick Hawthorn, adopts a bottom-up style of investing, which is very engaged with the management teams they invest in. The process itself is cash flow focused and aims to identify companies which have either historically, currently or near-term potential to generate significant positive free cash flows.

Holdings in
the portfolio:
12-18

Trust aims
to hold 3-25%
equity of
investee
companies





A private equity approach

By proactively engaging with, and working alongside aligned management teams to drive returns, Judith says the micro-cap investment philosophy at Downing Fund Managers is very much a private equity style approach.

“It is very much a hands-on, high maintenance approach,” she says. “It involves everything from helping a company put together an acquisition strategy, refinancing their debt, buying out older shareholders, or restructuring a board.”

When it comes to this style of investing, Judith admits there is somewhat of a J-curve, meaning a dip to begin with before things start to improve. To help them through this, the trust draws upon Downing’s 30 years of experience, with Judith, James and Nick all having backgrounds in both private and public equity investing.

Key Themes:

- Value approach
- Concentrated portfolio
- Long-term investment horizon
- Private equity style

Downing



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