

# Downing Strategic Micro-Cap Investment Trust



## January 2021 Commentary

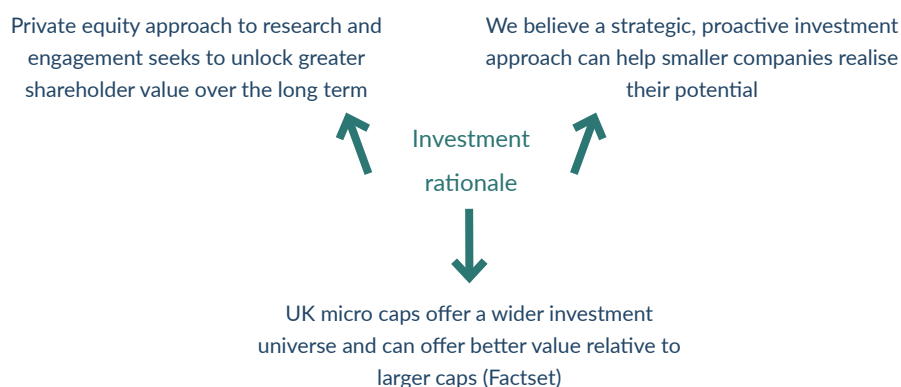
In January, the company's NAV returned 1.63% and the share price increased by 7.63%, narrowing the discount at the month end to 18.8%. The average discount since launch prior to Covid-19 was 3%. We believe the company's underlying holdings are in great shape heading into this year and we feel that the current discount is unwarranted. We noted in January, that in the last 12 months, management in eight out of our 12 holdings have made open market purchases, highlighting undervaluation and confidence going forwards.

Volex (+5.84%) drove the most positive contribution as the shares continue to re-rate following strong read across from other competitors and customers in the space. Post the DEKA acquisition and through significant free cash flow cash generation we can see a clear pathway to Volex meeting and exceeding management's \$65 million operating profit target over the medium term. Over the long term there remains a vast opportunity to consolidate a highly fragmented market across several high growth sectors – Volex provides a well-financed platform, with an aligned management team, to execute this. AdEPT Technology (+14.09%) made two updates around public sector contracts with the [Department for Education](#) and the [NHS](#) which are positive for the story. We think that AdEPT has been unfairly discounted through the pandemic with the quality of its capital light, recurring revenue business model overlooked. We see significant scope for a re-rating and an option to create equity value through de-gearing the business via organic free cash flow.

Duke Royalty (-14.75%) and Venture Life (-9.14%) were the most significant negative contributors. Duke reported the appointment of a new [Chief Investment Officer](#) and the completion of a follow-on investment of £2.2 million. Duke's is another story which we think has been unnecessarily beaten down through Covid-19 and we see significant upside from an economic re-opening. Venture Life's share price declined on no new news, but we note a positive trading update in February which reported revenues and earnings to be ahead of expectations.

Finally, this month we disclose our toehold position in [Flowtech](#) which is a distributor of critical parts for a diverse range of sectors. We invested on the back of a realigned strategy to drive efficiencies from the group and a temporarily reduced share price driven by Covid-19 affected customer shutdowns in 2020. A near term earnings and rating recovery are key to our thesis, with a longer-term opportunity to grow via acquisition.

*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.*



The Downing Strategic Micro-Cap Investment Trust [website](#) includes further information about the company including annual and half year reports, investor update letters, historic factsheets and video content from the manager.



Judith is a Partner at Downing, having joined in 2009 and founding Downing Fund Managers. She was named Small-Cap Fund Manager of the Year at the Small-Cap Awards in 2013 and 2015 for the Downing UK Micro-Cap Growth Fund.

## Company Objectives

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

	Fund discrete performance (%)					Rolling 12-month period -2.01% (31/01/2020-31/01/2021)							
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	1.63												1.63
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

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

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

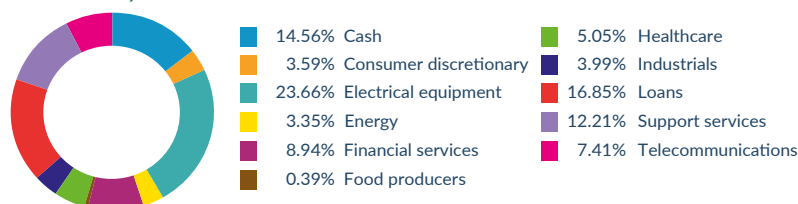
# Portfolio summary As at 31 January 2021

## Top five holdings

Holding	Sector	% of Company
Real Good Food*	Food Producers	17.24
Volex plc	Electrical Equipment	16.62
Adept Technology Group plc	Telecommunications	7.40
Hargreaves Services plc	Support Services	7.05
Fireangel Safety Technology Group plc	Electrical Equipment	7.04

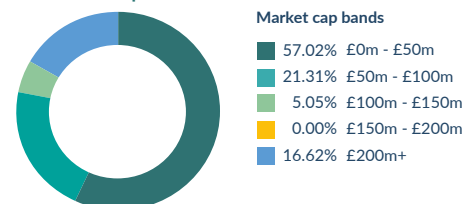
\*Holding includes a 16.85% loan note and 0.39% equity split

## 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 31 January 2021

### Launch date

9 May 2017

### Morningstar sector

UK Small Cap Equity

### Total market value

£33,284,485.76

### Total net assets

£40,983,341.94

### No of Ordinary Shares in issue

52,416,513

### NAV incl. income (starting NAV 98.04p)

78.19p

### Market Price of Ordinary Shares

63.50p

### Premium (Discount)

-18.79%

### Dividends

The company has no stated dividend target. A dividend of 1.6p for the year ending 29 February 2020 was paid to shareholders on 3 July 2020.

### Codes and fees

Ordinary Share ISIN: GB00BF0SCX52

Ordinary Share SEDOL: BF0SCX5

Ordinary Share Ticker: DSM

AMC on market cap: 1%

### Ongoing charges

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

The ongoing charges for the year ending 29 February 2020 were 1.83%.

### Managers

Judith MacKenzie, James Lynch & Nick Hawthorn

### Directors

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

### Financial calendar

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

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

### Further information

#### Registered Office

St Magnus House  
3 Lower Thames Street  
London  
EC3R 6HD  
Telephone: +44 (0) 207 416 7780  
Email: [customer@downing.co.uk](mailto:customer@downing.co.uk)

Source of data: Downing LLP.

[www.downingstrategic.co.uk](http://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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