

Downing Strategic Micro-Cap Investment Trust



December 2021 Commentary

In December, the Company's NAV increased by 0.7%, ending the year up by 10.2%. The share price declined by 7.9%, widening the discount, despite some modest buy backs towards the end of the month. 2021 marked a turning point in the Company's performance, with legacy positions now through the J-curve and significant recycling of proceeds into new ideas. We ended the year with around 15% of NAV in cash and some well progressed WIP.

In the month, only **Real Good Food (+24.5%)** reported results¹, which highlighted a return to pre-Covid levels of revenue. As with many companies, supply chain and input costs are presenting challenges, however the company reported that these are expected to be largely mitigated through price increases. The business is making good progress in the turnaround and we expect that the second half will generate further profitable growth. 2021 was a critical year for RGD, with the disposal of Brighter Foods for £43 million returning significant value for DSM's loan notes. Renshaw remains a well-known and innovative brand in the space and moving forwards we expect that it will return to sustainable and profitable growth and may attract trade attention.

Significant trading updates came from **Digitalbox (+24.3%)**, who announced that results would be ahead of the previously upgraded expectations of £0.7 million EBITDA. This was driven by stronger trading performance across the three-title portfolio. Particularly encouraging is the strong contribution from The Tab, the most recent acquisition, which has been turned around and integrated well into the existing platform. Just after year end, the group announced a further earnings upgrade, now expected to be ahead of £0.85 million. As per the strategy, we expect that Digitalbox will continue acquiring underperforming assets to roll into its programmatic platform. **Synectics (-11.1%)** continues to trade satisfactorily, boosted by a contract award in the Irish bus market which builds on a larger contract awarded earlier in the year. This will leverage Synectics' cloud services which has been developed since we invested. Elsewhere, Synectics needs a return of the gaming market to deliver substantial progress, this will depend largely on exiting coronavirus restrictions in those markets. **Hargreaves Services (-3.8%)** also announced a positive trading update ahead of interims in January. This highlighted that the fully consolidated divisions were trading in line with expectations and that, as expected, the German joint venture is likely to enjoy less favorable commodity pricing in H2 which will result in reduced profits. This will not affect the dividend paid to Hargreaves plc and passed through to Hargreaves' shareholders. As discussed before, we do not view the German associate as core to the group and a disposal would likely generate a significant windfall for Hargreaves shareholders. We covered this JV in detail in our past investor letter. Hargreaves also announced a positive update in respect of Westfield, an industrial and renewables site in Fife, Scotland, where an Energy from Waste plant will be constructed to service 40 acres of employment land which we expect to attract industrial tenants looking to enjoy lower energy costs.

We made a new investment in the period into Norman Broadbent (NBB) equity, totaling around 1% of NAV. Post this investment, Downing own 18% of NBB's equity. Whilst small, we expect our investment could grow via equity and/or loan notes to support management's growth strategy. NBB is a recruitment specialist focusing on leadership roles and advisory services. NBB has struggled to grow but has attracted a top-tier management team with considerable skin in the game and a demonstrable track record of scaling and exiting recruitment businesses.

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.

¹ Real Good Food, half year results, 09 December 2021



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 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).

| Fund discrete performance (%) | Rolling 12-month period 10.22% (31/12/2020 to 31/12/2021) | | | | | | | | | | | | |
|-------------------------------|---|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year |
| 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 |

* 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 December 2021

Top five holdings

| Holding | Sector | % of Company |
|--|------------------------|--------------|
| Volex Plc | Electrical Equipment | 12.24 |
| Real Good Food Plc (including loan notes)* | Food Producers | 10.61 |
| Hargreaves Services Plc | Support Services | 9.83 |
| Flowtech Fluidpower Plc | Industrials | 8.71 |
| Centaur Media Plc | Consumer Discretionary | 8.07 |

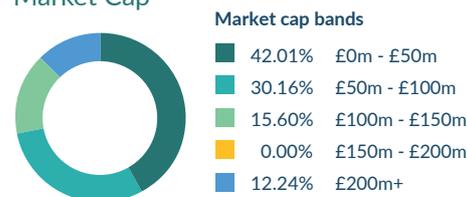
*Holding includes a 10.12% loan note and 0.49% equity split

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 December 2021

Launch date

9 May 2017

Morningstar sector

UK Small Cap Equity

Total market value

£35,369,023.30

Total net assets

£43,153,900.64

No of Ordinary Shares in issue

50,890,681

NAV incl. income (starting NAV 98.04p)

84.80p

Market Price of Ordinary Shares

69.50p

Premium (Discount)

-18.04%

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

Registered Office

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

Source of data: Downing LLP.

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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