

Downing Strategic Micro-Cap Investment Trust



June 2020 Commentary

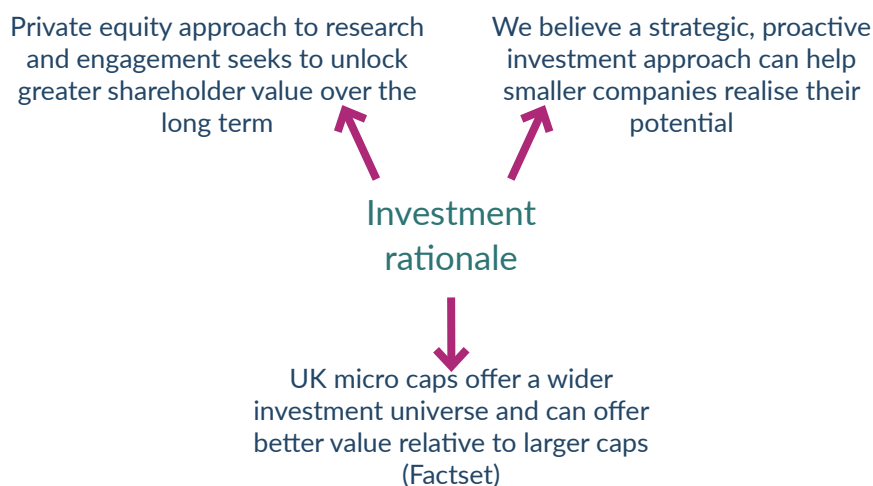
The Trust's NAV increased by 0.12% in the month, while the share price weakened by 2.83% which lead to a widening of the discount to 20.33%.

A key point of discussion at this month's board meeting was around the discount and catalysts in place to narrow this. Alongside the regular buyback mechanism, we are conscious that the most important driver of the discount will be performance. We entered 2020 with a very optimistic view surrounding the catalysts for value realisation in the portfolio and these catalysts still remain.

The largest equity position in the Trust is [Volex](#) (8.10% in the month) which reported a very strong set of full year results and, in our view, a promising outlook for this, COVID-affected, financial year. Volex has over \$30m of net cash on its balance sheet and the same again in available debt facilities and we presume that some of this cash will be deployed against a further, earnings enhancing acquisition later this year. [AdEPT Technology Group](#) and [Hargreaves Services](#) also generated notable share price appreciation (7.24% and 2.00%, respectively) on no material new news. Both companies did report director buying in the month.

The Trust retains a material cash balance, a portion of which we are keen to invest in the right businesses in order to generate returns. The toeholds which we have added recently are performing well and we continue our diligence on other interesting opportunities.

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.



Share price information, the latest investor letter which contains comprehensive information on the Trust's performance, strategy and holdings, plus historical factsheets, RNS announcements, and video interviews with the manager, are all available to download from the homepage of the Downing Strategic Micro-Cap Investment Trust website.



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.

Trust Objectives

- ▶ The Trust 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 Trust seeks to hold a concentrated portfolio between 12-18 holdings.
- ▶ The Trust 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 Trust seeking to closely control discount (at the Board's ultimate discretion and subject to shareholders' annual approval).

Fund discrete performance (%)	Rolling 12-month period -13.65% (30/06/2019-30/06/2020)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	1.26	-10.64	-17.04	8.45	0.64	0.12							-17.96
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

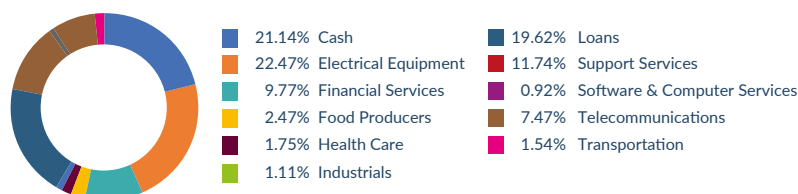
Source: Downing LLP. Please note that past performance is not a reliable indicator of future results.

Portfolio summary As at 30 June 2020

Top five holdings

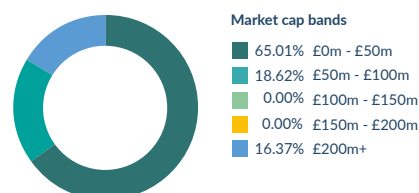
Holding	Sector	% of Trust
Real Good Food (inc loan notes)	Food Producers	20.29%
Volex Plc	Electrical Equipment	16.37%
Adept Technology Group Plc	Telecommunications	7.47%
Ramsdens Holdings Plc	Financial Services	6.38%
Fireangel Safety Technology Group Plc	Electrical Equipment	6.10%

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 June 2020

The Trust targets positive returns over the long term from a focused portfolio of UK micro-cap companies believed to be undervalued and could benefit from strategic and operational initiatives.

Launch date

9 May 2017

Morningstar sector

UK Smaller companies

Total market value

£28,050,506.03

Total net assets

£35,206,971.66

No of Ordinary Shares in issue

54,467,002

NAV incl. income (starting NAV 98.04p)

64.64p

Market Price of Ordinary Shares

51.50p

Premium (Discount)

-20.33%

Dividends

The Company has no stated dividend target. A dividend of 1.6p for the year ending 29 February 2020 will be 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

Company Secretary/ Company's Registered Office

St Magnus House
3 Lower Thames Street
London
EC3R 6HD
Telephone: +44 (0) 207 416 7780

Source of data: Downing LLP.

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 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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