

# Downing Strategic Micro-Cap Investment Trust



## August 2020 Commentary

The Company performed strongly in the month, with the NAV returning 6.44%. The share price lagged somewhat, and the discount ended the month at 24.29%. We continue to believe that there is a significant head of steam building behind the discount and with some momentum in our larger holdings, it should reverse quickly. As discussed in the most recent investor letter, we have been reassured by the volume of transactions occurring in the FMCG space and hope that this may ultimately drive interest in Real Good Food Plc.

Volex, the largest position in the Company, appreciated by 35.53% in the month as the directors continued to buy shares in the business, taking their total to over 26.63% of the equity. Downing client funds have sold shares due to portfolio weight restrictions, but we still believe that the shares are materially undervalued given the medium-term and long-term opportunity for earnings growth and the quality of earnings, cash generation and returns on offer. Duke Royalty also generated a strong contribution on the back of a positive trading update, which alleviated some of the markets' concern around underlying trading.

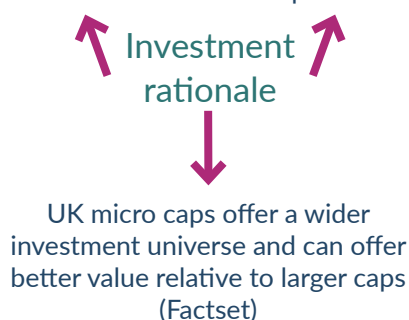
Pennant International contributed negatively in the period with the share price declining 22.39%. The company issued a negative trading update in the period which indicated that, due to Covid-19, it would generate an EBITA\* loss in the first half of the year. However, the outlook is more positive, cash is being managed closely and cost cutting actions have been implemented. Despite coronavirus, the business has grown its order book from £33 million to £36 million. Science in sport also contributed negatively but reported no new news in the period. The trading statement in July was more positive than we expected, and we think it has traded relatively well through this difficult period.

\* Earnings before interest, tax and amortisation.

*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.*

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



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.



**Lead Investment Manager**  
**Judith MacKenzie**

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 -7.05% (31/08/2019-31/08/2020)	
	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	-2.09	6.44						-14.51
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.

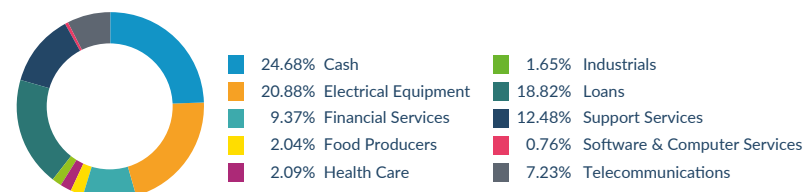
# Portfolio summary As at 31 August 2020

## Top five holdings

Holding	Sector	% of Company
Real Good Food*	Food Producers	19.47%
Volex Plc	Electrical Equipment	15.65%
Adept Technology Group Plc	Telecommunications	7.23%
Synectics Plc	Support Services	6.55%
Hargreaves Services Plc	Support Services	5.94%

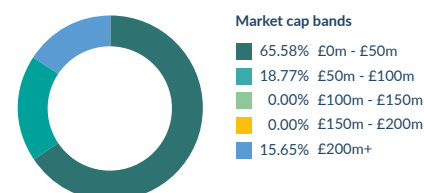
\*Holding includes a 0.65% equity and 18.82% debt split

## 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 August 2020

The Company 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 Small Cap Equity

### Total market value

£27,778,171.02

### Total net assets

£36,690,325.65

### No of Ordinary Shares in issue

54,467,002

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

67.36p

### Market Price of Ordinary Shares

51.00p

### Premium (Discount)

-24.29%

### 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

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Email: 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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